

**THIS ANNOUNCEMENT AND NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION AND DOES NOT CONSTITUTE AN INVITATION OR OFFER TO ACQUIRE, PURCHASE OR SUBSCRIBE FOR UNITS OF THE EXCHANGE TRADED FUND NAMED BELOW**

*If you are in any doubt about the contents of this Announcement and Notice or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.*

*If you have sold or transferred all your units in Value China ETF, you should at once hand this Announcement and Notice to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.*

**IMPORTANT:** *The Stock Exchange of Hong Kong Limited (the “SEHK”), the Hong Kong Exchanges and Clearing Limited (the “HKEX”), the Hong Kong Securities and Futures Commission (the “SFC”) and the Hong Kong Securities Clearing Company Limited (the “HKSCC”) take no responsibility for the contents of this Announcement and Notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Announcement and Notice.*

*Sensible Asset Management Hong Kong Limited (the “Manager”) accepts full responsibility for the accuracy of the information contained in this Announcement and Notice as at the date of publication, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, as at the date of publication, there are no other facts the omission of which would make any statement misleading.*

*SFC authorisation is not a recommendation or an endorsement of the Trust (as defined below) nor does it guarantee the commercial merits of the Trust or its performance. It does not mean the Trust is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.*



## **VALUE CHINA ETF** (the “Trust”)

*a Hong Kong single unit trust authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong*

**Stock Code: 03046**

### **ANNOUNCEMENT AND NOTICE OF THE PROPOSED CESSATION OF TRADING, TERMINATION, VOLUNTARY DEAUTHORISATION AND DELISTING AND NON-APPLICABILITY OF CERTAIN PROVISIONS OF THE CODE ON UNIT TRUSTS AND MUTUAL FUNDS**

Terms not defined in this Announcement and Notice will have the meanings as are given to such terms in the Prospectus of the Trust dated 1 January 2020 (the “Prospectus”).

**IMPORTANT:** Investors are strongly advised to consider the contents of this Announcement and Notice. This Announcement and Notice is important and requires your immediate attention. It concerns the proposed cessation of trading of units of the Trust (the “Units”) on the SEHK, proposed termination and proposed deauthorisation of the Trust, proposed delisting of the Trust from the SEHK and the non-applicability of certain provisions of the Code on Unit Trusts and Mutual Funds (the “Code”) for the period from 27 August 2020 (the “Trading Cessation Date” as defined in section 2.4 below) to the date of deauthorisation of the Trust (the “Deauthorisation Date”). In particular, investors should note that:

- taking into account the relevant factors, including, in particular, the relatively small net asset value of the Trust (the “Net Asset Value”) (see section 1 below), the Manager has decided to exercise its power under Clause 35.5(A) of the Trust Deed to terminate the Trust with effect from the Termination Date (as explained below) by giving notice in writing to the Trustee notifying the Trustee of its proposal to terminate the Trust;
- the Last Trading Day (as defined in section 2.4 below) of the Units will be 26 August 2020;
- the Units will cease trading from the Trading Cessation Date, 27 August 2020;
- the Manager will aim to realise all of the assets of the Trust from the Trading Cessation Date. Accordingly, from the Trading Cessation Date onwards, (i) there will be no further trading of Units and no further creation and redemption of Units; (ii) the Manager will start to realise all the assets of the Trust and the Trust will therefore cease to track the performance of its Index and will not be able to meet its investment objective of tracking the performance of such Index; (iii) the Trust will no longer be marketed or offered to the public; (iv) the Trust will mainly hold cash; and (v) the Trust will only be operated in a limited manner;
- immediately after this Announcement and Notice has been published, a Provision (as defined and further explained in section 4.3) will be set aside for the Trust. The Provision is to discharge any future costs, charges, expenses, claims and demands (including but not limited to any regulatory maintenance costs and the fees payable to any service provider to the Trust, including the Trustee) that the Trustee and the Manager may incur, during the period commencing immediately following publication of this Announcement and Notice up to and including the Termination Date, in connection with or arising out of the ongoing maintenance of the Trust (together, the “Future Costs”);
- as a result of the setting aside of the Provision immediately after this Announcement and Notice has been published, the Net Asset Value and Net Asset Value per Unit will be reduced before the commencement of trading on the SEHK on 27 July 2020, as follows:

Before setting aside Provision		After setting aside Provision	
NAV	NAV per Unit	NAV	NAV per Unit
HK\$108.0 million	HK\$33.76	HK\$107.2 million	HK\$33.50

- the Manager will, after having consulted the Trustee and the Trust’s auditors (the “Auditors”), declare a Distribution (as defined in section 2.2 below) to the investors who remain so as at 31 August 2020 (the “Distribution Record Date”),

and the Distribution is expected to be payable on or around 14 September 2020 (the “Distribution Date”). The amount of Distribution will equal the value of net proceeds from the realisation of the assets of the Trust as at 1 September 2020 excluding (i) the Provision; (ii) any taxes payable; and (iii) any expenses payables;

- by the date when the Trustee and the Manager form an opinion that the Trust cease to have any outstanding contingent or actual assets or liabilities, the Trustee and the Manager will commence the completion of the termination of the Trust (i.e. the Termination Date);
- from the Trading Cessation Date until the Termination Date, the Manager will maintain the Trust’s SFC authorisation status and SEHK listing status. Subject to the SEHK’s approval, delisting should take effect at or around the same time as the deauthorisation;
- the Manager expects that the deauthorisation and the delisting will take place either on the Termination Date or shortly after the Termination Date. Any product documentation of the Trust previously issued to investors, including the Prospectus and the Product Key Facts Statement of the Trust (the “KFS”), should be retained for personal use only and not for public circulation; and
- investors should pay attention to the risk factors set out in section 5.1 below (including liquidity risk, Units trading at a discount or premium and Market Makers’ inefficiency risk, tracking errors during the period from the date of this Announcement and Notice to the Last Trading Day risk, Net Asset Value downward adjustment risk, failure to track the Index risk and delay in distribution risk). Investors should exercise caution and consult their professional and financial advisers before dealing in the Units or otherwise deciding on the course of actions to be taken in relation to their Units.

**Stockbrokers and financial intermediaries are urged to:**

- forward a copy of this Announcement and Notice to their clients holding Units in the Trust, and inform them of the contents of this Announcement and Notice as soon as possible;
- facilitate their clients who want to dispose of Units on or before the Last Trading Day; and
- inform their clients as soon as possible if any earlier dealing deadline, additional fees or charges, and/or other terms and conditions will be applicable in respect of the provision of their services in connection with any disposal of Units; and
- inform their clients of the Distribution arrangements as set out in section 2.2 below and the possible impact in relation to such arrangements to their clients.

## **1. Proposed termination, cessation of trading and realisation of assets**

### **1.1. Proposed termination**

According to Clause 35.5(A) of the trust deed dated 20 November 2009 and as amended and restated on 1 January 2020 (the “Trust Deed”), the Trust may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee in the event that the aggregate Net Asset Value of all the Units in each class outstanding shall be less than

HK\$150,000,000. The Trust Deed does not require investors' approval for terminating the Trust on the ground set out in Clause 35.5(A).

As at 14 July 2020, the Net Asset Value and the Net Asset Value per Unit of the Trust were HK\$112.44 million and HK\$35.14 respectively. Having taken into account the relevant factors including the interests of the investors as a whole, the current relatively small Net Asset Value of the Trust, the Manager is of the view that the proposed termination of the Trust would be in the best interests of the investors of the Trust.

Therefore, the Manager has decided to exercise its power under Clause 35.5(A) of the Trust Deed by giving notice in writing to the Trustee notifying the Trustee of its proposal to terminate the Trust on the date on which the Trustee and the Manager form an opinion that the Trust ceases to have any contingent or actual assets or liabilities. The Manager has given written notice to the Trustee notifying the Trustee of its proposal to terminate the Trust pursuant to Clause 35.5(A) of the Trust Deed, and the Trustee does not object to such proposal and acknowledges the non-applicability of certain provisions of the Code as referred to in this Announcement and Notice for the period from and including the Trading Cessation Date to the date of deauthorisation, subject to the specific conditions and requirements to be imposed by the SFC.

As required under Clause 35.7 of the Trust Deed, no less than three months' notice is hereby given to the investors, notifying them of the proposed termination of the Trust. Also, as required under Chapters 11.1A and 11.2 of the Code, no less than one month's notice is hereby given to the investors, notifying them that the Trust will cease to track the performance of its Index, and cease trading, from the Trading Cessation Date.

## **1.2. Proposed cessation of trading**

The Manager will apply to SEHK to have the Units cease trading on the SEHK with effect from 27 August 2020 (the "**Trading Cessation Date**"). The Manager will aim to realise all of the assets of the Trust effective from the Trading Cessation Date.

The realisation of assets of the Trust will not incur any additional cost as compared to the costs associated with normal realisation of investments.

26 August 2020 will be the Last Trading Day when investors may buy or sell Units on the SEHK in accordance with the usual trading arrangements currently in place, and no creation and redemption of Units through Participating Dealers will be allowed after such date.

For the avoidance of doubt, creation and redemption of Units by Participating Dealers will continue to be permitted until the Last Trading Day. Creations of Units will be limited to the creation of Units by Participating Dealers for market making activities of market makers to provide liquidity of the trading of the Units on the SEHK. There will be no creation of Units for other purposes after this Announcement and Notice has been published.

Investors should note that they cannot create or redeem Units directly in the primary market. Only Participating Dealers may submit creation and redemption applications to the Manager. Participating Dealers may have their own application procedures for their clients and may set application cut-off times for their clients which are earlier than those set out in the Prospectus and in any event not later than the Last Trading Day. Investors are advised to check with the Participating Dealers as to the relevant timing deadlines and the client acceptance procedures and requirements.

## **1.3. Impact of the proposed realisation of the assets**

After the realisation of the assets of the Trust, the Trust will mainly hold cash (primarily consisting of the proceeds from the realisation of the assets of the Trust). It therefore follows that, from the Trading Cessation Date, the Trust will cease to track the performance of its Index, and will not be able to meet its investment objective of tracking the performance of such Index.

## **2. What will happen on or before the Last Trading Day and from the Trading Cessation Date?**

### **2.1 Trading on the SEHK up to and including the Last Trading Day**

On any trading day up to and including the Last Trading Day, an investor may continue to buy or sell its Units on the SEHK in accordance with the usual trading arrangements, during the trading hours of the SEHK and based on the prevailing market prices. The market makers of the Trust (collectively the “**Market Makers**”) will continue to perform its market making functions in accordance with the Trading Rules of the SEHK until the Trading Cessation Date.

Investors should note that stockbrokers or other financial intermediaries may impose brokerage fees on any sale of the Units on the SEHK on investors, and a transaction levy (at 0.0027% of the price of the Units) and a trading fee (at 0.005% of the price of the Units) will be payable by the buyer and the seller of the Units.

No charge to stamp duty will arise in Hong Kong in respect of sale or purchase of Units on the SEHK.

The trading price of Units may be below or above the Net Asset Value per Unit. Please see “Units trading at a discount or premium and Market Makers’ inefficiency risk” in section 5.1 below.

Relevant Investors are reminded to contact their stockbrokers or financial intermediaries to check whether there will be any fees or charges including custody fees that they may need to bear with regard to their holding of Units during the period from the Trading Cessation Date up till the date on which they cease to hold Units.

### **2.2 Distribution(s)**

For Relevant Investors who are still holding Units after the Last Trading Day, the Manager will, after consulting the Trustee and the Auditors, declare a distribution in Hong Kong dollars (“**HKD**”) (the “**Distribution**”) in respect of those investors who remain invested in the Trust as of the Distribution Record Date (the “**Relevant Investors**”). Such Distribution is expected to be made on or around 14 September 2020 (the “**Distribution Date**”).

The amount of Distribution will equal the value of net proceeds from the realisation of the assets of the Trust as at 1 September 2020, excluding (i) the Provision; (ii) any tax payables; and (iii) any expenses payables. Each Relevant Investor will be entitled to the amount of Distribution in proportion to the Relevant Investor’s Units in the Trust as at the Distribution Record Date.

The Distribution payable to each Relevant Investor is expected to be paid on or around 14 September 2020, to the accounts of its financial intermediary or stockbroker maintained with CCASS as at the Distribution Record Date. The Manager will issue a further announcement to inform the Relevant Investors of the exact day of payment of the Distribution, together with the amount of Distribution per Unit in respect of the Trust in due course.

The Manager does not expect or anticipate there will be a further distribution after the Distribution. However, in the unlikely event there is a further distribution after the Distribution, the Manager will issue an announcement informing the Relevant Investors.

**IMPORTANT NOTE: Investors should pay attention to the risk factors as set out in section 5.1 below and consult their professional and financial advisers before disposing of their Units. If an investor disposes of its Units at any time on or before the Last Trading Day, such investor will not in any circumstances be entitled to any portion of the Distribution or further distribution (if any) in respect of any Units so disposed. Investors should therefore exercise caution and consult their professional and financial advisers before dealing in their Units or otherwise deciding on any course of actions to be taken in relation to their Units.**

### 2.3 Between the Trading Cessation Date and the Termination Date

Following the realisation of the assets and the Distribution and further distribution (if any), when the Manager and the Trustee are of the opinion that the Trust ceases to have any contingent or actual assets or liabilities (the “**Termination Date**”), the Manager and the Trustee will commence the completion of terminating the Trust.

During the period from the Trading Cessation Date until, at the earliest, the Termination Date, although the Trust will continue to have listing status on the SEHK and will remain authorised by the SFC, the Trust will no longer be marketed or offered to the public and will only be operated in a limited manner because there will be no trading of Units and the Trust will have no investment activities from the Trading Cessation Date onwards.

The deauthorisation and delisting of the Trust will take place either on the Termination Date or shortly after the Termination Date, subject to the SFC’s and SEHK’s respective approvals. The Manager expects that delisting will only take place at or around the same time of the deauthorisation.

The proposed termination, deauthorisation and delisting will be subject to the payment of all outstanding fees and expenses (please refer to section 4 below), discharge of all outstanding liabilities of the Trust, as well as the final approvals by the SFC and the SEHK, respectively.

Following deauthorisation, the Trust will no longer be subject to regulation by the SFC and will not be available for public distribution in Hong Kong. Any product documentation of the Trust previously issued to investors, including the Prospectus and the KFS, should be retained for personal use only and not for public circulation. Stockbrokers, financial intermediaries and investors must not circulate any marketing or other product information relating to the Trust to the public in Hong Kong as this may be in breach of the Securities and Futures Ordinance of Hong Kong (the “**SFO**”).

### 2.4 Important dates

Subject to the SFC’s and the SEHK’s respective approvals for the proposed arrangements set out in this Announcement and Notice, it is anticipated that the expected important dates in respect of the Trust will be as follows:

Dispatch of this Announcement and Notice and setting aside the Provision immediately thereafter	24 July 2020 (Friday)
No further request for creation of Units by investors in the primary market via Participating Dealers (other than by Participating Dealers for market making activities)	27 July 2020 (Monday)

after this Announcement and Notice has been published	
Last day on which requests for creation by Participating Dealers for market making activities and redemption of Units in the primary market through Participating Dealers may be accepted  Last day for dealings in the Units on the SEHK (the “ <b>Last Trading Day</b> ”)	26 August 2020 (Wednesday)
No further requests for creation and redemption of Units in the primary market will be accepted  Cessation of trading in the Units on the SEHK in the secondary market  The date on which the Manager will start to realise all the investments of the Trust and the Trust will cease to be able to track the performance of its Index  The day from which the Trust shall no longer be marketed or offered to the public in Hong Kong (the “ <b>Trading Cessation Date</b> ”)	27 August 2020 (Thursday)
Record date for determining the eligibility of entitlement for the Distribution and further distribution, if any (the “ <b>Distribution Record Date</b> ”)	By close of business on 31 August 2020 (Monday)
Dispatch of announcement on Distribution and the distribution rate per Unit after consultation with the Trustee and the Auditors	On or around 7 September 2020 (Monday), at least one business day before the Distribution Date
Distribution, after the Manager having consulted the Trustee and the Auditors, will be paid to the investors who are still holding Units as at the Distribution Record Date (the “ <b>Distribution Date</b> ”)	On or around 14 September 2020 (Monday)
If any further distribution is payable to the Relevant Investors after the payment of the Distribution, dispatch of an announcement to inform investors of the amount and payment date	By 28 September 2020 (Monday)
Payment of further distribution (if any) to the Relevant Investors as mentioned in the preceding paragraph	On or around 5 October 2020 (Monday)
Termination of the Trust when the Manager and the Trustee form an opinion that the Trust ceases to have any contingent or actual assets or liabilities (the “ <b>Termination Date</b> ”)	Expected to be 27 October 2020 (Tuesday)
Deauthorisation and delisting of the Trust  The date of deauthorisation and delisting will be the date which the SFC and SEHK approve the deauthorisation and delisting respectively.	On or shortly after the Termination Date

The Manager will issue the following:

- (i) (on a weekly basis from the date of this Announcement and Notice to the Last Trading Day) reminder announcements informing and reminding investors of the Last Trading Day, the Trading Cessation Date and the Distribution Record Date;
- (ii) (in due course) an announcement to inform the investors of the Distribution Date, and further distribution date (if any); and
- (iii) (on or shortly before the Termination Date) an announcement informing investors about the Termination Date, Deauthorisation Date and the date for the delisting of the Trust,

in accordance with the applicable regulatory requirements.

If there is any change to the dates mentioned set out in the table above, the Manager will issue an announcement to inform the Relevant Investors of the revised dates.

### **3. Non-applicability of certain provisions of the Code**

#### **3.1 Background**

As set out in section 2.3 above, while the Units will cease trading from the Trading Cessation Date, because of certain outstanding actual or contingent assets or liabilities in relation to the Trust, the Trust will remain in existence after the Trading Cessation Date until the Termination Date. During such period, the Trust will remain authorised by the SFC and maintain its SEHK listing status, until the completion of the proposed termination, deauthorisation and delisting.

Given the Trust will no longer be marketed to the public and have limited operation when the Trust ceases trading, pursuant to Chapter 8.6(t) of the Code and question 13 of the Frequently Asked Questions on Exchange Traded Funds and Listed Funds, the Trust may continue to maintain its authorisation status without strictly complying with certain provisions of the Code for the period from and including the Trading Cessation Date up until the Deauthorisation Date, provided that the specific conditions and requirements imposed by the SFC are met.

Such conditions and requirements are described in this section 3.

#### **3.2 Updating of the Prospectus and KFS**

Under Chapters 6.1 and 11.1B of the Code, the Prospectus and the KFS in respect of the Trust must be up-to-date and must be updated to incorporate any relevant changes to the Trust.

The Manager will continue to manage the Trust without updating the Prospectus and the KFS as required under Chapters 6.1 and 11.1B of the Code from the Trading Cessation Date to the Deauthorisation Date, subject to the following conditions and requirements imposed by the SFC and which the Manager has undertaken to meet:

- (i) the Manager shall promptly notify investors of any changes to the Trust or to the Prospectus or the KFS by means of publishing further announcement(s) on the website <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk/><sup>1</sup> and the HKEX's website (each, a "**Relevant Future Announcement**"); and

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<sup>1</sup> The website has not been reviewed by the SFC.



- (ii) the Manager shall ensure that each Relevant Future Announcement shall include a statement to refer investors to read this Announcement and Notice together with the Prospectus, the KFS, and any other Relevant Future Announcement(s).

### **3.3 Provision of real time or near-real time indicative Net Asset Value per Unit and last Net Asset Value**

Under Chapter 8.6(u)(i) and (ii) of the Code, the Manager is required to provide real time or near-real time indicative Net Asset Value per Unit (updated at least every 15 seconds during trading hours) and last Net Asset Value per Unit and last Net Asset Value of the Trust (updated on a daily basis) on the Trust's website or such other channels as the SFC considers appropriate.

The Manager will continue to manage the Trust without strict compliance with Chapter 8.6(u)(i) and (ii) of the Code from the Trading Cessation Date to the Deauthorisation Date, subject to the following conditions and requirements imposed by the SFC and which the Manager has undertaken to meet:

- (i) the Manager shall ensure the Net Asset Value per Unit as of 26 August 2020 (i.e. the Last Trading Day), which will be the latest Net Asset Value per Unit, will be published on the website: <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk/><sup>1</sup>; and
- (ii) the Manager shall update the latest available Net Asset Value per Unit on the website <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk/><sup>1</sup> as soon as practicable should there be any other change to the Net Asset Value of the Trust, including but not limited to changes arising from (i) the Distribution (please see further in section 2.2 above); (ii) further distribution (if any); (iii) any deduction of transaction costs or taxes relating to the realisation of the assets of the Trust; and (iv) any change in market value of the scrip dividend receivable by the Trust (if any) of the underlying stocks.

### **3.4 Publication of suspension of dealing**

Under Chapter 10.7 of the Code, the Manager is required to: (a) immediately notify the SFC if dealing in Units ceases or is suspended; and (b) publish the fact that dealing is suspended immediately following the decision to suspend and at least once a month during the period of suspension in an appropriate manner.

The Manager will continue to manage the Trust without strict compliance with Chapter 10.7 of the Code from the Trading Cessation Date to the Deauthorisation Date, subject to the condition that a statement shall be posted in a prominent position of the website <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk/><sup>1</sup> from the Trading Cessation Date to the Deauthorisation Date to notify investors that the Units have ceased trading on SEHK from 27 August 2020, and draw investors' attention to this Announcement and Notice, the subsequent reminder announcements and all other relevant announcements.

As the Trust will maintain its listing status with SEHK during the period from and including the Trading Cessation Date up until the date of delisting and deauthorisation, investors may continue to access further announcements in relation to the Trust via the website <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk/><sup>1</sup> and HKEX's website during such period.

### **3.5 Other related matter**

The Manager confirms that, save for the particular provisions of the Code set out in sections 3.2 to 3.4 above, the Manager will continue to comply with all the other applicable provisions of the Code, the applicable provisions in the Trust Deed, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and other applicable laws and regulations in respect of the Trust.

#### **4. Costs**

##### **4.1 Trading on the SEHK**

As indicated in section 2.1 above, stockbrokers or financial intermediaries may levy certain fees and charges for any orders to dispose of Units on or before the Last Trading Day.

##### **4.2 Creation and redemption by Participating Dealers**

All creations and redemptions of Units by Participating Dealers will be subject to the fees and costs as set out in the Prospectus. Participating Dealers may pass on to the Relevant Investors such fees and costs, and may also impose fees and charges in handling creation and redemption requests which would increase the cost of creation and redemption. Investors are advised to check with Participating Dealers as to their relevant fees, costs and charges.

##### **4.3 Ongoing charges of the Trust and provision of costs and expenses**

The ongoing charges over a year\* for the Trust as a percentage of Net Asset Value is 0.92%.

\* The ongoing charges figure is based on the expenses for the year ended 31 March 2020, expressed as a percentage of the Trust's average Net Asset Value over the same period.

The Manager expects that the termination of the Trust will impact the figure disclosed above for ongoing charges percentage above as detailed below. The ongoing charges are calculated in accordance with the guidance under the relevant SFC circular, and exclude the following costs and expenses associated with the termination of the Trust (which are borne by the Trust): (i) transaction costs and (ii) any taxes relating to the realisation of assets of the Trust.

Immediately after this Announcement and Notice has been published, an amount of HKD822,000, which is approximately 0.76% of the Net Asset Value of the Trust, will be set aside for the Trust (the "**Provision**").

The Provision is to discharge any future costs, charges, expenses, claims and demands (including but not limited to any regulatory maintenance costs and the fees payable to any service provider to the Trust, including the Trustee) that the Trustee and the Manager may incur, during the period commencing immediately following publication of this Announcement and Notice up to and including the Termination Date, in connection with or arising out of the ongoing maintenance of the Trust (together, the "**Future Costs**"). The Trustee has confirmed that it has no objection to the amount of the Provision. The Future Costs do not include transaction costs and any taxes relating to the realisation of assets of the Trust.

As a result of the setting aside of the Provision immediately after this Announcement and Notice has been published, the Manager expects that the ongoing charges over a year\* for the Trust as a percentage of Net Asset Value will be 1.11%.

\* The ongoing charges figure is a best estimate only and it is an annualised figure based on expenses for the period from the date of this Announcement and Notice to the Termination

Date after setting aside the Provision, expressed as a percentage of the Net Asset Value as at 24 July 2020 (after setting aside the Provision).

**As a result of the setting aside of the Provision immediately after this Announcement and Notice has been published, the Net Asset Value and Net Asset Value per Unit will be reduced before the commencement of trading on the SEHK on 27 July 2020, as follows:**

Before setting aside Provision		After setting aside Provision	
NAV	NAV per Unit	NAV	NAV per Unit
HK\$108.0 million	HK\$33.76	HK\$107.2 million	HK\$33.50

**Please refer to “Net Asset Value downward adjustment risk” in section 5.1 below.**

Where the Provision is insufficient to cover Future Costs until the Termination Date, any shortfall will be borne by the Manager.

Conversely, where the Provision is in excess of the actual amount of Future Costs until the Termination Date, such excess will be refunded to the Relevant Investors as part of a further distribution in proportion to the Relevant Investor’s interests in the Trust as at the Distribution Record Date.

The Trust does not have any unamortised preliminary expenses and contingent liabilities (such as outstanding litigation) as at the date of this Announcement and Notice.

#### **4.4 Cost of termination, deauthorisation and delisting**

Subject to the Provision, the Manager will bear all costs and expenses associated with the termination and deauthorisation of the Trust as well as the delisting of the Trust (other than transaction costs and any taxes relating to the realisation of assets of the Trust) from the date of this Announcement and Notice up to and including the Termination Date. The Manager will continue to charge a management fee up to and including the Last Trading Date.

### **5. Other matters**

#### **5.1 Other implications of the proposed cessation of trading, the proposed termination, deauthorisation and delisting**

In consequence of this Announcement and Notice and the proposed cessation of trading of the Units on the SEHK, proposed termination and proposed deauthorisation of the Trust and the proposed delisting of the Trust from the SEHK, investors should note and consider the following risks:

*Liquidity risk* – Trading of Units in the Trust on the SEHK from the date of this Announcement and Notice may become less liquid;

*Units trading at a discount or premium and Market Makers’ inefficiency risk* – The Units may trade at a discount or premium of its Net Asset Value. Although up to and including the Last Trading Day, the Market Makers will continue to perform their market making functions in respect of the Trust in accordance with the Trading Rules of the SEHK, Units may trade at a discount compared to their Net Asset Value in extreme market situations. This is because many investors may want to sell their Units after the proposal to terminate the Trust has been announced but there may not be many investors in the market who are willing to purchase such Units. On the other hand, it is also possible that the Units may trade at a

premium, and consequently the divergence between the supply of and demand for the Units may be larger than usual. In particular, should there be a large demand for Units before the Trading Cessation Date, the Market Makers may not be able to effectively perform its market making activities to provide liquidity of the trading of Units on the SEHK in these extreme market situations. As a result, the price volatility of the Units may be higher than usual from the date of this Announcement and Notice up to (and including) the Last Trading Day;

*Tracking errors during the period from the date of this Announcement and Notice to the Last Trading Day risk* – The setting aside of the Provision (immediately after this Announcement and Notice has been published) will adversely affect the Net Asset Value per Unit. This reduction of Net Asset Value per Unit will cause the Trust's returns to substantially deviate from the performance of its Index so the Trust may not be able to properly track the performance of the Index during the period from the date of this Announcement and Notice to the Last Trading Day and thus triggering significant tracking error. It is possible that the size of the Trust may drop drastically before the Last Trading Day. This may impair the Manager's ability to fulfil the investment objectives of the Trust and result in significant tracking error. In the extreme situation where the size of the Trust becomes so small that the Manager considers that it is not in the best interest of the Trust to continue to invest in the market, the Manager may decide to convert the whole or part of the investments of the Trust into cash or deposits in order to protect the interest of the investors of the Trust;

*Net Asset Value downward adjustment risk* – Changes in economic environment, consumption pattern and investors' expectations may have significant impact on the value of the investments and there may be significant drop in value of the investments. Also, the Net Asset Value of the Trust may be reduced as the Trust will set aside the Provision immediately after publication of this Announcement and Notice. Such market movements and the setting aside of the Provision may result in substantial downward adjustment of the Net Asset Value per Unit before the Last Trading Day;

*Failure to track the Index risk* – All assets of the Trust, to the extent possible, will be liquidated with effect from the Trading Cessation Date. Thereafter, the Trust's assets will mainly be cash. The Trust will only be operated in a limited manner. It therefore follows that, from the Trading Cessation Date, the Trust will cease to track the performance of its Index, and will not be able to meet its investment objective of tracking the performance of such Index; and

*Delay in distribution risk* – The Manager will aim to realise all of the assets of the Trust and proceed with the Distribution and further distribution (if any) as soon as practicable. However, the Manager may not be able to realise all the assets of the Trust in a timely manner during certain periods of time, for example, when trading on the relevant stock exchanges is restricted or suspended or when the official clearing and settlement depository of the relevant market is closed. In this case, the payment of Distribution or further distribution (if any) may be delayed.

Investor attention is also drawn to the risk factors disclosed in the Prospectus.

## **5.2 Tax implications**

Based on the Manager's understanding of the law and practice in force at the date of this Announcement and Notice, as the Trust is a collective investment scheme authorised under Section 104 of the SFO, profits of the Trust derived from realisation of its assets are exempt from Hong Kong profits tax. Notwithstanding that profits of the Trust derived from realisation of its assets are exempt from Hong Kong profits tax, the Trust may be subject to tax in certain jurisdictions where investments are made, on income or capital gains derived from such investments.

Distribution or further distribution (if any) to the extent of distribution of profits and/or capital of the Trust should generally not be subject to Hong Kong profits tax by investors in Hong Kong (whether by way of withholding or otherwise). For investors carrying on a trade, profession or business in Hong Kong, profits derived in redemption or disposal of Units in the Trust may be subject to Hong Kong profits tax if the profits in question arise in or are derived from such trade, profession or business, sourced in Hong Kong, as well as the Units are revenue assets of the investors.

Investors should consult their professional tax advisers for tax advice.

### **5.3 Connected party transaction**

The following persons currently hold in aggregate 772,000 Units in the Trust, accounting for 24% of the Net Asset Value of the Trust:

- Dato' Seri Cheah Cheng Hye, a director of Value Partners Hong Kong Limited, the Sub-Manager;
- Mr. Ho Man Kei, Norman, a director of Value Partners Hong Kong Limited, the Sub-Manager;
- Value Partners Limited, a subsidiary of the Sub-Manager;
- Value Partners China Greenchip Fund Limited, an investment fund managed by Value Partners Limited, a subsidiary of the Sub-Manager; and
- Value Partners High-Dividend Stocks Fund, an investment fund managed by Value Partners Hong Kong Limited, the Sub- Manager.

Other than as disclosed above, none of the Connected Persons of the Manager and/or the Trustee are party to any transaction in relation to the Trust, nor hold any interest in the Trust. Investors should note that the possible disposal of the interest held by the Connected Persons, either in whole or in part, may result in significant reduction in the fund size or significant tracking error of the Trust. Please also see "Tracking errors during the period from the date of this Announcement and Notice to the Last Trading Day risk" in section **Error! Reference source not found.** above.

### **6. Documents available for inspection**

Copies of the following documents are available for inspection free of charge upon request at the Manager's office at 43/F, The Center, 99 Queen's Road Central, Hong Kong during normal business hours:

- the Trust Deed;
- the Participation Agreements;
- the Service Agreements;
- the most recent annual report and accounts of the Trust and the most recent interim report of the Trust; and
- the Prospectus and the KFS.

Copies of the above documents may be obtained from the Manager at a cost of HK\$150 per set of copy documents (other than the most recent annual report and accounts, most recent interim report and the Prospectus and KFS which may be obtained free of charge).

## **7. Enquiries**

If you have any questions in relation to the contents of this Announcement and Notice, please direct them to your stockbrokers or financial intermediaries or contact the Manager by calling (852) 2143 0628 during office hours which are from 9:00 a.m. to 6:00 p.m. (except Hong Kong public holidays), or visiting the website <https://www.valueetf.com.hk/eng/product-value-china-etf-3046-hk><sup>2</sup>.

The Manager accepts full responsibility for the accuracy of the contents of this Announcement and Notice, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

### **Sensible Asset Management Hong Kong Limited**

as Manager of the Trust

24 July 2020

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<sup>2</sup> The website has not been reviewed by the SFC.

# PRODUCT KEY FACTS

## Value China ETF

Issuer: Sensible Asset Management Hong Kong Limited

April 2020

***This is a passive exchange traded fund.***

***This statement provides you with key information about this product.***

***This statement is a part of the Prospectus.***

***You should not invest in this product based on this statement alone.***

***Capitalised terms used but not otherwise defined in this statement shall have the same meaning as in the Prospectus unless otherwise specified.***

### Quick facts

Stock code:	3046
Trading lot size:	100 Units
Manager:	Sensible Asset Management Hong Kong Limited
Sub-Manager	Value Partners Hong Kong Limited
Trustee and Registrar:	HSBC Institutional Trust Services (Asia) Limited
Ongoing charges over a year <sup>#</sup> :	0.65% <sup>†</sup>
Tracking difference of the last calendar year <sup>###</sup> :	-1.28%
Underlying Index:	FTSE Value-Stocks China Index
Base currency:	Hong Kong dollars (HK\$)
Dividend policy:	Semi-annually (if any) subject to the Manager's discretion. Dividends may be paid out of gross income and all or part of the fees and expenses may be charged to capital at the Manager's discretion, resulting in an increase in distributable income for the payment of dividends and therefore, dividends may be paid effectively out of capital. This may result in an immediate reduction of the NAV.
Financial year end of this fund:	31 March
ETF Website:	<a href="https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/">https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/</a> (this website has not been reviewed by the SFC)

- # *The ongoing charges figure is expressed as a percentage of the sum of expenses over the average NAV of the Trust for the corresponding period as described below. This figure may vary from year to year. Information is updated as at 9 September 2019.*
- ∨ *This figure is an annualised figure based on the expenses for the interim period ended 30 September 2019. The actual ongoing charges figure may be different and may vary from year to year.*
- ## *This is the actual tracking difference of the calendar year ending on 31 December 2019. Investors should refer to the Trust's website for more up-to-date information on actual tracking difference.*

## **What is this product?**

Value China ETF (the "Trust") is a fund constituted in the form of an open ended unit trust established under Hong Kong law. It is a passively-managed index-tracking exchange traded fund listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The units of the Trust (the "Units") are traded on the SEHK like stocks.

## **Objectives and Investment Strategy**

### **Objective**

The investment objective is to provide investment results that, before fees and expenses, closely correspond to the performance of FTSE Value-Stocks China Index (the "Index").

### **Strategy**

To achieve the investment objective, the Manager intends to primarily use a full replication strategy to track the performance of the Index. Depending on the market conditions, the Manager may also utilise a representative sampling strategy or invest in derivatives to achieve the Trust's investment objective.

Although the Trust will invest primarily in the securities included in the Index, the Trust may also invest in other investments including, but not limited to, futures contracts, options on futures contracts, options, swaps, warrants and other financial derivative instruments ("FDI") related to the Index or its constituents, local currency and foreign currency exchange contracts, cash and cash equivalents and other FDIs which the Manager believes will help the Trust achieve its investment objective. The investment strategy of the Trust is subject to the investment and borrowing restrictions set out in Schedule 1 of the Prospectus.

### **Index**

The Index is a total return, free float-adjusted market capitalisation-weighted index and is denominated in Hong Kong dollars. The Index was launched on 8 July 2009 and has a base date of 29 October 2004 and a base value of 1,000. As of 31 March 2020, it had a total market capitalisation of HK\$1,556 billion and 25 constituents.

The Index captures the performance of 25 value stocks amongst liquid and tradeable Chinese companies listed on the SEHK, including H-shares, red chips and other SEHK listed Chinese companies. Index constituents must pass a value screening process which includes valuation, quality, and contrarian screening factors. To ensure the highest level of tradability, a set of liquidity and investability screens are applied during the index construction process.

FTSE is responsible for the operation, calculation and the maintenance of the Index as well as the publication and record keeping. Value Partners Index Services Limited ("VPISL"), which is a Connected Person of the Manager, is responsible for undertaking the index screening review of the Index.



The most updated list of the constituents of the Index, their respective weightings and additional information of the Index, including the complete and most updated ground rules, from the Index website at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC).

## Use of derivatives

The Trust's net derivative exposure may be up to 50%.

## What are the key risks?

**Investment involves risks. Please refer to the Prospectus for details including the risk factors.**

### 1. Investment risk

- The Trust is an investment fund. There is no guarantee of the repayment of principal. Therefore your investment in the Trust may suffer losses.

### 2. Concentration Risk

- The Trust seeks to track the performance of the Index. Investors should note that the Index has 25 constituent securities only and it is only re-balanced twice a year. The Index is therefore less broadly based than typical indices tracked by the SFC authorised ETFs. Investors should note that there is, therefore, a greater risk of volatility in the Index than in the aforesaid typical indices, and that the performance of the Trust is, therefore, more dependent on and affected by the share prices of a limited number of issuers.
- The Trust may likely be more volatile than a broad-based fund, such as a global equity fund, as it is more susceptible to fluctuations in value of the Index resulting from adverse conditions in the PRC.

### 3. Emerging Market Risks

- The Trust has a portfolio investing in companies whose operations are primarily in the PRC and therefore is subject to emerging market risks.
- Generally, investments in emerging markets such as the PRC are subject to a greater risk of loss than investments in a developed market due to greater political, economic, taxation and regulatory uncertainty and risks linked to volatility and market liquidity.

### 4. Reliance on the Value Partners group and conflicts of interests

- The Index Provider of the Trust is FTSE, which calculates and reports the daily closing level of the Index (or designates parties to do so), whereas the Index was designed by VPISL. The ultimate holding company of VPISL is the holding company of the Sub-Manager as well as being a shareholder of the Manager. The Sub-Manager and VPISL also share resources. As such, VPISL, the Manager and the Sub-Manager are not technically independent of each other. The functions which VPISL, the Manager and the Sub-Manager will perform in connection with the Trust may give rise to potential conflicts of interest. In the event of a financial catastrophe or the insolvency of any member of the group, the NAV and liquidity of the Trust may be adversely affected and its operation may be disrupted.

### 5. Dividends may not be paid

- There is no assurance that the Trust will declare to pay dividends or distributions. Investors may not receive any distributions.

**6. Distribution effectively out of capital risk**

- Dividends may be distributable out of gross income while all or part of fees and expenses of the Trust are charged to capital, resulting in an increase in distributable income for the payment of dividends by the Trust and therefore, the Trust may effectively pay dividend out of capital.
- Payment of dividends effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends effectively out of capital may result in an immediate reduction of the NAV per Unit.
- The Manager may amend the dividend policy of the Trust subject to the SFC's prior approval and by giving not less than one month prior notice to the Unitholders.

**7. FDI risk**

- The Trust may, subject to its investment restrictions, invest in FDIs to gain exposure to constituent securities of the Index.
- Risks associated with FDI include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the FDI by the Trust. Exposure to FDI may lead to a high risk of significant loss by the Trust.

**8. Termination risk**

- The Trust may be terminated early under certain circumstances, for example, where the Index is no longer available for benchmarking or if the size of the Trust falls below HK\$150 million. Investors may not be able to recover their investments and may suffer a loss when the Trust is terminated. Please refer to the section "Termination" in the Prospectus for further details.

**9. Passive investment risk**

- The Trust is passively managed and the Manager will not have the discretion to adapt to market changes due to the inherent investment nature of the Trust. Falls in the Index are expected to result in corresponding falls in the value of the Trust.

**10. Trading risk**

- Generally, retail investors can only buy or sell Units of the Trust on the SEHK. The trading price of the Units on the SEHK is driven by market factors such as the demand and supply of the Units. Therefore, the Units may trade at a substantial premium or discount to the Trust's NAV.

**11. Tracking error risk**

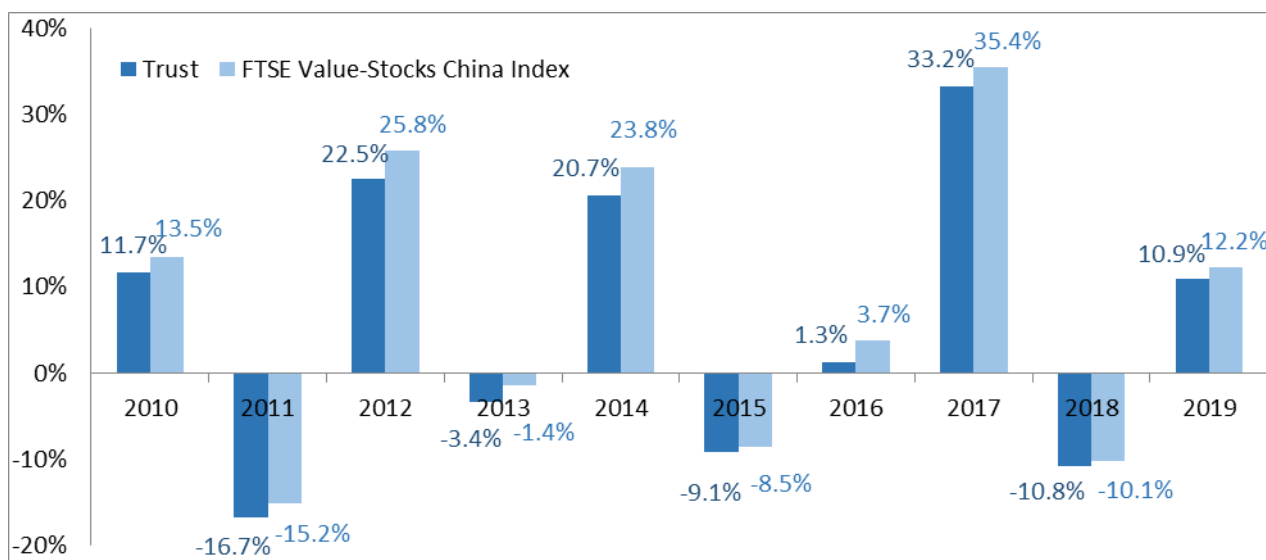
- The Trust may be subject to tracking error risk, which is the risk that its performance may not track that of the Index exactly. This tracking error may result from the investment strategy used, and fees and expenses. The Manager will monitor and seek to manage such risk in minimising tracking error. There can be no assurance of exact or identical replication at any time of the performance of the Index.

**12. Reliance on market maker risks**

- Although the Manager will use its best endeavours to put in place arrangements so that at least one market maker will maintain a market for the Units, and that at least one market

maker gives not less than 3 months' notice prior to terminating market making arrangement under the relevant market maker agreement, liquidity in the market for the Units may be adversely affected if there is no or only one market maker for the Trust. There is also no guarantee that any market making activity will be effective.

## How has the fund performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividends (if any) reinvested.
- These figures show by how much the Trust increased or decreased in value during the calendar year being shown. Performance data has been calculated in HKD including ongoing charges and excluding your trading costs on the SEHK.
- Where no past performance is shown there was insufficient data available in that year to provide performance.
- Trust launch date: 10 December 2009.

## Is there any guarantee?

The Trust does not have any guarantees. You may not get back the amount of money you invest.

## What are the fees and charges?

### Charges incurred when trading the Trust on the SEHK

Fees	What you pay
Brokerage fee	Market rates
Transaction levy	0.0027% <sup>1</sup>
SEHK trading fee	0.005% <sup>2</sup>
Stamp duty	Nil

### Ongoing fees payable by the Trust

The following expenses will be paid out of the Trust. They affect you because they reduce the NAV of the Trust which may affect the trading price.

	Annual rate (as a % NAV)
<b>Management fee*</b> The Trust pays a management fee to the Manager.	0.10%
<b>Trustee's and Registrar's fee*</b> The Trust pays a trustee's and registrar's fee to the Trustee.	0.12% (subject to a minimum of HK\$39,000 per month)

*\* Please note that these fees may be increased up to a permitted maximum on giving 1 month's notice to the Unitholders. Please refer to the section of the prospectus entitled "Fees and Expenses" for further details of the fees and charges payable and the permitted maximum of such fees allowed as well as other ongoing expenses that may be borne by the Trust*

<b>Performance fee</b>	Nil
<b>Administration fee</b>	Nil

### Other fees

You may have to pay other fees when dealing in the Units of the Trust.

### Additional information

The Manager will publish important news and information with respect to the Trust, both in the English and in the Chinese languages, on the Manager's website at <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC) including:

- (a) the Prospectus and this statement (as revised from time to time);
- (b) the latest annual and interim financial reports;
- (c) any notices for material alterations or additions to the Prospectus or the Trust's constitutive documents;
- (d) any public announcements made by the Trust, including information with regard to the Trust and the Index, notices of the suspension of the calculation of the NAV, changes in fees and the suspension and resumption of trading;

<sup>1</sup> Transaction levy of 0.0027% of the price of the Units, payable by each of the buyer and the seller.

<sup>2</sup> Trading fee of 0.005% of the price of the Units, payable by each of the buyer and the seller.

- (e) the near real time indicative NAV per Unit updated every 15 seconds throughout each Dealing Day;
- (f) the last NAV of the Trust and the last NAV per Unit of the Trust;
- (g) the full holdings of the Trust (updated on a daily basis);
- (h) the tracking difference and tracking error of the Trust;
- (i) the constituents of the Index and the level of the Index;
- (j) the latest list of the Participating Dealers and Market Makers; and
- (k) the composition of dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for the last 12 months.

### **Important**

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

IMPORTANT: If you are in any doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional financial advice.

# VALUE CHINA ETF

*(A Hong Kong unit trust authorised under  
Section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong)*

**Stock Code: 3046**

## PROSPECTUS

***Manager***

**Sensible Asset Management Hong Kong Limited**

***Sub-Manager***

**Value Partners Hong Kong Limited**

1 January 2020

The Stock Exchange of Hong Kong Limited, Hong Kong Exchanges and Clearing Limited, Hong Kong Securities Clearing Company Limited and the Hong Kong Securities and Futures Commission (the "SFC") take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. The Trust has been authorised as a collective investment scheme by the SFC. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

## IMPORTANT INFORMATION

This Prospectus relates to the offer in Hong Kong of units (the “Units”) in the Value China ETF (the “Trust”), a single unit trust established under Hong Kong law by a trust deed dated 20 November 2009, as amended and restated (the “Trust Deed”) between Sensible Asset Management Hong Kong Limited (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited (the “Trustee”).

The information contained in this Prospectus has been prepared to assist potential investors in making an informed decision in relation to investing in the Trust. It contains important facts about the Trust whose Units are offered in accordance with this Prospectus. A Product Key Facts Statement which contains the key features and risks of the Trust is also issued by the Manager and such Product Key Facts Statement shall form part of this Prospectus, and shall be read in conjunction with this Prospectus.

The Manager accepts full responsibility for the accuracy of the information contained in this Prospectus and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading. The Manager also confirms that this Prospectus includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Code on Unit Trusts and Mutual Funds (the “Code”) and the “Overarching Principles” of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products for the purposes of giving information with regard to the Units of the Trust. The Trustee is not responsible for the preparation of this Prospectus and shall not be held liable to any person for any information disclosed in this Prospectus (other than information relating to itself).

The Trust is authorised by the Securities and Futures Commission (the “SFC”) in Hong Kong under Section 104 of the Securities and Futures Ordinance. The SFC takes no responsibility for the financial soundness of the Trust or for the correctness of any statements made or opinions expressed in this Prospectus. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

You should consult your financial adviser, consult your tax advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable you to acquire Units as to whether any taxation effects, foreign exchange restrictions or exchange control requirements are applicable and to determine whether any investment in the Trust is appropriate for you.

Dealings in the Units on The Stock Exchange of Hong Kong Limited (the “SEHK”) have commenced. The Units have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited (“HKSCC”) for deposit, clearance and settlement in the Central Clearing and Settlement System (“CCASS”) with effect from 15 December 2009. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong and, accordingly, this Prospectus does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Furthermore, distribution of this Prospectus (including the Product Key Facts Statement) shall not be permitted unless it is accompanied by a copy of the latest annual financial reports of the Trust (where existing) and, if later, its most recent interim report.

The Trust is not registered as an investment company with the United States Securities and Exchange Commission. Units have not been, and will not be, registered under the United States Securities Act of 1933 or any other United States Federal or State law and accordingly Units are not offered to, and may not be transferred to or acquired by, US persons (including without limitation US citizens and residents as well as business entities organised under United States’ law).

You should note that any amendment or addendum to this Prospectus will only be posted on the Manager’s website (<https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/>) (this website has not been reviewed by the SFC). This Prospectus (including the Product Key Facts Statement) may refer to information and materials included in websites. Such information and materials do not form part of this Prospectus and they have not been reviewed by the SFC or any regulatory body. Investors should note that the information provided in websites may be updated and changed periodically without any notice to any person.

### Questions and Complaints

Investors may raise any questions on or make any complaints about the Trust by contacting the Manager at its

address as set out in the Directory of this Prospectus, or by phone at its telephone number: (852) 2143 0688. If a query or complaint is received by phone, the Manager will respond orally. If a query or complaint is received in writing, the Manager will respond in writing. Under normal circumstances the Manager will respond to any query or complaint as soon as practicable and in any event within 21 days.



## DIRECTORY

*Manager*

**Sensible Asset Management  
Hong Kong Limited**  
43/F, The Center  
99 Queen's Road Central  
Hong Kong

*Trustee and Registrar*

**HSBC Institutional Trust Services (Asia)  
Limited**  
1 Queen's Road Central  
Hong Kong

*Participating Dealers\**

**BNP Paribas Securities Services**  
21/F PCCW Tower  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

**BOCI Securities Limited**  
26/F, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

**Chief Securities Limited**  
14/F, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**Credit Suisse Securities (Hong Kong)  
Limited**  
88/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Daiwa Capital Markets Hong Kong Limited**  
28/F, One Pacific Place  
88 Queensway  
Hong Kong

**Goldman Sachs (Asia) Securities Limited**  
68/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Haitong International Securities Company  
Limited**

22/F Li Po Chun Chambers,  
189 Des Voeux Road Central, Hong Kong

**KGI Asia Limited**

41/F Central Plaza, 18 Harbour Road,  
Wanchai, Hong Kong

**Macquarie Bank Limited**

Level 18, One International Finance Centre  
1 Harbour View Street  
Central,  
Hong Kong

**Merrill Lynch Far East Limited**

15/F, Citibank Tower  
3 Garden Road  
Central  
Hong Kong

**Nomura International (Hong Kong) Limited**

30/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Phillip Securities (Hong Kong) Limited**

11/F, United Centre  
95 Queensway  
Hong Kong

**SG Securities (HK) Limited**

Level 38, Three Pacific Place  
1 Queen's Road East  
Hong Kong

**Sinopac Securities (Asia) Limited**

21/F, One Peking  
1 Peking Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

*Auditors*  
**Ernst & Young**  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

*Sub-Manager*  
**Value Partners Hong Kong Limited**  
43/F, The Center  
99 Queen's Road Central  
Hong Kong

*Market Makers\**  
**BNP Paribas Securities (Asia) Limited**  
63/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**BOCI Securities Limited**  
26/F, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

**Credit Suisse Securities (Hong Kong) Limited**  
88/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Merrill Lynch Far East Limited**  
15/F, Citibank Tower  
3 Garden Road  
Central  
Hong Kong

**SG Securities (HK) Limited**  
Level 38, Three Pacific Place  
1 Queen's Road East

Hong Kong  
*Conversion Agent*  
**HK Conversion Agency Services Limited**  
8/F, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

*Legal Counsel to the Manager*  
**Simmons & Simmons**  
30/F, One Taikoo Place  
979 King's Road  
Hong Kong

\* Please refer to the Trust's website for the latest lists of Market Makers and Participating Dealers.

## CONTENTS

<b>DEFINITIONS .....</b>	<b>1</b>
<b>SUMMARY .....</b>	<b>6</b>
<b>THE AFTER LISTING OFFERING.....</b>	<b>8</b>
<b>CREATIONS AND REDEMPTIONS (PRIMARY MARKET) .....</b>	<b>11</b>
<b>EXCHANGE LISTING AND TRADING (SECONDARY MARKET) .....</b>	<b>18</b>
<b>DETERMINATION OF NET ASSET VALUE .....</b>	<b>19</b>
<b>FEES AND EXPENSES.....</b>	<b>21</b>
<b>RISK FACTORS .....</b>	<b>24</b>
<b>MANAGEMENT OF THE TRUST .....</b>	<b>37</b>
<b>STATUTORY AND GENERAL INFORMATION .....</b>	<b>44</b>
<b>SCHEDULE 1 INVESTMENT RESTRICTIONS, SECURITIES FINANCING TRANSACTIONS AND BORROWING .....</b>	<b>53</b>
<b>SCHEDULE 2 INDEX AND DISCLAIMER .....</b>	<b>64</b>

## DEFINITIONS

*In this Prospectus, unless the context requires otherwise, the following expressions have the meanings set out below. Other capitalised terms used, but not defined, have the meaning given to those terms in the Trust Deed.*

“After Listing” means the period which commences on the Listing Date and continues until the Trust is terminated.

“Application” means an application by a Participating Dealer for the creation or redemption of Units through CCASS or not, in accordance with the procedures for creation and redemption of Units set out in the Operating Guidelines, the relevant Participation Agreement and the terms of the Trust Deed.

“Application Unit” means such number of Units or whole multiples thereof as specified in this Prospectus or such other multiple of Units determined by the Manager, approved by the Trustee and notified to Participating Dealers.

“Basket” means a portfolio of shares based on the stock weightings in the Index on the relevant Dealing Day for the purpose of an in-kind creation or an in-kind redemption of Units.

“Business Day” means a day (other than a Saturday or Sunday) on which the SEHK is open for normal trading and on which the Index is compiled and published, and a day on which banks in Hong Kong are open for general business provided that, where as a result of a Typhoon Number 8 Signal or higher, Black Rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager with the consent of the Trustee otherwise determines.

“CCASS” means the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors.

“Code” means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended, or replaced, from time to time).

“Connected Person” has the meaning as set out in the Code which at the date of this Prospectus means in relation to a company:

- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or
- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or
- (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

“Conversion Agent” means HK Conversion Agency Services Limited or such other persons as may from time to time be appointed to act as conversion agent in relation to the Trust.

“Conversion Agent’s Fee” means the fee which may at the Manager’s discretion be charged for the benefit of the Conversion Agent to each Participating Dealer on each Dealing Day upon which a Creation Application or Redemption Application has been made by the relevant Participating Dealer, the maximum level of which shall be determined by the Conversion Agent and set out in this Prospectus.

“Creation Application” means an application by a Participating Dealer for the creation and issue of Units in an Application Unit size (or whole multiples thereof) in accordance with the Operating

Guidelines and the Trust Deed.

“Dealing Day” means each Business Day during the continuance of the Trust, and/or such other day or days as the Manager may from time to time determine with the approval of the Trustee.

“Dealing Deadline” in relation to any particular place and any particular Dealing Day, means the time on each Dealing Day specified in the “The Offering Phases” section of this Prospectus.

“Deposited Property” means all the assets (including cash), received or receivable by the Trustee, for the time being held or deemed to be held upon the trusts of the Trust Deed for the account of the Trust excluding (i) the Income Property and (ii) any amount for the time being standing to the credit of the distribution account.

“Duties and Charges” means, in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage, bank charges, transfer fees, registration fees, transaction levies and other duties and charges whether in connection with the constitution of the Deposited Property or the increase or decrease of the Deposited Property or the creation, issue, transfer, cancellation or redemption of Units or the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units, a charge (if any) of such amount or at such rate as is determined by the Manager to be made for the purpose of compensating or reimbursing the Trust for the difference between (a) the prices used when valuing the Securities of the Trust for the purpose of such issue or redemption of Units and (b) (in the case of an issue of Units) the prices which would be used when acquiring the same Securities if they were acquired by the Trust with the amount of cash received by the Trust upon such issue of Units and (in the case of a redemption of Units) the prices which would be used when selling the same Securities if they were sold by the Trust in order to realise the amount of cash required to be paid out of the Trust upon such redemption of Units.

“entities within the same group” means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.

“FDI” means financial derivative instrument.

“Government and other Public Securities” has the meaning as set out in the Code which, at the date of this Prospectus, means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

“Extension Fee” means the fee payable to the Trustee on each occasion the Manager grants the Participation Dealer’s request for extended settlement in respect of a Creation Application or Redemption Application.

“FTSE” means FTSE International Limited.

“Group” means Value Partners Group Limited and its subsidiaries.

“HKSCC” means the Hong Kong Securities Clearing Company Limited or its successors.

“HKCAS” means the HK Conversion Agency Services Limited or its successors.

“H-Share” means shares in PRC incorporated enterprises which are listed on the SEHK and primarily traded in Hong Kong.

“Income Property” means (a) all interest, dividends and other sums deemed by the Manager, (after consulting the auditors either on a general or case by case basis), to be in the nature of income (including taxation repayments, if any) received or receivable by the Trustee in respect of the Deposited Property of the Trust (whether in cash or, without limitation, by warrant, cheque, money,

credit or otherwise or the proceeds of sale of any Income Property received in a form other than cash); (b) all interest and other sums received or receivable by the Trustee in respect of (a) or (c) of this definition; and (c) all cash payments received or receivable by the Trustee for the account of the Trust in respect of an Application, but excluding (i) the Deposited Property of the Trust; (ii) any amount for the time being standing to the credit of the distribution account for the account of the Trust or previously distributed to Unitholders; (iii) gains for the account of the Trust arising from the realisation of Securities; and (iv) any sums applied towards payment of the fees, costs and expenses payable by the Trust from the Income Property of the Trust.

“Index” means the FTSE Value-Stocks China Index, the index against which the Trust is benchmarked.

“Index Provider” means FTSE.

“Initial Issue Date” means the date of the first issue of Units, which was the Business Day immediately before the Listing Date.

“Issue Price” means the price at which Units may be issued, determined in accordance with the Trust Deed.

“Listing Date” means 15 December 2009, on which the Units were first listed and from which dealings therein are permitted to take place on SEHK.

“Manager” means Sensible Asset Management Hong Kong Limited.

“Market” means in any part of the world:

- (a) in relation to any security: any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such Securities are regularly traded; and
- (b) in relation to any futures contract: any exchange, over-the-counter market or other organised futures market which is open to the international public on which such futures contract is regularly traded.

“Market Maker” means a broker or dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market on the SEHK.

“Net Asset Value” means the net asset value of the Trust or, as the context may require, the net asset value of a Unit calculated under the Trust Deed.

“N-Share” means shares in PRC incorporated enterprises which are listed on the New York Stock Exchange and primarily traded outside of the PRC, Hong Kong and Macau.

“Operating Guidelines” means the guidelines for the creation and redemption of Units as set out in the schedule to the Participation Agreement as amended from time to time by the Manager with the approval of the Trustee, HKSCC and HKCAS and following consultation, to the extent reasonably practicable, with the Participating Dealers, and as notified in writing to the Participating Dealers. Unless otherwise specified, references to the Operating Guidelines shall be to the Operating Guidelines for the Trust applicable at the time of the relevant Application.

“Participating Dealer” means any licensed broker or dealer who is (or who has appointed an agent or delegate who is) admitted for the time being by HKSCC as a participant of CCASS and who has entered into a Participation Agreement in form and substance acceptable to the Manager and the Trustee. Any reference in this Prospectus to “Participating Dealer” shall include a reference to any agent or delegate so appointed by the Participating Dealer.

“Participation Agreement” means an agreement entered into between, among others, the Trustee, the Manager, HKSCC, HKCAS and a Participating Dealer (and its agent, if applicable) setting out, (amongst other things), the arrangements in respect of the issue of Units and the redemption and

cancellation of Units. References to the Participation Agreement shall, where appropriate, mean the Participation Agreement, read together with the Operating Guidelines.

“PRC” means the People’s Republic of China, excluding, for the purpose of interpretation of this Prospectus only, the Hong Kong Special Administrative Region and the Macau Special Administrative Region.

“Recognised Stock Exchange” means an international stock exchange which is recognised by the SFC or which is approved by the Manager.

“Redemption Application” means an application by a Participating Dealer for the redemption of Units in Application Unit size (or whole multiples thereof) in accordance with the Operating Guidelines and the Trust Deed.

“Redemption Value” means, in respect of a Unit, the price per Unit at which such Unit is redeemed, calculated in accordance with the Trust Deed.

“Registrar” means the Trustee or such other person appointed under the Trust Deed as registrar of the Trust.

“reverse repurchase transactions” means transactions whereby the Trust purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

“RMB” means the lawful currency for the time being and from time to time of the PRC.

“sale and repurchase transactions” means transactions whereby the Trust sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.

“Securities” means any shares, stocks, debentures, loan stocks, bonds, securities, commercial paper, acceptances, trade bills, treasury bills, instruments or notes of, or issued by or under the guarantee of, any body, whether incorporated or unincorporated, or of any government or local government authority or supranational body, whether paying interest or dividends or not and whether fully-paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):

- (a) any right, option or interest (howsoever described) in or in respect of any of the foregoing, including units in any Unit Trust (as defined in the Trust Deed);
- (b) any certificate of interest or participation in, or temporary or interim certificate for, receipt for or warrant to subscribe or purchase, any of the foregoing;
- (c) any instrument commonly known or recognised as a security;
- (d) any receipt or other certificate or document evidencing the deposit of a sum of money, or any rights or interests arising under any such receipt, certificate or document; and
- (e) any bill of exchange and any promissory note.

“Securities and Futures Ordinance” means the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

“securities financing transactions” means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

“securities lending transactions” means transactions whereby the Trust lends its securities to a security-borrowing counterparty for an agreed fee.

“SEHK” means The Stock Exchange of Hong Kong Limited or its successors.

“Settlement Day” means the Business Day which is two Business Days after the relevant Dealing Day (or such later Business Day as is permitted in relation to such Dealing Day pursuant to the Operating Guidelines) or such other number of Business Days after the relevant Dealing Day as determined by the Manager in consultation with the Trustee from time to time and notified to the relevant Participating Dealers.

“SFC” means the Securities and Futures Commission of Hong Kong or its successors.

“Sub-Manager” means Value Partners Hong Kong Limited.

“substantial financial institution” means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD2 billion or its equivalent in foreign currency.

“Takeovers Code” means The Code on Takeovers and Mergers issued by the SFC (as amended, or replaced, from time to time).

“Transaction Fee” means the fee which may at the Manager’s discretion be charged for the benefit of the Trustee and the Conversion Agent to each Participating Dealer and/or the Manager on each Dealing Day upon which a Creation Application or Redemption Application has been made by the relevant Participating Dealer.

“Trust” means the Value China ETF.

“Trust Deed” means the trust deed dated 20 November 2009 between the Manager and the Trustee constituting the Trust, as amended, supplemented and/or restated from time to time.

“Trust Fund” means all the property held by the Trust, including all Deposited Property and Income Property, except for amounts to be distributed, in each case in accordance with the Trust Deed.

“Trustee” means HSBC Institutional Trust Services (Asia) Limited.

“Unit” means a unit representing an undivided share in the Trust Fund.

“Unitholder” means a person entered on the register of holders as the holder of Units including, where the context so admits, persons jointly registered and the beneficial owner of Units which are registered in the name of HKSCC Nominees Limited and held in CCASS.

“Valuation Point” means the official close of trading on the Market on which the Securities constituting the Index are listed on each Dealing Day or if more than one, the official close of trading on the last relevant Market to close or such other time or times as determined by the Manager in consultation with the Trustee from time to time provided that there shall always be a Valuation Point on each Dealing Day other than where there is a suspension of the creation and redemption of Units.

“VPISL” means Value Partners Index Services Limited.



## SUMMARY

### Key information

Set out below is a summary of key information in respect of the Trust which should be read together with the full text of this Prospectus.

<b>Index</b>	FTSE Value-Stocks China Index
<b>Initial Issue Date</b>	14 December 2009
<b>Listing Date (SEHK)</b>	15 December 2009
<b>Exchange Listing</b>	SEHK – Main Board
<b>Stock Code</b>	3046
<b>Trading Board Lot Size</b>	100 Units
<b>Base Currency</b>	Hong Kong dollars (HK\$)
<b>Trading Currency</b>	Hong Kong dollars (HK\$)
<b>Dividend Policy</b>	Semi-annually (if any) subject to the Manager's discretion
<b>Application Unit Size (only by or through Participating Dealers)</b>	Minimum 200,000 Units (or multiples thereof)
<b>Investment Strategy</b>	Primarily a full replication strategy. The Manager may also use representative sampling and may invest in derivatives. Please refer to the section on "What is the Investment Strategy?" below
<b>Maximum deviation</b>	4%
<b>Financial Year End</b>	31 March
<b>Website</b>	<a href="https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/">https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/</a> (this website has not been reviewed by the SFC)

### What is the Investment Objective?

The investment objective of the Trust is to provide investment results that, before fees and expenses, closely correspond to the performance of the Index. There can be no assurance that the Trust will achieve its investment objective.

### What is the Investment Strategy?

To achieve the investment objective, the Manager intends to primarily use a full replication strategy to track the performance of the Index. Depending on the market conditions, the Manager may also utilise a representative sampling strategy or invest in derivatives to achieve the Trust's investment objective.

Replication is an indexing strategy that involves investing in substantially all of the Securities in the

Index, either directly or indirectly, in substantially the same proportions as those Securities have in the Index.

Although the Trust will invest primarily in Securities included in the Index, the Trust may also invest in other investments including, but not limited to, futures contracts, options on futures contracts, options, swaps, warrants and other financial instruments related to the Index or its constituents, local currency and foreign currency exchange contracts, cash and cash equivalents and other financial instruments which the Manager believes will help the Trust achieve its investment objective. The investment strategy of the Trust is subject to the investment and borrowing restrictions set out in Schedule 1.

In order to maximise portfolio management efficiency, minimise transaction costs and tracking error, exposure to the Index may also be obtained through other index-tracking strategies or financial instruments from which the return to the Trust will substantially reflect the performance of the Index. Such strategies and instruments will be chosen based on their correlation to the Index or its constituents and cost efficiency in order to reflect the characteristics of the Index.

Prior approval of the SFC will be sought and not less than one month's prior notice will be given to the Unitholders in the event the Manager wishes to adopt investment strategy other than full replication strategy or representative sampling.

As at the date of this Prospectus, there is no current intention for the Trust to engage in securities financing transactions, but this may change in light of market circumstances and, where the Trust does engage in securities financing transactions, prior approval shall be obtained from the SFC (if required) and no less than one month's prior notice will be given to the Unitholders.

#### **What are the characteristics of the Index?**

The Index is a value-based equity index calculated, maintained and published by FTSE. The Index was designed by VPISL, which is a Connected Person of the Manager and the Sub-Manager. However, VPISL is operationally independent of the Manager and the Sub-Manager.

The Index is a total return, free float-adjusted market capitalisation-weighted index and is denominated in Hong Kong dollars. The Index was launched on 8 July 2009 and has a base date of 29 October 2004 and a base value of 1,000. As at 29 November 2019, it had a total market capitalisation of HK\$2,065.398 billion and 25 constituents.

The Index captures the performance of 25 value stocks amongst liquid and tradeable Chinese companies listed on the SEHK, including H-shares, red chips and other SEHK listed Chinese companies. Index constituents must pass a value screening process designed by VPISL which includes valuation, quality, and contrarian screening factors. To ensure the highest level of tradability, a set of liquidity and investability screens are applied during the index construction process.

Please see Schedule 2 for information regarding the Index and the Index Provider's disclaimer.

## THE AFTER LISTING OFFERING

Dealings in the Units on the SEHK commenced on 15 December 2009.

Cash subscriptions and cash redemptions by the Participating Dealers are not permitted (although in exceptional circumstances, the Manager shall have the discretion to receive cash in lieu of certain Securities in the Basket as further explained in the section “Creations and Redemptions (Primary Market)”). Instead:

- all investors may buy and sell Units in the secondary market on the SEHK; and
- Participating Dealers (for themselves or for their clients) may apply for in-kind creation and in-kind redemption.

### Buying and selling of Units on the SEHK

After Listing, all investors can buy and sell Units in board lots of 100 Units (or multiples thereof) like ordinary listed stocks through an intermediary such as a stockbroker or through any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open.

However, please note that transactions in the secondary market on the SEHK will occur at market prices which may vary throughout the day and may differ from the Net Asset Value per Unit due to market demand and supply, liquidity and scale of trading spread for the Units in the secondary market. As a result, the market price of the Units in the secondary market may be higher or lower than the Net Asset Value per Unit.

Please refer to the section on “Exchange Listing and Trading (Secondary Market)” for further information in respect of purchase and sale of Units on the SEHK.

### Creations and redemptions

After Listing, Units will be created and redeemed by in-kind creation and in-kind redemption at the Issue Price and Redemption Value respectively through Participating Dealers in a minimum number of 200,000 Units (and multiples thereof).

The operational procedure for in-kind creation will remain the same After Listing. The Manager shall reject any Creation Applications and/or Redemption Applications made on a day which is not a Dealing Day, or made after the Dealing Deadline. Participating Dealers are under no obligation to create in-kind or redeem in-kind generally or for their clients and may charge their clients such fee or fees as such Participating Dealers determine.

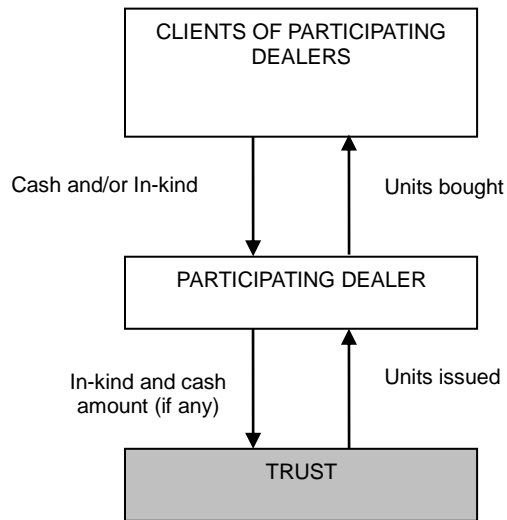
The current Dealing Deadline is at 3:45 p.m. (Hong Kong time) if it is a full trading day on the SEHK or 11:45 a.m. (Hong Kong time) if the SEHK is not open for normal trading in the afternoon of the relevant Dealing Day.

Settlement for subscribing or redeeming of Units in Basket(s) and, if applicable, cash amount are due two Business Days after the Dealing Day, unless the Manager agrees with the relevant Participating Dealer to accept later settlement generally or in any particular case.

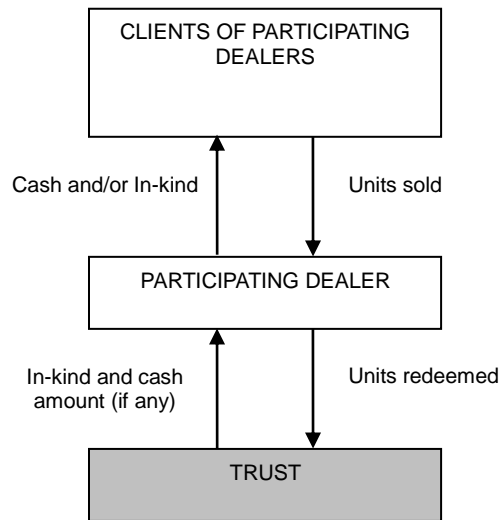
After Listing, all Units will be registered in the name of HKSCC Nominees Limited on the register of the Trust. The register of the Trust is the evidence of ownership of Units. As clients of the Participating Dealers, your beneficial interests in Units shall be established through your accounts with any Participating Dealers or with any other CCASS participants if you are buying from the secondary market.

The diagrams below illustrate the issue or redemption and the buying or selling of Units:

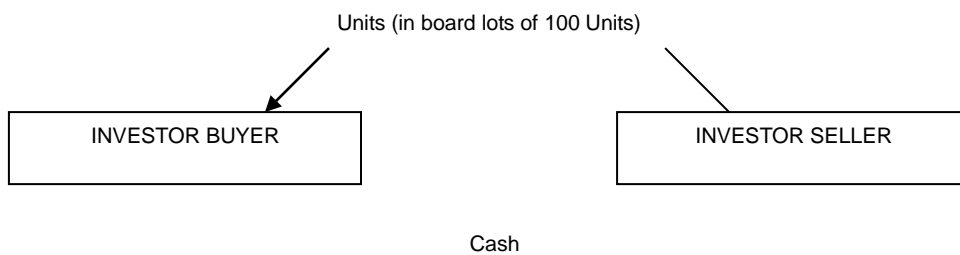
(a) Issue and buying of Units



(b) Redemption and sale of Units



(c) Buying or selling of Units – in the secondary market on the SEHK



## Summary of Offering Methods and Related Fees

<u>Method of Acquisition or Disposal of Units</u>	<u>Minimum Number of Units (or multiple thereof)</u>	<u>Channel</u>	<u>Available to</u>	<u>Consideration, Fees and Charges<sup>1</sup></u>
Purchase and sale in cash through brokers on the SEHK (secondary market)	Board lot of 100 Units	On the SEHK	Any investor	Market price of Units on SEHK  Brokerage fees and duties and charges
In-kind creation and in-kind redemption	200,000 (Application Unit)	Through Participating Dealers only	Any person acceptable to the Participating Dealer as its client	Basket(s) <sup>2</sup>  Cash amount <sup>2</sup> (if any)  Transaction Fee  Any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer)

<sup>1</sup> Please refer to "Fees and Expenses" for further details.

<sup>2</sup> The cash amount is the difference between the aggregate Net Asset Value of the Units comprising the Application Unit(s) and the value of the Basket(s).

## **CREATIONS AND REDEMPTIONS (PRIMARY MARKET)**

### **Investment in the Trust**

There are two types of investors in the Trust, with two corresponding methods of investment in Units and realisation of an investment in Units. The first type of investor is a Participating Dealer, being a licensed dealer that has entered into a Participation Agreement in respect of the Trust. Only a Participating Dealer can create and redeem Units directly with the Trust, either on its own account or for the account of investors which are its clients.

The second type of investor is an investor, other than a Participating Dealer, who buys and sells the Units on the SEHK.

The section titled “Exchange Listing and Trading (Secondary Market)” relates to the second type of investor. The following describes the mechanism for creation by Participating Dealers which is governed by the Trust Deed and the Operating Guidelines.

### **Creation by Participating Dealers**

Units are continuously offered to Participating Dealers who may apply for them on any Dealing Day on their own account or for the account of their clients, in the minimum Application Unit size in accordance with the Operating Guidelines.

The Participating Dealers may apply for Units for themselves or for you as their clients in-kind. Cash subscriptions and cash redemptions by the Participating Dealers are not permitted, although in exceptional circumstances, the Manager shall have the discretion to receive cash in lieu of certain Securities in the Basket as further explained in the section “Creations and Redemptions (Primary Market)”.

Please note that the relevant Participating Dealer may set the creation application or payment cut-off times for its clients that are earlier than those set out in this Prospectus.

The relevant Participating Dealer may for its own account charge fees and expenses not set out in this Prospectus for providing its services, apply its own restrictions on the sale of Units in addition to those set out in this Prospectus, accept or reject any creation application or impose different minimum investments.

The Participating Dealers have indicated to the Manager that they will generally accept requests received from third parties, subject to normal market conditions, agreement as to fees and completion of client acceptance procedures, to create Units on behalf of such clients. You should contact the relevant Participating Dealer for further details before submitting an application to the relevant Participating Dealer for it to create on your behalf. You should note that although the Manager has a duty to closely monitor the operations of the Trust, neither the Manager nor the Trustee is empowered to compel any Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager, or to accept any such application requests received from third parties. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by Participating Dealers.

There are no preliminary charges payable to the Trust or the Manager on the creation of Units by a Participating Dealer. However, you (as a client of a Participating Dealer) may need to pay certain fees and charges imposed by the relevant Participating Dealer for its handling of the creation applications for you. You should check with the relevant Participating Dealer what fees and charges it imposes.

The Application Unit size for the Trust is set out in the “Key Information” section of the Summary. Only applications in Application Unit size or whole multiples thereof will be accepted. The minimum holding of the Trust is one Application Unit.

The Manager shall instruct the Trustee to effect, for the account of the Trust, the creation of Units in Application Unit(s) in exchange for a transfer of Basket(s) and if applicable, cash amount

(including Duties and Charges) in accordance with the Operating Guidelines and the Trust Deed. The cash amount in addition to the Basket(s) is the cash value of the difference between the Net Asset Value of the Units comprising the Application Unit(s) for creations and the closing market value of the Basket(s) on the Dealing Day. This cash amount may be positive or negative. Units will be issued at the Issue Price prevailing on the relevant Dealing Day, provided that the Manager may add to such Issue Price such sum (if any) as represents an appropriate provision for Duties and Charges.

Following an application from the Participating Dealer, if the Manager determines in its discretion that any part of the Basket(s) is likely to be unavailable for delivery or available in insufficient quantity for a Creation Application, then the Manager shall have the right, in its discretion to:

- (a) accept cash equal to the market value at the Valuation Point on the relevant Dealing Day of such part of the Basket(s) in lieu of accepting the relevant Securities in the Basket(s); or
- (b) accept cash collateral equal to 115% of the market value of the relevant Securities in the Basket(s) at the Valuation Point for the Business Day immediately following the relevant Dealing Day (i.e. trade date +1). Any such collateral will be held for the account of the Trust in a non-interest bearing account and shall be redelivered to the Participating Dealer without interest after delivery of the relevant Securities in accordance with the terms of the Operating Guidelines.

The acceptance of cash or cash collateral in lieu of Securities must both be made in accordance with the terms of the Operating Guidelines, provided that the Manager shall be entitled in its discretion to charge the relevant Participating Dealer in respect of any Units for which cash is paid or cash collateral is accepted in lieu of delivery of any part of the Basket(s) an additional sum representing the appropriate Duties and Charges.

The Manager shall have the absolute right to reject or suspend a Creation Application, including, but not limited to, if (i) in the opinion of the Manager, acceptance of any Security in connection with the Creation Application would have certain adverse tax consequences for the Trust; (ii) the Manager reasonably believes that the acceptance of any Security in the Basket would be unlawful; (iii) the acceptance of any Security would otherwise, in the opinion of the Manager, have an adverse effect on the Trust; (iv) circumstances outside the control of the Manager make it for all practicable purposes impossible to process the Creation Application; (v) the Manager has suspended the rights of Participating Dealers to redeem Units; or (vi) an insolvency event occurs in respect of the Participating Dealer.

Units are denominated in Hong Kong dollars (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee.

Once the Units are created, the Manager shall instruct the Trustee to effect, for the account of the Trust, the issue of Units to a Participating Dealer in accordance with the Operating Guidelines.

The creation and issue of Units by a Creation Application shall be effected on the Settlement Day following the relevant Dealing Day on which the Creation Application is received and accepted in accordance with the Operating Guidelines. For valuation purposes only, Units shall be deemed created and issued after the Valuation Point on the Dealing Day on which the relevant Creation Application was received and the register will be updated on the Settlement Day or the Dealing Day immediately following the Settlement Day if the settlement period is extended. (An Extension Fee may be payable in relation to such an extension. See the section on "Fees and Charges" for further details).

If a Creation Application is received by the Manager on a day which is not a Dealing Day, or after the Dealing Deadline (see the section on "The Offering Phases") on a Dealing Day, that Creation Application shall be rejected by the Manager.

No Units shall be issued to any Participating Dealer unless the Creation Application is satisfactory to, and accompanied by such documents as may be required by, the Trustee and the Manager in

accordance with the Operating Guidelines.

The Manager may charge a Transaction Fee for the account of the Trustee and Conversion Agent in respect of Creation Applications. The Transaction Fee shall be paid by or on behalf of the Participating Dealer applying for such Units and/or the Manager. See the section on “Fees and Charges” for further details.

Any commission, remuneration or other sum payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price and shall not be paid from the assets of the Trust.

The Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the register if at any time the Trustee is of the opinion that the provisions, in regard to the issue of Units, are being infringed.

### **Evidence of Unitholding**

Units will be deposited, cleared and settled by CCASS. Units will only be held in registered entry form and no Unit certificates will be issued. HKSCC Nominees Limited is the registered owner (i.e. the sole Unitholder of record) of all outstanding Units deposited with CCASS. HKSCC Nominees Limited will hold such Units for the persons admitted by HKSCC as a participant of CCASS and to whose account any Units are for the time being allocated in accordance with the General Rules of CCASS. Furthermore, the Trustee and the Manager acknowledge that under the General Rules of CCASS, neither HKSCC Nominees Limited nor HKSCC has any proprietary interest in the Units. Investors owning Units in CCASS are beneficial owners as shown on the records of CCASS participants or the relevant Participating Dealer(s) (as the case may be).

### **Restrictions on Unitholders**

The Manager has power to impose such restrictions as it may think necessary for the purpose of ensuring that no Units are acquired or held which would result in such holding being:

- (a) a breach of the law or requirements of any country or governmental authority or any stock exchange on which the Units are listed in circumstances which, in the Manager's opinion, might result in the Trust being adversely affected which the Trust might not otherwise have suffered; or
- (b) in the circumstances which, in the Manager's opinion, may result in the Trust incurring any tax liability or suffering any other pecuniary disadvantage which the Trust might not otherwise have incurred or suffered; or
- (c) held by a US person.

Upon notice that any Units are so held, the Manager may require a Unitholder to redeem or transfer such Units in accordance with the Trust Deed. A person who becomes aware that he is holding or owning Units in breach of any of the above restrictions is required either to redeem his Units in accordance with the Trust Deed or to transfer his Units to a person whose holding would be permissible under this Prospectus and the Trust Deed in a manner that would result in there no longer being any breach of the restrictions above.

### **Cancellation of Creation Application**

The Trustee shall cancel a Creation Application if it has not received all Securities in the Basket(s) and if applicable, cash amount (including Duties and Charges) relating to the Creation Application by the Settlement Day, provided that the Manager may at its discretion (a) extend the settlement period (either for the Creation Application as a whole or for a particular Security) such extension to be subject to payment of such fees and charges as may be charged by the Manager and/or the Trustee or any of their respective Connected Persons in their discretion and such other terms and conditions (including as to the payment of collateral) as the Manager may determine; or (b) partially settle the Creation Application to the extent to which Securities and cash amount (if any)



has been vested in, or to the account of the Trust, on such terms and conditions as the Manager may in its absolute discretion determine including terms as to any extension of the settlement period for the outstanding Securities and cash amount (if any).

Upon the cancellation of any creation order of any Units deemed created pursuant to a Creation Application as provided for above or if a Participating Dealer otherwise withdraws a Creation Application other than in certain circumstances contemplated in the Trust Deed, any Securities and cash amount (if any) received by or on behalf of the Trustee in connection with a Creation Application shall be redelivered to the Participating Dealer (without interest) and the relevant Units shall be deemed for all purposes never to have been created and the applicant therefore shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:

- (a) the Manager may charge the Participating Dealer for the account of the Registrar an application cancellation fee; see the section on "Fees and Charges" for further details;
- (b) the Trustee and the Conversion Agent shall be entitled to the Transaction Fee payable in respect of a Creation Application; see the section on "Fees and Charges" for further details; and
- (c) no previous valuations of the Trust Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

### **Redemption of Units**

A Participating Dealer may redeem Units on any Dealing Day in accordance with the Operating Guidelines.

Redemption Applications may only be made by a Participating Dealer in respect of an Application Unit size or whole multiples thereof. The Manager may charge a Transaction Fee in respect of Redemption Applications. The Transaction Fee shall be paid by or on behalf of the Participating Dealer submitting the Redemption Application(s) and/or the Manager (and may be set off and deducted against any amount due to the Participating Dealer in respect of such Redemption Application(s)) for the benefit of the Trustee and the Conversion Agent. See the section on "Fees and Charges" for further details.

If a Redemption Application is received by the Manager on a day which is not a Dealing Day, or after the Dealing Deadline (see the section on The Offering Phases) on a Dealing Day, the Redemption Application shall be rejected by the Manager.

The Manager shall, on receipt of an effective Redemption Application from a Participating Dealer, instruct the Trustee to effect the redemption of the relevant Application Unit(s) and shall require the Trustee to transfer to the Participating Dealer Securities constituting the Basket(s) and cash amount (if any) in accordance with the Operating Guidelines and the Trust Deed. The cash amount in addition to the Basket(s) is the cash value of the difference between the Net Asset Value of the Units comprising the Application Unit(s) for redemptions and the closing market value of the Basket(s) on the Dealing Day. This cash amount may be positive or negative.

To be effective, a Redemption Application must:

- (a) be given by a Participating Dealer in accordance with the Operating Guidelines;
- (b) specify the number of Units which is the subject of the Redemption Application; and
- (c) include the certifications required in the Operating Guidelines (if any) in respect of redemptions of Units, together with such certifications and opinions of counsel (if any) as the Trustee and the Manager may consider necessary to ensure compliance with applicable securities and other laws in relation to the redemption of Units which are the subject of the Redemption Application.

A Redemption Application once given cannot be revoked or withdrawn without the Manager's consent. The Manager may charge the Participating Dealer for the account of the Registrar an application cancellation fee in connection with each accepted Redemption Application.

For valuation purposes only, Units shall be deemed to have been redeemed and cancelled after the Valuation Point as at the Dealing Day on which the Redemption Application was received.

The Redemption Value of Units tendered for redemption and cancellation shall be the Net Asset Value per Unit rounded to the nearest 2 decimal places.

The Manager may deduct from the redemption proceeds such sum (if any) as the Manager may consider represents an appropriate provision for Duties and Charges and the Transaction Fee.

Any accepted Redemption Application will be effected by the transfer or payment of the Basket(s) and cash amount (if any) in accordance with the Operating Guidelines and the Trust Deed, on the Settlement Day provided that where any account specified by a Participating Dealer for the receipt of any Basket(s) and cash amount (if any) in connection with a Redemption Application shall be subject to verification checks in such manner as may be required by, and to the satisfaction of, the Trustee) and provided further that the Manager shall have received the full amount of any amount payable by the Participating Dealer including any Duties and Charges and the Transaction Fee (where applicable) have been either deducted or otherwise paid in full.

The Manager shall have the right to determine in its absolute discretion that the Trustee shall pay cash out of the Trust equal to the market value at the Valuation Point for the relevant Dealing Day of the relevant Basket(s) (or part thereof) in lieu of delivering the relevant Basket(s) to the Participating Dealer if the Manager determines in its absolute discretion that the Basket(s) are unlikely to be available for delivery or likely to be available in insufficient quantity for delivery upon the Redemption Application by a Participating Dealer or if it is in the interests of the Trust to do so, provided that the Manager shall be entitled in its absolute discretion to charge (for the account of the Trust) to the Participating Dealer redeeming any Units for which cash is paid in lieu of delivering the Basket(s) an additional sum which represents the appropriate provision for Duties and Charges. Such Duties and Charges payable by the Participating Dealer may be set off and deducted from the cash payable in lieu.

The Manager may, in consultation with the Trustee, extend the settlement period on such terms and conditions (including as to the payment of an Extension Fee to the Trustee) but, in any event, not later than one month from the receipt of an effective Redemption Application.

Please note that the relevant Participating Dealer may set the redemption application cut-off times for its clients that are earlier than those set out in this Prospectus.

The relevant Participating Dealer may charge fees and expenses not set out in this Prospectus for providing its services, apply its own restrictions in respect of effecting redemptions for its clients in addition to those set out in this Prospectus, accept or reject any redemption applications or impose different holding requirements. You should contact the relevant Participating Dealer for further details before submitting a redemption application to the relevant Participating Dealer.

The Participating Dealers have indicated to the Manager that they will generally accept requests received from third parties, subject to normal market conditions, agreement as to fees and completion of client acceptance procedures, to redeem Units on behalf of such clients. You should contact the relevant Participating Dealer for further details before submitting an application to the relevant Participating Dealer for it to redeem. You should note that although the Manager has a duty to closely monitor the operations of the Trust, neither the Manager nor the Trustee is empowered to compel any Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager, or to accept any such application requests received from third parties. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by Participating Dealers.

There are no redemption charges payable to the Trust or the Manager on the redemption of Units by a Participating Dealer. However, you (as a client of a Participating Dealer) may need to pay

certain fees and charges imposed by the relevant Participating Dealer for its making of any redemption application on your behalf. You should check with the relevant Participating Dealer what fees and charges it imposes.

### **Suspension of Creations and Redemptions**

Units may not be created during any period when the right to redeem is suspended by the Manager.

The Manager may, at its discretion, after consultation with the Trustee (and where practicable, after consultation with Participating Dealers), having regard to the best interests of the Unitholders, suspend the right of Participating Dealers to redeem Units and/or delay the payment of any monies and transfer of any Securities in respect of any Redemption Application during:

- (a) any period when a Market on which a Security (including a component of the Index) has its primary listing, or the official clearing and settlement depository (if any) of such Market, is closed;
- (b) any period when dealings on a Market on which a Security (being a component of the Index) has its primary listing is restricted or suspended;
- (c) any period when, in the opinion of the Manager, settlement or clearing of Securities in the official clearing and settlement depository (if any) of such Market is disrupted;
- (d) the existence of any state of affairs as a result of which delivery or purchase of Securities, as appropriate or disposal of investments for the time being comprised in the Trust cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders;
- (e) any period when the Index is not compiled or published; or
- (f) any breakdown in the means normally employed in determining the Net Asset Value of the Trust or when for any other reason the value of any Securities or other property for the time being comprised in the Trust cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained.

The Manager will, after consultation with the Trustee, having regard to the best interests of the Unitholders, suspend the right to subscribe for or redeem Units or delay the payment of any monies and or transfer of any Securities when dealings in the Units on the SEHK are restricted or suspended.

A suspension shall remain in force until the earlier of (i) a declaration by the Manager that the suspension is at an end; or (ii) the Business Day following the first Business Day on which (1) the condition giving rise to the suspension shall have ceased to exist and (2) no other condition under which suspension is authorised shall exist.

The Manager shall consider any Redemption Application or any Creation Application received during the period of suspension (that has not been otherwise withdrawn) as having been received immediately following the termination of the suspension. The period for settlement of any redemption will be extended by a period equal to the length of the period of suspension.

A Participating Dealer may, at any time after a suspension has been declared and before termination of such suspension, withdraw any Creation Application or Redemption Application by giving notice in writing to the Manager and the Trustee shall cause the return of any Securities received by it in respect of the Application (without interest).

### **Distribution Policy**

The Manager may in its absolute discretion distribute gross income to Unitholders semi-annually and charge all or part of the Trust's fees and expenses to the capital of the Trust as the Manager

considers appropriate, resulting in an increase in distributable income for the payment of dividends by the Trust and therefore, the Trust may effectively pay dividends out of capital. It amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment and may result in an immediate reduction of the Net Asset Value per Unit. Distributions are not guaranteed and the Manager may in its sole and absolute discretion decide not to make any distribution semi-annually or otherwise.

The composition of dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for the last 12 months (the "Dividend Composition Information") are available from the Manager on request and are also published on the Manager's website <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC). The Manager may amend the Trust's distribution policy with respect to the distribution effectively out of capital of the Trust subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

## EXCHANGE LISTING AND TRADING (SECONDARY MARKET)

Dealings on the SEHK in Units commenced on 15 December 2009.

Units are neither listed nor dealt on any other stock exchange and no application for such listing or permission to deal is being sought as at the date of this Prospectus. Application may be made in the future for a listing of Units on one or more other stock exchanges.

Units trade on the SEHK in board lots of 100 Units.

The purpose of the listing of the Units on the SEHK is to enable investors to buy and sell Units on the secondary market, normally via a broker or dealer in smaller quantities than would be possible if they were to subscribe and/or redeem Units in the primary market.

The market price of a Unit listed or traded on the SEHK may not reflect the Net Asset Value per Unit. Any transactions in the Units on the SEHK will be subject to the customary brokerage commissions and/or transfer taxes associated with the trading and settlement through the SEHK. There can be no guarantee that once the Units are listed on the SEHK they will remain listed.

The Manager will use its best endeavours to put in place arrangements so that at least one Market Maker will maintain a market for the Units and that at least one Market Maker is required to give not less than 3 months' notice prior to terminating market making under the relevant market making agreement. Broadly, the obligations of a Market Maker will include quoting bid and offer prices on the SEHK with the intention of providing liquidity. Given the nature of the Market Maker's role, the Manager will make available to the Market Maker, the portfolio composition information made available to Participating Dealers.

Units may be purchased from and sold through the Market Maker. However, there is no guarantee or assurance as to the price at which a market will be made. In maintaining a market for Units, the Market Makers may make or lose money based on the differences between the prices at which they buy and sell Units, which is to a certain extent dependent on the difference between the purchase and sale prices of the underlying Securities comprised within the Index. Market Makers may retain any profits made by them for their own benefit and they are not liable to account to the Trust in respect of their profits.

If any investors wish to buy or sell Units on the secondary market, they should contact their brokers.

The Units have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 15 December 2009. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the Settlement Day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

If trading of the Units on the SEHK is suspended or trading generally on the SEHK is suspended, then there will be no secondary market dealing for the Units.

## **DETERMINATION OF NET ASSET VALUE**

### **Calculation of Net Asset Value**

The Net Asset Value of the Trust will be calculated by valuing the assets of the Trust Fund and deducting the liabilities attributable to the Trust Fund, in accordance with the terms of the Trust Deed.

Set out below is a summary of how various investments held by the Trust are valued:

- (a) Securities that are quoted, listed, traded or dealt in on any Market shall unless the Manager (in consultation with the Trustee) determines that some other method is more appropriate, be valued by reference to the price appearing to the Manager to be the official closing price, or if unavailable, the last traded price on the Market as the Manager may consider in the circumstances to provide fair criterion, provided that (i) if a Security is quoted or listed on more than one Market, the Manager shall adopt the price quoted on the Market which in its opinion provides the principal market for such Security; (ii) if prices on that Market are not available at the relevant time, the value of the Securities shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager; (iii) interest accrued on any interest-bearing Securities shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine, notwithstanding that the prices so used are not the official closing prices or last traded prices as the case may be;
- (b) the value of each interest in any unlisted mutual fund corporation or unit trust shall be the latest available net asset value per share or unit in such mutual fund corporation or unit trust or if not available or appropriate, the average of the latest available bid and offer prices for the share or unit, unless the Manager considers the latest available bid price is more appropriate;
- (c) futures contracts will be valued based on the formulae set out in the Trust Deed;
- (d) except as provided for in paragraph (b), the value of any investment which is not listed, quoted or ordinarily dealt in on a Market shall be the initial value thereof equal to the amount expended on behalf of the Trust in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may at the request of the Trustee cause a revaluation to be made by a professional person qualified to value such investments (which may, if the Trustee agrees, be the Manager);
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, in consultation with the Trustee, any adjustment should be made to reflect the value thereof; and
- (f) notwithstanding the foregoing, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit such other method of valuation to be used if, having regard to relevant circumstances the Manager deems relevant, it considers that such adjustment is required to reflect the fair value thereof.

The Trustee shall, on the instruction of the Manager, perform any currency conversion at such foreign exchange rate or rates as the Manager shall deem appropriate.

The above summary is, by its nature, limited and does not provide a complete description of how the various assets of the Trust are valued. Investors are encouraged to review the specific provisions of the Trust Deed in relation to valuation of assets.

### **Suspension of Determination of Net Asset Value**

The Manager may, after consultation with the Trustee, having regard to the best interests of the

Unitholders, declare a suspension of the determination of the Net Asset Value of the Trust for the whole or any part of any period during which:

- (a) there exists any state of affairs prohibiting the normal disposal of the Trust's investments; or
- (b) there is a breakdown in any of the means normally employed in determining the Net Asset Value of the Trust or the Net Asset Value per Unit, or when for any other reason the value of any Security or other asset in the Trust cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any Securities held or contracted for the account of the Trust or it is not possible to do so without seriously prejudicing the interest of Unitholders; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the Securities of the Trust or the subscription or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange; or
- (e) the right to redeem Units is suspended.

Any suspension shall take effect upon its declaration and thereafter there shall be no determination of the Net Asset Value of the Trust and the Manager shall be under no obligation to rebalance the Trust until the suspension is terminated on the earlier of (i) the Manager declaring the suspension at an end and (ii) the first Dealing Day on which (1) the condition giving rise to the suspension shall have ceased to exist and (2) no other condition under which suspension is authorised exists.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC) or in such other publications as the Manager decides.

No Units will be issued or redeemed during any period of suspension of the Net Asset Value.

### **Issue Price and Redemption Value of Units**

The Issue Price of Units created and issued by a Creation Application, will be the Net Asset Value of the Trust divided by the total number of Units in issue rounded to the nearest 2 decimal places.

The Redemption Value on a Dealing Day shall be the Net Asset Value of the Trust divided by the total number of Units in issue rounded to the nearest 2 decimal places.

The Issue Price and the Redemption Value (or the latest Net Asset Value of the Units) will be available on the Manager's website at <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC) or published in such other publications as the Manager decides.

Neither the Issue Price nor the Redemption Value takes into account Duties and Charges, Transaction Fees or fees payable by the Participating Dealer.

## FEES AND EXPENSES

There are different levels of fees and expenses applicable to investing in the Trust as set out below, current as at the date of this Prospectus.

<b>(a) Fees and expenses payable by Participating Dealers (unless otherwise specified) on creations and redemptions (as applicable) of Units</b>	<b>Amount</b>
Transaction Fee	See Note <sup>3</sup>
Application cancellation fee	HK\$10,000 <sup>4</sup> per Application
Extension or partial delivery request fee	HK\$10,000 <sup>5</sup> per Application
Unit cancellation fee	HK\$1.00 per board lot <sup>6</sup>
Corporate action fee	HK\$0.80 per board lot <sup>7</sup>
Stamp duty	Nil
All other Duties and Charges incurred by the Trustee or the Manager in connection with the creation or redemption	As applicable
<b>(b) Fees and expenses payable by investors</b>	<b>Amount</b>
<b>(i) Fees payable by clients of the Participating Dealers in respect of creations and redemptions (as applicable) via the Participating Dealer</b>	
Fees and charges imposed by the Participating Dealer	Such amounts as determined by the relevant Participating Dealer <sup>8</sup>
<b>(ii) Fees payable by all investors in respect of dealings in the Units on SEHK</b>	

<sup>3</sup> The Transaction Fee comprises two components: (a) HK\$3,900 per Application which is payable to the Trustee; and (b) a Conversion Agent's Fee which ranges from HK\$5,000 to HK\$12,000 per day per Participating Dealer which is payable to the Conversion Agent. The Transaction Fee may be payable by a Participating Dealer and/or the Manager. The exact amount of Conversion Agent's Fee will depend on the aggregate Hong Kong dollar value of the Creation and Redemption Applications made on that day by that Participating Dealer, as more fully detailed below:

Total Aggregated Value Transacted Daily	Conversion Agent's Fee
HK\$1 to HK\$2,000,000	HK\$5,000
HK\$2,000,001 to HK\$5,000,000	HK\$8,000
HK\$5,000,001 to HK\$10,000,000	HK\$10,000
Over HK\$10,000,000	HK\$12,000

<sup>4</sup> An application cancellation fee is payable to the Registrar in respect of either a withdrawn or failed Creation or Redemption Application.

<sup>5</sup> An extension or partial delivery request fee is payable to the Trustee on each occasion the Manager grants the Participating Dealer's request for extended settlement or partial delivery in respect of a Creation or Redemption Application.

<sup>6</sup> Applicable to Redemption Application, but not Creation Application.

<sup>7</sup> Payable to HKSCC and is subject to a maximum of HK\$10,000 and the tariff specified in CCASS Operational Procedures in effect from time to time.

<sup>8</sup> The Participating Dealer may increase or waive the level of its fees in its discretion. Information regarding these fees and charges is available upon request to the relevant Participating Dealer.



<b>Brokerage</b>	<b>Market rates</b>
<b>Transaction levy</b>	<b>0.0027%<sup>9</sup></b>
<b>SEHK trading fee</b>	<b>0.005%<sup>10</sup></b>
<b>Stamp duty</b>	<b>Nil</b>
<b>(c) Fees and expenses payable by the Trust</b>	<b>(See further disclosure below)</b>

No money should be paid to any intermediary in Hong Kong which is not licensed or registered to carry on Type 1 regulated activity under Part V of the Securities and Futures Ordinance.

### **Fees and Expenses Payable by the Trust**

#### Manager's Fee

The Manager is entitled to receive a management fee of up to a maximum of 1.0% per year of the Net Asset Value of the Trust. The current management fee is 0.10% per year of the Net Asset Value of the Trust, and is accrued daily and calculated as at each Dealing Day and payable monthly in arrears. This fee is payable out of the Trust Fund.

The Manager will be responsible for the payment of the fees of the Sub-Manager.

The Manager may pay a distribution fee to any distributor or sub-distributors of the Trust out of the management fees it receives from the Trust. A distributor may re-allocate an amount of the distribution fee to the sub-distributors.

#### Trustee's and Registrar's Fee

The Trustee is entitled to receive a trustee and registrar fee of up to a maximum of 1.0% per year of the Net Asset Value of the Trust. The current trustee and registrar fee is 0.12% per year of the Net Asset Value of the Trust (subject to a minimum of HK\$39,000 per month) accrued daily and calculated as at each Dealing Day and payable monthly in arrears. The Trustee is also entitled to receive a service fee of HK\$25,000 per year accrued daily and payable quarterly in arrears as well as ad hoc valuation fees of HK\$4,000 per calculation of Net Asset Value other than at the Valuation Point on a regular Dealing Day. These fees are payable out of the Trust Fund.

The Trustee shall also be entitled to be reimbursed out of the Trust Fund all out-of pocket expenses incurred.

#### Conversion Agent's Fee

The Trustee, on behalf of the Trust, will pay all other fees chargeable by the Conversion Agent in connection with the Conversion Agent's role.

Any Conversion Agent's Fee that is charged upon which a Creation Application or Redemption Application is made will be met out from the Transaction Fee. Please refer to note 1 under the section "Fees and Expenses" in this Prospectus for further information on the Transaction Fee.

#### Promotional Expenses

The Trust will not be responsible for any promotional expenses including those incurred by any marketing agents and any fees imposed by such marketing agents on their customers investing in

<sup>9</sup> Transaction levy of 0.0027% of the price of the Units, payable by each of the buyer and the seller.

<sup>10</sup> Trading fee of 0.005% of the price of the Units, payable by each of the buyer and the seller.

the Trust will not be paid (either in whole or in part) out of the Trust Fund.

#### Other Expenses

The Trust will bear all operating costs relating to the administration of the Trust including but not limited to stamp and other duties, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges and other costs and expenses payable in respect of the acquisition, holding and realisation of any investment or any monies, deposit or loan, charges and expenses of its legal counsel, auditors and other professionals, index licensing fees, the costs in connection with maintaining a listing of the Units on the SEHK and maintaining the Trust's authorisation under the Securities and Futures Ordinance, any disbursements or out-of-pocket expenses properly incurred on behalf of the Trust by any of its service providers, the expenses incurred in convening meetings of Unitholders, printing and distributing annual and interim financial reports and other circulars relating to the Trust and the expenses of publishing Unit prices.

#### **Increase in Fees**

The current fees payable to the Manager and the Trustee may be increased on one month's notice to Unitholders (or such shorter period as approved by the SFC), subject to the maximum rates as set out in this Prospectus.

## RISK FACTORS

**An investment in the Trust carries various risks. Each of these may affect the Net Asset Value, yield, total return and trading price of the Units. There can be no assurance that the investment objective of the Trust will be achieved. Prospective investors should carefully evaluate the merits and risks of an investment in the Trust in the context of their overall financial circumstances, knowledge and experience as an investor. The risk factors set forth below are the risks which are believed by the Manager and its directors to be relevant and presently applicable to the Trust.**

### **Risk Factors Relating to the PRC**

The investment objective of the Trust is to provide investment results that, before fees and expenses, closely correspond to the performance of the Index. Since the Index is comprised of 25 Chinese related companies listed on the SEHK, including H shares, red chips and other SEHK listed PRC companies, investment in the Trust will be subject to the following risk factors relating to the PRC.

**World Trade Organisation (the “WTO”) increases competition for PRC companies.** China’s accession to the WTO occurred on 11 December 2001. As a member of the WTO, China is required to significantly reduce the trade barriers for imports that have historically existed and that currently exist in China, such as: reducing restrictions on trading for certain kinds of products on foreign companies; lifting prohibitions, quantitative restrictions or other measures maintained against imports over time and significantly reducing tariffs. Any present or future increase in foreign competition may have a material adverse effect on PRC companies and their business operations.

**PRC economic, political and social conditions as well as government policies.** The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of China and a high level of management autonomy. The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 20 years, the PRC government has carried out economic reforms to achieve decentralisation and utilisation of market forces to develop the economy of the PRC. These reforms have resulted in significant economic growth and social progress. There can, however, be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the underlying Securities of the Trust. Further, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may also have an adverse impact on the capital growth and performance of the Trust.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the Securities in the Index.

**PRC government control of currency conversion and future movements in exchange rates.** Various PRC companies derive their revenues in RMB but have requirements for foreign currency, including for the import of materials, debt service on foreign currency denominated

debt; purchases of imported equipment and payment of any cash dividends declared in respect of e.g. H shares and N shares.

The existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. However, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of the RMB to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the State Administration for Foreign Exchange. Since 1994, the conversion of RMB into Hong Kong dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. The Manager cannot predict nor give any assurance of any future stability of the RMB to Hong Kong dollar exchange rate. Fluctuations in exchange rates may adversely affect the Trust's Net Asset Value and any declared dividends.

**PRC laws and regulations.** The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have no precedent value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. Two examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which went into effect on 1 October 1999, and the Securities Law of the PRC, which went into effect on 1 July 1999. However, because these laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

**Legal System of the PRC.** The legal system of the PRC is based on written laws and regulations. Despite the PRC government's effort in improving the commercial laws and regulations, many of these laws and regulations are still at an experimental stage and the implementation of such laws and regulations remains unclear.

**Accounting and Reporting Standards.** Accounting, auditing and financial reporting standards and practices applicable to PRC companies may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors.

**Taxation in the PRC.** The PRC Government has implemented a number of tax reform policies in recent years. There can be no assurance that the current tax laws and regulations will not be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies.

**Risk Relating to War or Terrorist Attacks.** It is possible that future terrorist attacks such as those in the United States in September 2001, the United Kingdom in July 2005 and in India in November 2008 may have an adverse political and/or economic impact on China. There can be no assurance that there will not be any terrorist attacks which could have direct or indirect effect on the Chinese markets in which investments of the Trust will be located and the corresponding political and/or economic effects arising therefrom if any, may in turn adversely affect the operation and profitability of the Trust.

## Investment Risks

**Investment Objective.** There is no assurance that the investment objective of the Trust will be achieved. Whilst it is the intention of the Manager to implement strategies which are designed to minimise tracking error, there can be no assurance that these strategies will be successful. It is possible that an investor may lose a substantial proportion or all of its investment in the Trust where the Index value declines. As a result, each investor should carefully consider whether it can afford to bear the risks of investing in the Trust.

**Market Risk.** The Net Asset Value of the Trust will change with changes in the market value of the Securities it holds. The price of Units and the income from them may go down as well as up. There can be no assurance that the Trust will achieve its investment objective or that an investor will achieve profits or avoid losses, significant or otherwise. The capital return and income of the Trust is based on the capital appreciation and income on the Securities it holds, less expenses incurred. The Trust's return may fluctuate in response to changes in such capital appreciation or income. Furthermore, the Trust may experience volatility and decline in a manner that broadly corresponds with the Index. Investors in the Trust are exposed to the same risks that investors who invest directly in the underlying Securities would face. These risks include, for example, interest rate risks (risks of falling portfolio values in a rising interest rate market); income risks (risks of falling incomes from a portfolio in a falling interest rate market); and credit risk (risk of a default by the underlying issuer of a Security that forms part of the Index).

**Asset Class Risk.** Although the Manager is responsible for the continuous supervision of the investment portfolio of the Trust, the returns from the types of Securities in which the Trust invests may underperform or outperform returns from other Securities markets or from investment in other assets. Different types of securities tend to go through cycles of out-performance and underperformance when compared with other general Securities markets.

**Passive Investment Risk.** The Trust is not actively managed. Accordingly, the Trust may be affected by a decline in the market segments relating to the Index. The Trust invests (either directly or indirectly) in the Securities included in or representative of the Index regardless of their investment merit, except to the extent of any representative sampling strategy. The Manager does not attempt to select stocks individually or to take defensive positions in declining markets. Investors should note that the lack of discretion on the part of the Manager to adapt to market changes due to the inherent investment nature of the Trust will mean that falls in the Index are expected to result in corresponding falls in the value of the Trust.

**Possible Business Failure Risk.** In the current economic environment, global markets are experiencing very high level of volatility and an increased risk of corporate failures. The insolvency or other corporate failures of any one or more of the constituents of the Index may have an adverse effect on the Index's and therefore the Trust's performance. Investors may lose money by investing in the Trust.

**Management Risk.** Because there can be no guarantee that the Trust will fully replicate the Index, it is subject to management risk. This is the risk that the Manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. In addition, the Manager has absolute discretion to exercise Unitholders' rights with respect to Securities comprising the Trust. There can be no guarantee that the exercise of such discretion will result in the investment objective of the Trust being achieved.

**Securities Risk.** The investments of the Trust are subject to risks inherent in all Securities (including settlement and counterparty risks). The value of holdings may fall as well as rise. The global markets are currently experiencing very high levels of volatility and instability, resulting in higher levels of risk than is customary (including settlement and counterparty risks).

**Equity Risk.** Investing in equity Securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity Securities may also be higher, because the investment performance of equity Securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk

associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value.

**Tracking Error Risk.** There can be no assurance of exact or identical replication at any time of the performance of the Index. The Net Asset Value of the Trust may not correlate exactly with the Index. Factors such as the fees and expenses of the Trust, imperfect correlation between the Trust's assets and the Securities constituting the Index, inability to rebalance the Trust's holdings of Securities in response to changes in the constituents of the Index, rounding of Security prices, and changes to the regulatory policies may affect the Manager's ability to achieve close correlation with the Index. Further, the Trust may receive income (such as interest and dividends) from its assets. These factors may cause the Trust's returns to deviate from the Index.

**Concentration Risk.** The Trust seeks to track the performance of the Index. Investors should note that the Index has 25 constituent securities only and it is only re-balanced twice a year. The Index is therefore less broadly based than typical indices tracked by the SFC authorised ETFs. Investors should note that there is, therefore, a greater risk of volatility in the Index than in the aforesaid typical indices, and that the performance of the Trust is, therefore, more dependent on and affected by the share prices of a limited number of issuers.

**Non-diversification Risk.** The Trust may likely be more volatile than a broad-based fund, such as a global equity fund, as it is more susceptible to fluctuations in value of the Index resulting from adverse conditions in China.

**Counterparty Risk.** Financial institutions, such as brokerage firms, broker-dealers and banks, may enter into transactions with the Manager on account of the Trust in relation to the Trust's investments. These financial institutions, being a counterparty to the transactions, may also be issuers of Securities or other financial instruments in which the Trust invests. This exposes the Trust to the risk that a counterparty may not settle a transaction in accordance with market practice due to a credit or liquidity problem of the counterparty, or due to the insolvency, fraud or regulatory sanction of the counterparty, thus causing the Trust to suffer a loss.

Deposits of securities or cash with a custodian, bank or financial institution ("custodian or depositor") will also carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default of them. In these circumstances the Trust may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the Trust's assets. In most cases, the Trust's assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository. However, in some custody, sub-custody or stock lending arrangements, the Trust may not have a right to have specific assets returned to it but rather, the Trust may only have an unsecured claim against the custodian or counterparty, in which case it may lose all or the greater part of the value of the relevant assets.

**Credit Risk.** The Index may comprise issuers of higher yielding Securities which are rated below investment grade. The Trust may accordingly be subject to additional risks due to the nature of investing in Securities with a rating below investment grade. As such an investment in these Securities may be accompanied by a higher degree of credit risk (as defined below) than is present with investment in higher rated, lower yielding securities. Below investment grade Securities such as, for example, high yield debt Securities, may be considered speculative and can include Securities that are unrated and/or in default.

Credit risk, a fundamental risk relating to all fixed income Securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due.

Even in the absence of the issuer's default, if the mark-to-market value is lower than the cost of the investment, the Trust may suffer immediate diminution in the Net Asset Value, even if the Trust holds that investment to maturity and yields a profit.

In times of market turmoil if redemption pressure is huge, the Trust may be forced to realise a

substantial portion of its investments at a value which may result in significant losses to the Trust and investors may lose money in such circumstances.

Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields. Generally, government securities are considered to be the safest in terms of credit risk, while corporate debt especially debt with a poorer credit rating, has the highest credit risk.

Changes in the financial conditions of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer, are all factors that may have an adverse impact on an issuer's credit quality and security values.

**Trading Risk.** While the creation/redemption feature of the Trust is designed to make it likely that Units will trade close to their Net Asset Value, disruptions to creations and redemptions (for example, as a result of imposition of capital controls by a foreign government) may result in trading prices that differ significantly from the Net Asset Value. The secondary market prices of Units will fluctuate in accordance with changes in the Net Asset Value and supply and demand on any exchange on which Units are listed. The Manager cannot predict whether Units will trade below, at, or above their Net Asset Value. Since, however, Units must be created and redeemed in Application Unit size (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their Net Asset Value) the Manager believes that ordinarily large discounts or premiums to the Net Asset Value of Units should not be sustained. If the Manager suspends creations and/or redemptions of Units, the Manager anticipates that there may be larger discounts or premiums as between the secondary market price of Units and the Net Asset Value.

**All investments risk loss of capital.** There is no guarantee that the Trust's investments will be successful. In addition, trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the execution of due care and special procedures designed to prevent such errors.

**No Trading Market in the Units.** Although the Units are listed on the SEHK and one or more Market Makers have been appointed, investors should be aware that there may be no liquid trading market for the Units or such Market Maker(s) may cease to fulfil that role. Further, there can be no assurance that Units will experience trading or pricing patterns similar to those of exchange traded funds which are issued by investment companies in other jurisdictions or those traded on the SEHK which are based upon indices other than the Index.

**Liquidity Risk.** Following listing on the SEHK, it is unlikely that the Units will initially be widely held. Accordingly, any investor buying Units in small numbers may not necessarily be able to find other buyers should that investor wish to sell. To address this risk, one or more Market Makers have been appointed.

**Counterparty Risk to the custodian.** The Trust will be exposed to the credit risk of any custodian or any depository used by the custodian where cash is held by the custodian or other depositories. In the event of the insolvency of the custodian or other depositories, the Trust will be treated as a general creditor of the custodian or other depositories in relation to cash holdings of the Trust. The Trust's Securities are however maintained by the custodian or other depositories in segregated accounts and should be protected in the event of insolvency of the custodian or other depositories.

**Equity Linked Notes and other FDIs.** The Manager may invest the Trust in constituents of the Index through equity linked notes and other FDIs, including investments in participation notes. A FDI is a financial contract or instrument the value of which depends on, or is derived from, the value of an underlying asset such as a Security or an index and so have a high degree of price variability and are subject to occasional rapid and substantial changes. Compared to conventional Securities, FDIs can be more sensitive to changes in interest rates or to sudden fluctuations in market prices due to both the low margin deposits required, and the extremely high degree of leverage involved in their pricing. As a result, a relatively small price movement in a FDI may result in immediate and substantial loss (or gain) to the Trust. The Trust's losses may be greater if it invests in FDIs than if it invests only in conventional Securities.

There is also no active market in FDIs and therefore investment in FDIs can be illiquid. In order to meet redemption requests, the Trust relies upon the issuer of the FDIs to quote a price to unwind any part of the FDIs that will reflect the market liquidity conditions and the size of the transaction.

In addition, many FDIs are not traded on exchanges. As a result, if the Trust engages in transactions involving FDIs, it will be subject to the risk of the inability or refusal to perform such contracts by the counterparties with which the Trust trades, and as such the Trust may suffer a total loss of the Trust's interest in the FDIs. This risk is also aggregated by the fact that over-the-counter derivatives markets are generally not regulated by government authorities and participants in these markets are not required to make continuous markets in the contracts they trade.

An investment in the FDIs does not entitle the FDIs holder to the beneficial interest in the shares nor to make any claim against the company issuing the shares. There can be no assurance that the price of the FDIs will equal the underlying value of the company or securities market that it may seek to replicate.

Where the Manager invests the Trust's assets in FDIs that are not listed or quoted on a market, those FDIs should comprise no more than 15% of the Trust's non-cash assets. The exposure of the Trust to FDI is also subject to the other applicable investment restrictions set out in Schedule 1 of this Prospectus).

In particular, investments in participation notes (P-notes) involve certain risks in addition to those associated with a direct investment in the underlying foreign companies or foreign securities markets whose return they seek to replicate. There can be no assurance that there will be a trading market or that the trading price will equal the underlying value of the foreign company or foreign securities market that it seeks to replicate.

The Trust is relying on the creditworthiness of the counterparty issuing the P-note and has no rights under a P-note against the issuer of the underlying security. Therefore, if such counterparty were to become insolvent, the Trust would lose its investment. This risk may be amplified because the Trust can purchase P-notes issued by as few as one issuer. In seeking to limit its counterparty risk, the Trust will endeavour to transact with a number of counterparties provided the Manager sees fit. P-notes may also include transaction costs in addition to those applicable to a direct investment.

**Collateral Management and Re-investment of Cash Collateral Risk.** Where the Trust enters into a securities financing transaction or an over-the-counter ("OTC") derivative transaction, collateral may be received from or provided to the relevant counterparty. Notwithstanding that the Trust may only accept non-cash collateral which is highly liquid, the Trust is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Trust is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Trust may re-invest its cash collateral. Investors should note that there are risks associated with the re-investment of cash collateral. If the Trust reinvests cash collateral, such re-investment is subject to investment risks including the potential loss of principal.

Where collateral is provided by the Trust to the relevant counterparty, in the event of the insolvency of the counterparty, the Trust may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Finance charges received by the Trust under a securities lending transaction may be reinvested in order to generate additional income. Similarly cash collateral received by the Trust may also be reinvested in order to generate additional income. In both circumstances, the Trust will be exposed to market risk in respect of any such investments and may incur a loss in reinvesting the financing charges and cash collateral it receives. Such a loss may arise due to a decline in the value of the investment made. A decline in the value of investment of the cash collateral would reduce the



amount of collateral available to be returned by the Trust to the securities lending counterparty at the conclusion of the securities lending contract. The Trust would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Trust.

**Securities Financing Transactions or other Similar OTC Transactions Risk.** The Trustee may enter into securities financing transactions or other similar OTC transactions in respect of the Trust, which is subject to risks including:

*Risk relating to securities lending transactions* – Securities lending involves the risk that the borrower may fail to return the securities in a timely manner or at all. As a result, the Trust may suffer a loss by engaging in securities lending transactions and there may be a delay in recovering the lent securities. Any delay in the return of securities on loans may restrict the ability of the Trust to meet delivery or payment obligations arising from redemption requests and may trigger claims. The value of the collateral received as part of the lending transaction may also fall below the value of the securities lent out. Securities lending also entails operational risks such as settlement failures or delays in the settlement of instructions. Such failures or delays may restrict the ability of the Trust to meet delivery or payment obligations arising from redemption requests and may trigger claims.

*Risk relating to repurchase transactions* – In the event of the failure of the counterparty with which collateral has been placed, the Trust may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral, adverse market movements in the value of the collateral, intra-day increase in the value of the securities, a deterioration in the credit rating of the collateral issuer, or the illiquidity of the market in which the collateral is traded.

*Risk relating to reverse repurchase transactions* – In the event of the failure of the counterparty with which cash has been placed, the Trust may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

**Risk of Indemnity.** Under the Trust Deed, the Trustee and the Manager have the right to be indemnified for any liability or expense incurred by them in performing their respective duties except as a result of their own negligence, default or breach of duty. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of the Trust and the value of the Units.

**Dividends may not be paid.** Whether the Trust will pay distributions on Units is subject to the Manager's distribution policy and also depends on dividends declared and paid in respect of the Securities of the Index. Dividend payment rates in respect of such Securities will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions.

**Distributions effectively out of capital risk.** Pursuant to Clauses 22.3 of the Trust Deed, the Manager shall at its discretion (and after consultation with the auditors where it considers appropriate) determine whether any particular sum payable in respect of the general expenses of the Trust, fees of the Trustee or fees of the Manager out of the Trust shall be paid out of the Deposited Property or Income Property. In addition, pursuant to 11.8 of the Trust Deed, any Duties and Charges in respect of the acquisition or realisation of a Security or any deposit may be paid out of the Deposited Property.

The Manager may at its discretion pay dividend out of gross income while charging all or part of the Trust's fees and expenses to the capital of the Trust, resulting in an increase in distributable income for the payment of dividends by the Trust and therefore, the Trust may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the

Trust's capital or effectively out of the Trust's capital may result in an immediate reduction of the Net Asset Value per Unit. The Manager may amend its distribution policy subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

**Possible early termination of the Trust.** The Trust may be terminated early under certain circumstances, including but not limited to if (i) the aggregate Net Asset Value of all the Units is less than HK\$150 million or (ii) any law is passed or amended or regulatory directive or order is imposed which renders it illegal or in the opinion of the Manager, impracticable or inadvisable to continue the Trust or (iii) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed or (iv) the Index is no longer available for benchmarking or if the Units are no longer listed on the SEHK or any other Recognised Stock Exchange or (v) at any time, the Trust ceases to have any Participating Dealer. Upon the Trust being terminated, the Trustee will distribute the net cash proceeds (if any) derived from the realisation of the investments comprised in the Trust to the Unitholders in accordance with the Trust Deed. Any such amount distributed may be more or less than the capital invested by the Unitholder.

### **Market Trading Risks associated with the Trust**

**Absence of active market and liquidity risks.** Although Units of the Trust are listed for trading on the SEHK, there can be no assurance that an active trading market for such Units will develop or be maintained. In addition, if the underlying Securities which comprise the Trust themselves have limited trading markets, or if the spreads are wide, this may adversely affect the price of the Units and the ability of an investor to dispose of its Units at the desired price. If a Unitholder needs to sell its Units at a time when no active market for them exists, the price it receives for its Units — assuming it is able to sell them — is likely to be lower than the price received if an active market did exist.

**Suspension of trading.** Investors and potential investors will not be able to buy, nor will investors be able to sell, Units on the SEHK during any period in which trading of the Units is suspended. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate and in the interest of a fair and orderly market to protect investors. The subscription and redemption of Units may also be suspended if the trading of Units is suspended.

**Effect of redemptions.** If significant redemptions of Units are requested by the Participating Dealers, it may not be possible to liquidate the Trust's investments at the time such redemptions are requested or the Manager may be able to do so only at prices which the Manager believes does not reflect the true value of such investments, resulting in an adverse effect on the return to investors. Where significant redemptions of Units are requested by the Participating Dealers, the right of Participating Dealers to require redemptions may be suspended, or the period for the payment of redemption proceeds may be extended.

In addition, the Manager may also in certain circumstances suspend the determination of the Net Asset Value of the Trust for the whole or any part of any period. Please see the section on "Determination of Net Asset Value" for further details.

**Units may trade at prices other than NAV.** Units of the Trust trade on the SEHK at prices above or below the most recent Net Asset Value. The Net Asset Value per Unit of the Trust is calculated at the end of each Business Day and fluctuates with changes in the market value of the Trust's holdings. The trading prices of the Trust's Units fluctuate continuously throughout the trading hours based on market supply and demand rather than Net Asset Value. The trading price of the Units may deviate significantly from Net Asset Value particularly during periods of market volatility. Any of these factors may lead to the Units of the Trust trading at a premium or discount to the Net Asset Value. On the basis that Units can be created and redeemed in Application Units at Net Asset Value, the Manager believes that large discounts or premiums to Net Asset Value are not likely to be sustained over the long-term. While the creation/redemption feature is designed to make it likely that the Units will normally trade at prices close to the Trust's next calculated Net Asset Value, trading prices are not expected to correlate exactly with the Trust's Net Asset Value due to reasons relating to timing as well as market supply and demand factors. In addition,

disruptions to creations and redemptions or the existence of extreme market volatility may result in trading prices that differ significantly from Net Asset Value. In particular, if an investor purchases Units at a time when the market price is at a premium to Net Asset Value or sells when the market price is at a discount to Net Asset Value, then the investor may sustain losses.

**Borrowing Risks.** The Trust may borrow subject to the limit set out in the Trust Deed for various reasons, such as facilitating redemptions or to acquire investments for the account of the Trust. Borrowing involves an increased degree of financial risk and may increase the exposure of the Trust to factors such as rising interest rates, downturns in the economy or deterioration in the conditions of the assets underlying its investments. There can be no assurance that the Trust will be able to borrow on favourable terms, or that the Trust's indebtedness will be accessible or be able to be refinanced by the Trust at any time.

**Cost of trading Units.** Buying or selling Units involves various types of costs that apply to all Securities transactions. When trading Units through a broker investors will incur a brokerage commission or other charges imposed by the broker. In addition investors on the secondary market, will also incur the cost of the trading spread, being the difference between what investors are willing to pay for the Units (bid price) and the price at which they are willing to sell Units (ask price). Frequent trading may detract significantly from investment results and an investment in Units may not be advisable particularly for investors who anticipate regularly making small investments.

**No Right to Control the Trust's Operation.** Investors will have no right to control the daily operations, including investment and redemption decisions, of the Trust.

**Secondary market trading risk.** Units may trade on the SEHK when the Trust does not accept orders to subscribe or redeem Units. On such days, Units may trade in the secondary market with more significant premiums or discounts than might be experienced on days when the Trust accepts subscription and redemption orders.

**Reliance on the Manager.** Unitholders must rely upon the Manager in formulating the investment strategies and the performance of the Trust is largely dependent on the services and skills of its officers and employees. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case of the insolvency of the Manager, the Trustee may not find successor managers quickly and the new appointment may not be on equivalent terms or of similar quality. Therefore, the occurrence of those events could cause a deterioration in the Trust's performance and investors may lose money in those circumstances.

**Reliance on Market Makers.** Investors should note that liquidity in the market for the Units may be adversely affected if there is no Market Maker for the Trust. Although the Manager will use its best endeavours to put in place arrangements so that there will always be at least one Market Maker for the Units and that at least one Market Maker gives not less than 3 months' notice prior to terminating market making under the relevant market making agreement, there may be circumstances such as the revocation of the relevant market making approvals or registration or other changes beyond the control of the Manager that may result in the sudden loss of a Market Maker for the Trust.

**Reliance on Participating Dealers.** The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of Securities through CCASS is disrupted or the Index is not compiled or published. In addition, Participating Dealers will not be able to issue or redeem Units if some other event occurs that impedes the calculation of the Net Asset Value of the Trust or disposal of the Trust's Securities cannot be effected. Since the number of Participating Dealers at any given time will be limited, and there may even be only one Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

Where a Participating Dealer appoints an agent or delegate (who is a CCASS participant) to

perform certain CCASS-related functions, if the appointment is terminated and the Participating Dealer fails to appoint an alternative agent or delegate, or if the agent or delegate ceases to be a CCASS participant, the creation or redemption of Units by such Participating Dealer may also be affected.

### **Risks associated with the Index**

**The Index is subject to fluctuations.** The performance of the Units should, before fees and expenses, correspond closely with the performance of the Index. If the Index experiences volatility or declines, the price of the Units will vary or decline accordingly.

**Composition of and weightings in the Index may change.** The companies which comprise the Index are changed by the Index Provider from time to time. The price of the Units may rise or fall as a result of such changes. The composition of the Index may also change if one of the constituent companies were to delist its shares or if a new eligible company were to list its shares and be added to the Index. If this happens, the weighting or composition of the Securities owned by the Trust would be changed as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Index as its constituents change from time to time, and not necessarily the way it is comprised at the time of an investment in the Units.

**Licence to use Index may be terminated.** The Manager is granted a licence by the Index Provider to use the Index to create the Trust based on the Index and to use certain trade marks and any copyright in the Index. The Trust may not be able to fulfil its objective and may be terminated if the licence agreement is terminated. The initial term of the licence agreement is two years and is thereafter renewable annually. It is possible that the licence agreement may be terminated before the two years term expires and there can be no guarantee that the licence agreement will be perpetually renewed. For further information on the grounds for terminating the licence agreement, please refer to the section "Index Licence Agreement". The Trust may also be terminated if the Index ceases to be compiled or published and there is no replacement Index using the same or substantially similar formula for the method of calculation as used in calculating the Index.

**Compilation of Index.** The Securities of the Index are determined and composed by the Index Provider without regard to the performance of the Trust. The Trust is not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider makes no representation or warranty, express or implied, to investors in the Trust or other persons regarding the advisability of investing in Securities generally or in the Trust particularly. No Index Provider has any obligation to take the needs of the Manager or investors in the Trust into consideration in determining, composing or calculating the Index. There is no assurance that the Index Provider will compile the Index accurately, or that the Index will be determined, composed or calculated accurately. In addition, the process and the basis of computing and compiling the Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the Index Provider without notice. Consequently there can be no guarantee that the actions of the Index Provider will not prejudice the interests of the Trust, the Manager or investors.

**Composition of the Index may change.** The Securities constituting the Index will change as the Securities of the Index are delisted, or as the Securities mature or are redeemed or as new Securities are included in the Index. When this happens the weightings or composition of the Securities owned by the Trust will change as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. However, there can be no guarantee that the Trust will, at any given time accurately reflect the composition of the Index (refer to the section on "Tracking Error Risk").

**Index Provider and the Manager and Sub-Manager are not independent of each other.** The Index Provider of the Trust is FTSE, which calculates and reports the daily closing level of the Index (or designates parties to do so), whereas the Index was designed by VPISL. The ultimate holding company of VPISL is the holding company of the Sub-Manager as well as being a shareholder of the Manager. The Sub-Manager and VPISL also share resources. As such,

VPISL, the Manager and the Sub-Manager of the Trust are not technically independent of each other.

Nonetheless, the Manager does not consider this will be a concern for the following reasons:

- (a) VPISL's operations and the Sub-Manager's investment management operations are under the responsibility of different staff and management teams. These two operations report directly to different heads.
- (b) The Group has internal policies and procedures in place which ensure that effective "Chinese Walls" are created and maintained between different entities of the Group and their operations and which impose strict obligations of confidentiality on such entities' staff. Information is disclosed between different operations within the same entity and between different entities of the Group on a "need to know" basis only.
- (c) The Group has IT firewall procedures in place restricting access to important systems and business information to authorised personnel. All of the Group's staff is required to comply with the Group's internal policies and procedures and the IT security standards of the Group.
- (d) As indicated in the section on "Index Methodology" above, the Index has clear methodology and rules which are well documented by which the Index is calculated.

## Regulatory Risks

**Withdrawal of SFC Authorisation.** The Trust has been authorised as a collective investment scheme under the Code by the SFC under Section 104 of the Securities and Futures Ordinance. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. This does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The SFC reserves the right to withdraw the authorisation of the Trust or impose such conditions as it considers appropriate. Without limiting the foregoing, the SFC may withdraw authorisation where the SFC no longer considers the Index acceptable. If the Manager does not wish the Trust to continue to be authorised by the SFC, the Manager will give Unitholders at least three months' notice of the intention to seek SFC's withdrawal of such authorisation. In addition, any authorisation granted by the SFC may be subject to certain waivers which may be withdrawn or varied by the SFC. If, as a result of such withdrawal or variation of waivers, it becomes illegal, impractical or inadvisable to continue the Trust, the Trust will be terminated.

**Legal and Regulatory Risk.** The Trust must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in the investment policy and objectives followed by the Trust. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the performance of the Index and as a result the performance of the Trust. It is impossible to predict whether such an impact caused by any change of law will be positive or negative for the Trust. In the worst case scenario, a Unitholder may lose a material part of its investments in the Trust.

**Units may be delisted from the SEHK.** The SEHK imposes certain requirements for the continued listing of securities, including the Units, on the SEHK. Investors cannot be assured that the Trust will continue to meet the requirements necessary to maintain the listing of Units on the SEHK or that the SEHK will not change the listing requirements. If the Units of the Trust are delisted from the SEHK, Unitholders will have the option to redeem their Units by reference to the Net Asset Value of the Trust. Where the Trust remains authorised by the SFC, such procedures required by the Code will be observed by the Manager including as to notices to Unitholders, withdrawal of authorisation and termination, as may be applicable. Should the SFC withdraw authorisation of the Trust for any reason it is likely that Units may be required to be delisted.

**Taxation.** Investing in the Trust may have tax implications for a Unitholder depending on the particular circumstances of each Unitholder. Prospective investors are strongly urged to consult their own tax advisers and counsel with respect to the possible tax consequences to them of an

investment in the Units. Such tax consequences may differ in respect of different investors.

**Valuation and Accounting.** The Manager intends to adopt IFRS in drawing up the annual financial reports of the Trust. However, investors should note that the calculation of the Net Asset Value in the manner described under the section on “Determination of Net Asset Value” will not necessarily be in compliance with generally accepted accounting principles, that is, IFRS. Under IFRS, investments should be valued at fair value (bid and offer pricings are considered to be representative of fair value for listed investments) rather than last traded price. Accordingly, investors should note that the Net Asset Value as described in this Prospectus will not necessarily be the same as the net asset value to be reported in the annual financial reports as the Manager will make necessary adjustments in the annual financial reports to comply with IFRS. Any such adjustments will be disclosed in the annual financial reports, including a reconciliation.

**FATCA Related Risks.** Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as “FATCA”) of the U.S. Internal Revenue Code of 1986, as amended (“IRS Code”) impose rules with respect to certain payments to non-U.S. persons, such as the Trust, including interest and dividends from securities of U.S. issuers. All such payments (referred to as “withholdable payments”) may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the Internal Revenue Service (the “IRS”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. While such withholding would have applied also to payments of gross proceeds from the sale or other disposition on or after January 1, 2019 of property of a type which can produce U.S. source dividends and interest, recently proposed Treasury regulations eliminate such withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury regulations until final Treasury regulations are issued. To avoid such withholding on payments made to it, a foreign financial institution (an “FFI”), such as the Trust (and, generally, other investment funds organised outside the U.S.), generally will be required to enter into an agreement (an “FFI Agreement”) with the IRS, under which it will agree to identify its direct or indirect U.S. owners and report certain information concerning such U.S. owners to the IRS. The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30% on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

On 13 November 2014, Hong Kong has entered into an intergovernmental agreement with the US (“IGA”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Trust) will be required to register with the US IRS and comply with the terms of FFI Agreement. Otherwise the Trust will be subject to a 30% withholding tax on relevant US-sourced payments it receives.

Under the IGA, FFIs in Hong Kong (such as the Trust) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax on payments they receive; and (ii) will not be required to withhold tax on withholdable payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account is reported to the US IRS pursuant to the provisions of the IGA), but may be required to withhold tax on withholdable payments made to non-compliant FFIs. Withholding may be required with respect to withholdable payment to recalcitrant accounts if, pursuant to certain exchange of information provisions contained in the IGA, the IRS has not obtained information regarding such recalcitrant account holders within a time period specified in the IGA.

The Trust will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any withholding tax. In particular, the Trust has been registered with the IRS as a reporting Model 2 FFI with Global Intermediary Identification Number SXP040.99999.SL.344. In the event that the Trust is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and the Trust does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Trust may be adversely affected and the Trust may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which the Trust invests

may be required to satisfy their own FATCA compliance obligations, and failure by any underlying collective investment scheme to fully comply with its FATCA obligations may have an adverse impact on the Net Asset Value of the Trust.

To the extent that the Trust suffers withholding tax on its investments as a result of FATCA, the Trustee on behalf of the Trust may, after completing due process to ascertain and confirm that the Unitholder has failed to cooperate and provide the required information, bring legal action against the relevant Unitholder for losses suffered by the Trust as a result of such withholding tax.

As at the date of this Prospectus, all Units are registered in the name of HKSCC Nominees Limited. It is the Manager's understanding that HKSCC Nominees Limited has registered as a participating foreign financial institution under the Model 2 IGA.

Each prospective investor should consult with its own tax adviser as to the potential impact of FATCA in its own tax situation.

## MANAGEMENT OF THE TRUST

### The Manager

Sensible Asset Management Hong Kong Limited (the “Manager”) is wholly owned by Value Partners Group Limited, a company listed on the SEHK and a member of the Group.

The Manager was incorporated in Hong Kong with limited liability on 28 April 2008 and is licensed by the SFC to conduct type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance with CE number ARE534.

Under the Trust Deed, the monies forming part of the Trust are invested, at the direction of the Manager, in accordance with the Trust Deed. The Manager is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of the Trust.

Without limiting the other powers mentioned in this Prospectus, the Manager may purchase and sell investments for the account of the Trust and, subject to the provisions of the Trust Deed, enter into such contracts including sale and purchase agreements, loans, security financing transactions and broker and trading agreements in accordance with the Trust Deed, as it deems appropriate in the performance of its role as Manager.

### The Directors of the Manager

The Directors of the Manager are:

**So Chun Ki Louis** – Mr. Louis So is Co-Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners Group Limited (“Value Partners”). He works closely with Dato’ Seri Cheah Cheng Hye on all aspects of providing leadership to Value Partners, including overseeing all group affairs and activities, daily operations and management of the firm’s investment management team. Mr. So holds a leadership role in Value Partners’ investment process, including a high degree of responsibility over portfolio management.

Mr. So has 20 years of experience in the financial industry, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. He was appointed Co-Chairman of Value Partners with effect from 26 April 2019. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team.

Mr. So was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of “CIO of the Year in Asia” award alongside Dato’ Seri Cheah Cheng Hye.

Mr. So graduated from the University of Auckland in New Zealand with a Bachelor’s degree in Commerce and obtained a Master’s degree in Commerce from the University of New South Wales in Australia.

**Au King Lun** – Dr Au King Lun is the President of Value Partners, responsible for the group’s corporate affairs. He joined Value Partners in December 2016, bringing decades of asset management industry experience to his role.

Previously, Dr Au was CEO of Eastspring Investments (Hong Kong) Limited and BOCHK Asset Management Limited. He also held various senior management positions at other financial institutions including HSBC Global Asset Management (Hong Kong) Limited. Dr Au was named CEO of the Year in Hong Kong by Asia Asset Management in 2012 and 2014. He was awarded the Medal of Honour (“MH”) by the Government of Hong Kong for his valuable contributions to the securities and asset management industry in 2008.

Currently, Dr Au is a lay member of the Council of the Hong Kong Institute of Certified Public



Accountants, a member of the Board of Directors of the Financial Services Development Council, an Index Advisory Committee Member of the Shanghai Stock Exchange as well as the China Securities Index Co., Ltd. In addition, he sits on the board of the Urban Renewal Fund. Furthermore, he was the Chairman of the Hong Kong Securities and Investment Institute from 2006 to 2008 and the Chairman of the Hong Kong Investment Funds Association in 2004/2005.

Dr Au holds a CFA, and he earned a Bachelor's degree in Physics from the University of Oxford and a PhD in Theoretical Particle Physics from Durham University.

***Cheung Kin Yan Kenny*** – Mr. Kenny Cheung is a Portfolio Manager, Quantitative Investment Solutions of Value Partners, where he is responsible for portfolio management of the firm's exchanges traded funds, covering country-based equities ETF, and a physical gold ETF. He joined Value Partners in September 2015.

Prior to joining Value Partners, he was an assistant fund manager at Boser Asset Management (International) where he managed ETFs on China A-Shares strategy. Prior to that, he was a quantitative analyst at YinHua Fund Management, responsible for product development and operations for YinHua's first QDII product. Before that, he was an assistant investment manager at Hang Seng Investment Management where he managed portfolios including index-tracking unit trusts, leverage funds and ETFs.

Mr. Cheung graduated with a Master's degree in Mathematics (Financial Mathematics and Statistics) from The Hong Kong University of Science and Technology, and a Bachelor's degree in Business Administration from the City University of Hong Kong.

### **Sub-Manager**

The Manager has delegated, under its own supervision and responsibility and at its own expense, all of its investment management duties to Value Partners Hong Kong Limited (the "Sub-Manager").

The Sub-Manager was incorporated in Hong Kong on 10 May 1999 and commenced its current operations in January 2008. It is licensed by the SFC for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance with CE number AFJ002.

### **The Directors of the Sub-Manager**

***Dato' Seri Cheah Cheng Hye*** – Dato' Seri Cheah Cheng Hye is Co-Chairman and Co-CIO of Value Partners. He is in charge of Value Partners' fund management and investment research, business operations, product development and corporate management. He sets Value Partners' overall business and portfolio strategy.

Dato' Seri Cheah has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee Yeh. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm's funds and business operation. He led Value Partners to a successful listing on the Main Board of The Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato' Seri Cheah has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 200 professional awards and prizes since the firm's inception in 1993.

Dato' Seri Cheah currently serves as an Independent Non-executive Director of HKEX, a member of The Hong Kong University of Science and Technology ("HKUST") Business School Advisory Council, as well as Co-Chairman of The Malaysian Chamber of Commerce (Hong Kong and Macau). He was previously a member of the Financial Services Development Council ("FSDC") (from February 2015 to January 2019), and a member of the New Business Committee of FSDC (from 2013 to 2018). FSDC is a high-level, cross-sector advisory body established by the Hong

Kong Special Administrative Region Government.

In August 2016, Dato' Seri Cheah was conferred Darjah Gemilang Pangkuan Negeri ("DGPN"), one of the highest civil honours granted by the state of Penang in Malaysia to recognize exceptional individuals. The DGPN award comes with the title of "Dato' Seri". In 2013, he was conferred Darjah Setia Pangkuan Negeri ("DSPN") with the title of "Dato' ". In the same year, he was named an Honorary Fellow of the HKUST for outstanding achievements.

Dato' Seri Cheah was named "Outstanding Manager of the Year – Greater China equity category" in the Fund of the Year Awards 2017 by Benchmark, and the co-winner of "CIO of the Year in Asia" along with Mr. Louis So in the 2011 Best of the Best Awards by Asia Asset Management. In 2010, he was named by AsianInvestor as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by AsianInvestor as one of the 25 Most Influential People in Asian Asset Management. He was also named "Capital Markets Person of the Year" by FinanceAsia in 2007, and in 2003, he was voted the "Most Astute Investor" in the Asset Benchmark Survey.

Prior to starting Value Partners, Dato' Seri Cheah worked at Morgan Grenfell Group in Hong Kong, where, in 1989, he founded the company's Hong Kong/China equities research department as the Head of Research and proprietary trader for the firm. Prior to this, he was a financial journalist with the Asian Wall Street Journal and Far Eastern Economic Review, where he reported on business and financial news across East and Southeast Asia markets. Dato' Seri Cheah served for nine years (1993 to 2002) as an independent non-executive director of Hong Kong-listed JCG Holdings, a leading microfinance company (a subsidiary of Public Bank Malaysia renamed from 2006 as Public Financial Holdings).

**So Chun Ki Louis** – Please refer to the section on "The Directors of the Manager".

**Ho Man Kei, Norman** – Mr. Norman Ho is a Senior Investment Director of Value Partners, where he is a leader in Value Partners' investment process, with a high degree of responsibility over portfolio management. Mr. Ho is a member of the Board of Directors of Value Partners, and is also a director of certain subsidiaries of Value Partners.

Mr. Ho has extensive experience in the fund management and investment industry, with a focus on research and portfolio management. Mr. Ho joined Value Partners in November 1995. He was promoted to the roles of Investment Director and Senior Investment Director in 2010 and January 2014, respectively. Prior to joining Value Partners, he was an Executive with Dao Heng Securities Limited and had started his career with Ernst & Young.

Mr. Ho graduated with a Bachelor's degree in Social Sciences (majoring in Management Studies) from The University of Hong Kong. He is a CFA charterholder.

### **The Trustee and Registrar**

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, which is a registered trust company in Hong Kong. The Trustee is an indirect wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England.

Under the Trust Deed, the Trustee shall take into its custody or under its control all the property forming part of the assets of the Trust and hold it in trust for the Unitholders in accordance with the provisions of the Trust Deed and, to the extent permitted by applicable laws and regulation, all cash and registrable assets from time to time comprised in the Trust shall be registered in the name of or held to the order of the Trustee. The Trustee is responsible and shall remain at all times liable for the safe keeping of the investments, assets and other property forming part of the Trust in accordance with the provisions of the Trust Deed and such investments, assets and other property shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof, subject to the provisions of the Trust Deed. The Trustee shall in respect of any investments, assets and other property of the Trust which by nature cannot be held in custody, maintain a proper record of such investments, assets or property in its books under the name of the Trust.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any Connected Person) as custodian or co-custodian of the investments comprised in the Trust Fund and may empower any such custodian, nominee, agent or delegate to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a “Correspondent”).

The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents which are appointed for the custody and/or safekeeping of any of the investments, cash, assets or other property comprised in the Trust and (b) be satisfied that Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the Trust. The Trustee shall be liable for the acts and omissions of any Correspondent which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

The Trustee will also act as the Registrar of the Trust. In addition to the amount paid by the Manager out of the Management Fee, the Trustee will be entitled to other fees described in the section on “Fees and Expenses”.

### **Indemnities of the Trustee and Manager**

The Trustee and the Manager benefit from various indemnities in the Trust Deed. Except as provided under the Trust Deed, the Trustee and the Manager shall be entitled to be indemnified out of, and have recourse to, the Trust Fund, in respect of any liabilities, costs, claims or demands arising directly or indirectly from the proper performance of the Trust. Nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from or indemnify them against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to them in respect of any negligence, fraud, default, breach of duty or trust of which they may be guilty in relation to their duties.

### **The Conversion Agent**

HK Conversion Agency Services Limited acts as Conversion Agent under the terms of the Conversion Agency Agreement entered into among the Manager, the Conversion Agent and HKSCC. The Conversion Agent performs, through HKSCC, certain of its services in connection with the creation and redemption of Units in the Trust by Participating Dealers.

### **The Auditors**

The Manager has appointed KPMG from the date of the establishment of the Trust up to 31 December 2013, and Ernst & Young with effect from 1 January 2014 to act as the auditors of the Trust. Both KPMG and Ernst & Young are independent of the Manager and the Trustee.

### **The Participating Dealer**

A Participating Dealer may act for its own account or for the account of its clients in making in-kind creation and in-kind redemption applications. The latest list of the Participating Dealers is available at <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC).

### **The Market Maker**

A Market Maker is a broker or dealer permitted by the SEHK to make a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the SEHK. Market Makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market

making requirements of the SEHK.

Subject to applicable regulatory requirements, the Manager will use its best endeavours to put in place arrangements so that there is at least one Market Maker for the Trust and that at least one Market Maker is required to give not less than 3 months' notice prior to terminating market making under the relevant market making agreement. If the SEHK withdraws its permit to the existing Market Maker(s), the Manager will endeavour to ensure that there is at least one other Market Maker to facilitate the efficient trading of Units. The latest list of Market Makers is available at [www.hkex.com.hk](http://www.hkex.com.hk) and <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (both websites have not been reviewed by the SFC). Please refer to the section on "Website Information" for the warning and the disclaimer regarding information contained in such website.

### **Conflicts of Interest and Soft Dollars**

The Manager, the Sub-Manager, the investment delegates (if any), and the Trustee may, from time to time, act as manager, investment delegate, investment adviser, trustee, representative or custodian or in such other capacity in connection with any collective investment scheme separate and distinct from the Trust and retain any profit or benefit made in connection therewith.

In addition:

- (a) The Manager, the Sub-Manager or any of their respective Connected Persons may purchase and sell investments for the account of the Trust as agent for the Trustee.
- (b) The Trustee, the Manager, the Sub-Manager and any of their respective Connected Persons may contract with or enter into any financial, banking or other transaction with one another or with any Unitholder of the Trust or any company or body any of whose shares or securities form part of the Trust or may be interested in any such contract or transaction.
- (c) The Trustee, the Manager, the Sub-Manager and any of their respective Connected Persons may become the owner of Units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee, the Manager, the Sub-Manager or any of their respective Connected Persons.
- (d) The Trustee, the Manager, the Sub-Manager and any of their respective Connected Persons may buy, hold and deal in any securities, commodities or other property for their own account or for the account of their other customers notwithstanding that similar securities, commodities or other property may be held as part of the Trust.
- (e) If cash forming part of the Trust's assets is deposited with the Trustee, the Manager, the Sub-Manager, any investment delegate or any of their respective Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the Trust, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business.
- (f) Any arrangements for the borrowing of any monies for the account of the Trust may be made with any of the Trustee, the Manager, the Sub-Manager, any investment delegate or any of their respective Connected Persons being a banker or other financial institution provided that such person shall charge interest at no higher rate and any fee for arranging or terminating the loan is of no greater amount than is in accordance with its normal banking practice, the commercial rate for a loan of a similar size, nature and duration, in the same currency and with institutions of similar standing negotiated at arm's length.
- (g) Subject to restrictions and requirements applicable from time to time, the Manager, the Sub-Manager, any investment delegate or any of their respective Connected Persons may enter into investments for the Trust as agent for the Trust and may deal with the Trust as principal provided that, in both cases, dealings are carried out in good faith and effected on best available terms negotiated on an arm's length basis and in the best interests of the Unitholders of the Trust. Any transactions between the Trust and the Manager, the

Sub-Manager, any investment delegate as may be appointed by the Manager, the Sub-Manager or any of their respective Connected Persons as principal may only be made with the prior written consent of the Trustee and shall not account for more than 50% by value of commissions paid in respect of the Trust's investment transactions over the course of any one financial year. All such transactions must be disclosed in the Trust's annual report.

- (h) In transacting with brokers or dealers connected to the Manager, the Sub-Manager, any investment delegate, the Trustee or any of their respective Connected Persons, the Manager must ensure that:
  - (i) such transactions are on an arm's length terms;
  - (ii) the Manager has used due care in the selection of such persons and has ensured that they are suitably qualified in the circumstances;
  - (iii) transaction execution is consistent with applicable best execution standards;
  - (iv) the fee or commission paid to any such persons in respect of a transaction is not greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
  - (v) the Manager must monitor such transactions to ensure compliance with its obligations; and
  - (vi) the nature of such transactions and the total commissions and other quantifiable benefits received by such persons shall be disclosed in the Trust's annual reports.
- (i) Neither the Trustee nor the Manager nor the Sub-Manager nor their respective Connected Persons shall be liable to account to each other or to the Trust or to the Unitholders for any profits or benefits made or derived from or in connection with any such transaction mentioned above.

It is, therefore, possible that any of the Trustee, the Manager, the Sub-Manager, the investment delegates (if any) or any of their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Trust. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Trust on normal commercial terms. If such conflicts arise, each of the Trustee, the Manager and the Sub-Manager will, at all times, act in accordance with the terms of the Trust Deed and have regard in such event to its obligations to the Trust and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Trust and any of them are on an arm's length basis.

The Manager, the Sub-Manager, their investment delegates (if any) or any of their respective Connected Persons may enter into portfolio transactions for or with the Trust as agent in accordance with normal market practice, provided that commissions charged to the Trust in these circumstances do not exceed customary full service brokerage rates. If a broker does not provide research or other lawful services in addition to brokerage execution, such broker will generally charge a brokerage commission that is discounted from customary full service brokerage rates.

Where the Trust invests in shares or units of a collective investment scheme managed by the Manager, the Sub-Manager, the investment delegates (if any) or any their respective Connected Persons, the manager of the scheme in which the investment is being made by the Trust must waive any preliminary or initial charges and redemption charges which it is entitled to charge for its own account in relation to the acquisition or redemption (as the case may be) of shares or units and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager, the Sub-Manager or any Connected Person of the Manager) borne by the Trust.

None of the Manager, the Sub-Manager, the investment delegates (if any) nor any of their respective Connected Persons shall retain any cash or rebates or other payment or benefit (except as otherwise provided for in this Prospectus or in the Trust Deed) received from a third party (either directly or indirectly) in consideration of directing transactions in the Trust's assets to such persons, and any such rebates or payments or benefits which are received shall be credited to the account of the Trust.

Subject to paragraphs (h)(i) - (vi) above, the Manager, the Sub-Manager, the investment delegates (if any) and/or any of their respective Connected Persons reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the Sub-Manager, the investment delegates (if any) and/or any of their respective Connected Persons has an arrangement under which that broker or dealer with from time to time provide to or procure for the Manager, the Sub-Manager, the investment delegates (if any) and/or any of their respective Connected Persons goods or services for which no direct payment is made but instead the Manager, the Sub-Manager, the investment delegates (if any) and/or any of their respective Connected Persons undertakes to place business with that broker or dealer. The Manager and the Sub-Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders of the Trust (taken as a body and in their capacity as such) whether by assisting the Manager, the Sub-Manager and/or the investment delegate (if any) in their ability to manage the Trust or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Trust in the form of a statement describing the soft dollar policies and practices of the Manager, the Sub-Manager or the investment delegates (if any), including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

The services of the Trustee and its Connected Persons provided to the Trust are not deemed to be exclusive and each of them shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other monies payable in respect of any of the arrangements described above and the Trustee and its Connected Persons shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Unitholder or any other relevant party any fact or thing which comes to its notice in the course of it rendering similar services to other parties or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed or as required by any applicable laws and regulations for the time being in force. None of the Trustee and its Connected Persons shall be liable to account to the Trust or any investor of the Trust for any profit or benefit made or derived thereby or in connection therewith (including in situations set out above).

Conflicts of interest may also arise due to the widespread business operations of the Trustee, the Manager, the Sub-Manager, the Registrar and the Conversion Agent and their respective holding companies, subsidiaries and affiliates. The foregoing parties may effect transactions where those conflicts arise and shall not, subject to the terms of the Trust Deed, be liable to account for any profit, commission or other remuneration arising. However, all transactions carried out by or on behalf of the Trust will be on arm's length terms and in the best interests of the Unitholders.

## STATUTORY AND GENERAL INFORMATION

### Financial Reports

The financial year-end of the Trust is 31 March every year commencing 31 March 2011. Annual financial reports are to be prepared (according to International Financial Reporting Standards) and published on the Manager's website within 4 months of each financial year-end. Unaudited interim financial reports are also to be prepared up to the last Dealing Day in September of each year and published on the Manager's website within 2 months of such date.

Both English and Chinese versions of the annual financial reports and the unaudited interim financial reports of the Trust will be available, printed copies of which may be requested from the Manager by contacting it, as described below under "Notices".

The financial reports provide details of the assets of the Trust and the Manager's statement on transactions during the period under review (including a list of any constituent Securities of the Index, if any, that each accounts for more than 10% of the weighting of the Index as at the end of the relevant period and their respective weighting showing any limits adopted by the Trust have been complied with). The financial reports shall also provide a comparison of the Trust's performance and the actual Index performance over the relevant period and such other information as is required under the Code.

### Trust Deed

The Trust was established under Hong Kong law by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust Fund and their relief from liability in certain circumstances (summarised above in "Indemnities of the Trustee and Manager"). Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### Modification of Trust Deed

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any liability or responsibility to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law) or (iii) is made to correct a manifest error. In all other cases involving any material changes, no modifications, alterations and additions may be made without the approval of the SFC (where such SFC approval is required) or the sanction of an extraordinary resolution of the Unitholders affected. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Trustee (or the Trustee will procure that notice be given by the Manager) unless such amendment or modification is not in the opinion of the Trustee of material significance or is made to correct a manifest error.

### Transfer of Units

To the extent any Units are not deposited in CCASS, subject to the Manager's consent, such Units may be transferred by using the standard transfer form issued by SEHK or by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of the Units being transferred. HKSCC Nominees Limited will be the sole Unitholder of all Units deposited in CCASS. HKSCC Nominees Limited will hold such Units for the persons admitted by HKSCC as a participant of CCASS and to whose account any Units are for

the time being allocated in accordance with the General Rules of CCASS.

## **Voting Rights**

Unitholders' meetings may be convened by the Manager, by the Trustee or by Unitholders representing one-tenth or more of the current Units in issue. These meetings may be used to modify the terms of the Trust Deed, including increasing the maximum fees payable to the service providers, removing the Trustee or terminating the Trust at any time. Such amendments to the Trust Deed must be considered by Unitholders of at least 25% of the Units in issue and passed by a 75% majority of the votes cast. Unitholders will be given not less than 21 days' notice of such meeting.

## **Termination**

The Trust may be terminated by the Trustee if: (i) the Manager goes into liquidation or a receiver is appointed and not discharged within 60 days; (ii) in the opinion of the Trustee, the Manager is incapable of performing its duties satisfactorily; (iii) the Manager has failed to perform its duties satisfactorily or has, in the opinion of the Trustee, done something calculated to bring the Trust into disrepute or that is harmful to the interests of Unitholders; (iv) a law is passed that renders it illegal, or in the opinion of the Trustee, impracticable or inadvisable to continue the Trust; (v) the Trustee is unable to find an acceptable person to replace the Manager within 30 days after the removal of the Manager, or the person nominated shall fail to be approved by extraordinary resolution; or (vi) 30 days after the Trustee notifies the Manager of its intention to retire, no new person willing to act as trustee has been identified.

The Manager may terminate the Trust if: (i) the aggregate Net Asset Value of all the Units is less than HK\$150 million; (ii) any law is passed or amended or regulatory directive or order is imposed which renders it illegal or in the opinion of the Manager, impracticable or inadvisable to continue the Trust; (iii) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed; (iv) the Index is no longer available for benchmarking or if the Units are no longer listed on the SEHK or any other Recognised Stock Exchange; or (v) at any time, the Trust ceases to have any Participating Dealer. Further, the Unitholders may at any time authorise termination of the Trust by extraordinary resolution.

Notice of the termination of the Trust will be given to the Unitholders after the SFC has approved the notice. The notice will contain the reasons for the termination, the consequences to Unitholders of terminating the Trust and the alternatives available to them, and any other information required by the Code.

In the event of termination, any unclaimed proceeds or other monies held by the Trustee may at the expiration of twelve months from the date upon which the same became payable be paid into court subject to the right of the Trustee to deduct from such unclaimed proceeds any expenses it may incur in making such payment.

## **Inspection of Documents**

Copies of the following documents are available for inspection free of charge at the offices of the Manager and copies thereof (other than (d) which will be free of charge) may be obtained from the Manager at a cost of HK\$150 (or its equivalent in other currencies) per set of copy documents:

- (a) Trust Deed;
- (b) Conversion Agency Agreement;
- (c) Participation Agreement(s); and
- (d) The most recent annual financial report of the Trust (if any) and the most recent unaudited interim financial report of the Trust (if any).



## **Part XV of the Securities and Futures Ordinance**

Part XV of the Securities and Futures Ordinance sets out the Hong Kong disclosure of interests' regime applicable to Hong Kong listed companies. The regime does not apply to unit trusts that are listed on the SEHK like the Trust. Consequently, Unitholders are not obliged to disclose their interest in the Trust. Further, under Section 323(1)(c)(i) of the Securities and Futures Ordinance, Unitholders are not considered to hold an interest in the underlying shares of a Hong Kong listed company held by the Trust.

## **Automatic Exchange of Financial Account Information**

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (commonly known as "CRS"). The CRS requires financial institutions ("FIs") in Hong Kong to collect information relating to account holders, and file such information as it relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange the information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Trust and/or its agents may further collect information relating to residents of other jurisdictions.

The Trust is required to comply with the requirements of the Ordinance, which means that the Trust and/or its agents shall collect and provide to the IRD the required information relating to Unitholders and prospective investors.

The Ordinance as implemented by Hong Kong requires the Trust to, amongst other things: (i) register the Trust as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e. Unitholders) to identify whether any such accounts are considered "Reportable Accounts" under the Ordinance; and (iii) report to the IRD the required information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the required information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of Unitholders, including but not limited to their name, place of birth, address, jurisdiction of tax residence, tax identification number (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

By investing in the Trust and/or continuing to invest in the Trust, Unitholders acknowledge that they may be required to provide additional information to the Trust, the Manager and/or the Trust's agents in order for the Trust to comply with the Ordinance. The Unitholder's information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

Each Unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the Trust.

## **Certification for Compliance with FATCA or Other Applicable Laws**

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust (a) to avoid withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Trust receives payments and/or (b) to satisfy due diligence, reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any

applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction, (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any registration, due diligence and reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including but not limited to any law, rule and requirement relating to AEOI), including such obligations that may be imposed by future legislation.

For the purposes herein, “AEOI” means one or more of the following as the context requires:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standards and any associated guidance;
- (c) any intergovernmental agreement, treaty, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in paragraphs (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding paragraphs (a) to (c) above.

#### **Power to Disclose Information to Authorities**

Subject to applicable laws and regulations in Hong Kong, the Manager, the Trustee or any of their authorised person (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the IRS and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder’s name, address, jurisdiction of birth, tax residence, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder’s holdings, account balance/value, and income or sale or redemption proceeds, to enable the Trust to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

#### **Personal Data**

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Cap. 468 of the Laws of Hong Kong) (the “PDPO”), the Trustee, the Manager, or any of their respective delegates (each a “Data User”) may collect, hold and use personal data of individual investors in the Trust only for the purposes for which such data was collected and shall comply with personal data protection principles and requirements as set out in the PDPO and all other applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorised or accidental access, processing, erasure or other use.

#### **Anti-Money Laundering Regulations**

As part of the Manager’s, the Trustee’s and the Participating Dealer’s responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee, the Trust or the relevant Participating Dealer is subject, the Manager, the Registrar, the Trustee or the relevant Participating Dealer may require a detailed verification of an investor’s identity and the source of payment of any applications for Units. Depending on the circumstances of each application, a detailed verification might not be required where:

- (a) the investor makes the payment from an account held in the investor’s name at a recognised financial institution; or

- (b) the application is made through a recognised intermediary.

These exceptions apply only if the financial institution or intermediary is within a country recognised by the Trustee and the Manager as having sufficient anti-money laundering regulations.

### **Liquidity Risk Management**

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Trust and to ensure that the liquidity profile of the investments of the Trust will facilitate compliance with the Trust's obligation to meet redemption requests. Such policy, combined with the liquidity management tools of the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The Manager's liquidity policy takes into account the investment strategy, the liquidity profile, the redemption policy, the dealing frequency, the ability to enforce redemption limitations and the fair valuation policies of the Trust. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by the Trust on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section on "CREATIONS AND REDEMPTIONS (PRIMARY MARKET)", and will facilitate compliance with the Trust's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Trust under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may suspend the right of Participating Dealers to redeem Units and/or delay the payment of any monies and transfer of any Securities in respect of any Redemption Application for Units of the Trust as further detailed in the sub-section on "Suspension of Creations and Redemptions".

### **Takeovers Code**

Unitholders are advised that any shareholding in a SEHK listed company (which is the subject of a takeover or making a takeover offer) resulting from redemption of Units will normally be subject to the application of the Takeovers Code. A Unitholder redeeming in-kind through a participating Dealer should consult a solicitor or financial adviser to ensure compliance with the Takeovers Code in such circumstance.

### **Index Licence Agreement**

The Manager has been granted a non-exclusive, non transferable licence pursuant to index licence agreement dated 23 September 2009 entered into between the Manager and FTSE (the "Licence Agreement"), to use the Index in connection with the issue, operation, marketing, promotion and distribution of the Trust.

The Licence Agreement has a term of two years and thereafter additional one year periods until terminated by either party under the circumstances listed below:

- (a) FTSE may terminate the Licence Agreement if:
- (i) the Manager is convicted of any offence relating to the Trust or to the trading of the Units;
  - (ii) the Manager is found to be in material breach of any applicable laws, regulations or rules; or
  - (iii) there is a change of control impacting on or in relation to the Manager.

- (b) The Manager may terminate the Licence Agreement if:
  - (i) a notice to increase charges is received from FTSE; or
  - (ii) legislations or regulations or interpretations are adopted where in the Manager's reasonable judgement, its ability to market and/or to promote the Trust in Hong Kong is materially impaired.
- (c) Either party may terminate the Licence Agreement if:
  - (i) the other party breaches any term of the Licence Agreement and it is not possible to remedy the breach;
  - (ii) the other party commits any material breach of its obligations and fails to remedy the breach within 15 days of receipt of written notice requiring the same;
  - (iii) the other party suffers from an "insolvency event" (as defined in the Licence Agreement);
  - (iv) at least 6 months' prior written notice is given to the other party; or
  - (v) FTSE ceases to calculate and publish the Index and either (A) does not make available a replacement index or (B) does make available a replacement index but the Manager elects not to use such index.

### **Change of Index**

The Manager reserves the right with the prior approval of the SFC and provided that in its opinion the interests of the Unitholders would not be adversely affected, to replace the Index with another Index. The circumstances under which any such replacement might occur include but are not limited to the following events:

- (a) the Index ceasing to exist;
- (b) the licence to use the Index being terminated;
- (c) a new index becoming available that supersedes the existing Index;
- (d) a new index becoming available that is regarded as the market standard for investors in the particular market and/or would be regarded as more beneficial to the Unitholders than the existing Index;
- (e) investing in the Securities comprised within the Index becomes difficult;
- (f) the Index Provider increasing its licence fees to a level considered too high by the Manager;
- (g) the quality (including accuracy and availability of the data) of the Index having in the opinion of the Manager, deteriorated;
- (h) a significant modification of the formula or calculation method of the Index rendering that index unacceptable in the opinion of the Manager; and
- (i) the instruments and techniques used for efficient portfolio management not being available.

The Manager may change the name of the Trust if the Index changes or for any other reasons including if licence to use the Index is terminated. Any change to (i) the use by the Trust of the Index and/or (ii) the name of the Trust will be notified to investors.

## Information available on the Internet

The Manager will publish important news and information with respect to the Trust, both in the English and in the Chinese languages, on the Manager's website at <https://www.valueETF.com.hk/eng/product-value-china-etf-3046-hk/> (this website has not been reviewed by the SFC) including:

- (a) this Prospectus (including the Product Key Facts Statement), as revised from time to time;
- (b) the latest annual and interim financial reports;
- (c) any notices for material alterations or additions to this Prospectus or the Trust's constitutive documents;
- (d) any public announcements made by the Trust, including information with regard to the Trust and the Index, notices of the suspension of the calculation of the Net Asset Value, changes in fees and the suspension and resumption of trading;
- (e) the near real time indicative Net Asset Value per Unit updated every 15 seconds throughout each Dealing Day;
- (f) the last Net Asset Value of the Trust and the last Net Asset Value per Unit of the Trust;
- (g) the full holdings of the Trust (updated on a daily basis);
- (h) the tracking difference and tracking error of the Trust;
- (i) the constituents of the Index and the level of the Index;
- (j) the Dividend Composition Information of the Trust (if any); and
- (k) the latest list of the Participating Dealers and Market Makers.

After Listing, information on the bid/ask price and the previous day's closing Net Asset Value in respect of Units will be disclosed on a real time basis on the information pages of the SEHK website. Information on queuing display and estimated Net Asset Value (or the Reference Underlying Portfolio Value (RUPV)) will be available from financial information vendors.

The composition of a Basket shall appear on every Dealing Day via the SEHK's website at [www.hkex.com.hk](http://www.hkex.com.hk) (this website has not been reviewed by the SFC) for Participating Dealers' in-kind creation and redemption of Units.

Real-time updates about the Index can be obtained through other financial data vendors. It is your own responsibility to obtain additional and the latest updated information about the Index (including without limitation, a description of the way in which the Index is calculated, any change in the composition of the Index, any change in the method for compiling and calculating the Index) via the website <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC). Please refer to the section on "Website Information" for the warning and the disclaimer regarding information contained in such website.

## Notices

All notices and communications to the Manager and Trustee should be made in writing and sent to the following addresses:

### **Manager**

Sensible Asset Management Hong Kong Limited  
43/F The Center  
99 Queen's Road Central

### **Trustee**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

Hong Kong

## **Hong Kong Taxation**

The following summary of Hong Kong taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong at the date of this Prospectus. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Prospectus.

### The Trust

*Profits Tax:* As the Trust has been authorised as a collective investment scheme by the SFC under Section 104 of the Securities and Futures Ordinance, profits of the Trust arising from the sale or disposal of Securities, net investment income received by or accruing to the Trust and other profits of the Trust are exempt from Hong Kong profits tax.

*Stamp Duty:* Under a remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty on the transfer of Securities to the Trust by a Participating Dealer by a Creation Application will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of Securities by the Trust to a Participating Dealer upon redemption of Units will also be remitted or refunded.

No Hong Kong stamp duty is payable by the Trust on an issue or a redemption of Units.

The sale or purchase of Hong Kong stocks by the Trust will be subject to stamp duty in Hong Kong at the current rate of 0.1% of the price of the shares being sold or purchased. The Trust will usually be liable to one half of such Hong Kong stamp duty.

### The Unitholders

*Profits Tax:* Hong Kong profits tax is not payable by a Unitholder (other than Unitholders carrying on a trade, profession or business of investing in Securities in Hong Kong) on any gains or profits made on the sale, redemption or other disposal of the Units and on any distributions made by the Trust. In accordance with the practice of the Inland Revenue Department of Hong Kong (as at the date of this Prospectus) tax should not be payable in Hong Kong in respect of dividends payable to investors.

*Stamp Duty:* Pursuant to the Stamp Duty (Amendment) Ordinance 2015, effective 13 February 2015, stamp duty payable in respect of any transfer in the shares or units of an exchange traded fund (as defined in Part 1 to Schedule 8 of the Stamp Duty Ordinance) on the SEHK is not payable. Accordingly transfers of Units do not attract stamp duty and no stamp duty is payable by Unitholders on any transfer.

Participating Dealers pay no Hong Kong ad valorem stamp duty when the Trust issues or redeems Units.

## **Website Information**

The offer of the Units is made solely on the basis of information contained in this Prospectus. All references in this Prospectus to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this Prospectus. None of the

Manager, the Sub-Manager or the Trustee accepts any responsibility for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Manager, the Sub-Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager and the Sub-Manager, their respective websites <https://www.valueETF.com.hk/> and <http://www.valuepartners-group.com> (both websites have not been reviewed by the SFC). You should exercise an appropriate degree of caution when assessing the value of such information.

## SCHEDULE 1

### INVESTMENT RESTRICTIONS, SECURITIES FINANCING TRANSACTIONS AND BORROWING

#### Investment Restrictions

If any of the restrictions or limitations set out in this Schedule 1 is breached, the Manager will, as a priority objective, take all necessary steps within a reasonable period of time to remedy such breach, taking due account of the interests of Unitholders.

The Trustee will take reasonable care to ensure compliance with the investment and borrowing limitations set out in the constitutive documents and the conditions under which the Trust was authorised.

Unless otherwise approved by the SFC and subject always to any provisions expressly to the contrary in this Prospectus, the following principal investment restrictions apply to the Trust:

- (a) the aggregate value of the Trust's investments in, or exposure to, any single entity (other than Government and other Public Securities) through the following may not exceed 10% of the latest available Net Asset Value of the Trust, save as (for an index tracking ETF) permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of financial derivative instrument ("FDI"); and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the Trust's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the latest available Net Asset Value of the Trust:
  - (1) investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) unless otherwise approved by the SFC, the value of the Trust's cash deposits made with the same entity or entities within the same group may not exceed 20% of the latest available Net Asset Value of the Trust, unless:
  - (1) the cash is held before the launch of the Trust and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Trust, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or
  - (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

For the purposes of this paragraph, "cash deposits" generally refers to those that are



repayable on demand or have the right to be withdrawn by the Trust and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity held for the account of the Trust may not exceed 10% of the nominal amount of the ordinary shares issued by the same entity;
- (e) not more than 15% of the latest available Net Asset Value of the Trust may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Market;
- (f) notwithstanding (a), (b), (d) and (e), where direct investment by the Trust in a market is not in the best interests of investors, the Trust may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Trust, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the Trust as a result must be clearly disclosed in the Prospectus; and
  - (3) the Trust must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Trust;
- (g) notwithstanding (a), (b) and (d), not more than 30% of the latest available Net Asset Value of the Trust may be invested in Government and other Public Securities of the same issue, except that this limit may be exceeded with the approval of the SFC provided that the Trust has been authorised by the SFC as an index fund;
- (h) subject to (g), the Trust may fully invest in Government and other Public Securities in at least six different issues. Government and other Public Securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise. Subject to the approval of the SFC and provided that the Trust has been authorised by the SFC as an index fund, the Trust may exceed the 30% limit in (g) above and may invest all of its assets in Government and other Public Securities in any number of different issues despite the restrictions under this paragraph;
- (i) unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary, the Trust may not invest in physical commodities;
- (j) unless otherwise provided under the Code, the spread requirements under paragraphs (a), (b), (d) and (e) do not apply to investments in other collective investment schemes by the Trust and for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or
  - (2) listed and regularly traded on internationally recognised stock exchanges open to the public (nominal listing not accepted) and:
    - the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or
    - the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in paragraph (k)(1), (k)(2), provisos of (i) to (iii) of paragraph (k) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and, unless otherwise specified in this Prospectus, investment by the Trust in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

(k) where the Trust invests in shares or units of other collective investment schemes (“underlying schemes”),

(1) the value of the Trust’s investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC may not in aggregate exceed 10% of the latest available Net Asset Value of the Trust; and

(2) the Trust may invest in one or more underlying schemes which are either authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Trust’s investment in units or shares in each such underlying scheme may not exceed 30% of the latest available Net Asset Value of the Trust, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in this Prospectus,

provided that in respect of (1) and (2) above:

(i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Trust may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its latest available net asset value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);

(ii) where the underlying schemes are managed by the Manager or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;

(iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);

(iv) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and

(v) the Manager or any person acting on behalf of the Trust or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of a underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;

(l) in the case of investments in shares in real estate companies and interests in real estate investment trusts (REITs), the Trust shall comply with the requirements under paragraphs (a), (b), (d), (e) and (k)(1) above where applicable. Where investments are made in listed REITs, the requirements under paragraphs (a), (b) and (d) above apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under paragraphs (e) and (k)(1) above apply respectively; and:

- (m) if the name of the Trust indicates a particular objective, investment strategy, geographic region or market, the Trust should, under normal market circumstances, invest at least 70% of its latest available Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Trust represents.

The Trust shall not:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager own more than 5% of those securities;
- (B) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in REITs);
- (C) make short sales if as a result the Trust would be required to deliver securities exceeding 10% of the latest available Net Asset Value of the Trust (and for this purpose (i) securities sold short must be actively traded on a market where short selling is permitted; and (ii) short selling is carried out in accordance with all applicable laws and regulations);
- (D) carry out any naked or uncovered short sale of securities;
- (E) lend or make a loan out of the assets of the Trust, except to the extent that, in either case, the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (F) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (G) enter into any obligation in respect of the Trust or acquire any asset or engage in any transaction for the account of the Trust which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the Trust; or
- (H) apply any part of the Trust in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Trust whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapters 7.29 and 7.30 of the Code.

Notes: The investment restrictions set out above apply to the Trust, subject to the following:–

A collective investment scheme authorised by the SFC under the Code is usually restricted under Chapter 7.1 of the Code from making investments which would result in the value of that collective investment scheme's holdings of the securities of any single entity exceeding 10% of the collective investment scheme's latest available net asset value. However, where the Trust is authorised under Chapter 8.6 of the Code as an index fund (with reference to the investment objective of the Trust and nature of the index) and notwithstanding Chapter 7.1 of the Code, more than 10% of the latest available Net Asset Value of the Trust may be invested in constituent securities issued by a single entity provided that (i) it is limited to any constituent securities that each accounts for more than 10% of the weighting of the index; and (ii) the Trust's holding of any such constituent securities may not exceed their respective weightings in the index, except where weightings are exceeded as a result of changes in the composition of the index and the excess is only transitional and temporary in nature.

However, the restrictions in Chapter 8.6(h)(i) and (ii) of the Code (as described above) do not

apply if:

- (1) the Trust adopts a representative sampling strategy which does not involve the full replication of the constituent securities of the underlying index in the exact weightings of such index;
- (2) the strategy is clearly disclosed in this Prospectus;
- (3) the excess of the weightings of the constituent securities held by the Trust over the weightings in the index is caused by the implementation of the representative sampling strategy;
- (4) any excess weightings of the Trust's holdings over the weightings in the index must be subject to a maximum limit reasonably determined by the Trust after consultation with the SFC. In determining this limit, the Trust must consider the characteristics of the underlying constituent securities, their weightings and the investment objectives of the index and any other suitable factors;
- (5) limits laid down by the Trust pursuant to Chapter 8.6(h)(a)(iv) of the Code must be disclosed in this Prospectus;
- (6) disclosure must be made in the Trust's interim and annual reports as to whether the limits imposed by the Trust itself pursuant to Chapter 8.6(h)(a)(iv) of the Code have been complied with in full. If there is non-compliance with the said limits during the relevant reporting period, this must be reported to the SFC on a timely basis and an account for such non-compliance should be stated in the report relating to the period in which the non-compliance occurs or otherwise notified to investors.

In addition, due to its index tracking nature, the SFC may, upon sufficient justification, consider not requiring index fund to strictly comply with the investment restrictions in Chapters 7.1A and 7.1B of the Code on a case-by-case basis.

### **Financial Derivative Instruments**

Subject always to the provisions of the Trust Deed, the Code, and any provisions expressly to the contrary in this Prospectus, the Manager may on behalf of the Trust enter into any transactions in relation to swaps or other FDIs, for hedging or non-hedging (investment) purposes:

#### Hedging purposes

The Trust may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purposes if they meet all of the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Manager, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned with due consideration on the fees, expenses and costs, to enable the Trust to meet its hedging objective in stressed or extreme market conditions.

#### Non-hedging (investment) purposes

The Trust may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the Trust's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50 per cent. of its latest available Net Asset Value, provided that this limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. In this regard:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Trust for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) for the avoidance of doubt, FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

#### Restrictions applicable to FDIs

The FDIs invested by the Trust shall be either listed or quoted on a Market and comply with the following provisions:

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Trust may invest according to its investment objectives and policies;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;
- (c) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, the net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the latest available Net Asset Value of the Trust, provided that the exposure of the Trust to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Trust and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Trust. Further, the administrator/calculation agent should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a) and (b) under the section entitled "Investment Restrictions" above and paragraph (d) of this section will not apply to FDIs that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and

- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

Subject to the above, the Trust may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the Trust, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in the paragraphs (a), (b), (c), (g), (h), (k)(1), (k)(2), provisos of (i) to (iii) of paragraph (k), (l) and (B) under the section entitled "Investment Restrictions" above.

The Trust shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. For such purposes, assets that are used to cover the Trust's payment and delivery obligations incurred under transactions in FDIs should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

A transaction in FDIs which gives rise to a future commitment or contingent commitment of the Trust should also be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Trust should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of FDIs transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Trust should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Trust may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation.

In the case of holding alternative assets as cover, the Trust shall apply safeguard measures, such as to apply haircut where appropriate, to ensure that such alternative assets held are sufficient to meet its future obligations.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well.

### **Securities Financing Transactions**

Subject to any provisions expressly to the contrary in this Prospectus, the Trust may enter into securities financing transactions, provided that they are in the best interests of Unitholders and the associated risks have been properly mitigated and addressed.

Securities financing transactions will only be entered into:-

- (a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral;
- (b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction;
- (c) the relevant securities lent must be fully paid-up shares listed on any Market; and
- (d) the amount of consideration (including the value of any collateral) given for the relevant securities must exceed the value of such securities at any one time on daily marked to market values.

Further, details of the policy regarding securities financing transactions are as follows:

- (a) all revenue arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of such transactions, will be credited to the account of the Trust;
- (b) each counterparty for such transactions (including a borrower for a securities lending transaction) and the issuer of collateral will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision. There is no criteria for country of origin of the counterparty. Each counterparty is expected to be (x) incorporated in countries of high credit quality, (y) have a minimum credit rating of A2/P2 or equivalent assigned by reputable credit rating agencies or in the reasonable opinion of the Manager, or deemed to have an implied rating of A2/P2 or equivalent; alternatively, an unrated counterparty will be acceptable where the Trust is indemnified against losses caused by the counterparty, by an entity which has a minimum credit rating of A2/P2 or equivalent, or (z) be a licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority when entering into such transactions;
- (c) the Trust should have at least 100% collateralisation in respect of securities financing transactions. The Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below;
- (d) the value of the Securities to be loaned, together with the value of all other Securities which are the subject of a loan by the Trust does not exceed 10% of its latest available Net Asset Value;
- (e) no more than 50% of Securities of the same issue, or of the same kind (by value), held in respect of the Trust is the subject of securities lending transactions at any one time;
- (f) the Manager will ensure that it is able to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transactions or terminate such transactions into which it has entered;
- (g) where any securities lending transaction is arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement (the securities lending fee will be disclosed in the connected party transaction section of the Trust's annual financial reports).

In particular, The HongKong and Shanghai Banking Corporation Limited, which is a Connected Person of the Trustee, may engage in securities financing transactions with the Trust. In acting as securities lending agent, The HongKong and Shanghai Banking Corporation Limited will receive remuneration for its activities; and

- (h) custody/safekeeping arrangements, which details are set out in the section entitled "Collateral Valuation and Management Policy" below, are in place in respect of the assets subject to the securities financing transactions.

### **Collateral valuation and management policy**

The Manager employs a collateral management policy in relation to collateral received in respect of OTC FDI transactions and securities financing transactions entered into in respect of the Trust.

The Trust may receive collateral from a counterparty to an OTC FDI transaction or a securities financing transaction, so as to reduce its counterparty risk exposure as set out in paragraph (d)

under the section entitled “Restrictions applicable to FDIs” above and paragraph (iii) under the section entitled “Securities financing transactions” above, provided that the collateral complies with the requirements set out below:

- Nature and quality of collateral – unless otherwise agreed by the Manager, eligible collateral include:
  - cash, in the same currency denomination as the securities lent, or in Hong Kong or US dollars if the securities lent are denominated in a foreign currency;
  - government or other public securities including debt securities;
  - certificates of deposit;
  - letters of credit which are unconditional and irrevocable and which have a credit rating of A1/P1 or better; and
  - certificates issued by securities exchange clearing systems;
- Selection of counterparties - The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of OTC FDI transactions and securities financing transactions and will be subject to the requirements under paragraph (ii) under the section entitled “Securities financing transactions” above. In particular:
  - the counterparties for OTC FDI transactions will be entities with legal personality typically located in Organisation for Economic Co-operation and Development (OECD) jurisdictions (but may also be located outside such jurisdictions), and be subject to ongoing supervision by a regulatory authority; and
  - the counterparties for securities financing transactions (including a borrower for a securities lending transaction) will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision;
- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing. Regular stress tests are carried out under normal and exceptional liquidity conditions to enable an adequate assessment of the liquidity risks attached to the collateral;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut - a haircut is a discount applied to the value of a collateral asset to account for the fact that its valuation, or liquidity profile, may deteriorate over time. Collateral should be subject to prudent haircut policy, which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets:
  - the haircut policy takes into account the price volatility of the asset used as collateral and, where appropriate, other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the



transactions; and

- the haircut policy applied to posted collateral will be negotiated on a counterparty basis and will vary depending on the class of asset received by the Trust. Further details of the applicable haircut arrangement for each asset class is available from the Manager upon request;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Trust's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in the paragraphs (a), (b), (c), (g), (h), (k)(1), (k)(2), provisos of (i) to (iii) of paragraph (k), (l) and (B) under the section entitled "Investment Restrictions" above;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee;
- Safe-keeping of collateral and assets subject to securities financing transactions –
  - any non-cash assets received by the Trust from a counterparty on a title transfer basis (whether in respect of a securities lending transaction or an OTC FDI transaction) shall be held by the Trustee, or a nominee, agent or delegate appointed in relation the assets of the Trust. This is not applicable in the event that there is no title transfer and, in which case, the collateral will be held by a third party custodian which is unrelated to the provider of the collateral; and
  - assets provided by the Trust on a title transfer basis (in respect of a sale and repurchase transaction) shall no longer belong to the Trust. The counterparty may use those assets at its absolute discretion. Assets provided to a counter party other than on a title transfer basis shall be held by the Trustee or a nominee, agent or delegate appointed in relation the assets of the Trust;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs, or the counterparty of securities financing transactions;
- Re-investment of collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and the following restrictions:
  - non-cash collateral received may not be sold, re-invested or pledged;
  - the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2 (f) and 8.2(n) of the Code;
  - cash collateral received is not allowed to be further engaged in any securities financing transactions;

- when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions; and
- up to 100% of the cash collateral received by the Trust may be reinvested.

For the purposes of re-investment of cash collateral received, “money market instruments” refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments will be taken into account;

- Encumbrances - collateral should be free of prior encumbrances; and
- Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes.

The requirements under paragraphs (a) and (b) under the section entitled “Investment Restrictions” above will also apply in the case of the “Diversification” and “Re-investment of collateral” requirements of this section.

A description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Trust (by percentage) secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Trust’s annual and interim reports for the relevant period.

If any of the restrictions or limitations set out above is breached in respect of the Trust, the Manager will, as a priority objective, take all necessary steps within a reasonable period of time to remedy such breach, taking due account of the interests of the Unitholders of the Trust.

### **Borrowing Policy**

Borrowing against the assets of the Trust is allowed up to a maximum of 10% of its latest available Net Asset Value. In determining for the purpose of these borrowing limits, back-to-back loans do not count as borrowing. The Trustee may at the request of the Manager borrow for the account of the Trust any currency, and charge or pledge assets of the Trust, for the following purposes:

- (a) facilitating the creation or redemption of Units or defraying operating expenses;
- (b) enabling the Manager to acquire Securities for the account of the Trust; or
- (c) for any other proper purpose as may be agreed by the Manager and the Trustee.

For the avoidance of doubt, securities lending transactions and sale and repurchase transactions (subject to any provisions expressly to the contrary in this Prospectus) in compliance with the requirements set out in the section on “Securities Financing Transactions” are not subject to this section.

## SCHEDULE 2

### INDEX AND DISCLAIMER

#### 1. Index Methodology

The Index is an investable index comprising 25 Chinese companies listed on the SEHK, including H-shares, Red chips and other SEHK listed companies which derive 50% or more of their sales revenue or operating assets from mainland China (“P Chips”), selected by FTSE and VPISL according to the Index ground rules which are summarised below.

You can obtain the complete and most updated ground rules from the website of FTSE at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC).

#### 2. Roles of FTSE and VPISL

FTSE is responsible for the operation, calculation and maintenance of the Index as well as the publication and record keeping. VPISL is responsible for undertaking the index screening review of the Index and will also provide FTSE with a list of new constituents at the semi-annual review in April and September.

Regarding the performance of the three screenings (as further explained in 3.1 below), the liquidity and free float screenings are performed by FTSE whereas the size screening is performed by VPISL based on data supplied by FTSE.

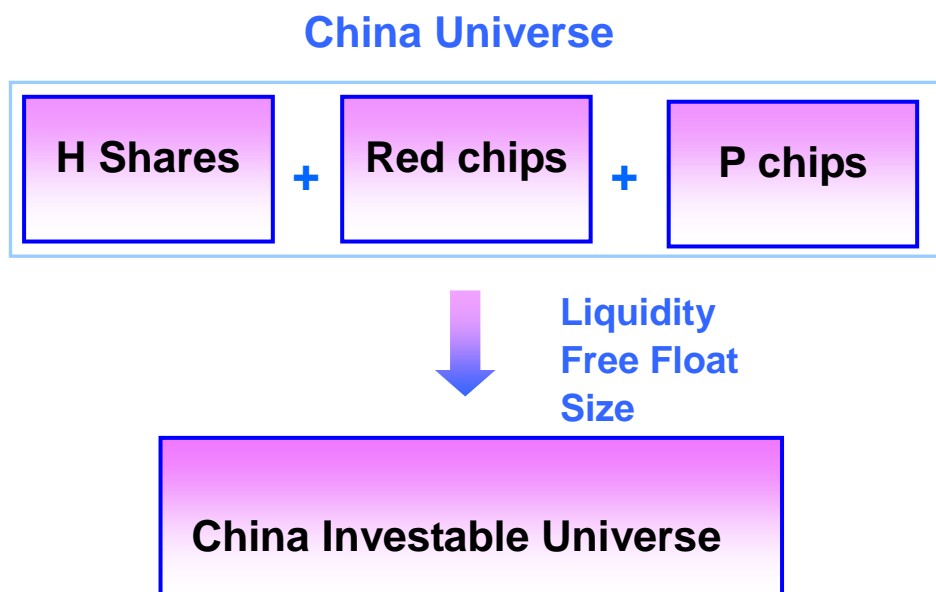
#### 3. Universe Selection Criteria

Current H Shares, Red Chips and P Chips constituent of the FTSE Global All Cap Index will be eligible for Index inclusion as these constitute the “China Universe”:

- (a) “H” Shares – “H” Shares are securities of companies incorporated in the PRC and nominated by the PRC Central Government for listing and trading on the SEHK. Like other securities trading on the SEHK, there are no restrictions on who can trade “H” Shares.
- (b) “Red chips” – Red chip companies are incorporated outside of the PRC that trade on the SEHK. A Red chip is a company that has at least 50 per cent of its shares in aggregate held directly or indirectly by mainland Chinese entities, and at least 50% of their sales revenue or operating assets derived from mainland China.
- (c) “P chips” – “P” chip companies are defined as companies that trade on the SEHK with at least 50% of their sales revenue or operating assets derived from mainland China.

### 3.1 Investable Universe

Each company in the China Universe will be subject to three investability screens stated below so as to qualify as candidates in the China Investable Universe. These are liquidity, free float and size.



#### 3.1.1 Liquidity

Each security in the China Universe will be tested for liquidity by calculation of its median daily trading per month. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking, therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.

A non-constituent which does not turnover at least 0.05% of the company's total shares in issue (after the application of any investability weightings) based on their median daily trade per month for at least ten out of the twelve months prior to a periodic review will not be eligible for inclusion in the Index.

An existing constituent which does not turnover at least 0.04% of the company's total shares in issue (after the application of any investability weightings) based on their median daily trade per month for at least eight out of the twelve months prior to a periodic review will be removed from the Index.

New issues which do not have a twelve month trading record must have a minimum three month trading record when reviewed.

The liquidity of each Index constituent is screened at the FTSE Global All Cap Index semi-annual regional review for Asia Pacific ex Japan.

#### 3.1.2 Free Float

The stocks in the China Universe are adjusted for free float, cross-holdings and foreign ownership limits. Free float restrictions will be calculated using available published information. For equity shares of companies which have been admitted to the FTSE Global Equity Index Series that have a free float greater than 5%, the actual free float will be rounded up to the next highest whole percentage number. Companies with a free float of 5% or below are not eligible for inclusion in the

## FTSE Global Equity Index Series.

Following the application of an initial free float restriction, a constituent's free float will only be changed if its rounded free float moves to more than 3 percentage points above or below the existing rounded free float. Where a company's actual free float moves to above 99%, it will not be subject to the 3 percentage points threshold and will be rounded to 100%.

A constituent with a free float of 15% or below will not be subject to the 3 percentage points threshold.

A constituent's free float will also be reviewed on publication of further information on restricted shareholdings and changed where appropriate. If the change results from a corporate event (including share changes covered), any change in free float will be implemented at the same time as the corporate event. If there is not a corporate event, the change in free float will be applied at the next quarterly review.

Free float restrictions include:

- Shares directly owned by state, regional, municipal and local governments (excluding shares held by independently managed pension schemes for governments)
- Shares held by sovereign wealth funds where each holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%
- Shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies with which they are affiliated
- Shares held within employee share plans
- Shares held by public companies or by non-listed subsidiaries of public companies
- Shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%
- All shares where the holder is subject to a lock-in clause (for the duration of that clause)
- Shares held for publicly announced strategic reasons, including shares held by several holders acting in concert
- Shares that are subject to on-going contractual agreements (such as swaps) where they would ordinarily be treated as restricted.

The following are not considered as restricted free float:

- Portfolio holdings (such as pension and insurance funds)\*
- Nominee holdings unless they represent restricted free float as defined above
- Holdings by investment companies\*
- ETFs

\* Where any single portfolio holding is 30% or greater, it will be regarded as strategic and therefore restricted. The shares will remain restricted until the holding falls below 27%.

If in addition to the above restricted holdings, the company's shareholders are subject to legal restrictions, including foreign ownership restrictions, that are more restrictive, the legal restriction

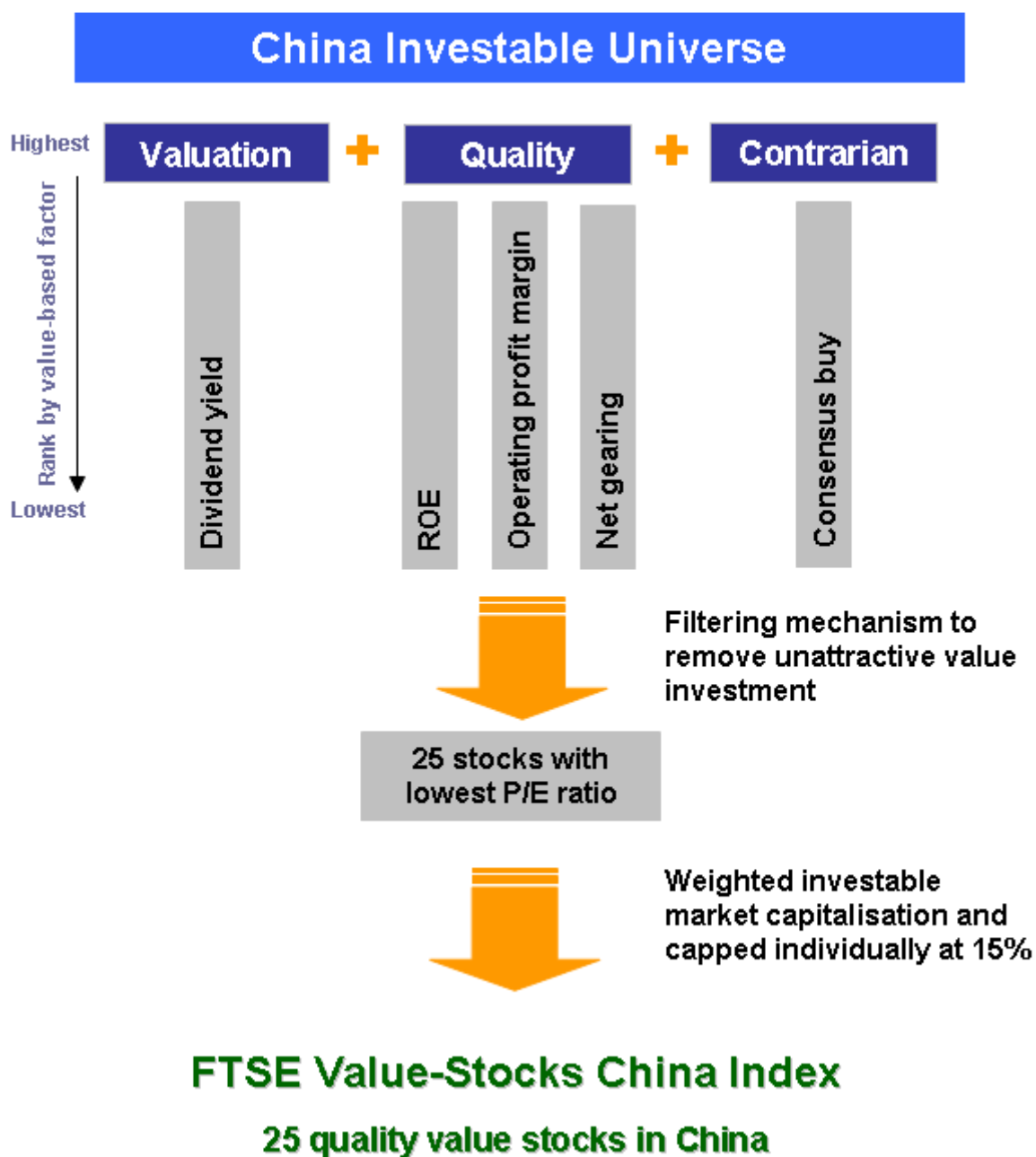
will be applied.

### 3.1.3 Size Requirement

The investable market capitalisation (i.e. after free float adjusted market capitalisation) of a company must be at least 0.1% of the total investable market capitalisation of all the companies which can pass through the Liquidity and Free Float requirements of the FTSE Global Equity Index Series.

## 4. Index Screening

VPISL will screen each security in the China Investable Universe and each will be ranked by three sets of value-investing screening criteria, namely Contrarian, Quality and Valuation screenings.



### 4.1 Contrarian Screening

Contrarian screening aims to avoid following the herd. Companies in the China Investable Universe covered by more than 10 analysts in the forecast recommendation with a buy recommendation from over 80% of analysts will be screened out. These recommendations are based on the consensus data sourced from I/B/E/S, Bloomberg, S&P and other financial data vendors. Most of the data vendors have policies on the prevention of stale data which involves checking with contributing analysts when they have not changed their forecast for a prolonged period to ensure accuracy of their forecasts. For instance, estimates data are considered stale after 105, 180 and 120 days by I/B/E/S, Bloomberg and S&P, respectively.

The screening criteria will change if the index constituent selection criteria in Rule 4.4(ii) is not met. For further details, please refer to Rule 4.4(ii).

## 4.2 Quality Screening

Quality screening is applied to avoid value traps, based on the following three fundamental factors:

(a) 3-year Average Return on Equity =  $(ROE_{-1} + ROE_{-2} + ROE_{-3}) / 3$

where  $ROE_{-1}$ ,  $ROE_{-2}$  and  $ROE_{-3}$  refer to the return on equity for the previous three fiscal years, respectively.  $ROE = (\text{Net Income before Preferred Dividends} - \text{Preferred Dividend Requirement}) / \text{Average of Last Year's and Current Year's Common Equity} * 100$

(b) Operating Profit Margin =  $\text{Operating Income} / \text{Net Sales or Revenues} * 100$

(c) Net Gearing =  $(\text{Total Debt} - \text{Cash}) / (\text{Asset} - \text{Liability})$

Companies in the China Investable Universe will be ranked by each of the factors. The worst 15% among the companies in each factor in terms of ordinal ranking will then be screened out.

## 4.3 Valuation Screening

Valuation screening helps to identify relatively under-valued constituents in the China Investable Universe.

(a) Dividend Yield

All companies in the China Investable Universe will be ranked by trailing twelve month dividend yield in descending order. Those companies in the bottom 25% in terms of ordinal ranking will then be screened out.

(b) Forecast Price-to-Earnings

All the remaining companies (after all the above screenings) will then be sorted by consensus forecast forward one year price-to-earnings ratio ("PE ratio") in ascending order. Those companies with negative forward PE ratios will be screened out. If forward one fiscal year end date is less than three months after the review date, then forward two year price-to-earnings ratio will be used in calculation instead.

## 4.4 Index Constituent Selection

(i) From the China Investable Universe, the companies passing through all the screenings above are ranked by PE ratio and the 25 companies with the lowest PE ratio are selected to be the constituents of the Index.

(ii) If the number of companies passing through all the screenings specified in Rules 4.1 to 4.3 is less than 25 stocks, the following rules will apply:

(a) If the number of companies is greater than 20 and less than 25, the Index will

comprise less than 25 stocks until the next review.

- (b) If the number of companies is less than or equal to 20, the contrarian screening criteria in Rule 4.1 will change such that companies in the China Investable Universe covered by more than 10 analysts in the forecast recommendation with a buy recommendation from over 90% of analysts will be screened out. The screening process in Rules 4.2 to 4.3 will continue to apply. Thereafter, if the number of companies passing through the screenings in Rules 4.1 to 4.3 remain less than or equal to 20, companies in the China Investable Universe covered by more than 10 analysts in the forecast recommendation with a buy recommendation from all analysts will be screened out.

## **5.1 Semi-annual Review**

Reviews will be conducted on a semi-annual basis in April and September, using data as at the last working day in March and August. For each review, the process of index construction is carried out as stated in Rules 3 and 4 above.

Any constituent changes will be implemented after the close of business on the third Friday (i.e. effective Monday) of April and September. Constituent changes in periodic review will be published before the actual implementation through appropriate media.

## **5.2 Weighting Method**

The 25 constituents in the Index are weighted by investable market capitalisation.

## **5.3 Capping**

At the semi-annual review any constituents whose weights are greater than 15% are capped at 15% using prices adjusted for corporate actions as at the close of business on the second Friday in April and September. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 15% they are also capped at 15%. This process is repeated until no constituent weight exceeds 15%. The capping is implemented after the close of business on the third Friday in April and September based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.

## **5.4 Periodic Capping Review**

In addition to the semi-annual reviews in April and September, there are capping reviews in March, June and December which will be in accordance with the review of free float and shares in issue undertaken by FTSE Global All Cap Index. If any constituent has resulted in a weighting above 20% of the Index (based on the close of business on the second Friday of March, June and December, taking into account the review undertaken by the FTSE Global All Cap Index), a full capping review of the Index will be implemented effective after the close of business on the third Friday of that month.

## **5.5 Intra Review Capping**

When a new constituent has been added to the Index as the result of a corporate event, and the weight of this new addition is greater than 15% of the Index, the Index will be capped intra review. Any constituents whose weights are greater than 15% are capped at 15%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 15% they are also capped at 15%. This process is repeated until no constituent weight exceeds 15%.

## **5.6 Amendments to the Index Methodology**



Any changes and exceptions to this methodology may only be made by FTSE and VPISL. Any material changes will be announced through appropriate media before implementation following necessary SFC approval (if required).

## 6. Index Algorithm and Calculation Method

The Index is calculated using the algorithm described below.

$$\frac{\sum_n (P_i * FX_i * S_i * F_i * C_i)}{D}$$

n	=	Number	The number of securities in the Index.
P	=	Price	The latest trade price of the constituent security i (or the price at the close of the Index on the previous day).
FX	=	Exchange Rate	The exchange rate required to convert the home pricing currency of the constituent security i into the Index's base currency i.e. Hong Kong dollars.
S	=	Shares in Issue	The number of shares in issue used by FTSE for security i, as defined in the Ground Rules.
F	=	Free Float Factor	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. The free float factor for each security is published by FTSE.
C	=	Capping Factor	The factor applied to each security to allow its weight within the index to be capped, expressed as a number between 0 and 1 where 1 represents 100%, i.e. no cap. The Capping Factor is calculated by FTSE.
D	=	Divisor	A figure that represents the total issued share capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the Index.
i	=	Index constituent	Any constituent security in the Index.

## 7. Index constituents and additional information

You can obtain the most updated list of the constituents of the Index, weighting of the constituents and additional information of the Index from the website of FTSE at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC).

## 8. Index Provider Disclaimer

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