



CSOP SHEN ZHOU FUND

Explanatory Memorandum

24 September 2020

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IMPORTANT INFORMATION FOR INVESTORS

This Explanatory Memorandum comprises information relating to CSOP Shen Zhou Fund, an umbrella unit trust established under the laws of Hong Kong by a trust deed dated 30 December 2011 between CSOP Asset Management Limited 南方東英資產管理有限公司 as manager and BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 as the previous trustee, as amended from time to time, including by (i) a Deed of Retirement and Appointment, pursuant to which BOCI-Prudential Trustee Limited retired as trustee of the Trust and CCB (Asia) Trustee Company Limited 建行亞洲信託有限公司 (the “Trustee”) was appointed as trustee of the Trust with effect from 28 January 2019, and (ii) an amended and restated trust deed dated 28 January 2019 amending and restating the trust deed (the “Amended and Restated Trust Deed”) (collectively the “Trust Deed”).

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum, 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. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date of publication. This Explanatory Memorandum may from time to time be updated. Intending applicants for Units should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum have been issued.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the latest available annual report and accounts of the Fund (if any) and any subsequent interim report. Units are offered on the basis only of the information contained in this Explanatory Memorandum and (where applicable) the above mentioned annual reports and accounts and interim reports. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

The Fund has been authorised by the SFC pursuant to section 104 of the SFO. 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.

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

United States: In particular:-

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act); and
- (b) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Mainland China: The Manager will make an application with the China Securities Regulatory Commission (“CSRC”) for offering CSOP Select US Dollar Bond Fund, a sub-fund of the Fund to retail investors in mainland China under the Mainland-Hong Kong Mutual Recognition of Funds regime. The Manager may issue Class M Units for this sub-fund in due course subject to applicable laws and regulations. Class M Units will be available to investors in mainland China only and will not be offered in Hong Kong. In respect of details in relation to Class M Units, please refer to CSOP Select US Dollar Bond Fund’s offering documents applicable to investors in mainland China.

Potential applicants for Units should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries/regions of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units.

Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the respective Sub-Fund(s) will be achieved.

Investors should consider the section headed “Risk Factors” on page 30, and the section headed “Specific Risk Factors” in the relevant Appendix before investing in the Sub-Fund(s).

Important - If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.

Investors may contact the Manager for any enquiry or complaint in relation to any Sub-Fund. To contact the Manager, investors may either:

- write to the Manager (address at Suite 2802, Two Exchange Square, 8 Connaught Place, Central, Hong Kong); or
- call the Manager’s Customer Service Hotline: +852 3406 5688.

The Manager will aim to respond in writing within 7 working days of receiving the enquiry or complaint.

Further Information

Investors may access the website of the Manager at www.csopasset.com for further information on the Fund and any Sub-Fund, including this Explanatory Memorandum, annual reports and latest Net Asset Values. Please note that the website does not form part of this Explanatory Memorandum. This website has not been reviewed by the SFC.

TABLE OF CONTENTS

<u>Heading</u>	<u>Page Number</u>
ADMINISTRATION.....	1
DEFINITIONS.....	2
INTRODUCTION	6
INVESTMENT OBJECTIVE	6
MANAGEMENT OF THE FUND	7
CLASSES OF UNITS.....	12
DEALING DAY AND DEALING DEADLINE.....	12
PURCHASE OF UNITS	13
REDEMPTION OF UNITS	16
SWITCHING BETWEEN CLASSES	20
VALUATION.....	22
INVESTMENT AND BORROWING RESTRICTIONS.....	26
RISK FACTORS	29
EXPENSES AND CHARGES	41
TAXATION.....	44
REPORTS AND ACCOUNTS	49
DISTRIBUTION OF INCOME	49
VOTING RIGHTS	50
PUBLICATION OF PRICES	51
TRANSFER OF UNITS.....	51
COMPULSORY REDEMPTION OR TRANSFER OF UNITS	51
TRUST DEED.....	51
TERMINATION OF THE FUND OR ANY SUB-FUND	52
ANTI-MONEY LAUNDERING REGULATIONS	53
CONFLICTS OF INTEREST	54
DOCUMENTS AVAILABLE FOR INSPECTION	54

LIQUIDITY RISK MANAGEMENT.....	55
APPENDIX I – CSOP SHEN ZHOU RMB FUND.....	73
APPENDIX II – CSOP SELECT RMB BOND FUND	101
APPENDIX III – CSOP SELECT US DOLLAR BOND FUND	123

ADMINISTRATION

Manager

CSOP Asset Management Limited 南方
東英資產管理有限公司
Suite 2802, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Directors of the Manager

Yi Zhou
Chen Ding
Gaobo Zhang
Xiaosong Yang
Zhongping Cai
Zhiwei Liu
Xiuyan Liu

Trustee and Registrar

CCB (Asia) Trustee Company Limited
建行亞洲信託有限公司
23/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

Auditors

PricewaterhouseCoopers
33/F, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

RQFII Custodian

China Construction Bank Corporation
中國建設銀行股份有限公司
No 25, Financial Street
Xicheng District
Beijing
People's Republic of China

Solicitors to the Manager

Simmons & Simmons
30/F One Taikoo Place
979 King's Road
Hong Kong

DEFINITIONS

The defined terms used in this Explanatory Memorandum have the following meanings:-

- “Accounting Date”** Means 31 December in each year or such other date or dates in each year as the Manager may from time to time specify in respect of any Sub-Fund and notify to the Trustee and the Unitholders of such Sub-Fund
- “Accounting Period”** Means a period commencing on the date of establishment of the relevant Sub-Fund or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund
- “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 Standard and any associated guidance;
 - (c) any intergovernmental agreement, treaty, regulation, 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 (a) and (b) above; and
 - (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding (a) to (c) above
- “Appendix”** Means the appendix containing specific information in relation to a Sub-Fund or a class or classes of Units in relation thereto

which is enclosed with this Explanatory Memorandum and which forms part of this Explanatory Memorandum

“Authorised Distributor” Means any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors

“Business Day” Means a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, 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 and the Trustee determine otherwise

“China” or “PRC” Means the People’s Republic of China

“China A-Shares” Means shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in Renminbi and available for investment by onshore (mainland Chinese) investors, holders of the qualified foreign institutional investors (**QFII**) status and the Renminbi qualified foreign institutional investors (**RQFII**) status and foreign strategic investors approved by the China Securities Regulatory Commission, and Hong Kong and overseas investors through the Stock Connect programme between mainland China and Hong Kong

“Code” Means the Code on Unit Trusts and Mutual Funds

“connected person” Means, in relation to the Manager:

- (a) any person, company or fund beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or

- (b) any person, company or fund 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 the Manager forms part; or
- (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above

“Dealing Day” Means the days on which Units are subscribed for or redeemed, as described in the Appendices for the relevant Sub-Funds

“Dealing Deadline” Means such time on the relevant Dealing Day or on such other Business Day as the Manager may from time to time with the approval of the Trustee determine, as described in the Appendices for the relevant Sub-Funds

“Deed of Retirement and Appointment” Means a supplemental deed relating to the retirement and appointment of trustee dated 2 January 2019 entered into by the Manager, BOCI-Prudential Trustee Limited and CCB (Asia) Trustee Company Limited, pursuant to which BOCI-Prudential Trustee Limited retired as trustee of the Trust and CCB (Asia) Trustee Company Limited was appointed as trustee of the Trust

“Explanatory Memorandum” Means this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time

“Government and other public securities” 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.

“Fund” Means CSOP Shen Zhou Fund

“Hong Kong” Means Hong Kong Special Administrative Region of the PRC

“HK\$” or “HKD”	Means Hong Kong Dollars, the lawful currency of Hong Kong
“Issue Price”	Means in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”
“investment delegate”	means an entity that has been delegated the investment management function of all or part of the assets of a Sub-Fund, the details of which are as specified in the relevant Appendix (if applicable)
“mainland China”	Means all the customs territories of the PRC excluding Hong Kong, Macau and Taiwan of the PRC for purpose of interpretation of this document only
“Manager”	Means CSOP Asset Management Limited 南方東英資產管理有限公司
“Net Asset Value”	Means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”
“Qualified Exchange Traded Funds”	<p>means exchange traded funds that are:</p> <p>(a) authorised by the SFC under 8.6 or 8.10 of the Code; or</p> <p>(b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code.</p>
“Redemption Price”	Means the price at which Units will be redeemed as more fully described in the section headed “Redemption of Units”

“Registrar”	Means CCB (Asia) Trustee Company Limited 建行亞洲信託有限公司 in its capacity as registrar of the Fund
“REITs”	means real estate investment trusts
“reverse repurchase transactions”	means transactions whereby a Sub-Fund 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” or “Renminbi”	Means renminbi, the lawful currency of mainland China
“RQFII”	Means Renminbi qualified foreign institutional investors approved pursuant to the relevant mainland China regulations (as amended from time to time)
“sale and repurchase transactions”	means transactions whereby a Sub-Fund 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 financing transactions”	means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.
“securities lending transactions”	means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
“SFC”	Means the Securities and Futures Commission
“SFO”	Means the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)
“Sub-Fund”	Means a separate pool of assets of the Fund that is invested and administered separately
“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 HKD 2 billion or its equivalent in foreign currency

“Trust Deed”	Means the trust deed dated 30 December 2011 establishing the Fund and entered into by the Manager and BOCI-Prudential Trustee Limited as the previous trustee, as amended from time to time, including by the Deed of Retirement and Appointment and the Amended and Restated Trust Deed
“Trustee”	Means CCB (Asia) Trustee Company Limited 建行亞洲信託有限公司 in its capacity as trustee of the Fund
“Unit”	Means a unit in a Sub-Fund
“Unitholder”	Means a person registered as a holder of a Unit
“US”	Means the United States of America
“US\$” or “USD”	Means the lawful currency of the United States of America
“Valuation Day”	Means such days as are described in the Appendix for the relevant Sub-Fund
“Valuation Point”	Means such time on the relevant Valuation Day as described in the Appendix for the relevant Sub-Fund to calculate the Net Asset Value

INTRODUCTION

CSOP Shen Zhou Fund is an open-ended unit trust established as an umbrella fund pursuant to the Trust Deed and governed by the laws of Hong Kong. By way of the Deed of Retirement and Appointment, the Trustee was appointed as trustee of the Trust. All Unitholders are entitled to the benefit of, are bound by and deemed to have notice of the provisions of the Trust Deed.

CSOP Shen Zhou Fund is an umbrella unit trust currently with 3 Sub-Funds. This Explanatory only covers information relating to the following Sub-Fund(s) of the Fund:

- CSOP Shen Zhou RMB Fund
- CSOP Select RMB Bond Fund
- CSOP Select US Dollar Bond Fund

As at the date of this Explanatory Memorandum, no units for the CSOP Select RMB Bond Fund are in issue and the CSOP Select RMB Bond Fund is no longer marketed to the public in Hong Kong.

Investors may contact the Manager for details (including copies of the relevant offering documents) of Sub-Fund(s) that are not covered by this Explanatory Memorandum (if any).

The Manager may create further Sub-Funds in the future. Investors should contact the Manager to obtain the latest offering document(s) (available at the office of the Manager) relating to the available Sub-Fund(s).

Multiple classes of Units may be issued in respect of each Sub-Fund and the Manager may create additional classes of Units for any Sub-Fund in its sole discretion in the future. The assets of a Sub-Fund will be invested and administered separately from the assets of the other Sub-Funds issued. The details of the Sub-Funds and/or the new class or classes of Units related thereto that are on offer are set out in the Appendices to this Explanatory Memorandum.

INVESTMENT OBJECTIVE

The investment objective of each Sub-Fund and principal risks, as well as other important details, are set forth in the Appendix hereto relating to the Sub-Fund.

MANAGEMENT OF THE FUND

The Manager

The Manager of the Fund is CSOP Asset Management Limited.

The Manager was set up in January 2008 and is licensed to carry on Types 1 (Dealing in Securities), 4 (Advising on Securities) and 9 (Asset Management) Regulated Activities under Part V of the SFO.

The Manager, a subsidiary of China Southern Asset Management Co Limited, is the first Hong Kong subsidiary set up by mainland Chinese fund houses to carry out asset management and securities advisory activities in Hong Kong.

The Manager is dedicated to serving investors as a gateway for investment between China and the rest of the world. For inbound investment, the Manager boasting local expertise makes the ideal adviser or partner of international investors. For outbound investment, it is keen to introduce suitable overseas investment opportunities to mainland Chinese institutional and retail investors. The Manager provides discretionary management services and advisory services to both institutional investors and investment funds.

The Manager undertakes the management of the assets of the Fund. The Manager may appoint investment delegates or investment adviser(s) to provide investment advice to the Manager in relation to the Sub-Fund. The Manager retains discretionary powers in the management of the Sub-Fund. The remuneration of the investment adviser (if any) will be borne by the Sub-Fund and details of any investment adviser's fee will be stated in the relevant Appendix.

The directors of the Manager are Yi Zhou, Chen Ding, Gaobo Zhang, Xiaosong Yang, Zhongping Cai, Zhiwei Liu and Xiuyan Liu. A brief description of each of the directors of the Manager is set out below:-

Yi Zhou

Mr. Zhou holds a degree in Computer Communication from the Nanjing University of Posts and Telecommunications and has 11 years of experience in the securities industry. Mr. Zhou once worked on technology management in the telecommunications center of Jiangsu Posts & Telecommunications Bureau and administrative management at Jiangsu Mobile Communication Co., Ltd. He served as the Chairman of the Board of Directors at Jiangsu Beier Co., Ltd. and Nanjing Xinwang Tech Co., Ltd., and the Deputy General Manager of Shanghai Beier Fortune Communications Company.

Mr. Zhou is the Chairman of the Board of Directors, President, and party secretary of Huatai Securities Co., Ltd. Mr. Zhou joined Huatai Securities in August 2006 and served as the Director and President of Huatai Securities Limited Liability Company and the Director, President, and deputy party secretary of Huatai Securities Co., Ltd.

Chen Ding

Ms. Ding joined CSOP Asset Management Limited in 2010 and is the Chief Executive Officer, overseeing the overall business of the Manager.

Ms. Ding, from 2003 to June 2013, was the Assistant CEO and Managing Director of China Southern Asset Management Co. Ltd., one of the largest fund management companies in mainland China with assets under management of RMB160 billion (as at 30 June 2013), where she was accountable for international strategic planning, fund product development and relationship management with various distribution channels and industry regulators for the company. She established and managed the first QDII mutual fund (assets under management RMB10 billion as at 30 June 2012), which she was also a member of the Investment Management Committee, from 2007 to June 2013. She was responsible for setting the investment policies and strategies of the fund, monitoring market, portfolio and systematic risk, asset allocation and stock selection in addition to reviewing and monitoring portfolio performance of the fund. She supervised five portfolio managers and two analysts.

Ms. Ding is the Chairperson of Chinese Asset Management Association of Hong Kong Limited, which promotes professional standards of practice in the fund management industry. She is also the Deputy Chairperson of the Chinese Securities Association of Hong Kong Company Limited. Ms. Ding was appointed under authority delegated by the Chief Executive and the Financial Secretary, as a member to the Securities and Futures Appeals Tribunal as of 1 April 2013. She was also appointed by the Securities and Futures Commission as a member of the Product Advisory Committee for two years with effect from 1 April 2014, a member to the Process Review Panel since 1 November 2014 and a member of the Advisory Committee since 1 June 2015. Ms. Ding is also a member of the Financial Reporting Review Panel of the Financial Reporting Council as well as a member of the New Business Committee of the Hong Kong Financial Services Development Council.

Prior to joining China Southern Asset Management Co. Ltd., Ms. Ding served from 2001 to 2003 as an Associate General Manager of China Merchants Securities Co. Ltd. in mainland

China. She assumed key roles in building solid management infrastructure and repositioning the asset management business of the company.

Ms. Ding was also the Investment Manager of ML Stern & Co., in California, United States, which is a securities house. She was responsible for accounts management, where she provided investment solutions to high net worth and institutional investors; customer relationship development, where she conducted company research and profiling; communicated with sell-side analysts and prepared investment analyses for clients, and participated in the innovation of annuity product rollouts.

Ms. Ding holds a Master's Degree in Business Administration from the San Francisco State University in the United States and a Bachelor degree in Electrical Engineering from the China Chengdu Science and Technology University in mainland China.

Gaobo Zhang

Mr. Zhang is a founding partner and the Chief Executive Officer of Oriental Patron Financial Group and is responsible for formulating the investment strategies, monitoring the investment performance and approving investment decisions. Mr. Zhang was appointed as an executive director and the Chief Executive Officer of OP Financial Investments Limited, a company listed on the Hong Kong Stock Exchange, in February 2003. He joined CSOP Asset Management Limited in 2008.

From February 1988 to February 1991, Mr. Zhang was a deputy chief of the Policy Division of Hainan Provincial Government. From 1991 to 1993, Mr. Zhang was deputy chief of Financial Markets Administration Committee of the People's Bank of China Hainan Branch. He was chairman of Hainan Stock Exchange Centre from 1992 to 1994. Mr. Zhang is also an independent non-executive director of Beijing Enterprises Water Group Limited, a company listed on the Hong Kong Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange in the United Kingdom.

Mr. Zhang obtained a Bachelor's degree in Science from Henan University in mainland China in 1985 and later graduated from the Peking University in mainland China with a Master's degree in Economics in 1988.

Xiaosong Yang

Mr. Yang is the Chief Executive Officer of China Southern Asset Management Co., Ltd where

Mr. Yang has overall responsibility for the business. He joined China Southern Asset Management Co., Ltd as the Head of Compliance in 2012.

Prior to joining China Southern Asset Management Co. Ltd., Mr. Yang worked for China Securities Regulatory Commission where he served as the Deputy General Manager of the Supervision Department. Mr. Yang holds a Master's Degree in Accounting from Renmin University of China in mainland China.

Zhongping Cai

Mr. Cai is the Chief Financial Officer of China Southern Asset Management Co Limited where he has the overall responsibility for supervising the finance unit.

Prior to joining China Southern Asset Management Co Limited, Mr. Cai served as the Chief Financial Officer of UBS SDIC in mainland China. He joined the Manager in 2014.

Mr. Cai holds a Master's Degree from Zhongnan University of Economics and Law in mainland China.

Zhiwei Liu

Dr. Liu was appointed as a non-executive Director of OP Financial Investments Limited in December 2015 and was re-designated to an executive Director in June 2016. Further, he has assumed an additional role as the president and serving as a member of the corporate governance committee of OP Financial Investments Limited since June 2016. Dr. Liu is responsible for building and expanding the investor relations and public relations platform of OP Financial Investments Limited to support the Group's domestic and international strategies. He is the Chairman of Shanghai Chunda Asset Management Co., Ltd., Dr. Liu served as the Vice-Chairman of Xi'an International Trust Co., Ltd from 2008 to 2011. He also served as a general manager of the merger and acquisition department of Guosen Securities Co., Ltd from 1997 to 1998.

Dr. Liu obtained a bachelor's degree in Industrial Management Engineering from Zhe Jiang University in 1989. He furthered his studies in the PBOC between 1989 and 1992 and obtained a master's degree in International Finance. In 2007, Dr. Liu obtained a doctoral degree in Economics & Law from Hunan University. He completed a professional programme in Finance CEO from Cheung Kong Graduate School of Business in 2010.

Xiuyan Liu

Ms. Liu joined China Southern Asset Management Co., Ltd in 2005. Ms. Liu serves as the General Manager of International Business Department and Executive Assistance to Chief Executive Officer of China Southern Asset Management Co., Ltd. She is also the Chairperson of the Board of Director of China Southern Capital Management Co., Ltd.

Prior to joining China Southern Asset Management Co., Ltd, Ms. Liu served as the General Manager of Legal Department of China Southern Securities Co., Ltd, the Vice President of Walstar Investment Holding Co., Ltd and the Vice President of Chinalin Securities Co., Ltd. Ms. Liu is a qualified lawyer in mainland China and holds an EMBA from Peking University in mainland China.

The Trustee and Registrar

The Trustee of the Fund is CCB (Asia) Trustee Company Limited. It is a registered trustee company under Section 78(1) of the Trustee Ordinance (Cap. 29). The Trustee is a wholly-owned subsidiary of China Construction Bank (Asia) Corporation Limited (“CCBA”). CCBA is a Hong Kong incorporated company and it is under the supervision of the Hong Kong Monetary Authority. The principal activities of the Trustee are the provision of trustee services, fund administration services, transfer agency services, and custody services. The Trustee also acts as Registrar of the Trust.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the investments, cash and other assets forming part of the Fund in accordance with the provisions of the Trust Deed and such investments, cash and registrable assets shall be registered in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof. The Trustee shall in respect of any investments, cash or other assets forming part of the Fund which by nature cannot be held in custody, maintain a proper record of such investments, cash or other assets in its books under the name of the Fund.

The Trustee also acts as the Registrar of the Fund and will be responsible for keeping the register of Unitholders.

The RQFII Custodian

For Sub-Fund(s) that invest in securities issued within mainland China (which may include China A-Shares, debt securities and other permissible investments in mainland China) through Renminbi qualified foreign institutional investors (RQFII), the relevant RQFII is required to appoint a custodian in mainland China for the custody of assets, pursuant to relevant laws and regulations. China Construction Bank Corporation has been appointed as the RQFII Custodian in respect of the investments held by the relevant Sub-Fund(s).

China Construction Bank Corporation (“CCB”), headquartered in Beijing, is a large-scale joint stock commercial bank leading in mainland China, with 14,985 banking stores and 362,482 staff members. China Construction Bank Corporation has commercial banking branches and subsidiaries in 29 countries and regions with 251 overseas entities, and its subsidiaries cover various industries, including asset management, financial leasing, trust, life insurance, property & casualty insurance, investment bank, futures and pension.

The custody business of CCB commenced in 1998, as of the end of 2017, total assets under custody reached USD 1.7 trillion, with full package of custody licenses and more than 300 experienced staff, serving over 2500 institutions, taking the leading position in mainland China market. CCB is the first mainland Chinese bank to initiate QFII custody in 2003. By the end of 2017, CCB is serving over 70 QFII/RQFII institution clients with total asset under custody of more than USD 15 billion.

The Authorised Distributors

The Manager may appoint one or more Authorised Distributor(s) to distribute Units of one or more Sub-Fund(s), and to receive applications for subscription, redemption and/or switching of Units on the Manager’s behalf.

CLASSES OF UNITS

Different classes of Units may be offered for each Sub-Fund. Although the assets attributable to each class of Units of a Sub-Fund will form one single pool, each class of Units may be denominated in a different currency or may have a different charging structure with the result that the net asset value attributable to each class of Units of a Sub-Fund may differ. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts. The Manager may in its discretion agree to accept applications for

subscription, redemption and switching of certain classes below the applicable minimum amounts.

DEALING DAY AND DEALING DEADLINE

The Manager may from time to time with the approval of the Trustee determine generally or in relation to any particular jurisdiction the time on such Dealing Day or on such other Business Day (on which Units may from time to time be sold) prior to which instructions for subscriptions, redemptions or switching are to be received in order to be dealt with on a particular Dealing Day. The Dealing Days and the relevant Dealing Deadlines for each Sub-Fund are set out in the relevant Appendix.

Subscription, switching and redemption of Units may also be placed through Authorised Distributor(s) or through other authorised and/or electronic means as from time to time determined by the Manager. Investors should note that applications made through such means may involve different dealing procedures. Further, the Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscriptions, redemptions or switching. Investors should confirm with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

PURCHASE OF UNITS

Initial Offer

Details of the initial offer of Units are set forth in the Appendix relating to the relevant Sub-Fund.

Subsequent Subscription

Following the close of the initial offer period, Units will be issued at the prevailing Issue Price per Unit. The Issue Price on any Dealing Day will be the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day divided by the number of such class of Units then in issue, rounded to 2 decimal places, with 0.005 being rounded up. Any rounding adjustment shall be retained for the benefit of the relevant Sub-Fund. In calculating the Issue Price, the Manager may impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc.

Unless otherwise disclosed in the Appendix of a Sub-Fund, applications for subscription of any class of Units in a Sub-Fund (together with application moneys in cleared funds), if received prior to the Dealing Deadline and accepted by the Manager, will be dealt with on that Dealing Day. Applications received after the Dealing Deadline in relation to a Dealing Day will be held over until the next Dealing Day.

Units may not be issued during the period of any suspension of the determination of the Net Asset Value relating to such class of Units of a Sub-Fund (for details see the section below headed "Suspension of Calculation of Net Asset Value").

Application Procedure

To purchase Units an investor should complete the application form, which may be obtained from the Authorised Distributors or the Manager (the “**Application Form**”), and return the Application Form to the Authorised Distributors or the Manager (details of which as set out in the Application Form).

Applications will generally be accepted on a Dealing Day only if cleared funds have been received on or prior to such Dealing Day in relation to which Units are to be issued. Notwithstanding the above, a Sub-Fund may rely upon application orders received, even prior to receipt of application moneys, and may issue Units to investors according to such orders and invest the expected application amounts. If payment is not cleared within 4 Business Days following the relevant Dealing Day (or such other date as the Manager with the approval of the Trustee shall determine and notify the relevant applicant at the time of receipt of the application), the Manager reserves the right to cancel the transaction. In such circumstances, an investor may be required to settle the difference between the prices at issue and at cancellation of the Units concerned and in addition the appropriate cancellation fees and charges not exceeding 0.25% of the Issue Price of the relevant Units.

The Application Form may be sent by facsimile or other means from time to time determined by the Manager or the Trustee, unless the original is required by the Manager or the Trustee. Investors should be reminded that if they choose to send the Application Forms by facsimile, they bear their own risk of such applications not being received. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile instructions believed in good faith to have originated from properly authorised

persons. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of an application.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units but no certificates will be issued.

The Manager, at its discretion, is entitled to impose a preliminary charge of up to 5% on the Issue Price of each Unit, and the current rates are described in the relevant Appendix for each Sub-Fund. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the preliminary charge (and any other fees received) to intermediaries or such other persons as the Manager may at its absolute discretion determine. The Manager also has discretion to waive the preliminary charge in whole or in part in relation to any subscription for Units whether generally or in a particular case.

Investment Minima

Details of the minimum initial subscription, minimum holding, minimum subsequent subscription and minimum redemption amounts applicable to each class of Units in each Sub-Fund are set out in the relevant Appendix.

The Manager has the discretion to waive, change or accept an amount lower than the above amounts, whether generally or in a particular case.

Payment Procedure

Subscription moneys should normally be paid in the relevant base currency or the class currency of such class of Units as determined by the Manager or the Trustee and disclosed in the relevant Appendix. Unless otherwise specified in the relevant Appendix relating to a Sub-Fund and subject to the agreement of the Trustee or the Manager, and to applicable limits on foreign exchange, arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant.

All payments should be made by cheque, direct transfer, telegraphic transfer or banker's draft. Cheques and banker's drafts should be crossed "a/c payee only, not negotiable" and made payable to "CCB (Asia) Trustee Company Limited – CSOP Shen Zhou Fund", stating the name of the relevant Sub-Fund to be subscribed, and sent with the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued

until the cheque is cleared. Any costs of transfer of application moneys to a Sub-Fund will be payable by the applicant. Currency conversion will be subject to availability of the currency concerned.

Details of payments by telegraphic transfer are set out in the Application Form.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant should provide sufficient evidence of the source of payment.

No money should be paid to any intermediary in Hong Kong who is not licensed by or registered with the SFC to conduct Type 1 (Dealing in Securities) regulated activity under Part V of the SFO.

General

All holdings will be registered and certificates are not issued. Evidence of title will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager and the Trustee are informed of any change to the registered details.

Fractions of Units may be issued rounded to the nearest 2 decimal places, with 0.005 being rounded up. Application moneys representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The Manager reserves the right to reject any application in whole or in part. In the event that an application is rejected, application moneys will be returned without interest by cheque through the post or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants (or in such other manner determined by the Manager and the Trustee). A maximum of 4 persons may be registered as joint Unitholders.

REDEMPTION OF UNITS

Redemption Procedure

Unitholders who wish to redeem their Units may do so on any Dealing Day by submitting a redemption request to the Authorised Distributors or the Manager before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix. Unless otherwise stated in the Appendix of the relevant Sub-Fund, redemption requests received after the Dealing Deadline will be carried forward and dealt with on the next Dealing Day.

Partial redemptions may be effected subject to any minimum redemption amount for each class of Units of a Sub-Fund as disclosed in the relevant Appendix or as the Manager may determine from time to time whether generally or in a particular case.

If a request for redemption will result in a Unitholder holding Units in a class to the value of less than the minimum holding amount of that class as set out in the relevant Appendix of a Sub-Fund, the Manager may deem such request to have been made in respect of all the Units of that class held by that Unitholder. The Manager has the discretion to waive the requirement for a minimum holding of Units, whether generally or in a particular case.

A redemption request may be sent by facsimile or other means from time to time determined by the Manager or the Trustee, unless the original is required by the Manager or the Trustee, and must specify (i) the name of the Sub-Fund and the value or number of Units to be redeemed; (ii) the relevant class of Units to be redeemed; (iii) the name(s) of the registered holder(s); and (iv) the payment instructions for the redemption proceeds. Investors should be reminded that if they choose to send redemption requests by facsimile, they bear their own risk of the requests not being received or being illegible. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any redemption request sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of a request.

A request for redemption once given cannot be revoked without the consent of the Manager.

Payment of Redemption Proceeds

The Redemption Price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units then in issue rounded to 2 decimal places, with 0.005 being rounded up. Any rounding adjustment shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior notice to the Trustee) by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point. In calculating the Redemption Price,

the Manager may impose deductions to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc.

The Manager may at its option impose a redemption charge of up to 5.5% of the Redemption Price of the relevant class of Units to be redeemed. The redemption charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the redemption charge to be imposed (within the permitted limit).

From the time of the calculation of the Redemption Price to the time at which redemption moneys are converted out of any other currency into the base currency of the relevant Sub-Fund, if there is an officially announced devaluation or depreciation of that other currency, the amount which would otherwise be payable to the redeeming Unitholder shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.

The amount due to a Unitholder on the redemption of a Unit pursuant to the paragraphs above shall be the Redemption Price per Unit, less any redemption charge and any rounding adjustment in respect thereof. The rounding adjustment aforesaid in relation to the redemption of any Units shall be retained as part of the relevant Sub-Fund. The redemption charge shall be retained by the Manager for its own use and benefit.

Redemption proceeds will not be paid to any redeeming Unitholder until (a) if required by the Trustee, the written original of the redemption request (in the required form) duly signed by the Unitholder has been received and (b) where redemption proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

The Manager or the Trustee, as the case may be, may, in its absolute discretion, refuse to make a redemption payment to a Unitholder if (i) the Manager or the Trustee, as the case may be, suspects or is advised that the payment of any redemption proceeds to such Unitholder may result in a breach or violation of any anti-money laundering law by any person in any relevant jurisdiction or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, the Manager, the Trustee or its other service providers with any such laws or regulations in any relevant jurisdiction; or (ii) there is a delay or failure by the redeeming Unitholder in producing

any information or documentation required by the Trustee and/or the Manager or their respective duly authorised agents for the purpose of verification of identity.

In the event that there is a delay in receipt by the Manager or the Trustee of the proceeds of realisation of the investments of the relevant Sub-Fund to meet redemption requests, the Manager or the Trustee may delay the payment of the relevant portion of the amount due on the redemption of Units. If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any redemption moneys payable to the holder of a Unit the amount of such withholding shall be deducted from the redemption moneys otherwise payable to such person.

Subject as mentioned above and so long as relevant account details have been provided, redemption proceeds will be paid in the base currency or the class currency of the relevant class of Units by direct transfer or telegraphic transfer, normally within 7 Business Days after the relevant Dealing Day (or as otherwise specified in the Appendix of the relevant Sub-Fund) and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls), rendering the payment of the redemption money within the aforesaid time period not practicable. In such case, and subject to prior approval of the SFC, payment of redemption proceeds may be deferred, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s).

Unless the Manager and the Trustee otherwise agree, redemption proceeds will only be paid to a bank account that bears the name of the redeeming Unitholder. If relevant account details are not provided, redemption proceeds will be paid to the redeeming Unitholder (or to the first-named of joint Unitholders) at the Unitholder's risk by cheque, usually in the base currency or the class currency of the relevant class of Units and sent to the redeeming Unitholder at the last known address held in the records of the Registrar.

Unless otherwise specified in the relevant Appendix relating to a Sub-Fund and subject to the agreement of the Trustee or the Manager, and to applicable limits on foreign exchange, redemption proceeds can be paid in a currency other than the base currency or the class currency of a Unit at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. Currency conversion will be subject to availability of the currency concerned. None

of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

The Trust Deed also provides for payment of redemption proceeds in specie with the consent of the relevant Unitholder.

SWITCHING BETWEEN CLASSES

Unitholders have the right (subject to such limitations as the Manager after consulting with the Trustee may impose) to switch all or part of their Units of any class into Units of any other class by giving notice in writing to the Authorised Distributors or the Manager. A request for switching will not be effected if as a result the relevant holder would hold less than the minimum holding of Units of the relevant class prescribed by, or is prohibited from holding Units of the relevant class under, the relevant Appendix. Unless the Manager otherwise agrees, Units of a class can only be switched into Units of the same class of another Sub-Fund.

Units shall not be switched during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended.

Requests for switching received prior to the Dealing Deadline for a Dealing Day will be dealt with on that Dealing Day. Neither the Manager nor the Trustee shall be responsible to any Unitholder for any loss resulting from the non-receipt of a request for switching or any amendment to a request for switching prior to receipt. Notices to switch may not be withdrawn without the consent of the Manager.

The rate at which the whole or any part of a holding of Units of a class (the "**Existing Class**") will be switched to Units of another class (the "**New Class**") will be determined in accordance with the following formula:

$$N = \frac{(E \times R \times F)}{S + SF}$$

Where:

N is the number of Units of the New Class to be issued.

E is the number of Units of the Existing Class to be switched.

F is the currency conversion factor determined by the Manager for the relevant Dealing Day as representing the effective rate of exchange between the class currency of Units of the Existing Class and the class currency of Units of the New Class.

R is the Redemption Price per Unit of the Existing Class applicable on the relevant Dealing Day less any redemption charge imposed by the Manager.

S is the Issue Price per Unit for the New Class applicable on the Dealing Day of the New Class or immediately following the relevant Dealing Day PROVIDED THAT where the issue of Units of the New Class is subject to the satisfaction of any conditions precedent to such issue then S shall be the Issue Price per Unit of the New Class applicable on the first Dealing Day for the New Class falling on or after the satisfaction of such conditions.

SF is a switching charge per Unit (if any).

The Manager has a right to impose a switching charge of up to 1% of the Issue Price of the Units of the New Class in relation to the switching of Units and the current rates are set out in the relevant Appendix.

Depending on the Valuation Point of the relevant Sub-Fund and the time required to remit the switching money, the day on which investments are switched into the New Class may be later than the day on which investments in the Existing Class are switched out or the day on which the instruction to switch is given.

If there is, at any time during the period from the time as at which the Redemption Price per Unit of the Existing Class is calculated and the time at which any necessary transfer of funds from the Sub-Fund to which the Existing Class relates to the Sub-Fund to which the New Class relates, a devaluation or depreciation of any currency in which any investment of the original Sub-Fund is denominated or normally traded, the Redemption Price per Unit of the Existing Class shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation and the number of Units of the New Class which will arise from that switching shall be recalculated as if that reduced Redemption Price had been the Redemption Price ruling for redemption of Units in the Existing Class on the relevant Dealing Day.

Restrictions on redemption and switching

The Manager may suspend the redemption or switching of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

Any Unitholder may at any time after such a suspension has been declared and before lifting of such suspension withdraw any request for the redemption of Units of such class by notice in writing to the Authorised Distributors or the Manager.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund who have validly requested to redeem Units of the same Sub-Fund on that Dealing Day will redeem the same proportion of such Units of that Sub-Fund provided that any holdings so requested to be redeemed being in aggregate of not more than 1% of the total number of Units of any Sub-Fund in issue may be redeemed in full if in the opinion of the Manager with the Trustee’s approval the application of such limitation would be unduly onerous or unfair to the Unitholder or Unitholders concerned. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, and will have priority on the next succeeding Dealing Day and all following Dealing Days (in relation to which the Manager has the same power) until the original request has been satisfied in full. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned within 7 days of such Dealing Day.

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for subscriptions or switching of Units from a Unitholder which it suspects to use such practices and take, the case be, the necessary measures to protect the Unitholders of the Sub-Funds.

Market timing is to be understood as an arbitrage method through which a Unitholder systematically subscribes, redeems or switches Units within a short time period, by taking advantage of time differences and/or imperfections or deficiencies in the method of determination of the Net Asset Value of the concerned Sub-Funds.

VALUATION

The value of the net assets of each Sub-Fund will be determined as at each Valuation Point in accordance with the Trust Deed. The Trust Deed provides (inter alia) that:-

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies or a commodity, and subject as provided in paragraph (g) below, all calculations based on the value of investments quoted, listed or dealt in on any stock exchange, over-the-counter market or securities market (“**Securities Market**”) shall be made by reference to the last traded price on the principal Securities Market for such investments, at or immediately preceding the Valuation Point, provided that if the Manager in its discretion considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may adopt such prices; and in determining such prices 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 the prices used are not the last traded prices;
- (b) subject as provided in paragraphs (c) and (g) below, the value of each interest in any collective investment scheme shall be the net asset value per unit or share as at the same day, or if such collective investment scheme is not valued as at the same day, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such Unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (d) the value of any investment which is not quoted, listed or normally dealt in on a market shall be the initial value thereof equal to the amount expended out of the Sub-Fund 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 with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;

- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (f) the value of futures contracts will be determined with reference to the contract value of the relevant futures contract, the amount required to close the relevant contract and the amount expended out of the relevant Sub-Fund in entering into the relevant contract;
- (g) notwithstanding the foregoing, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment; and
- (h) the value (whether of a borrowing or other liability, an investment or cash) otherwise than in the base currency of a Sub-Fund shall be converted into the base currency at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

Suspension of Calculation of Net Asset Value

The Manager may, in consultation with the Trustee, having regard to the best interests of Unitholders, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any commodities market or securities market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Issue Price or Redemption Price per Unit; or
- (b) for any other reason the prices of a substantial part of the investments held or contracted for by the Manager for the account of that Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly or 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 investments held or contracted for the account of

that Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the Sub-Fund; or

- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of that Sub-Fund or the issue or redemption of Units of the relevant class in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (f) when, in the opinion of the Manager, such suspension is required by law or applicable legal process; or
- (g) where that Sub-Fund is invested in one or more collective investment schemes and the redemption of interests in any relevant collective investment scheme(s) (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager, the Trustee or any of their delegates in relation to the operations of that Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (i) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice of suspension on the website of the Manager at www.csopasset.com. This website has not been reviewed by the SFC.

No Units in the relevant Sub-Fund may be issued, redeemed or switched during such a period of suspension.

INVESTMENT AND BORROWING RESTRICTIONS

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager. Unless otherwise disclosed in the Appendix for each Sub-Fund, each of the Sub-Fund(s) is subject to the investment restrictions set out in Schedule 1 to this Explanatory Memorandum.

If the investment and borrowing restrictions set out in Schedule 1 are breached, the Manager shall take as a priority objective all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of Unitholders.

Unless otherwise disclosed in the Appendix, the Manager does not intend to enter into any securities financing transactions or similar over-the-counter transactions in respect of any of the Sub-Funds. Prior approval will be sought from the SFC and at least one month's prior notice will be given to Unitholders should there be a change in such intention where the Manager intends to enter into any of these transactions on behalf of the Sub-Funds.

RISK FACTORS

Investors should consider the following risks and any additional risk(s) relating to any specific Sub-Fund, contained in the relevant Appendix, before investing in any of the Sub-Funds. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not a Sub-Fund is suitable for them, they should obtain independent professional advice.

Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up. There is no assurance that the investment objective of the respective Sub-Fund will be achieved.

- (i) **Market risk** - The value of investments and the income derived from such investments may fall as well as rise and investors may not recoup the original amount invested in the Sub-Funds. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.
- (ii) **Mainland China market risk** - Investing in the mainland China market is subject to the risks of investing in emerging markets generally (i.e. risks not typically associated with developed markets) and the risks specific to the mainland China market.

Since 1978, the PRC government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the mainland Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. The investments in mainland China may be affected by the changes in government policies, promulgation of foreign currency and monetary policies and tax regulations.

The regulatory and legal framework for capital markets and joint stock companies in mainland China is still developing. Mainland Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the securities markets in mainland China may not be well tested and may be subject to increased risks of error or inefficiency.

Investments in equity interests of mainland Chinese companies may be made through China A-Shares, B-Shares (i.e. shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by onshore (mainland Chinese) investors and foreign investors) and H-Shares (i.e. shares issued by companies incorporated in mainland China and listed on the Stock Exchange of Hong Kong and traded in Hong Kong dollars). The mainland China stock market has in the past experienced substantial price volatility, and there is no assurance that such volatility will not occur in future.

Investment in RMB denominated bonds may be made in or outside mainland China. As the number of these securities and their combined total market value are relatively small compared to more developed markets, investments in these securities may be subject to increased price volatility and lower liquidity.

Investors should also be aware that changes in the mainland China taxation legislation could affect the amount of income which may be derived, and the amount of capital returned, from the investments of the relevant Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities.

- (iii) ***Foreign exchange control risk*** - The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. Such control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in mainland China. Insofar as a Sub-Fund's assets are invested in the mainland China, it will be subject to the risk of the PRC government's imposition of restrictions on the repatriation of funds or other assets out of mainland China, limiting the ability of the relevant Sub-Fund to satisfy payments to investors.
- (iv) ***The Renminbi currency risk*** - Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the relevant Sub-Fund. Investors whose base currency is not the Renminbi may be adversely affected by changes in the exchange rates of the Renminbi. Further, the PRC government's imposition of restrictions on the repatriation of Renminbi out of mainland China may limit the depth of the Renminbi market in Hong Kong and reduce the liquidity of the relevant Sub-Fund. The Chinese government's policies on exchange

control and repatriation restrictions are subject to change, and the Sub-Fund's or the investors' position may be adversely affected.

- (v) ***Emerging markets risk*** - Various countries/regions in which a Sub-Fund may invest are considered as emerging markets. Investments in emerging markets will be sensitive to any change in political, social or economic development in the country/region. Many emerging countries/regions have historically been subject to political instability which may affect the value of securities in emerging markets to a significant extent. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries/regions in which a Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries/regions are not as large as the more established securities markets and have a substantially lower trading volume. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital. There are also possibilities of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of the Sub-Funds' investments. Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to some countries/regions in which a Sub-Fund may invest may differ from those applicable in developed countries/regions, for example, less information is available to investors and such information may be out of date.
- (vi) ***Settlement risk*** – Settlement procedures in emerging countries/regions are frequently less developed and less reliable and may involve the Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. A Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for a Sub-Fund if investment opportunities are missed or if a Sub-Fund is unable to acquire or dispose of a security as a result.
- (vii) ***Currency risk*** - Certain Sub-Funds may be invested in part in assets quoted in currencies other than its base currency. The performance of such Sub-Funds will

therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the base currency of the Sub-Funds. Since the Manager aims to maximise returns for such Sub-Funds in terms of their base currency, investors in these Sub-Funds may be exposed to additional currency risk.

- (viii) ***Interest rates risk*** - Changes in interest rates may affect the value of a security as well as the financial markets in general. Debt securities (such as bonds) are more susceptible to fluctuation in interest rates and may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes. If the debt securities held by a Sub-Fund fall in value, the Sub-Fund's value will also be adversely affected.
- (ix) ***Credit rating downgrading risk*** - The credit ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events.

Credit rating of securities may be subject to the risk of being downgraded. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, a Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the relevant Sub-Fund. In the event of downgrading, the Sub-Fund may also be subject to the lower rated/ unrated securities risk outlined in the following paragraph.

- (x) ***Lower rated/ unrated securities risk*** - A Sub-Fund may invest in securities which are lower rated/ unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated, lower yielding securities. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. Valuation of these securities is more difficult and thus the relevant Sub-Fund's prices may be more volatile.
- (xi) ***Credit risk*** - An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security's

liquidity, making it more difficult to sell. A Sub-Fund's investment is also subject to the risk that issuers may not make payments on the securities they issue. If the issuers of any of the securities in which the Sub-Fund's assets are invested default, the performance of the Sub-Fund will be adversely affected.

- (xii) ***Over-the-counter markets risk*** - Over-the-counter (OTC) markets are subject to less governmental regulation and supervision of transactions (in which many different kinds of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that a Sub-Fund will sustain losses.

In addition, certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

- (xiii) ***Concentration risk*** - Certain Sub-Funds may invest only in a specific country/region/sector. Each Sub-Fund's portfolio may not be well diversified in terms of the number of holdings and the number of issuers of securities that the Sub-Fund may invest in. Investors should also be aware that such Sub-Funds are likely to be more volatile than a broad-based fund, such as a global or regional equity/ bond fund, as they are more susceptible to fluctuations in value resulting from limited number of holdings or from adverse conditions in their respective countries/regions/sectors.
- (xiv) ***Hedging risk*** - The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market and currency risks. There is no guarantee that hedging techniques will achieve their desired result.
- (xv) ***Liquidity risk*** - Some of the markets in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value.

- (xvi) ***Small and medium-sized companies risk*** – The stock prices of small and medium-sized companies tend to be more volatile than those of large-sized companies due to a lower degree of liquidity, greater sensitivity to changes market conditions and higher uncertainty over future growth prospects.
- (xvii) ***Derivative and structured product risk*** - The Sub-Funds may invest in derivatives such as options, futures and convertible securities, and in depositary receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices such as participation notes, equity swaps and equity linked notes, which are sometimes referred to as “structured products”. Investment in these instruments can be illiquid, if there is no active market in these instruments. Such instruments are complex in nature. Therefore there are risks of mispricing or improper valuation and possibilities that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties or a loss in the value of the relevant Sub-Funds. The instruments will also be subject to insolvency or default risk of the issuers or counterparties. In addition, investment through structured products may lead to a dilution of performance of such Sub-Funds when compared to a fund investing directly in similar assets. Besides, many derivative and structured products involve an embedded leverage. This is because such instruments provide significantly larger market exposure than the money paid or deposited when the transaction is entered into, so a relatively small adverse market movement could expose the relevant Sub-Funds to the possibility of a loss exceeding the original amount invested.
- (xviii) ***Restricted markets risk*** - The Sub-Funds may invest in securities in jurisdictions (including mainland China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.
- (xix) ***Mainland China tax considerations*** - By investing in mainland China-related shares (including China A-, B- and H-Shares), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on the mainland China stock exchanges issued by PRC government and mainland China tax resident

companies both inside and outside of mainland China (“Mainland China Securities”) or Renminbi denominated corporate and government bonds issued outside mainland China by mainland China tax resident, a Sub-Fund may be subject to withholding and other taxes imposed in mainland China.

Value Added Tax (“VAT”) and other surtaxes:

The Ministry of Finance (the “**MoF**”) and the State Taxation Administration of the PRC (the “**STA**”) issued Caishui [2016] No. 36 (the “Notice 36”) on 23 March 2016 announcing that the VAT transformation will be rolled out to cover all the remaining industries of the program, including financial services. The Notice 36 shall take effect from 1 May 2016, unless otherwise specified therein.

Pursuant to the Notice 36, gains derived from trading of marketable securities and interest income would generally be subject to VAT at 6% unless there is a specific VAT exemption under tax regulations.

Under the Notice 36 and Caishui [2016] No.70, gains realised by (i) QFIIs and RQFIIs from trading of Mainland China Securities and (ii) approved foreign investors from trading of RMB denominated debt securities in the China Interbank Bond Market are exempt from VAT. Coupon interest income received from PRC government bonds or local government bonds and deposit interest income are exempt from VAT.

In the absence of any specific VAT exemption on coupon interest income granted to overseas investors under the prevailing tax regulations, non-government bond coupon interest income (e.g. financial bonds, policy bank bonds, corporate bonds) received by overseas investors from mainland China is technically subject to 6% VAT. The VAT regime is subject to further clarification by the STA and/or the MOF, and there is uncertainty on the implementation of the VAT regime on RQFII funds such as the Sub-Fund.

Dividend income or profit distributions on equity investment derived from mainland China are not included in the taxable scope of VAT.

If VAT is applicable, there are also other local surtaxes (including Urban Maintenance and Construction Tax, Education Surcharge and Local Education Surcharge, etc) that could amount to as high as 12% of the VAT payable.

The Manager currently makes a provision in an amount equal to the total of (i) for VAT, 6% of the bond coupon interest (except PRC government bonds or local government bonds) received by the Sub-Fund; plus (ii) for the potential local surtaxes on VAT, 12% of the VAT amount stated in (i).

In other words, the provision is equal to 6.72% of the bond coupon interest (except PRC government bonds or local government bonds) received by the Sub-Fund.

Corporate Income Tax (“CIT”):

If the Fund or Sub-Fund is considered as a mainland China tax resident enterprise, it will be subject to mainland China Corporate Income Tax (“CIT”) at 25% on its worldwide taxable income; if the Fund or Sub-Fund is considered as a non-mainland China tax resident enterprise but has a permanent establishment (“PE”) in mainland China, the profits and gains attributable to that PE would be subject to CIT at 25%.

It is the intention of the Manager to operate the affairs of the Manager as a RQFII and the relevant Sub-Fund such that they should not be treated as tax resident enterprises of mainland China or non-tax resident enterprises with an establishment or place of business in mainland China for CIT purposes, although this cannot be guaranteed. If the Fund or Sub-Fund is a non-mainland China tax resident enterprise without PE in mainland China, the mainland China sourced passive income derived by it from the investment in Mainland China Securities would be subject to 10% withholding income tax (“WIT”) in mainland China, unless exempt or reduced under the laws and regulations or relevant tax treaty.

Dividend and Interest

Unless a specific exemption or reduction is available under current mainland China tax laws and regulations or relevant tax treaties, non-tax resident enterprises without PE in mainland China are subject to CIT on a withholding basis, generally at a rate of 10%, to the extent it directly derives mainland China sourced passive income. Mainland China sourced passive income (such as dividend income or interest income) may arise from investments in the Mainland China Securities. Accordingly, the Sub-Fund is subject to WIT on any cash dividends, distributions and interest it receives from its investment in Mainland China Securities. Under the mainland China CIT Law, interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempt from mainland China income tax under CIT law.

Capital Gain

Trading of mainland China equity investments (including China A-shares)

The MoF, the STA and the CSRC issued the “Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of equity investment assets such as mainland China stocks by QFII and RQFII” Caishui [2014] No.79 on 14 November 2014 (the “Notice No. 79”). Notice No. 79 states that QFIIs and RQFIIs (without an establishment or place in mainland China or having an establishment in mainland China but the income so derived in mainland China is not effectively connected with such establishment) will be temporarily exempt from corporate income tax on gains derived from the trading of mainland China equity investment (including China A-Shares) effective from 17 November 2014.

Trading of mainland China debt securities

Under current mainland China tax law, there are no specific rules or regulations governing the taxation of the disposal of debt securities issued by mainland China tax resident enterprises. The tax treatment for investment in debt securities issued by mainland China tax residents is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Sub-Fund would be potentially subject to 10% WIT on the mainland China-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Based on verbal comments from the mainland China tax authorities, gains realized by foreign investors from investment in mainland China debt securities are non-mainland China sourced income and thus should not be subject to WIT. However, there is no specific written tax regulations issued by the mainland China tax authorities to confirm such interpretation. In practice, the mainland China authorities have not actively enforced the collection of WIT in respect of gains derived by non-mainland China tax resident enterprises from the trading of debt securities.

The Manager’s current policy on tax provisions is set out in the Appendix for the relevant Sub-Fund.

Business Tax (“BT”) and other surtaxes:

The revised PRC Provisional Regulations of Business Tax (“BT Law”) which came into effect on 1 January 2009 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%.

Caishui [2005] 155 states that gains derived by QFIIs from the trading of Mainland China Securities are exempt from BT. The new PRC BT law which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Prospectus. However, it is not clear whether a similar exemption would be extended to RQFIIs.

However, for marketable securities other than those trading under QFIIs, the new BT law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities. Where capital gains are derived from trading of offshore Mainland China Securities, BT in general is not imposed as the purchase and disposal are concluded and completed, and the buyer and seller are normally located outside Mainland China.

The new BT law does not specifically exempt BT on interest earned by non-financial institution. Hence, interest on both government and corporate bonds in theory should be subject to 5% BT.

If BT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of BT payable. In addition, there may also be other local levies such as flood prevention fee, commodity reconciliation fund and water conservancy fund, depending on the location of the mainland Chinese companies.

Stamp duty:

Stamp duty under the mainland China laws generally applies to the execution and receipt of all taxable documents listed in the mainland China’s Provisional Rules on Stamp Duty. Stamp duty is levied on the execution or receipt in mainland China of certain documents, including contracts for the sale of China A- and B-Shares traded on the mainland China stock exchanges. In the case of contracts for sale of China A- and B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1%.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future.

There is a possibility that the current tax laws, regulations and practice in the mainland China will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in mainland China which a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

Unitholders should seek their own tax advice on their tax position with regard to their investment in any Sub-Fund.

- (xx) ***Risks relating to the Foreign Account Tax Compliance Act (“FATCA”)*** - The Fund and each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the FFI Agreement (as defined in the section headed “Foreign Account Tax Compliance Act” below) to avoid any withholding tax. In the event that the Fund or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the FFI Agreement and the Fund or such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund or that Sub-Fund may be adversely affected and the Fund or such Sub-Fund may suffer significant loss as a result. Please refer to the section headed “Foreign Account Tax Compliance Act” for further details.
- (xxi) ***Custodial risk*** - Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where a Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of the liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets. In circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Sub-Fund may even be unable to recover all of its assets. The costs borne by a Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.
- (xxii) ***Counterparty risk*** - Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, futures and options. To the extent that a counterparty defaults on its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may

experience a decline in the value and incur costs associated with its rights attached to the security.

(xxiii) ***Risk of termination*** - A Sub-Fund may be terminated in certain circumstances which are summarised under the section “Termination of the Fund or any Sub-Fund”. In the event of the termination of a Sub-Fund, such Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the relevant Sub-Fund will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any organisational expenses (such as establishment costs) with regard to the relevant Sub-Fund that had not yet been fully amortised would be debited against the Sub-Fund’s assets at that time.

(xxiv) ***Distribution out of capital*** - Subject to the disclosure in the relevant Appendix, dividends/distributions may be paid out of the capital or effectively out of capital of a Sub-Fund. The Manager may distribute out of the capital of a Sub-Fund if the income generated from the relevant Sub-Fund’s investments attributable to the relevant class of Units during the relevant period is insufficient to pay distributions as declared. The Manager may also in its discretion pay dividends out of gross income while charging / paying all or part of a Sub-Fund’s fees and expenses to / out of the capital of such Sub-Fund, resulting in an increase in distributable income for the payment of dividends by such Sub-Fund. Therefore, such Sub-Fund may effectively pay dividends out of capital. Investors should note that the payment of distributions out of capital or effectively out of capital represents a return or a withdrawal of part of the amount they originally invested or capital gain attributable to that amount. Distributions involving payment of dividends out of a Sub-Fund’s capital or effectively out of capital will result in an immediate decrease in the Net Asset Value of the relevant Units.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, therefore, only suitable for investors who can afford the risks involved.

Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.

EXPENSES AND CHARGES

Management Fee

The Manager is entitled to receive a management fee accrued daily and payable monthly in arrears out of each Sub-Fund as a percentage of the Net Asset Value of each class of Unit in a Sub-Fund as at each Valuation Day at the rates set out in the Appendix for the relevant Sub-Fund subject to a maximum fee of 2% per annum.

The remuneration of the investment adviser (if any) will be borne by the Sub-Fund and details of any investment adviser's fee will be stated in the relevant Appendix.

Unitholders shall be given not less than one month's prior notice should there be any increase of the management fee from the current level to the maximum level.

Trustee Fee

The Trustee is entitled to a Trustee Fee, payable out of the assets of each Sub-Fund is based on the Net Asset Value of the relevant Sub-Fund at the rate set out in relevant Appendix for the Sub-Fund subject to a maximum fee of 0.5% per annum. The Trustee's fee is accrued daily and is payable monthly in arrears. The Trustee Fee includes the fee of the RQFII Custodian.

The Trustee also acts as the Registrar of the Fund.

Unitholders shall be given not less than one month's prior notice should there be any increase of the Trustee Fee from the current level up to the maximum level.

The Trustee is entitled to (among others) transaction charges at customary market rates at different rates, largely depending on the markets where the Trustee (or its delegate) is required to hold the Sub-Fund's assets. Such fees will be calculated monthly and will be paid monthly in arrears, out of the assets of each Sub-Fund. The RQFII Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

Establishment Costs

The establishment costs of the Fund and the initial Sub-Fund have been fully amortised.

The establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be borne by the Sub-Fund to which such costs and payments relate and amortised over a period of five Accounting Periods (or such other period as determined by the Manager after consultation with the Auditors). Please refer to the relevant Appendix for the establishment

costs in relation to each subsequent Sub-Fund.

General

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated amongst the Sub-Funds in proportion to the respective Net Asset Value of all the Sub-Funds.

Each Sub-Fund will bear the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any connected person in the event of the Trustee or the Manager or such connected person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditors and the Registrar, (c) fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the issue and redemption prices of Units of the Sub-Fund and preparing financial statements, (d) all legal charges incurred by the Manager or the Trustee in connection with the Sub-Fund, (e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties, (f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (g) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (h) the costs and expenses of obtaining and maintaining a listing for the Units of the Sub-Fund on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, approval or authorisation, and (i) without prejudice to the generality of the foregoing, all costs incurred in publishing the issue and redemption prices of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees and Trustee's fee), the expenses of preparing and printing any explanatory memorandum, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

For so long as the Fund and such Sub-Funds are authorised by the SFC, no advertising or promotional expenses shall be charged to the Sub-Funds so authorised.

Cash Rebates and Soft Commissions

Neither the Manager, any investment delegate nor any of their connected persons will retain cash or other rebates from brokers or dealers in consideration of directing transactions for a Sub-Fund to such brokers or dealers, save that goods and services (soft dollars) may be retained if: (a) such goods and services are of demonstrable benefit to the Unitholders; (b) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (c) adequate prior disclosure is made in the Explanatory Memorandum the terms of which the Unitholders have consented to; (d) periodic disclosure is made in the annual report of the Fund or the relevant Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the Investment Delegate, including a description of goods and services received by them; and (e) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Any such cash commission or rebates received from any such brokers or dealers shall be for the account of the relevant Sub-Fund.

The Manager, any investment delegate and/or any of their connected person reserves the right to effect transactions by or through the agency of another person with whom the Manager, any investment delegate and/or any of their connected person has an arrangement under which that party will from time to time provide to or procure for the Manager, any investment delegate and/or any of their connected person goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the relevant Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund or of the Manager, any investment delegate and/or any of their connected person in providing services to the relevant Sub-Fund and for which no direct payment is made but instead the Manager, any investment delegate and/or any of their connected person undertakes to place business with that party. 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.

TAXATION

Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and redemption of Units by him under the laws of the places of his citizenship, residence and domicile.

Hong Kong

During such period as the Fund and any of its Sub-Funds are authorised by the SFC pursuant to section 104 of the SFO then, under present Hong Kong law and practice:-

- (a) The Fund and the Sub-Funds are not expected to be subject to Hong Kong tax in respect of any of its authorised activities.
- (b) No tax will be payable by Unitholders in Hong Kong in respect of dividends or other income distributions of any Sub-Fund so authorised or in respect of any capital gains arising on a sale, redemption or other disposal of Units of such Sub-Fund, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

No Hong Kong stamp duty is payable where the sale or transfer of the Unit is effected by extinguishing the Unit or the sale or transfer is to the Manager who subsequently re-sells the Units within two months thereof.

Mainland China

Investors should also refer to the “Mainland China tax considerations” under the section headed “Risk Factors” to inform themselves of the possible tax consequences under mainland China laws.

Foreign Account Tax Compliance Act

Sections 1471 – 1474 of the US Internal Revenue Code (the “**IRS Code**”) of 1986, as amended (referred to as the Foreign Account Tax Compliance Act or “**FATCA**”) impose rules with respect to certain payments paid to certain foreign (i.e. non-US) financial institutions (“**FFI**”), such as the Fund and the Sub-Funds, including interest and dividends from securities of US issuers. All such payments may be subject to FATCA withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (“**IRS**”) to identify US persons (under the definition in the IRS Code) with direct or indirect interests in such payments. To avoid the 30% withholding tax under FATCA,

certain FFIs, such as the Fund and the Sub-Funds (and, generally, other Hong Kong investment funds), generally would be required to register with the IRS directly to obtain a Global Intermediary Identification Number (“**GIIN**”) and enter into an agreement (an “**FFI Agreement**”) with the IRS under which it will agree to, amongst other things, identify its direct or indirect account holders who are US persons and report certain information concerning such US account holders to the IRS.

In general, a Hong Kong FFI which does not enter into an FFI Agreement or comply with the relevant FATCA regulations, or is not otherwise exempt, may face a 30% FATCA withholding tax on “withholdable payments”, including US source dividends and interest payments. Moreover, it is expected that certain non-US source payments attributable to amounts that would be subject to FATCA withholding tax will also be subject to FATCA withholding, though the definition of “passthru payment” is currently pending.

The Hong Kong Government has entered into a Model 2 intergovernmental agreement (“**IGA**”) with the US for the implementation of FATCA. Under such Model 2 IGA, FFIs in Hong Kong (such as the Fund and the Sub-Funds) would be required to register with the IRS and comply with the terms of FFI Agreement. Otherwise they may be subject to a 30% withholding tax on withholdable payments made to them.

It is expected that FFIs in Hong Kong (such as the Fund and the Sub-Funds) complying with the terms of an FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will generally not be required to withhold tax on withholdable payments made to non-consenting US accounts within the meaning of the IGA.

The Fund and each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA to avoid any withholding tax. In the event that the Fund or any Sub-Fund is not able to comply with the requirements imposed by FATCA and the Fund or such Sub-Fund does suffer FATCA withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund or that Sub-Fund may be adversely affected and the Fund or such Sub-Fund may suffer significant loss as a result.

Unitholders may be required to provide information and certification for the Fund or the relevant Sub-Fund to comply with relevant FATCA obligations and failure to do so may result in the Unitholders not being able to invest in the Fund or the relevant Sub-Fund. In the event a Unitholder (an account holder) does not provide the requested information and/or documentation, whether or not that actually leads to non-compliance by the Fund or the relevant Sub-Fund, or a risk of the Fund or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Fund and each of such relevant Sub-Fund

reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the IRS; (ii) withholding or deducting from such Unitholder's redemption proceeds or distributions to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

The Sub-Funds have been registered with the IRS as at the date of this Explanatory Memorandum. Tax advice has been obtained confirming that the Fund does not need to be registered with the IRS and the registration of the Sub-Funds with the IRS has satisfied the FATCA requirement.

Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation and the potential impact on the Fund and each of such relevant Sub-Fund.

Certification for Compliance with FATCA or Other Applicable Laws

Each Unitholder (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 Fund or a Sub-Fund (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 Fund or the relevant Sub-Fund receives payments and/or (B) to satisfy due diligence, reporting or other obligations under 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, whenever there is a change in circumstances or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any 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 under FATCA and AEOI), including such obligations that may be imposed by future legislation.

Power to Disclose Information to Tax Authorities

Subject to applicable laws and regulations in Hong Kong, the Fund, the relevant Sub-Fund, the Trustee or the Manager or any of their authorised person(s) (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 US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, to enable the Fund or the relevant Sub-Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA).

Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the “**AEOI**”) came into force on 30 June 2016. The AEOI establishes the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (also referred to as the Common Reporting Standard (“**CRS**”)) in Hong Kong. The CRS requires financial institutions (“**FI**”) in Hong Kong (such as the Fund and the Sub-Funds) to collect information relating to non-Hong Kong tax residents holding financial accounts with FIs and controlling persons of certain entities holding accounts with FIs from 1 January 2017 and report relevant information to the Hong Kong Inland Revenue Department (“**IRD**”) for exchange of such information with jurisdiction(s) in which the account holder or the controlling person is a tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has signed a Competent Authority Agreement (“**CAA**”). With the passage of the Inland Revenue (Amendment) (No.2) Ordinance in 2017, the number of reportable jurisdictions has increased effective 1 July 2017 to include a number of jurisdictions with which Hong Kong does not currently have a CAA. The Fund, the Sub-Funds and/or its agents may further collect information relating to residents of other jurisdictions.

The Fund and each Sub-Fund are required to comply with the requirements of CRS, as implemented by Hong Kong, which means that the Fund, each Sub-Fund and/or its agents shall collect the relevant tax information relating to certain Unitholders, their controlling persons and prospective investors and provide such information to the IRD.

The AEOI requires the Fund and each Sub-Fund to, amongst other things: (i) register the Fund's status as a “Reporting Financial Institution” with the IRD if reportable accounts are maintained; (ii) conduct due diligence on its accounts (i.e., Unitholders) to identify whether any such accounts are considered “Reportable Accounts” for CRS purposes; and (iii) report certain information of such Reportable Accounts to the IRD. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA (i.e. the “**Reportable Jurisdictions**”). Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities

that are tax residents in the Reportable Jurisdictions; and (ii) certain entities controlled by individuals who are tax residents in the Reportable Jurisdictions. Under the AEOI, details of Unitholders, including but not limited to their name, date of birth, address, tax residence, tax identification number, account details, account balance/value, and certain income or sale or redemption proceeds, may be reported to the IRD which is subsequently exchanged with government authorities in the relevant Reportable Jurisdictions.

By investing in the Fund and the relevant Sub-Fund and/or continuing to invest in the Fund and the relevant Sub-Fund, Unitholders acknowledge that they are required to provide the required information to the Fund, the relevant Sub-Fund, the Manager and/or the Fund's agents in order to open an account. Moreover, Unitholders acknowledge that they may be required to provide additional information to the Fund, the Sub-Funds, the Manager and/or agents of the Fund and the Sub-Funds in order for the Fund and the relevant Sub-Fund to comply with CRS. The Unitholder's information (and/or information pertaining to beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the Fund or the relevant Sub-Fund to the IRD and by the IRD to government authorities in the Reportable Jurisdictions. The failure of a Unitholder to provide any requested information, may result in the Fund, the relevant Sub-Fund, the Manager and/or its agents taking any action and/or pursuing remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned, insofar as legally permitted.

Each Unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of CRS on its current or proposed investment in the Fund and the relevant Sub-Fund.

REPORTS AND ACCOUNTS

The Fund's financial year end is on 31 December in each year.

Unitholders will be notified of where they can obtain the printed and electronic copies of the latest audited accounts or the half-yearly unaudited interim reports once they are available (both published in English only). Such notices will be sent to Unitholders as soon as practicable and in any event within four months of the end of each financial year (starting the first financial year) in the case of audited accounts and within two months after 30 June in each year in the case of half-yearly unaudited interim reports. Once issued, such reports will be available in electronic copies from the website www.csopasset.com. This website has not been reviewed by the SFC. The reports will be prepared in accordance and comply with the applicable requirements of the Code.

In the event the Manager decides to change the means to make available financial reports stated above, not less than 1 month's prior notice will be given to Unitholders.

Hardcopies of such reports will be available upon request of Unitholders free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager.

DISTRIBUTION OF INCOME

Unless otherwise described in the relevant Appendix, the Manager does not intend to make any distribution of income.

Distributions (if any) declared in respect of an interim accounting period or an Accounting Period, as described in the relevant Appendix, shall be distributed among the Unitholders of the relevant classes of Units rateably in accordance with the number of Units held by them on the record date in respect of such interim accounting period or Accounting Period, as the case may be. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding interim accounting period or Accounting Period, as the case maybe.

Any payment of distributions will be made in the base currency or class currency of the relevant classes (as determined by the Manager or the Trustee) by direct transfer into the appropriate bank account or by cheque at the risk of the Unitholders (or in such other manner as may be agreed with the Manager and the Trustee). Any distribution which is not claimed for six years will be forfeited and become part of the assets of the relevant Sub-Fund.

VOTING RIGHTS

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned

for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a show of hands, every individual Unitholder present in person or by representative has one vote; on a poll every Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy.

PUBLICATION OF PRICES

The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be published daily on the website of the Manager at www.csopasset.com. This website has not been reviewed by the SFC.

TRANSFER OF UNITS

Subject as provided below, Units may be transferred 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 and duly stamped with adequate stamp duty before the form is passed to the Registrar. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding (if any) of the relevant class as set out in the relevant Appendix.

COMPULSORY REDEMPTION OR TRANSFER OF UNITS

The Manager or the Trustee may require a Unitholder to transfer the Unitholder's Units or may redeem such units in accordance with the Trust Deed if it shall come to the notice of the Manager or the Trustee that the Unitholder holds such Units (a) in breach of the law or requirements of any country/region, any governmental authority or any stock exchange on which such Units are listed or (b) in circumstances (whether directly or indirectly affecting such Unitholder and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager or the Trustee to be relevant) which, in the opinion of the Manager or the Trustee, might result in the Fund and/or any Sub-

Fund in relation to such class of Units incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund or the Sub-Fund might not otherwise have incurred or suffered.

TRUST DEED

The Fund was established under the laws of Hong Kong by a trust deed dated 30 December 2011 made between CSOP Asset Management Limited as Manager and BOCI-Prudential Trustee Limited as the previous trustee, as amended from time to time, including by the Deed of Retirement and Appointment and the Amended and Restated Trust Deed.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. However, the Trustee and the Manager shall not be exempted from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Copies of the Trust Deed (together with any supplemental deeds) may be obtained from the Manager on payment of a reasonable fee and may be inspected during normal working hours at the offices of the Manager free of charge.

TERMINATION OF THE FUND OR ANY SUB-FUND

The Fund shall continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee on notice in writing, provided that the Trustee shall certify that in its opinion the proposed termination is in the interest of Unitholders,

- (a) if the Manager goes into liquidation, becomes bankrupt or if a receiver is appointed over any of their assets and not discharged within 60 days; or
- (b) if in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Unitholders; or

- (c) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund; or
- (d) within 30 days of the Manager leaving office, no new manager is appointed; or
- (e) no new trustee is appointed within six months of the Trustee giving notice of its desire to retire.

The Fund and/or any of the Sub-Fund or the class of Units of a Sub-Fund may be terminated by the Manager on notice in writing if:

- (a) on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding thereunder shall be less than RMB 20 million or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units of the relevant class outstanding thereunder shall be less than RMB10 million (or other amounts disclosed in the Appendix); or
- (b) in the opinion of the Manager, it is impracticable or inadvisable to continue a Sub-Fund and/or any class of Units of a Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund); or
- (c) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund or a Sub-Fund.

In cases of termination on notice, no less than one month's notice will be given to Unitholders. After termination, any unclaimed proceeds or other cash held by the Trustee under the Trust Deed may at the expiration of twelve months from the date upon which the same were payable be paid into a court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

Further, the Sub-Fund or a class or classes of the Sub-Fund may be terminated by an extraordinary resolution of the Unitholders of the Sub-Fund or the Unitholders of the relevant class or classes (as the case may be) on such date as the extraordinary resolution may provide.

ANTI-MONEY LAUNDERING REGULATIONS

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager/Trustee may require a detailed verification of an investor's identity and the source of payment of application moneys. Depending on the circumstances of each application, a detailed verification might not be required where:-

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country/region recognised as having sufficient anti-money laundering regulations. The Manager and the Trustee nevertheless reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Manager or the Trustee may refuse to accept the application and the subscription moneys relating thereto and refuse to pay any redemption proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of fund.

CONFLICTS OF INTEREST

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment delegate or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly. Compliance procedures and measures such as segregation of duties and responsibilities together with different reporting lines and "Chinese walls" have been put in place to minimise potential conflicts of interest. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:-

- (a) the Trust Deed, and any supplemental deeds;
- (b) all material contracts (as specified in the relevant Appendix, if any); and
- (c) the latest financial reports of the Fund.

LIQUIDITY RISK MANAGEMENT

The Manager has established a liquidity management policy, which enables it to identify, monitor and manage the liquidity risks of the Sub-Funds and to ensure that the liquidity profile of the investments of the relevant Sub-Fund will facilitate compliance with such Sub-Fund'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 risk management committee issues, oversees and implements the policy. The committee meets regularly and will hold ad hoc meeting if certain liquidity events occur.

The Manager's liquidity policy takes into account qualitative and quantitative metrics to determine the liquidity profile of funds, such as the investment strategy, the redemption policy, days required to liquidate securities, structure of fund and credit quality. The committee monitors liquidity profile each Sub-Fund, so as to facilitate compliance with each Sub-Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the risk management function of the Manager, to manage the liquidity risk of the Sub-Funds under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may limit the number of Units of a Sub-Fund redeemed on any Dealing Day to Units representing a certain percentage of Units of such a Sub-Fund then in issue. Please refer to the section "Restrictions on redemption and switching". A Sub-Fund may also borrow up to a certain limit to fulfil redemption obligations. Please refer to the "Investment and Borrowing Restrictions" section.

SCHEDULE 1 – INVESTMENT RESTRICTIONS

1. Investment limitations applicable to each Sub-Fund

No holding of any security may be acquired for or added to a Sub-Fund which would be inconsistent with achieving the investment objective of the Sub-Fund or which would result in:

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the relevant Sub-Fund:
 - (i) investments in securities issued by that entity;
 - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
 - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Schedule 1 will not apply to financial derivative instruments 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.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund:
 - (i) investments in securities issued by those entities;
 - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
 - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "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 recognized accounting standards.

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1;

- (c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund provided that the 20% limit may be exceeded in the following circumstances:
 - (i) cash held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested;
 - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
 - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purposes of this sub-paragraph 1(c), "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Sub-Fund and not referable to provision of property or services;

- (d) the Sub-Fund's holding of any ordinary shares (when aggregated with all other Sub-Funds' holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity;
- (e) the value of the Sub-Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market, exceeding 15% of the latest available Net Asset Value of such Sub-Fund;
- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of such Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, 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;
- (g) (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible

schemes (the list of “eligible schemes” is as specified by the SFC from time to time) and not authorised by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and

(ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of “eligible schemes” is as specified by the SFC from time to time) or a scheme authorised by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Appendix of that Sub-Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an 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. For the avoidance of doubt, a Sub-Fund may invest in underlying scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total Net Asset Value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its connected persons; and
- (E) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by a Sub-Fund;
- (bb) unless otherwise disclosed in the Appendix of a Sub-Fund, the investment by a Sub-Fund in a Qualified Exchange Traded Fund

will be considered and treated as collective investment schemes for the purposes of and subject to the requirements in sub-paragraphs 1(g)(i) and (ii) and provision (A) to (C) of sub-paragraph 1(g) of this Schedule 1. Notwithstanding the aforesaid, the investments by a Sub-Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by a Sub-Fund shall be consistently applied;

- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where a Sub-Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code; and
- (h) notwithstanding sub-paragraphs 1(a), (b), (d) and (e) above, where direct investment by a Sub-Fund in a market is not in the best interest of investors, the Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
 - (i) the underlying investments of the subsidiary, together with the direct investments made by the Sub-Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
 - (ii) any increase in the overall fees and charges directly or indirectly borne by the Unitholders of the Sub-Fund as a result must be clearly disclosed in the Appendix; and
 - (iii) the Sub-Fund 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 Sub-Fund.

2. Investment prohibitions applicable to each Sub-Fund

The Manager shall not, unless otherwise specifically provided for in the Code, on behalf of any Sub-Fund:

- (a) invest in physical commodities 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;

- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a stock exchange, over-the-counter market or other organised securities market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; and
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

3. **Feeder Funds**

A Sub-Fund which is a feeder fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme ("**underlying scheme**") in accordance with the following provisions:

- (a) such underlying scheme ("**master fund**") must be authorised by the SFC;
- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund

may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager; and

- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A),(B) and (C) to sub-paragraph 1(g) of this Schedule 1.

4. Use of financial derivative instruments

4.1 A Sub-Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all 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 relevant Sub-Fund to meet its hedging objective in stressed or extreme market conditions.

4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% 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. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, a Sub-Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Sub-

Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

4.4 The financial derivative instruments invested by a Sub-Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter 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 Sub-Fund may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the administrator, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the valuation agent or any person appointed to perform valuation of the financial derivative instruments (including any calculation agent or the administrator) should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

4.5 A Sub-Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of a Sub-Fund are adequately covered on an ongoing basis. For

the purposes of this sub-paragraph 4.5, assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall 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.

4.6 Subject to sub-paragraph 4.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of a Sub-Fund shall be covered as follows:

- (a) in the case of financial derivative instruments transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund shall 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 financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund shall 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 Sub-Fund 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 provided further that the Sub-Fund 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.

4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an “**embedded financial derivative**” is a financial derivative instrument that is embedded in another security.

5. Securities financing transactions

5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

5.2 A Sub-Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, shall be returned to the Sub-Fund.

5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the

securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

6. Collateral

In order to limit the exposure to each counterparty as set out in sub-paragraphs 4.4(c) and 5.2 of this Schedule 1, a Sub-Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order 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;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event 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, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;

- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
 - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under 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. For this purpose, 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 must be taken into account;
 - (ii) non-cash collateral received may not be sold, re-invested or pledged;
 - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
 - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
 - (v) 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;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

Further details relating to the collateral policy of the Fund and/or Sub-Funds are disclosed in Schedule 2 / the relevant Appendix.

7. **Money Market Funds**

In the exercise of its investment powers in relation to a Sub-Fund which is a money market fund (“**Money Market Fund**”) authorised by the SFC under 8.2 of the Code,

the Manager shall ensure that the core requirements as set out in paragraphs 1, 2, 4, 5, 6, 9, 10.1 and 10.2 of this Schedule 1 shall apply with the following modifications, exemptions or additional requirements:

- (a) subject to the provisions set out below, a Money Market Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers' acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC 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;
- (b) a Money Market Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein:
 - (i) **“weighted average maturity”** is a measure of the average length of time to maturity of all the underlying securities in a Money Market Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Money Market Fund to changing money market interest rates; and
 - (ii) **“weighted average life”** is the weighted average of the remaining life of each security held in a Money Market Fund; and is used to measure the credit risk, as well as the liquidity risk,provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;
- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available Net Asset Value of such Money Market Fund except:
 - (i) the value of a Money Market Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available Net Asset Value of such Money Market Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves;
 - (ii) up to 30% of a Money Market Fund's latest available Net Asset Value may be invested in Government and other public securities of the same issue; or

- (iii) in respect of any deposit of less than USD1,000,000 or its equivalent in the base currency of the relevant Money Market Fund where such Money Market Fund cannot otherwise diversify as a result of its size;
- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available Net Asset Value provided that:
 - (i) the aforesaid limit will not apply in respect of cash deposit of less than USD 1,000,000 or its equivalent in the base currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size; and
 - (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (e) the value of a Money Market Fund's holding of money market funds that are 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 may not in aggregate exceed 10% of its latest available Net Asset Value;
- (f) the value of a Money Market Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available Net Asset Value;
- (g) subject to paragraphs 5 and 6 of this Schedule 1, a Money Market Fund may engage in sale and repurchase transactions, and reverse repurchase transactions in compliance with the following additional requirements:
 - (i) the amount of cash received by the Money Market Fund under sale and repurchase transactions may not in aggregate exceed 10% of its latest available Net Asset Value;
 - (ii) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the latest available Net Asset Value of the Money Market Fund;
 - (iii) collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
 - (iv) the holding of collateral, together with other investments of the Money Market Fund, must not contravene the investment limitations and requirements set out in the other provisions of this paragraph 7 of this Schedule 1;

- (h) a Money Market Fund may use financial derivative instruments for hedging purposes only;
- (i) the currency risk of a Money Market Fund should be appropriately managed and any material currency risk that arises from investments of the Money Market Fund that are not denominated in its base currency shall be appropriately hedged; and
- (j) a Money Market Fund must hold at least 7.5% of its latest available Net Asset Value in daily liquid assets and at least 15% of its latest available Net Asset Value in weekly liquid assets. For the purposes herein:
 - (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
 - (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities.

8. Index Funds

- 8.1 In the exercise of its investment powers in relation to a Sub-Fund the principal objective of which is to track, replicate or correspond to a financial index or benchmark (“**Underlying Index**”), with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the Underlying Index (“**Index Fund**”), the Manager shall ensure that the core requirements in paragraphs 1, 2, 4, 5, 6, 9.1, 10.1 and 10.3 of this Schedule 1 shall apply with the modifications or exceptions as set out in sub-paragraphs 8.2 to 8.4 below.
- 8.2 Notwithstanding sub-paragraph 1(a) of this Schedule 1, more than 10% of the latest available Net Asset Value of an Index Fund may be invested in constituent securities issued by a single entity provided that:
 - (a) it is limited to any constituent securities that each accounts for more than 10% of the weighting of the Underlying Index; and
 - (b) the Index Fund’s holding of any such constituent securities may not exceed their respective weightings in the Underlying Index, except where weightings are exceeded as a result of changes in the composition of the Underlying Index and the excess is only transitional and temporary in nature.
- 8.3 Investment restrictions in sub-paragraphs 8.2(a) and (b) of this Schedule 1 do not apply if:

- (a) an Index Fund 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 Underlying Index;
- (b) the strategy is clearly disclosed in the relevant Appendix of the Index Fund;
- (c) the excess of the weightings of the constituent securities held by the Index Fund over the weightings in the Underlying Index is caused by the implementation of the representative sampling strategy;
- (d) any excess weightings of the Index Fund's holdings over the weightings in the Underlying Index must be subject to a maximum limit reasonably determined by the Index Fund after consultation with the SFC. In determining this limit, the Index Fund must consider the characteristics of the underlying constituent securities, their weightings and the investment objectives of the Underlying Index and any other suitable factors;
- (e) limits laid down for the Index Fund pursuant to sub-paragraph 8.3(d) must be disclosed in the relevant Appendix of the Index Fund; and
- (f) disclosure must be made in the Index Fund's interim and annual financial reports as to whether the limits imposed for the Index Fund itself pursuant to sub-paragraph 8.3(d) of this Schedule 1 have been complied with in full.

8.4 Subject to the approval of the SFC, the investment restrictions in sub-paragraphs 1(b) and (c) of this Schedule 1 may be modified and the 30% limit in sub-paragraph 1(f) of this Schedule 1 may be exceeded, and an Index Fund may invest all of its assets in Government and other public securities in any number of different issues despite sub-paragraph 1(f) of this Schedule 1.

9. Borrowing and Leverage

The expected maximum level of leverage of each Sub-Fund is as follows:

Cash borrowing

- 9.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 9.1.
- 9.2 Notwithstanding sub-paragraph 9.1 of this Schedule 1, a Money Market Fund may borrow only on a temporary basis for the purposes of meeting redemption requests or defraying operating expenses.

Leverage from the use of financial derivative instruments

- 9.3 A Sub-Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the relevant Appendix.
- 9.4 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 9.5 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.

10. Name of Sub-Fund

- 10.1 If the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.
- 10.2 The name of a Money Market Fund must not appear to draw a parallel between the Money Market Fund and the placement of cash on deposit.
- 10.3 The name of an Index Fund must reflect the nature of an index fund.

SCHEDULE 2 – COLLATERAL VALUATION AND MANAGEMENT POLICY

The Manager employs a collateral management policy in relation to collateral received in respect of sale and repurchase transactions and/or reverse repurchase transactions and financial derivative instruments entered into in respect of a Sub-Fund.

A Sub-Fund may receive collateral from a counterparty to sale and repurchase transactions and/or reverse repurchase transactions or financial derivative instruments in order to reduce its counterparty risk exposure, subject to the investment restrictions and requirements applicable to collateral under Schedule 1 of this Explanatory Memorandum.

Nature and quality of the collateral

A Sub-Fund may receive both cash and non-cash collateral from a counterparty. Cash collateral may include cash, cash equivalents and money market instruments. Non-cash collateral may comprise of government or corporate bonds rated BBB- or above by an internationally recognized credit rating agency or unrated bonds which are approved by the Manager, equity securities traded on a stock exchange, etc.

Criteria for selecting counterparties

The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of sale and repurchase transactions and reverse repurchase transactions and financial derivative transactions which shall include amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country/region of origin of the counterparty and legal status of the counterparty.

The counterparty of securities financing transactions must be financial institutions which are subject to ongoing prudential regulation and supervision.

The criteria for selecting a counterparty to a reverse repurchase transaction and a financial derivative transaction is set out in the Appendix of the relevant Sub-Fund. Alternatively, an unrated counterparty will be acceptable where the Manager is indemnified or guaranteed against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of A- or equivalent assigned by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's).

Enforceability of collateral

Collateral (subject to any net-off or set-off, if applicable) must be readily enforced by the Manager or the Sub-Fund.

Haircut policy

A documented haircut policy is in place for detailing the policy in respect of each class of assets received by a Sub-Fund in order to reduce exposure to counterparties. 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. 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 relevant Sub-Fund. Haircuts will 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 account of the price volatility of the asset used as collateral and 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.

Further details of the applicable haircut arrangement for each asset class can be available from the Manager upon request.

Safe-keeping of collateral

Any non-cash assets received by a Sub-Fund from a counterparty on a title transfer (whether in respect of a sale and repurchase transaction and/or reverse repurchase transaction or a financial derivative transaction) basis should be held by the Trustee or a correspondent. This is not applicable in the event that there is no title transfer in which case the collateral will be held by a third party custodian which is unrelated to the provider of the collateral.

A description of collateral holdings of each Sub-Fund will be disclosed in its interim and annual financial reports as required under Appendix E of the Code.

Assets provided by a Sub-Fund on a title transfer basis shall no longer belong to the Sub-Fund. The counterparty may use those assets at its absolute discretion. Assets provided to a counterparty other than on a title transfer basis shall be held by the Trustee or a correspondent.

APPENDIX I – CSOP Shen Zhou RMB Fund

This Appendix comprises information in relation to CSOP Shen Zhou RMB Fund, a Sub-Fund of the Fund.

Definitions

For this Sub-Fund, “**HK & Mainland China Business Day**” shall mean a day (other than a Saturday or Sunday) on which a Business Day on which banks in Hong Kong and the mainland China are open for business, or such other day or days as the Manager and the Trustee may agree from time to time.

For this Sub-Fund, “**Mainland China Securities**” shall mean RMB denominated and settled debt securities issued or distributed within mainland China by governments, quasi-government organizations, financial institutions and other corporations.

Application Moneys / Redemption Proceeds

Applicants for Units should note that application moneys for this Sub-Fund will be in the class currency of the relevant class of Units. Where Unitholders redeem their Units, redemption proceeds will be paid in the relevant class currency only.

Base Currency

The base currency of the Sub-Fund is RMB.

The Manager may offer classes of Units with different currencies of denomination (i.e. the “class currencies”) from time to time. Currently, the following classes of Units are offered:

<u>Class</u>	<u>Class currency</u>
Class A (RMB)	RMB
Class A (USD)	US dollar
Class A (HKD)	Hong Kong dollar
Class I (RMB)	RMB
Class I (USD)	US dollar
Class I (HKD)	Hong Kong dollar

Investment Objective and Policy

CSOP Shen Zhou RMB Fund seeks long term and stable capital growth through investing primarily in bonds issued within mainland China through the RQFII status of the Manager.

The Sub-Fund will invest primarily in RMB denominated and settled debt securities issued or distributed within mainland China by governments, quasi-government organizations, financial institutions and other corporations. The debt securities include but are not limited to government bonds and notes, municipal bonds, corporate bonds, financial bonds, commercial papers and convertible bonds. These securities may be listed on a stock exchange or traded in the interbank bond market.

The Sub-Fund may invest in urban investment bonds (i.e. debt instruments issued by local government financing vehicles (“LGFVs”) and traded in the mainland China exchange-traded bond markets and inter-bank bond market). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for local development, public welfare investment and infrastructure projects. The exposure to urban investment bonds may be up to 100% of the Sub-Fund’s Net Asset Value.

The Sub-Fund may invest up to 30% of the Sub-Fund’s Net Asset Value in debt securities issued outside of mainland China denominated in RMB (the “Dim Sum bonds”).

The Sub-Fund does not have explicit restrictions on the minimum credit ratings of securities it may hold. For enterprise bonds, corporate bonds and other non-government issues, the Manager will generally select securities that have a rating of AA or above assigned by any mainland China credit rating agency, provided that the Manager may also invest in securities that have a lower rating or are unrated. The aggregate investment in securities with a credit rating of BB+ or below (assigned by any mainland China credit rating agency) or unrated securities will not exceed 5% of the Sub-Fund’s Net Asset Value. For this purpose, if the relevant security does not itself have a credit rating, then reference can be made to the credit rating of the issuer of the security. If both the security and the relevant issuer are not rated, then the security will be classified as unrated. The Manager will actively manage the portfolio of the Sub-Fund. In case of credit rating downgrading, the Manager will adjust the positions in the portfolio using its credit analysis and rating systems that are designed to manage credit risks.

The Sub-Fund may also invest in other instruments permitted under applicable regulations. The Sub-Fund may invest up to 30% of the Sub-Fund's Net Asset Value in offshore RMB denominated deposits and high quality money market instruments (denominated either in CNH or CNY) such as certificates of deposit, negotiable certificates of deposit, treasury bills, commercial papers, and money market funds (authorised by the SFC 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).

The Sub-Fund will not invest in China A-Shares. The Sub-Fund will not invest in structured products, structured deposits or asset backed securities (including asset backed commercial papers or similar structured products) for hedging or non-hedging purposes.

Use of Derivatives / Investment in Derivatives

The Sub-Fund may invest in derivatives (including but not limited to mainland China onshore interest rate swaps ("IRS"), PRC government bond futures and currency forwards) for hedging purpose only. The Sub-Fund will not invest in any derivatives for investment purpose.

The Sub-Fund's net derivative exposure may be up to 50% of the Sub-Fund's Net Asset Value.

Securities Financing Transactions

The Manager may, on behalf of the Sub-Fund, enter into sale and repurchase transactions and/or reverse repurchase transactions (listed on recognised exchanges and/or OTC-based), when aggregated with the Sub-Fund's borrowing, with the maximum level of up to 25% and expected level of approximately 20% of the Sub-Fund's Net Asset Value (all transactions will be dealt with in compliance with the relevant laws and regulations where applicable for onshore and/or offshore market), subject to the section headed "Securities Lending Transactions, Sale and Repurchase Transactions and Reverse Repurchase Transactions" below.

The Manager currently does not intend to enter into any securities lending transactions in respect of the Sub-Fund. Prior approval will be sought from the SFC and at least one month's prior notice will be given to Unitholders should there be a change in such intention.

Investment Strategy

The Manager's investment strategy is to construct the duration of the debt securities investment portfolio based on expectations of the changes in RMB interest rates. The Sub-Fund will apply

analysis in credit risk and liquidity risk to adjust the allocation of investment in debt securities and increase returns on investment. Further, the Sub-Fund will seek to invest in undervalued debt securities, which are selected through the Manager's pricing technique.

Securities Lending Transactions, Sale and Repurchase Transactions and Reverse Repurchase Transactions

The Manager currently does not intend to enter into securities lending transactions.

The Manager may, on behalf of the Sub-Fund, enter into sale and repurchase transactions and/or reverse repurchase transactions (listed on recognised exchanges and/or OTC-based), when aggregated with the Sub-Fund's borrowing, with the maximum level of up to 25% and expected level of approximately 20% of the Sub-Fund's Net Asset Value with a view to creating additional income (all transactions will be dealt with in compliance with the relevant laws and regulations where applicable for onshore and/or offshore market). The types of assets that may be subject to such transactions include fixed income securities, collective investment schemes, money market instruments and cash. Use of such assets is subject to a Sub-Fund's investment objective and policy.

Where the Sub-Fund enters into sale and repurchase transactions it sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a pre-determined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the Sub-Fund receiving securities as collateral for the cash that it lends to the Sub-Fund. Where the Sub-Fund enters into reverse repurchase transactions it acquires securities such as bonds by cash and simultaneously agrees to sell the securities to the counterparty at a pre-determined future date for a pre-determined price. A reverse repurchase transaction is economically similar to secured lending, with the Sub-Fund receiving securities as collateral for the cash it lends to the counterparty.

Any revenue generated will be credited to the account of the Sub-Fund after deducting any fees charged by parties such as custodian bank, international clearing organisations or agents operating or administering such transactions. The Manager currently does not intend to carry out any sale and repurchase transactions and reverse repurchase transactions in respect of the Sub-Fund with or through a connected person of the Manager or the Trustee.

The Manager has a risk management policy in place in respect of sale and repurchase transactions and reverse repurchase transactions. The Manager has also put in place a collateral

valuation system to monitor the change in value of the security collaterals provided to the counterparty which will be marked-to-market on a daily basis by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party, such as the custodian.

In order to manage the counterparty risk associated with sale and repurchase transactions and reverse repurchase transactions, the Manager will enter into sale and repurchase transactions and reverse repurchase transactions only with counterparties who are approved by the Manager. The Manager has established control measures to manage the credit and settlement risks pertaining to the counterparties during the relevant transaction period through regular assessments on the counterparties and control on credit limits and transaction amounts. The Manager will seek to appoint independent counterparties with credit rating of A- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognized credit rating agencies) or licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority. The Manager will also monitor and conduct periodic review on the counterparties' ability and strength in the specific market (e.g. by reference to the counterparties' share capital).

It is the intention of the Manager to sell the securities for cash equal to the market value of the securities provided to the counterparty. Cash obtained in sale and repurchase transactions will be closely monitored by the Manager and will be used for liquidity management, re-investment and hedging purposes. Where cash received by the Sub-Fund is used for re-investment, such cash may only be re-invested subject to applicable investment restrictions in securities within the ambit of the investment objective and policies of the Sub-Fund. Up to 100% of the cash collateral received by the Sub-Fund may be reinvested. For the securities acquired through a reverse repurchase transaction or by cash obtained from a sale and repurchase transaction, the Sub-Fund will not use them as collateral of another sale and repurchase transaction.

The acceptability of the collateral used for each reverse repurchase transaction is subject to negotiation between the Sub-Fund and its counterparty in the transaction. In general, the Manager approves collateral based on various criteria: the liquidity of the collateral, market risk associated with the collateral (e.g. based on the price volatility of the collateral), issuer risk, etc. Collateral acceptable to the Manager includes (but does not limit to) liquid assets (i.e. certificate of deposits, commercial papers and other money market instruments), various government bonds and corporate bonds rated BBB- or above by an internationally recognized credit rating agency or unrated bonds which are approved by the Manager, equity securities traded on a stock exchange, etc. The Manager will seek to achieve diversification of the

portfolio of collateral to avoid concentrated exposure and correlation between the counterparty and the issuer of the collateral. Further details on the collateral valuation and management policy is set out in Schedule 2 of this Explanatory Memorandum.

Details (such as information on income, direct and indirect costs, fees, entities to which such costs and fees are paid and the relationship of the entities with the Manager, the Trustee or the Sub-Fund) of the sale and repurchase transactions and/or reverse repurchase transactions will be disclosed in the Annual and Semi-annual Reports of the Sub-Fund.

Sale and repurchase transactions and reverse repurchase transactions nonetheless give rise to certain risks. Please refer to section “Risk associated with sale and repurchase transactions” and “Risk associated with reverse repurchase transactions” under “Specific Risk Factors” for further details.

The approval of the SFC will be sought and at least one month’s prior notice will be given to Unitholders should there be a change in the Manager’s policy in relation to securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

Overview of the Mainland China Debt Securities Market

Please refer to Annex A of this Explanatory Memorandum for an overview of the debt securities market in mainland China.

Renminbi Qualified Foreign Institutional Investor (“RQFII”)

Under prevailing RQFII regulations in the mainland China, foreign institutional investors who wish to invest directly in the mainland China securities market may apply for a RQFII licence. The Manager has obtained a RQFII licence in mainland China. Currently it is intended that the Sub-Fund will obtain exposure to securities and instruments issued within mainland China by using the RQFII status of the Manager.

The RQFII regime is governed by rules and regulations as promulgated by the mainland Chinese authorities, i.e., the China Securities Regulatory Commission (“**CSRC**”), the State Administration of Foreign Exchange (“**SAFE**”) and the People’s Bank of China (“**PBOC**”). Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the “Measures for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC, the PBOC and the SAFE and effective from 1 March 2013 (《人民幣合格境外機構投資者境內證券投資試點辦法》);
- (ii) the “Implementation Rules for the Measures for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC and effective from 1 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定);
- (iii) the “Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors” issued by the PBOC and the SAFE on 7 May 2020 and effective from 6 June 2020 (《境外機構投資者境內證券期貨投資資金管理規定》); and
- (iv) any other applicable regulations promulgated by the relevant authorities.

The Manager, in its capacity as a RQFII, and the Trustee have appointed China Construction Bank Corporation as the RQFII Custodian in respect of the RQFII securities, pursuant to relevant laws and regulations.

Securities and instruments issued or distributed within mainland China as permitted under applicable mainland China regulations will be maintained by the RQFII Custodian pursuant to mainland China regulations through securities account(s) with the relevant mainland China securities depositaries in such name as may be permitted or required in accordance with mainland China regulations.

Investors should pay attention to the risk factors headed “RQFII risk” (especially the sub-headings “Repatriation and liquidity risks” and “Application of RQFII rules”) and “Cash deposited with the RQFII Custodian” and “Mainland China brokerage risk” under the “Specific Risk Factors” section for risks associated with investment under the RQFII regime. The Manager has obtained an opinion from mainland China legal counsel to the effect that, as a matter of mainland China laws:

- (a) securities account(s) with the relevant depositaries and maintained by the RQFII Custodian and the RMB special deposit account(s) with the RQFII Custodian (respectively, “Securities Account(s)” and “Cash Account(s)”) have been opened in the joint names of the Manager (as the RQFII holder) and the Sub-Fund for the sole benefit

and use of the Sub-Fund in accordance with all applicable laws, rules and regulations of mainland China and with approval from all competent authorities in mainland China;

- (b) the assets held/credited in the Securities Account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the RQFII holder), the RQFII Custodian and any qualified broker appointed by the RQFII Holder to execute transactions for the Sub-Fund in mainland China (“Mainland China Broker(s)”) and from the assets of other clients of the Manager (as the RQFII holder), the RQFII Custodian, and any Mainland China Broker(s);
- (c) the assets held/credited in the Cash Account(s) (i) become an unsecured debt owing from the RQFII Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the RQFII holder) and any Mainland China Broker(s), and from the assets of other clients of the Manager (as the RQFII holder) and any Mainland China Broker(s);
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the Securities Account(s) and the debt in the amount deposited in the Cash Account(s) of the Sub-Fund;
- (e) if the Manager or any Mainland China Broker(s) is liquidated, the assets contained in the Securities Account(s) and Cash Account(s) of the Sub-Fund will not form part of the liquidation assets of the RQFII Manager or such Mainland China Broker(s) in liquidation in mainland China and
- (f) if the RQFII Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the RQFII Custodian in liquidation in mainland China, and (ii) the assets contained in the Cash Account(s) of the Sub-Fund will form part of the liquidation assets of the RQFII Custodian in liquidation in mainland China and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Account(s).

Further, the Trustee has put in place proper arrangements to ensure that:

- (i) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including assets deposited in the Securities Account(s) and Cash Accounts with the RQFII Custodian, and holds the same in trust for the Unitholders;

- (ii) the Trustee registers the assets of the Sub-Fund, including assets deposited in the Securities Account(s) and Cash Accounts with the RQFII Custodian, to the order of the Trustee; and
- (iii) the RQFII Custodian will look to the Trustee for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

The Manager will assume dual roles as the Manager of the Sub-Fund and the holder of RQFII status for the Sub-Fund. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and that Unitholders' interests can be sufficiently protected.

Mainland China Tax Provisions

For further details relating to mainland China taxes and the associated risks, please refer to the risk factor headed "Mainland China tax considerations" under the "Risk Factors" section.

In order to meet the potential tax liability on investment income arising from the investment in Mainland China Securities, the Manager reserves the right to provide for withholding income tax on such income and withhold the tax for the account of the Sub-Fund.

The MoF, STA and the CSRC issued Notice No. 79 which states that QFIIs and RQFIIs (without an establishment or place in mainland China or having an establishment in mainland China but the income so derived in mainland China is not effectively connected with such establishment) will be temporarily exempt from mainland China corporate income tax on gains derived from the trading of mainland China equity investment (including China A-Shares) effective from 17 November 2014.

In light of the Notice No.79, the Manager, having consulted independent professional tax advice, does not make WIT provision for gross realised or unrealized capital gains derived from the trading of mainland China equity investment (including China A-Shares) from 17 November 2014 onwards.

There is no specific rules governing the mainland China taxes on capital gains derived from foreign investors from the trading of mainland China debt securities. Based on verbal comments from the mainland China tax authorities, gains realized by foreign investors from investment in mainland China debt securities are non-mainland China sourced income and thus should not be subject to WIT. However, there are no written tax regulations issued by the mainland China tax authorities to confirm that interpretation. As a matter of practice, the mainland China tax authorities have not levied WIT on capital gains realised by foreign investors from the trading of debt securities. Based on the current interpretation of the STA and having consulted professional and independent tax adviser, the Manager will not make any tax provision for gross realized or unrealized capital gains derived from disposal of debt securities.

The Manager, having consulted professional and independent tax adviser, will make WIT provision of 10% and VAT (plus local surtaxes) of 6.72% on interest from its investments in mainland China debt securities (except PRC government bonds) issued by mainland China tax resident enterprises, if such taxes were not withheld at source with effect from 30 April 2018.

On 22 November 2018, the Ministry of Finance (the “MOF”) and the State Taxation Administration (the “STA”) jointly issued a notice Caishui [2018] No.108 (the “Notice 108”) which announced that foreign investors are exempt from mainland China Corporate Income Tax (“CIT”) and mainland China Value-Added Tax (“VAT”) and local surtaxes in respect of non-government bond interest income received from 7 November 2018 to 6 November 2021 from mainland China. In other words, the Manager, having consulted professional and independent tax adviser, will make no tax provision on bond coupon interest income derived from mainland China during this period.

Investors should note that the net asset value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the mainland China tax authority.

There is a possibility of the rules being changed and taxes being applied retrospectively. There is a risk that taxes may be levied in the future on the Sub-Fund for which no provision is made, which may potentially cause substantial loss to the Sub-Fund. The Manager will closely monitor any further guidance by the relevant mainland China tax authorities and adjust the withholding income tax provisioning approach of the Sub-Fund if necessary. The Manager will act in the best interest of the Unitholders of the Sub-Fund at all times.

Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If no provision is made by the Manager in relation to all or part of the actual tax levied by the State Taxation Administration in the future, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional amount of tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne before the actual tax liabilities are levied.

Unitholders should seek their own tax advice on their tax position with regard to their investments in the Sub-Fund.

Specific Risk Factors

Investors should refer to the relevant risks under the section headed “**Risk Factors**” in the main part of the Explanatory Memorandum and the following specific risk factors for the Sub-Fund:

Investment risk – The Sub-Fund mainly invests in RMB denominated debt securities and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in debt securities.

Mainland China market / Single market investment – Insofar as the Sub-Fund invests substantially in securities issued in mainland China, it will be subject to risks inherent in the mainland China market and additional concentration risks. Please refer to the risk factors headed “Mainland China market risk”, “Emerging markets risk” and “Concentration risk” in the main part of the Explanatory Memorandum.

The Sub-Fund’s investments in the mainland China market are subject to special tax considerations. Investors should refer to risk factor headed “Mainland China tax considerations” in the main part of the Explanatory Memorandum.

Renminbi currency risk – Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub-Fund’s or the investors’ position may be adversely affected. There is no assurance that RMB will not be subject to devaluation, in which case the value of their investments will be adversely affected. Please

refer to the risk factors headed “Renminbi currency risk” in the main part of the Explanatory Memorandum.

Currency conversion risk – Where an investor subscribes for Units denominated in a non-RMB currency, the Manager will convert such subscriptions into RMB prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in a non-RMB currency, the Manager will sell the Sub-Fund's investments denominated in RMB and convert such proceeds into non-RMB currency at the applicable exchange rate and subject to the applicable spread.

As RMB is not freely convertible, currency conversion is also subject to availability of RMB at the relevant time (i.e. it is possible there is not sufficient RMB for currency conversion in case of sizeable subscriptions in non-RMB classes). The Manager has the absolute discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

In calculating the net asset value of Units of non-RMB class, the Manager will apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). The CNH rate may be at a premium or discount to the exchange rate for the onshore RMB market in mainland China (i.e. the CNY exchange rate); there may be significant bid and offer spreads. Consequently, there may be significant trading costs incurred and investing in classes of Units denominated in a non-RMB currency may suffer losses. The value of the Sub-Fund thus calculated may be subject to fluctuation.

RQFII risk – The Sub-Fund is not a RQFII but may obtain access to securities and instruments issued or distributed within mainland China directly using RQFII status of the Manager. The Sub-Fund may invest directly in RQFII eligible securities via the RQFII status of the Manager. The following risks are relevant to the RQFII regime:

Risks regarding RQFII status–

Investors should note that RQFII status could be suspended or revoked, which may have an adverse effect on the Sub-Fund's performance as the Sub-Fund may be required to dispose of its securities holdings.

Investors should note that there can be no assurance that a RQFII will continue to maintain its RQFII status, or that redemption requests can be processed in a timely manner due to adverse changes in relevant laws or regulations. Such restrictions may result in a rejection of applications for subscription of the Sub-Fund. In extreme circumstances, the Sub-Fund may incur significant losses due to limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to RQFII investment restrictions, illiquidity of the mainland Chinese securities market, and/or delay or disruption in execution of trades or in settlement of trades.

The rules and restrictions under RQFII regulations generally apply to the RQFII as a whole and not simply to the investments made by the Sub-Fund. Relevant PRC regulators are vested with the power to impose regulatory sanctions if the RQFII or the RQFII Custodian violates any provision of the RQFII rules. Any violations could result in the revocation of the RQFII's license or other regulatory sanctions and may adversely impact on the investment by the Sub-Fund.

Repatriation and liquidity risks –

In addition, certain restrictions imposed by the Chinese government on RQFIIs may have an adverse effect on the Sub-Fund's liquidity and performance. PBOC and SAFE regulate and monitor the repatriation of funds out of mainland China by the RQFII pursuant to RQFII rules. No lock-up period is imposed on the capital remitted by the Sub-Fund. Repatriations by RQFIIs in respect of the Sub-Fund conducted in RMB are currently not subject to repatriation restrictions or prior approval, although authenticity and compliance reviews will be conducted, and monthly reports on remittances and repatriations will be submitted to SAFE by the RQFII Custodian. The repatriation process may be subject to certain requirements set out in the relevant regulations such as submission of certain documents, and completion of the repatriation process may be subject to delay. There is no assurance, however, that mainland China rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from the Unitholders. Furthermore, as the RQFII Custodian's review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the RQFII Custodian in case of non-compliance with the RQFII rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable and after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

Application of RQFII rules –

The RQFII rules described under “Renminbi Qualified Foreign Institutional Investor (“RQFII”)” enable Renminbi to be remitted into and repatriated out of mainland China. The relevant rules and their application may depend on the interpretation given by the relevant mainland Chinese authorities. Investment products (such as the Sub-Fund) which make investments pursuant to such RQFII rules are among the first of its kind. Any changes to the relevant rules may have an adverse impact on investors’ investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.

The current RQFII laws, rules and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the RQFII laws, rules and regulations will not be abolished. The Sub-Fund, which invests in the mainland China markets through a RQFII, may be adversely affected as a result of such changes.

Cash deposited with the RQFII Custodian – Investors should note that cash deposited in the cash accounts of the Sub-Fund with the RQFII Custodian will not be segregated but will be a debt owing from the RQFII Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash that belongs to other clients or creditors of the RQFII Custodian. In the event of bankruptcy or liquidation of the RQFII Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash accounts, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the RQFII Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer.

Risks relating to debt securities – The following risk factors are relevant to debt securities:

Credit risk of issuers / counterparties –

Investment in RMB denominated debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. Some of the RMB denominated debt securities that the Sub-Fund invests may be unrated. In general, debt securities that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. Please refer to the risk factor headed “Lower rated/ unrated securities risk” in the main part of the Explanatory Memorandum. In the event of a default or credit rating

downgrading of the issuers, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against such issuers as they may be incorporated outside Hong Kong and subject to laws in other jurisdictions.

Investors should note the limitations of credit ratings set out under the risk factors headed "Credit rating downgrading risk" in the main part of the Explanatory Memorandum. In addition, the Sub-Fund may invest in securities the credit ratings of which are assigned by the mainland Chinese local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies.

RMB denominated debt securities are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the debt securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against such issuers as they may be incorporated outside Hong Kong and subject to laws in other jurisdictions.

Counterparty and settlement risk –

Investment in debt securities will expose the Sub-Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher in the interbank bond market (a quote-driven over-the-counter (OTC) market), where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

There are various transaction settlement methods in the interbank bond market, such as the delivery of security by the counterparty after receipt of payment by the Sub-Fund; payment by the Sub-Fund after delivery of security by the counterparty; or simultaneous delivery of security and payment by each party. Although the Manager may endeavour to negotiate terms which are favourable to the Sub-Fund (e.g. requiring simultaneous delivery of security and

payment), there is no assurance that settlement risks can be eliminated. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund will sustain losses.

Interest rate risk –

Investment in fixed income securities are generally subject to fluctuations in interest rates. Please refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

In particular, the Chinese government’s macro-economic policies and controls (including its monetary and fiscal policies) will have significant influence over the capital markets in mainland China. Changes in fiscal and monetary policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities held by the Sub-Fund. The return of the Sub-Fund will be adversely affected as a result.

Local government bond risks –

Local government bonds are the securities issued by the government of local provinces and cities in mainland China. Besides treasury bonds, the PRC State Council also allows local provinces and cities to issue bonds, i.e. local government bonds. The local government needs to obtain permission from the central government before issuing such bonds, and the Ministry of Finance acts as the proxy agent on behalf of the local government for debt issuance and interest and principal payment. Unlike urban investment bonds issued by local government financing vehicles, local government bonds are issued under permission of the PRC central government and regulated within the centralised budget management scheme. Although local government bonds are generally considered to have a more solid financial foundation and better transparency, they are subject to potential risks of default by the relevant local government.

Risk associated with urban investment bonds –

The Sub-Fund may invest up to 100% of its Net Asset Value in urban investment bonds. In view of limitations on directly raising funds, local governments in mainland China have set up numerous entities known as “Local Government Financing Vehicles” (LGFVs) to borrow and fund local development, public welfare investment and infrastructure projects. Urban investment bonds are issued by LGFVs. Local governments may appear to be connected to urban investment bonds, as they are shareholders of the LGFVs issuing such bonds. However, urban investment bonds are typically not guaranteed by the relevant local governments or the central government of the PRC. As such, local governments or the central government of the

PRC are not obliged to support any LGFVs in default. The LGFVs' ability to repay debts depends on various factors, including the nature of the business of such LGFVs, the financial strength of such LGFVs and the extent to which the relevant local governments are prepared to support such LGFVs. Slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments' ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances. If a LGFV encounters financial difficulties, without the local government's support, there is a risk of possible defaults by the LGFV. This could result in substantial losses in the Sub-Fund's investments in debts issued by such LGFV, and as a result, the Sub-Fund's Net Asset Value will be adversely affected.

Risk associated with Dim Sum bond markets –

“Dim Sum bonds” are bonds issued outside of mainland China but denominated in RMB. The Dim Sum bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the Dim Sum bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

Liquidity risk –

The RMB denominated debt securities market is at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated debt securities market may result in prices of debt securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

The debt securities in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities.

The price at which the debt securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spreads of the price of debt securities in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

Valuation risk – Valuation of the Sub-Fund’s investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of debt securities may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.

In particular, the value of lower-rated or unrated corporate bonds is affected by investors’ perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer, lower rated or unrated corporate bonds may decline in market value due to investors’ heightened concerns and perceptions over credit quality.

Mainland China brokerage risk – The execution and settlement of transactions or the transfer of any funds or securities may be conducted by brokers (“Mainland China Brokers”) appointed by the RQFII. There is a risk that the Sub-Fund may suffer losses from the default, bankruptcy or disqualification of the Mainland China Brokers. In such event, the Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

In selection of Mainland China Brokers, the RQFII will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards. If the RQFII considers appropriate, it is possible that a single Mainland China Broker will be appointed and the Sub-Fund may not necessarily pay the lowest commission available in the market.

In the event of any default of either a Mainland China broker or the RQFII Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in mainland China, the Sub-Fund may encounter delays in recovering its assets which may in turn impact the Net Asset Value of the Sub-Fund.

Risks relating to distributions from capital – The Manager may in its discretion distribute dividends out of capital or effectively out of capital of the Sub-Fund. Please note the relevant risk associated with distributions out of capital or effectively out of capital as set out in the risk factor “Distribution out of capital” in the main part of the Explanatory Memorandum and further disclosures set out under the heading “Distributions” below.

Hedging / derivative risk – The use of financial derivative instruments may expose the Sub-Fund to additional risks including volatility risk, credit risk, liquidity risk, management risk, valuation risk, counterparty risk and over-the-counter transaction risk. The leverage element/component of a financial derivative instrument can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund. The Sub-Fund may invest in derivatives for hedging purpose only to the extent permitted by the Code and in adverse situations its use of financial derivative instruments may become ineffective and/or cause the Sub-Fund to suffer significant loss.

Risk associated with sale and repurchase transactions – In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund 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 or market movements.

Market risk and counterparty risk

In respect of the collateral which has been placed with the counterparty, there is a risk that the value of the collateral placed with the counterparty is higher than that of the cash originally received owing to factors including the value of the collateral placed having exceeded the cash received, market appreciation of the value of the collateral or an improvement in the credit rating of the issuer of the collateral. Whilst the increased value of collateral, which is to be marked to market on a daily basis, could be fully protected by requiring a return of the collateral and/or margin calls to the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to return the relevant securities, the Sub-Fund would experience delays in recovering its securities and may possibly incur a capital loss.

The security collateral provided by the Sub-Fund to the counterparty is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. It is worth noting that the counterparty is subject to a higher risk in a sale and repurchase transaction (such as risk of default by the Sub-Fund to repurchase the security from the counterparty at a pre-determined future date). In the event that the value of the collateral placed with the counterparty falls by a value that exceeds the threshold pre-determined by the counterparty, due to factors including adverse market movements or a downgrade in the credit rating of the collateral, the Sub-Fund may be required to top up the value by changing the security collateral or provide a margin. Although the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

Re-investment risk

Cash obtained in sale and repurchase transactions may be re-invested in securities subject to the restrictions applicable to the Sub-Fund. While it is the intention of the Manager to generate additional income for the Sub-Fund through reinvestment of cash, it is possible that the Sub-Fund may suffer loss of some or the entire re-invested amount.

Risk associated with reverse repurchase transactions – In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund 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.

Market risk and counterparty risk

In respect of the cash which has been advanced to the counterparty, there is a risk that the value of the collateral acquired by the Sub-Fund is lower than that of the cash originally lent owing to factors including market depreciation of the value of the collateral or a decline in the credit rating of the issuer of the collateral. Whilst the decreased value of collateral, which is to be marked to market on a daily basis could be fully protected by requiring additional collateral from the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to buy back the relevant securities, the Sub-Fund would experience delays in recovering the sum lent and may possibly incur a capital loss.

The security collateral provided by the counterparty to the Sub-Fund is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. It is worth noting that the Sub-Fund is subject to a higher risk in a reverse repurchase transaction (such as risk of default by the counterparty to repurchase the security from the Sub-Fund at a pre-determined future date). In the event that the value of the collateral acquired by the Sub-Fund increases by a value that exceeds the threshold pre-determined by the counterparty, due to factors including favourable market movements or an improvement in the credit rating of the collateral, the Sub-Fund may be required to return part of the collateral or provide a margin. Although the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

Collateral management risk – Where the Sub-Fund enters into sale and repurchase transactions and/or reverse repurchase transactions or a financial derivative transaction, collateral may be received from or provided to the relevant counterparty.

Notwithstanding that the Sub-Fund may only accept non-cash collateral which is highly liquid, the Sub-Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Sub-Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where cash collateral received by the Sub-Fund is re-invested, the Sub-Fund will be exposed to the risk of a failure or default of the issuer of the relevant security in which the cash collateral has been invested.

Where collateral is provided by the Sub-Fund to the relevant counterparty, in the event of the insolvency of the counterparty, the Sub-Fund 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 Sub-Fund under sale and repurchase transactions and/or reverse repurchase transactions may be reinvested in order to generate additional income. Similarly cash collateral received by the Sub-Fund may also be reinvested in order to generate additional income. In both circumstances, the Sub-Fund 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 Sub-Fund to the sale and repurchase transaction and/or reverse repurchase transaction counterparty at the conclusion of the sale and repurchase transaction and/or reverse repurchase transaction contract. The Sub-Fund 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 Sub-Fund.

Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase. If the Sub-Fund chooses to reinvest the cash collateral received under the sale and repurchase transaction, it is also subject to market risk arising in respect of such investment.

If the additional income which is generated through finance charges imposed by the Sub-Fund on the counterparty of a reverse repurchase transaction is reinvested, the Sub-Fund will assume market risk in respect of such investments.

Risk of Investing in other collective investment schemes - Investors should note that such investment may involve another layer of fees charged at the underlying fund level. This is because, in addition to the expenses and charges payable by the Sub-Fund as disclosed in this Explanatory Memorandum, the Sub-Fund will bear indirectly the fees charged by the managers and other service providers of the underlying funds, or will incur charges in subscribing for or redeeming shares in the underlying funds.

The Manager will consider various factors in selecting the underlying funds, for example, the investment objective and strategy, level of fees and charges, the redemption frequency and liquidity of such funds. However, there is no assurance that the investment objective or strategy of an underlying fund will be successfully achieved.

If the Sub-Fund invests in an underlying fund managed by the Manager or a connected person of the Manager, all initial charges on such underlying fund will be waived. The Manager may not obtain a rebate on any fees or charges levied by such underlying fund or its manager. Where potential conflicts of interest arise, the Manager will endeavour to ensure that such conflicts are resolved fairly. Please refer to the section headed “Conflicts of Interest” in the main part of the Explanatory Memorandum.

Available Classes

Class A (RMB) Units, Class A (USD) Units and Class A (HKD) Units are available for sale to the retail public in Hong Kong. Class I (RMB) Units, Class I (USD) Units and Class I (HKD) Units are offered to institutional investors.

Investment Minima

Minimum Subscription Amount	Class A (RMB): RMB500 Class A (USD): USD100 Class A (HKD): HKD500 Class I (RMB): RMB1,000,000 Class I (USD): USD200,000 Class I (HKD): HKD1,000,000
Minimum Subsequent Subscription Amount	Class A (RMB): RMB500 Class A (USD): USD100 Class A (HKD): HKD500 Class I (RMB): RMB500,000 Class I (USD): USD100,000 Class I (HKD): HKD500,000
Minimum Holding	Class A (RMB): RMB500 Class A (USD): USD100 Class A (HKD): HKD500 Class I (RMB): RMB1,000,000 Class I (USD): USD200,000 Class I (HKD): HKD1,000,000
Minimum Redemption Amount	Class A (RMB): RMB500 Class A (USD): USD100 Class A (HKD): HKD500 Class I (RMB): RMB250,000 Class I (USD): USD50,000 Class I (HKD): HKD250,000

Fees

Fees payable by investors

Preliminary Charge (% of Issue Price)	For all classes: up to 3%
Redemption Charge (% of Redemption Price)	Class A (RMB), Class A (USD) and Class A (HKD): nil Class I (RMB), Class I (USD) and Class I (HKD): nil, subject to redemption notice period of at least 1 month
Switching Charge (% of Issue Price of the Units of the New Class)	For all classes: nil
<i>Fees payable by the Sub-Fund</i>	
Management Fee (% Net Asset Value of the Sub-Fund)	Class A (RMB), Class A (USD) and Class A (HKD): 1.5% p.a. Class I (RMB), Class I (USD) and Class I (HKD): 1% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	For all classes: up to 0.10% p.a., and a transaction fee of RMB200 per transaction (including fees for the RQFII Custodian)

Establishment Costs

The costs of establishment of the CSOP Shen Zhou Fund and the CSOP Shen Zhou RMB Fund (initial Sub-Fund) have been described in the main part of the Explanatory Memorandum.

Dealing Day

Every HK & Mainland China Business Day.

Dealing Deadline

4p.m. (Hong Kong time) on the relevant Dealing Day.

The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscriptions, redemptions or switching. Investors should confirm with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

Subscription, Redemption and Switching of Units

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes”.

In such an event, in respect of the affected classes of the Sub-Fund, the Manager will advise the closure of the Sub-Fund to new subscriptions by notifying new subscribers of the same (and whether their subscription applications have been rejected in whole or in part) as soon as practicable.

Further, the Manager may at its sole discretion reopen the Sub-Fund to new subscriptions at any time without prior notice.

Switching from a non-RMB denominated Sub-Fund into CSOP Shen Zhou RMB Fund is not allowed.

Distributions

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. Distributions (if any) will be on a quarterly basis (i.e. in respect of the period ending March, June, September and December each year), and paid within two months of the relevant period. Distributions will be paid in the class currency of the relevant Units.

Investors should note that there is no guarantee of regular distribution payments during the period investors hold the Units of the Sub-Fund. On the other hand, the Manager may at its discretion determine that dividends shall be paid more frequently having regard to the available income for the Sub-Fund and/or market conditions.

Dividends, if any, may be paid from income and/or capital of the Sub-Fund at the Manager’s discretion. The Manager may also in its discretion pay dividends out of gross income while

charging / paying all or part of the Sub-Fund's fees and expenses to / out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund. Therefore, the Sub-Fund may effectively pay dividends 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 Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit. Compositions of the dividend distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager upon request and on the website of the Manager www.csopasset.com. Please note that the aforesaid website has not been reviewed by the SFC. Please refer to the risk factor headed "Distribution out of Capital" in the section headed "Risk Factors" in the main part of the Explanatory Memorandum for the relevant risks.

Distributions will be paid in the class currency of the relevant Units.

The Manager may change the distribution policy of the Sub-Fund subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to the investors.

Valuation

Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.

Documents Available for Inspection

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum and the following are the material contracts in respect of this Sub-Fund:

- (i) the RQFII Custodian Agreement between the Manager and the RQFII Custodian; and
- (ii) the Participation Agreement between the Manager, the Trustee and the RQFII Custodian.

APPENDIX II – CSOP Select RMB Bond Fund

This Appendix comprises information in relation to CSOP Select RMB Bond Fund, a Sub-Fund of the Fund.

Definitions

For this Sub-Fund, “**HK & Mainland China Business Day**” shall mean a day (other than a Saturday or Sunday) on which a Business Day on which banks in Hong Kong and the mainland China are open for business, or such other day or days as the Manager and the Trustee may agree from time to time.

Application Moneys / Redemption Proceeds

Applicants for Units should note that application moneys for this Sub-Fund will be in the class currency of the relevant class of Units. Where Unitholders redeem their Units, redemption proceeds will be paid in the relevant class currency only.

Base Currency

The base currency of the Sub-Fund is RMB.

The Manager may offer classes of Units with different currencies of denomination (i.e. the “class currencies”) from time to time. Currently, the following classes of Units are offered:

<u>Class</u>	<u>Class currency</u>
Class A (RMB)	RMB
Class A (USD)	US dollar
Class I (RMB)	RMB
Class I (USD)	US dollar

Investment Objective and Policy

The CSOP Select RMB Bond Fund seeks long term and stable capital growth through investing primarily in bonds issued within mainland China through the RQFII status of the Manager.

The Sub-Fund will invest not less than 80% of its Net Asset Value in RMB denominated and settled debt securities issued or distributed within mainland China where the issuers or the debt securities have obtained investment grade ratings from recognised international rating agencies at the time the debt securities are purchased. “Investment grade” refers to a credit rating of BBB- or above by Standard & Poor’s, Baa3 or above from Moody’s, BBB- or above from Fitch, or from an internationally recognised credit rating agency. In the event of split ratings among such credit rating agencies, the highest credit rating accredited to the issuers or the securities will be applied by the Manager.

The Sub-Fund may invest in debt securities issued by the PRC central government (e.g. the Ministry of Finance) and local governments, governmental bodies and organizations (e.g. the policy banks of the mainland China) and corporate entities (e.g. commercial banks and mainland China listed companies). The Sub-Fund does not have a bias towards either government or corporate issuers.

The debt securities include but are not limited to government bonds and notes, treasury bonds, policy bank bonds, local government bonds, corporate bonds, financial bonds, commercial papers, short term bills and notes issued or distributed within mainland China by the PRC government authorities, quasi-government organizations, financial institutions and other corporations (collectively, “Mainland China Securities”). These securities are listed on a stock exchange or traded in the interbank bond market.

The Manager will actively manage the portfolio of the Sub-Fund. In case of credit rating downgrading of the issuer or the security, the Manager will adjust the positions in the portfolio using its credit analysis and rating systems that are designed to manage credit risks. In case of credit rating downgrading to below investment grade, the Manager will cease to hold the relevant securities and use reasonable effort to divest such securities in a reasonable period of time determined by the Manager.

The Sub-Fund may invest in offshore RMB denominated deposits, fixed income funds that are authorised by the China Securities Regulatory Commission (“CSRC”) to be offered in

mainland China. The Sub-Fund may also invest in other instruments permitted under applicable regulations.

The indicative asset allocation of the Sub-Fund is as follows:

	<u>Percentage of Net Asset Value</u>
Bonds:	80-100%
Fixed income funds:	0-10%
Offshore RMB deposits and Cash:	0-10%

The Sub-Fund will not invest in (i) China A-Shares; (ii) any securities issued or distributed outside mainland China; (iii) bonds issued by mainland China local government financing vehicles (also known as “urban investment bonds”); and (iv) securities that are rated non-investment grade or are unrated (unless the relevant issuers is rated investment grade by a recognised international credit rating agency at the time of purchase of the securities).

Use of Derivatives / Investment in Derivatives

The Sub-Fund will not invest in derivative instruments, structured products, structured deposits or asset backed securities (including asset backed commercial papers or similar structured products) for hedging or non-hedging purposes. Prior approval will be sought from the SFC and at least one month’s prior notice will be given to Unitholders should there be any change in the policies set out in this paragraph.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities lending transactions, sale and repurchase transactions or reverse repurchase transactions in respect of the Sub-Fund. Prior approval will be sought from the SFC and at least one month’s prior notice will be given to Unitholders should there be a change in such intention.

Investment Strategy

The Manager’s selection criteria primarily focus on the credit rating of the relevant debt securities or the issuers, in accordance with the investment objective of the Sub-Fund. The Manager will also consider the maturity terms of the debt securities by analyzing and anticipating the market yield curve shape and trends. In addition, the Manager will consider the sector of the relevant issuers as necessary (e.g. where it considers that a sector is facing different macro-trends and policy environment, which could affect the risk/return profile of the

debt securities). The Manager will carefully select debt securities with risk/return profile that is able to meet the Sub-Fund's long term investment objective.

In particular, the Manager seeks to construct the duration of the debt securities investment portfolio based on expectations of the changes in RMB interest rates. Duration measures the sensitivity of bond prices to the change of interest rate (or yield). The Sub-Fund will apply analysis in credit risk and liquidity risk to adjust the allocation of investment in debt securities and increase returns on investment. Further, the Sub-Fund will seek to invest in undervalued debt securities, which are selected through the Manager's pricing technique.

Overview of the Mainland China Debt Securities Market

Please refer to Annex A of this Explanatory Memorandum for an overview of the debt securities market in mainland China.

Renminbi Qualified Foreign Institutional Investor ("RQFII")

Under prevailing RQFII regulations in the mainland China, foreign institutional investors who wish to invest directly in the mainland China securities market may apply for a RQFII licence. The Manager has obtained a RQFII licence in mainland China. Currently it is intended that the Sub-Fund will obtain exposure to securities and instruments issued within mainland China by using the RQFII status of the Manager.

The RQFII regime is governed by rules and regulations as promulgated by the mainland Chinese authorities, i.e., the China Securities Regulatory Commission ("CSRC"), the State Administration of Foreign Exchange ("SAFE") and the People's Bank of China ("PBOC"). Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the "Measures for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors" issued by the CSRC, the PBOC and the SAFE and effective from 1 March 2013 (《人民幣合格境外機構投資者境內證券投資試點辦法》);
- (ii) the "Implementation Rules for the Measures for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors" issued by the

CSRC and effective from 1 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定);

- (iii) the “Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors” issued by the PBOC and the SAFE on 7 May 2020 and effective from 6 June 2020 (《境外機構投資者境內證券期貨投資資金管理規定》); and
- (iv) any other applicable regulations promulgated by the relevant authorities.

The Manager, in its capacity as a RQFII, and the Trustee have appointed China Construction Bank Corporation as the RQFII Custodian in respect of the RQFII securities, pursuant to relevant laws and regulations.

Securities and instruments issued or distributed within mainland China as permitted under applicable mainland China regulations will be maintained by the RQFII Custodian pursuant to mainland China regulations through securities account(s) with the relevant mainland China securities depositories in such name as may be permitted or required in accordance with mainland China regulations.

Investors should pay attention to the risk factors headed “RQFII risk” (especially the sub-headings “Repatriation and liquidity risks” and “Application of RQFII rules”) and “Cash deposited with the RQFII Custodian” and “Mainland China brokerage risk” under the “Specific Risk Factors” section for risks associated with investment under the RQFII regime. The Manager has obtained an opinion from mainland China legal counsel to the effect that, as a matter of mainland China laws:

- (a) securities account(s) with the relevant depositories and maintained by the RQFII Custodian and the RMB special deposit account(s) with the RQFII Custodian (respectively, “Securities Account(s)” and “Cash Account(s)”) have been opened in the joint names of the Manager (as the RQFII holder) and the Sub-Fund for the sole benefit and use of the Sub-Fund in accordance with all applicable laws, rules and regulations of mainland China and with approval from all competent authorities in mainland China;
- (b) the assets held/credited in the Securities Account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the RQFII holder), the RQFII Custodian and any qualified broker appointed by the RQFII Holder to execute transactions for the Sub-Fund in mainland China (“Mainland

China Broker(s)”) and from the assets of other clients of the Manager (as the RQFII holder), the RQFII Custodian, and any Mainland China Broker(s);

- (c) the assets held/credited in the Cash Account(s) (i) become an unsecured debt owing from the RQFII Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the RQFII holder) and any Mainland China Broker(s), and from the assets of other clients of the Manager (as the RQFII holder) and any Mainland China Broker(s);
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the Securities Account(s) and the debt in the amount deposited in the Cash Account(s) of the Sub-Fund;
- (e) if the Manager or any Mainland China Broker(s) is liquidated, the assets contained in the Securities Account(s) and Cash Account(s) of the Sub-Fund will not form part of the liquidation assets of the RQFII Manager or such Mainland China Broker(s) in liquidation in mainland China; and
- (f) if the RQFII Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the RQFII Custodian in liquidation in mainland China, and (ii) the assets contained in the Cash Account(s) of the Sub-Fund will form part of the liquidation assets of the RQFII Custodian in liquidation in mainland China and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Account(s).

Further, the Trustee has put in place proper arrangements to ensure that:

- (iv) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including assets deposited in the Securities Account(s) and Cash Accounts with the RQFII Custodian, and holds the same in trust for the Unitholders;
- (v) the Trustee registers the assets of the Sub-Fund, including assets deposited in the Securities Account(s) and Cash Accounts with the RQFII Custodian, to the order of the Trustee; and
- (vi) the RQFII Custodian will look to the Trustee for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

The Manager will assume dual roles as the Manager of the Sub-Fund and the holder of RQFII status for the Sub-Fund. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and that Unitholders' interests can be sufficiently protected.

Mainland China Tax Provisions

For further details relating to mainland China taxes and the associated risks, please refer to the risk factor headed "Mainland China tax considerations" under the "Risk Factors" section.

In light of the uncertainty on the income tax treatment on capital gains and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for WIT on such gains or income and withhold the tax for the account of the Sub-Fund. After careful consideration of the Manager's assessment and having taken and considered independent professional tax advice relating to the Sub-Fund's eligibility to benefit from the Arrangement, and in accordance with such advice, the Manager considers that the Sub-Fund is a Hong Kong tax resident for the purpose of the Arrangement and should be able to enjoy a WIT exemption on capital gains derived from the disposal of Mainland China Securities under the Arrangement. In this connection, the Manager, having taken and considered independent professional tax advice, and in accordance with such advice, has determined that no WIT provision will be made on the gross realized and unrealized capital gains derived from disposal of the Mainland China Securities.

It should be noted that there are certain uncertainties regarding the WIT provisioning approach:

- The Arrangement may be changed in the future and the Sub-Fund may ultimately be required to pay WIT on capital gains.
- As at the date of this Appendix, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the mainland China tax authorities enforce the collection of WIT on capital gains and require the Sub-fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the Sub-Fund. Whether the Manager is able to obtain a HKTRC on behalf of the Sub-Fund is subject to prevailing practice of Hong Kong and/or mainland China tax authorities. The Sub-Fund may need to apply with the

IRD for a HKTRC on an annual basis, which is subject to the assessment of the IRD. There is a risk that the Manager will not be able to obtain a HKTRC on behalf of the Sub-Fund.

- To date, the mainland China tax authorities have not sought to enforce WIT collection on capital gains derived by RQFIIs such as the Manager for the Sub-Fund. If the mainland China tax authorities start to enforce WIT collection on capital gains, the relief under the Arrangements is still subject to the final approval of the mainland China tax authorities and the Manager is not aware of any successful cases for tax treaty capital gain exemption approval for RQFIIs. Even if the Manager, in accordance with the independent professional tax advice, believes that the Sub-Fund should be eligible for such relief, the mainland China tax authorities may ultimately hold a different view.

It should be noted that there is a possibility of the mainland China tax rules, regulations and practice being changed and taxes being applied retrospectively. There is no provision made on the gross unrealised and realised capital gains derived from disposal of Mainland China Securities. In the event that actual tax is collected by the State Taxation Administration (“STA”) to make payments reflecting tax liabilities for which no provisions has been made, the Net Asset Value of the Sub-Fund may be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. As a result, investors may be disadvantaged depending on the final rules of the relevant mainland China tax authorities and when they subscribed and/or redeemed their Units. Upon any future resolution of the above-mentioned tax exemption or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the tax provision policy as it considers necessary.

Additional Investment Restrictions

The Manager may borrow up to 10% of the latest available Net Asset Value of the Sub-Fund to acquire investments, to redeem Units or to pay expenses relating to the Sub-Fund.

Specific Risk Factors

Investors should refer to the relevant risks under the section headed “**Risk Factors**” in the main part of the Explanatory Memorandum and the following specific risk factors for the Sub-Fund:

Investment risk – The Sub-Fund mainly invests in RMB denominated debt securities and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in debt securities.

Mainland China market / Single market investment – Insofar as the Sub-Fund invests substantially in securities issued in mainland China, it will be subject to risks inherent in the mainland China market and additional concentration risks. Please refer to the risk factors headed “Mainland China market risk”, “Emerging markets risk” and “Concentration risk” in the main part of the Explanatory Memorandum.

The Sub-Fund’s investments in the mainland China market are subject to special tax considerations. Investors should refer to risk factor headed “Mainland China tax considerations” in the main part of the Explanatory Memorandum.

Concentration in a number of issuers – The Sub-Fund will concentrate its investments in debt securities issued by government or corporate issuers that have obtained investment grade rating. Therefore, it may be subject to additional concentration risks. If any of the issuers defaults, the Sub-Fund may be subject to significant losses in its investments. In addition, as the Sub-Fund primarily invests in securities where the securities or the relevant issuers are rated investment grade, concentration in limited issuers may narrow the investment universe of the Sub-Fund. In particular, in case of downgrading of an issuer to below investment grade, the Sub-Fund may need to dispose of a significant portion of its holdings (and at a discount), and the Sub-Fund’s performance will be adversely affected.

Sovereign/Government debt risks - Investment in debt obligations (“Sovereign/Government Debt”) issued or guaranteed by governments or their agencies (“governmental entities”), e.g. government bonds, involves risks. The governmental entity that controls the repayment of Sovereign/Government Debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Consequently, if governmental entities default on their Sovereign/Government Debts, holders of such Sovereign/Government Debts (including the Sub-Fund) may suffer losses. They may be required to participate in the rescheduling of such debt. The performance and value of the Sub-Fund could deteriorate should there be any adverse credit events in the sovereign/government and this impact may be particularly strong if, for example, a downgrade of the sovereign/government credit rating or a default or bankruptcy of a sovereign/government occurs. There is no bankruptcy proceeding by which Sovereign/Government Debt on which a governmental entity has defaulted may be collected in whole or in part.

Renminbi currency risk – Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. There is no assurance that RMB will not be subject to devaluation, in which case the value of their investments will be adversely affected. Please refer to the risk factors headed "Renminbi currency risk" in the main part of the Explanatory Memorandum.

Currency conversion risk – Where an investor subscribes for Units denominated in a non-RMB currency, the Manager will convert such subscriptions into RMB prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in a non-RMB currency, the Manager will sell the Sub-Fund's investments denominated in RMB and convert such proceeds into non-RMB currency at the applicable exchange rate and subject to the applicable spread.

As RMB is not freely convertible, currency conversion is also subject to availability of RMB at the relevant time (i.e. it is possible there is not sufficient RMB for currency conversion in case of sizeable subscriptions in non-RMB classes). The Manager has the absolute discretion to reject any application made in non-RMB currency funds (whether such application is in relation to a RMB class) where it determines that there is not sufficient RMB for currency conversion. In case of redemptions, currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds.

In calculating the net asset value of Units of non-RMB class, the Manager will apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). The CNH rate may be at a premium or discount to the exchange rate for the onshore RMB market in mainland China (i.e. the CNY exchange rate); there may be significant bid and offer spreads. Consequently, there may be significant trading costs incurred and investing in classes of Units denominated in a non-RMB currency may suffer losses. The value of the Sub-Fund thus calculated may be subject to fluctuation.

RQFII risk – The Sub-Fund is not a RQFII but may obtain access to securities and instruments issued or distributed within mainland China directly using RQFII status of the Manager. The Sub-Fund may invest directly in RQFII eligible securities via the RQFII status of the Manager. The following risks are relevant to the RQFII regime:

Risks regarding RQFII status—

Investors should note that RQFII status could be suspended or revoked, which may have an adverse effect on the Sub-Fund's performance as the Sub-Fund may be required to dispose of its securities holdings.

Investors should note that there can be no assurance that a RQFII will continue to maintain its RQFII status, or that redemption requests can be processed in a timely manner due to adverse changes in relevant laws or regulations. Such restrictions may result in a rejection of applications for subscription of the Sub-Fund. In extreme circumstances, the Sub-Fund may incur significant losses due to limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to RQFII investment restrictions, illiquidity of the mainland Chinese securities market, and/or delay or disruption in execution of trades or in settlement of trades.

The rules and restrictions under RQFII regulations generally apply to the RQFII as a whole and not simply to the investments made by the Sub-Fund. Relevant PRC regulators are vested with the power to impose regulatory sanctions if the RQFII or the RQFII Custodian violates any provision of the RQFII rules. Any violations could result in the revocation of the RQFII's license or other regulatory sanctions and may adversely impact on the investment by the Sub-Fund.

Repatriation and liquidity risks –

In addition, certain restrictions imposed by the Chinese government on RQFIIs may have an adverse effect on the Sub-Fund's liquidity and performance. PBOC and SAFE regulate and monitor the repatriation of funds out of mainland China by the RQFII pursuant to RQFII rules. No lock-up period is imposed on the capital remitted by the Sub-Fund. Repatriations by RQFIIs in respect of the Sub-Fund conducted in RMB are currently not subject to repatriation restrictions or prior approval, although authenticity and compliance reviews will be conducted, and monthly reports on remittances and repatriations will be submitted to SAFE by the RQFII Custodian. The repatriation process may be subject to certain requirements set out in the relevant regulations such as submission of certain documents, and completion of the repatriation process may be subject to delay. There is no assurance, however, that mainland China rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from the Unitholders. Furthermore, as

the RQFII Custodian's review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the RQFII Custodian in case of non-compliance with the RQFII rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable and after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

Application of RQFII rules –

The RQFII rules described under “Renminbi Qualified Foreign Institutional Investor (“RQFII”)” enable Renminbi to be remitted into and repatriated out of mainland China. The relevant rules and their application may depend on the interpretation given by the relevant mainland Chinese authorities. Investment products (such as the Sub-Fund) which make investments pursuant to such RQFII rules are among the first of its kind. Any changes to the relevant rules may have an adverse impact on investors' investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.

The current RQFII laws, rules and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the RQFII laws, rules and regulations will not be abolished. The Sub-Fund, which invests in the mainland China markets through a RQFII, may be adversely affected as a result of such changes.

Cash deposited with the RQFII Custodian – Investors should note that cash deposited in the cash accounts of the Sub-Fund with the RQFII Custodian will not be segregated but will be a debt owing from the RQFII Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash that belongs to other clients or creditors of the RQFII Custodian. In the event of bankruptcy or liquidation of the RQFII Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash accounts, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the RQFII Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer.

Risks relating to debt securities – The following risk factors are relevant to debt securities:

Credit risk of issuers / counterparties –

Investment in RMB denominated debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest.

RMB denominated debt securities are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the debt securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against such issuers as they may be incorporated outside Hong Kong and subject to laws in other jurisdictions.

Credit rating / downgrading –

Although the Sub-Fund primarily invests in securities that are of investment grade (or the issuers of which are rated investment grade) as determined by a recognised international credit rating agency, the relevant securities / issuers may be subject to downgrading. Credit rating agencies continuously review the credit ratings of a security or an issuer, having regard to their credit quality or financial conditions of the issuer. There is no assurance that a security / an issuer will continue to be rated or to have an investment grade rating in future.

Where a security is downgraded, there is generally a higher risk of default by the issuer. If a security is downgraded to below investment grade, the Manager will use reasonable effort to divest the relevant security. However, the ability of the Manager to dispose of the relevant security may be limited by a number of factors such as the market liquidity, including the liquidity of the security which may decline rapidly in case of downgrading. There is no assurance that the Manager will be able to dispose of the security at a favourable price. Therefore, in the event of credit rating downgrading of a security, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

The credit rating of a bond is not the only selection criterion for investment by the Sub-Fund. Investors should further note the limitations of credit ratings in general. Please refer to the risks set out under the risk factors headed "Credit rating downgrading risk" in the main part of the Explanatory Memorandum.

Counterparty and settlement risk –

Investment in debt securities will expose the Sub-Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher in the interbank bond market (a quote-driven over-the-counter (OTC) market), where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

There are various transaction settlement methods in the interbank bond market, such as the delivery of security by the counterparty after receipt of payment by the Sub-Fund; payment by the Sub-Fund after delivery of security by the counterparty; or simultaneous delivery of security and payment by each party. Although the Manager may endeavour to negotiate terms which are favourable to the Sub-Fund (e.g. requiring simultaneous delivery of security and payment), there is no assurance that settlement risks can be eliminated. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund will sustain losses.

Interest rate risk –

Investment in fixed income securities are generally subject to fluctuations in interest rates. Please refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

In particular, the Chinese government’s macro-economic policies and controls (including its monetary and fiscal policies) will have significant influence over the capital markets in mainland China. Changes in fiscal and monetary policies, such as interest rates policies, may have an adverse impact on the pricing of fixed income securities held by the Sub-Fund. The return of the Sub-Fund will be adversely affected as a result.

Local government bond risks –

Local government bonds are the securities issued by the government of local provinces and cities in mainland China. Besides treasury bonds, the PRC State Council also allows local provinces and cities to issue bonds, i.e. local government bonds. The relevant local government needs to obtain permission from the central government before issuing such bonds, and the Ministry of Finance acts as the proxy agent on behalf of the local government for debt issuance and interest and principal payment. Unlike urban investment bonds issued by local government financing vehicles, local government bonds are issued under permission of the PRC central government and regulated within the centralised budget management scheme. Although local

government bonds are generally considered to have a more solid financial foundation and better transparency, they are subject to potential risks of default by the relevant local government.

Liquidity risk –

The RMB denominated debt securities market is at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated debt securities market may result in prices of debt securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

The debt securities in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities.

The price at which the debt securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spreads of the price of debt securities in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

Valuation risk – Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of debt securities may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.

Mainland China brokerage risk – The execution and settlement of transactions or the transfer of any funds or securities may be conducted by brokers ("Mainland China Brokers") appointed by the RQFII. There is a risk that the Sub-Fund may suffer losses from the default, bankruptcy

or disqualification of the Mainland China Brokers. In such event, the Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

In selection of Mainland China Brokers, the RQFII will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards. If the RQFII considers appropriate, it is possible that a single Mainland China Broker will be appointed and the Sub-Fund may not necessarily pay the lowest commission available in the market.

In the event of any default of either a Mainland China Broker or the RQFII Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in mainland China, the Sub-Fund may encounter delays in recovering its assets which may in turn impact the Net Asset Value of the Sub-Fund.

Risks of investing in other funds – The Sub-Fund may invest in funds which are authorised by the CSRC for investment by the retail public in mainland China. Investors should note that such investment may involve another layer of fees charged at the underlying fund level. This is because, in addition to the expenses and charges payable by the Sub-Fund as disclosed in this Explanatory Memorandum, the Sub-Fund will bear indirectly the fees charged by the managers and other service providers of the underlying funds, or will incur charges in subscribing for or redeeming shares in the underlying funds.

The Manager will consider various factors in selecting the underlying funds, for example, the investment objective and strategy, level of fees and charges, the redemption frequency and liquidity of such funds. However, there is no assurance that the investment objective or strategy of an underlying fund will be successfully achieved.

If the Sub-Fund invests in an underlying fund managed by the Manager or a connected person of the Manager, all initial charges on such underlying fund will be waived. The Manager may not obtain a rebate on any fees or charges levied by such underlying fund or its manager. Where potential conflicts of interest arise, the Manager will endeavour to ensure that such conflicts are resolved fairly. Please refer to the section headed “Conflicts of Interest” in the main part of the Explanatory Memorandum.

Risks relating to distributions from capital – The Manager may in its discretion distribute dividends out of capital or effectively out of capital of the Sub-Fund. Please note the relevant risk associated with distributions out of capital or effectively out of capital as set out in the risk factor “Distribution out of capital” in the main part of the Explanatory Memorandum and further disclosures set out under the heading “Distributions” below.

Available Classes

Class A (RMB) Units and Class A (USD) Units are available for sale to the retail public in Hong Kong. Class I (RMB) Units and Class I (USD) Units are offered to institutional investors.

Investment Minima

Minimum Subscription Amount	Class A (RMB): RMB20,000 Class A (USD): USD4,000 Class I (RMB): RMB1,000,000 Class I (USD): USD200,000
Minimum Subsequent Subscription Amount	Class A (RMB): RMB10,000 Class A (USD): USD2,000 Class I (RMB): RMB500,000 Class I (USD): USD100,000
Minimum Holding	Class A (RMB): RMB20,000 Class A (USD): USD4,000 Class I (RMB): RMB1,000,000 Class I (USD): USD200,000
Minimum Redemption Amount	Class A (RMB): RMB10,000 Class A (USD): USD2,000 Class I (RMB): RMB250,000 Class I (USD): USD50,000

Fees

Fees payable by investors

Preliminary Charge (% of Issue Price)	For all classes: up to 3%
Redemption Charge (% of Redemption Price)	Class A (RMB) and Class A: (USD): nil Class I (RMB) and Class I (USD): up to 1%, which may be waived by the Manager
Switching Charge (% of Issue Price of the Units of the New Class)	For all classes: nil

Fees payable by the Sub-Fund

Management Fee (% Net Asset Value of the Sub-Fund)	Class A (RMB) and Class A (USD): 1.5% p.a. Class I (RMB) and Class I (USD): 1% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	For all classes: up to 0.10% p.a., and a transaction fee of RMB200 per transaction (including fees for the RQFII Custodian)
Performance Fee	Nil

Establishment Costs

The costs of establishment of the CSOP Select RMB Bond Fund have been fully amortised.

Dealing Day

Every HK & Mainland China Business Day.

Dealing Deadline

4p.m. (Hong Kong time) on the relevant Dealing Day.

The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscriptions, redemptions or switching. Investors should confirm with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

Subscription, Redemption and Switching of Units

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes”.

In such an event, in respect of the affected classes of the Sub-Fund, the Manager will advise the closure of the Sub-Fund to new subscriptions by notifying new subscribers of the same (and whether their subscription applications have been rejected in whole or in part) as soon as practicable.

Further, the Manager may at its sole discretion reopen the Sub-Fund to new subscriptions at any time without prior notice.

Switching from a non-RMB denominated Sub-Fund into CSOP Select RMB Bond Fund is not allowed.

Distributions

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is the current intention of the Manager that distributions (if any) will be on a semi-annual basis (i.e. in respect of the period ending June and December each year), and paid within two months of the relevant period.

Investors should note that there is no guarantee of regular distribution payments during the period investors hold the Units of the Sub-Fund. On the other hand, the Manager may at its discretion determine that dividends shall be paid more frequently having regard to the available income for the Sub-Fund and/or market conditions.

Dividends, if any, may be paid from income and/or capital of the Sub-Fund at the Manager’s discretion. The Manager may also in its discretion pay dividends out of gross income while charging / paying all or part of the Sub-Fund’s fees and expenses to / out of the capital of the

Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund. Therefore, the Sub-Fund may effectively pay dividends 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 Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit. Compositions of the dividend distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager upon request and on the website of the Manager www.csopasset.com. Please note that the aforesaid website has not been reviewed by the SFC. Please refer to the risk factor headed "Distribution out of Capital" in the section headed "Risk Factors" in the main part of the Explanatory Memorandum for the relevant risks.

Distributions will be paid in the class currency of the relevant Units.

The Manager may change the distribution policy subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to Unitholders.

Valuation

Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.

Documents Available for Inspection

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum and the following are the material contracts in respect of this Sub-Fund:

- (i) the RQFII Custodian Agreement between the Manager and the RQFII Custodian; and
- (ii) the Participation Agreement between the Manager, the Trustee and the RQFII Custodian.

APPENDIX III – CSOP SELECT US DOLLAR BOND FUND

This Appendix comprises information in relation to CSOP Select US Dollar Bond Fund, a Sub-Fund of the Fund.

Application Moneys / Redemption Proceeds

Applicants for Units should note that application moneys for this Sub-Fund will be in the class currency of the relevant class of Units. Where Unitholders redeem their Units, redemption proceeds will be paid in the relevant class currency only.

Base Currency

The base currency of the Sub-Fund is USD.

The Manager may offer classes of Units with different currencies of denomination (i.e. the “class currencies”) from time to time. Currently, the following classes of Units are offered:

<u>Class</u>	<u>Class currency</u>
Class A (HKD)	HK dollar
Class A (RMB)	RMB
Class A (USD)	US dollar
Class I (HKD)	HKD
Class I (RMB)	RMB
Class I (USD)	US dollar

Investment Objective and Policy

The CSOP Select US Dollar Bond Fund seeks long term and stable income and capital growth by primarily investing at least 70% of its assets in USD denominated debt securities, including but not limited to sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies. The Sub-Fund may also invest up to 30% of its assets in debt securities denominated in other currencies.

The Sub-Fund is not subject to any exposure limit to emerging market issuers (i.e. issuers which, or the parent companies of which, are incorporated in emerging markets or have significant operations in or derive a significant portion of revenue from emerging markets including

mainland China). However, the Sub-Fund will not in aggregate invest more than 20% of its Net Asset Value in instruments issued in the onshore mainland China market.

The Sub-Fund may invest in debt securities which are of investment grade (i.e. rated as Baa3 or above by Moody's or equivalent ratings by other credit rating agencies of similar standing) or below investment grade as well as unrated debt securities (which in the opinion of the Manager are suitable for achieving the investment objective of the Sub-Fund). The Sub-Fund will not invest more than 70% of its Net Asset Value in below investment grade or unrated bonds. The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by or guaranteed by any single country/sovereign/region (including its government, a public or local authority of that country/sovereign/region) with a credit rating below investment grade.

The types of debt securities that the Sub-Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit.

The Sub-Fund may also invest not more than 30% of its assets in short-term investments and high quality money market instruments such as certificates of deposit, negotiable certificates of deposit, treasury bills, commercial papers, and money market funds (authorised by the SFC 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) or may hold cash.

The Sub-Fund will not invest in equity securities or equity-linked investments. The Sub-Fund will not invest in structured products, structured deposits, asset-backed securities (including asset-backed commercial papers) or other similar structured products.

The indicative asset allocation of the Sub-Fund is as follows:

	<u>Percentage of Net Asset Value</u>
Debt securities	70-100%
Short-term investments and high quality money market instruments	0-30%

When investing in a debt security, the Manager will first consider the credit rating of the debt security itself and only if such credit rating is not available, the Manager will then consider the

credit rating of its issuer as the implied credit rating of the debt security. If neither the debt security nor its issuer has a credit rating, the debt security will be classified as unrated.

Use of Derivatives / Investment in Derivatives

The Sub-Fund may use derivative instruments (including but not limited to U.S. Treasury futures contracts) for hedging purposes only. The Sub-Fund's net derivative exposure may be up to 50% of the Sub-Fund's Net Asset Value.

Securities Financing Transactions

The Manager currently does not intend to enter into any securities lending transactions, but may on behalf of the Sub-Fund, enter into sale and repurchase transactions and/or reverse repurchase transactions (which are offshore OTC-based), when aggregated with the Sub-Fund's borrowing, with the maximum level of up to 25% and expected level of approximately 20% of the Sub-Fund's Net Asset Value, subject to the section headed "Securities Lending Transactions, Sale and Repurchase Transactions and Reverse Repurchase Transactions" below.

Investment Strategy

The Manager's selection criteria primarily focus on the credit rating of the relevant debt securities or the issuers, in accordance with the investment objective of the Sub-Fund. The Manager will also consider the maturity terms of the debt securities by analyzing and anticipating the market yield curve shape and trends. In addition, the Manager will consider the sector of the relevant issuers as necessary (e.g. where it considers that a sector is facing different macro-trends and policy environment, which could affect the risk/return profile of the debt securities). The Manager will carefully select debt securities with risk/return profile that is able to meet the Sub-Fund's long term investment objective.

In particular, the Manager seeks to construct the duration of the debt securities investment portfolio based on expectations of the changes in relevant interest rates. Duration measures the sensitivity of bond prices to the change of interest rate (or yield). The Sub-Fund will apply analysis in credit risk and liquidity risk to adjust the allocation of investment in debt securities and increase returns on investment. Further, the Sub-Fund will seek to invest in undervalued debt securities, which are selected through the Manager's pricing technique.

The Manager may in its discretion (especially during the initial investment period) allocate a significant proportion of the Sub-Fund's assets in bonds issued or fully guaranteed by the Hong Kong government.

Securities Lending Transactions, Sale and Repurchase Transactions and Reverse Repurchase Transactions

The Manager may, on behalf of the Sub-Fund, enter into sale and repurchase transactions and/or reverse repurchase transactions (which are offshore OTC-based), when aggregated with the Sub-Fund's borrowing, with the maximum level of up to 25% and expected level of approximately 20% of the Sub-Fund's Net Asset Value with a view to creating additional income. The types of assets that may be subject to such transactions include fixed income securities, collective investment schemes, money market instruments and cash. Use of such assets is subject to a Sub-Fund's investment objective and policy.

A sale and repurchase transaction involves a sale of securities for cash with a simultaneous agreement to reverse the transaction at an agreed date and price in the future. A sale and repurchase transaction is economically similar to a secured loan, with the counterparty receiving securities as collateral for the cash it lends to the Sub-Fund. Where the Sub-Fund enters into reverse repurchase transactions it acquires securities such as bonds by cash and simultaneously agrees to sell the securities to the counterparty at a pre-determined future date for a pre-determined price. A reverse repurchase transaction is economically similar to secured lending, with the Sub-Fund receiving securities as collateral for the cash it lends to the counterparty.

Cash received in a sale and repurchase transaction will be closely monitored by the Manager and will be used for liquidity management, re-investment and hedging purposes. Any reinvestment made with the proceeds will be in accordance with the Sub-Fund's investment objectives and investment restrictions in the following:

- (i) USD denominated debt securities; or
- (ii) debt securities denominated in other currencies.

Further, up to 100% of the cash collateral received by the Sub-Fund may be reinvested. For the securities acquired through a reverse repurchase transaction or by the cash obtained from a sale and repurchase transaction, the Sub-Fund will not use them as collateral of another sale and repurchase transaction to acquire more cash. It is the intention of the Manager to sell the securities for cash greater than or equal to the market value of securities provided to the counterparties.

The acceptability of the collateral used for each reverse repurchase transaction is subject to negotiation between the Sub-Fund and its counterparty in the transaction. In general, the Manager approves collateral based on various criteria: the liquidity of the collateral, market risk associated with the collateral (e.g. based on the price volatility of the collateral), issuer risk, etc. Collateral acceptable to the Manager includes (but does not limit to) liquid assets (i.e. certificate of deposits, commercial papers and other money market instruments), various government bonds and corporate bonds rated BBB- or above by an internationally recognized credit rating agency or unrated bonds which are approved by the Manager, equity securities traded on a stock exchange, etc. The Manager will seek to achieve diversification of the portfolio of collateral to avoid concentrated exposure and correlation between the counterparty and the issuer of the collateral. Further details on the collateral valuation and management policy is set out in Schedule 2 of this Explanatory Memorandum.

The Manager, on behalf of the Sub-Fund, will only enter into sale and repurchase transactions and/or reverse repurchase transactions with counterparties which are approved by the Manager and the Manager believes to be creditworthy. Approved counterparties will typically have a credit rating of A- or above as rated by Standard & Poor's or otherwise similarly rated by Moody's and Fitch, or any other equivalent ratings by recognized credit rating agencies.

The Manager has established control measures to manage the credit and settlement risks pertaining to the counterparty during the relevant transaction period through regular assessments on the counterparties and control on credit limits and transaction amounts. The Manager will also monitor and conduct periodic review on counterparty's ability and strength in the specific market (by reference to the counterparty's market share).

The Manager has a risk management policy in place in respect of sale and repurchase transactions and reverse repurchase transactions. The Manager has also put in place a collateral valuation system to monitor the change in value of the security collaterals provided to the counterparty which will be marked-to-market on a daily basis by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party, such as the custodian.

Any revenue generated from sale and repurchase transactions and/or reverse repurchase transactions will be credited to the Sub-Fund following the deduction of any direct and indirect operational costs and fees arise from such transactions. Information on direct and indirect operational costs that may be incurred in respect of sale and repurchase transactions and/or

reverse repurchase transactions, as well as the entities to which such costs and fees are paid, and any relationship they may have to the Sub-Fund or the Manager, will be available in the Annual and Semi-annual Reports of the Sub-Fund. The Manager currently does not intend to carry out any sale and repurchase transactions and/or reverse repurchase transactions in respect of the Sub-Fund with or through a connected person of the Manager or the Trustee.

The Manager currently does not intend to enter into any securities lending transactions in respect of the Sub-Fund.

Sale and repurchase transactions and reverse repurchase transactions nonetheless give rise to certain risks. Please refer to section “Risk associated with sale and repurchase transactions” and “Risk associated with reverse repurchase transactions” under “Specific Risk Factors” for further details.

The approval of the SFC will be sought and at least one month’s prior notice will be given to Unitholders should there be a change in the Manager’s policy in relation to securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

Specific Risk Factors

Investors should refer to the relevant risks under the section headed “**Risk Factors**” in the main part of the Explanatory Memorandum and the following specific risk factors for the Sub-Fund:

Investment risk – The Sub-Fund mainly invests in debt securities and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in debt securities.

Emerging market / Single market investment – The Sub-Fund may invest substantially in securities issued by companies in emerging market, it will be subject to risks inherent in the emerging market and additional concentration risks. Please refer to the risk factors headed “Emerging markets risk”, “Mainland China market risk” and “Concentration risk” in the main part of the Explanatory Memorandum.

Sovereign/Government debt risks - Investment in debt obligations (“Sovereign/Government Debt”) issued or guaranteed by governments or their agencies (“governmental entities”), e.g. government bonds, involves risks. The governmental entity that controls the repayment of Sovereign/Government Debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Consequently, if governmental entities

default on their Sovereign/Government Debts, holders of such Sovereign/Government Debts (including the Sub-Fund) may suffer losses. They may be required to participate in the rescheduling of such debt. The performance and value of the Sub-Fund could deteriorate should there be any adverse credit events in the sovereign/government and this impact may be particularly strong if, for example, a downgrade of the sovereign/government credit rating or a default or bankruptcy of a sovereign/government occurs. There is no bankruptcy proceeding by which Sovereign/Government Debt on which a governmental entity has defaulted may be collected in whole or in part.

Currency conversion risk – The Sub-Fund may invest in securities other than the Sub-Fund’s base currency. Also, a class of shares may be designated in a currency other than the base currency of the fund. The Sub-Fund’s value may fluctuate in response to fluctuations in exchange rates between such currencies and base currency and by changes in exchange rate controls.

RMB currency risk / Risks relating to RMB denominated securities - Non-RMB based investors (e.g. Hong Kong investors) may have to convert Hong Kong dollar or other currency(ies) into RMB when investing in RMB denominated Units and subsequently convert the RMB redemption proceeds and/or dividend payment (if any) back to Hong Kong dollar or such other currency(ies). Investors will incur currency conversion costs and may suffer losses depending on the exchange rate movements of RMB relative to Hong Kong dollar or such other currencies.

Classes of Units that are denominated in RMB will generally be valued with reference to the offshore RMB (known as "CNH") rather than the onshore RMB (known as "CNY"). While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY.

The Sub-Fund may have exposure to securities that are denominated in RMB. Investment in the Sub-Fund will be subject to RMB currency risks. RMB is currently not a freely convertible currency and is subject to foreign exchange controls and repatriation restrictions imposed by the Chinese government. There is no assurance that RMB will not be subject to devaluation. Please refer to the relevant risk factors “The Renminbi currency risk” under the section headed “Risk Factors” in the main part of the Explanatory Memorandum.

As the RMB classes are non-hedged, investors may suffer losses even if there are gains or no losses in the value of the non-RMB denominated underlying investments, or may suffer

additional losses if the non-RMB denominated underlying investments of the Sub-Fund fall in value.

RMB denominated debt securities issued outside mainland China are not normally listed on a stock exchange or a securities market where trading is conducted on a regular basis and may be subject to additional liquidity risk. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. Further, the bid and offer spread of the price of RMB denominated debt securities may be high, leading to significant trading costs in trading such securities.

As all or a substantial portion of the Sub-Fund's underlying investments are non-RMB denominated, there may be a risk that investors in the RMB denominated Units may not be able to receive RMB upon redemption of investments and/or dividend payments (if any), for reason of insufficient RMB for redemption or payment delay due to exchange controls and restrictions applicable to RMB.

Risks relating to debt securities – The following risk factors are relevant to debt securities:

Credit risk of issuers / counterparties –

Investment in debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest.

Debt securities are typically offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the debt securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against such issuers as they may be incorporated outside Hong Kong and subject to laws in other jurisdictions.

Credit rating / downgrading –

The Sub-Fund may invest in securities that are of investment grade and/or below investment grade (or the issuers of which are rated investment grade and/or below investment grade) as determined by a recognised international credit rating agency. However, the relevant securities / issuers may be subject to downgrading. Credit rating agencies continuously review the credit ratings of a security or an issuer, having regard to their credit quality or financial conditions of

the issuer. There is no assurance that a security / an issuer will continue to be rated or to have an investment grade rating in future.

Where a security is downgraded, there is generally a higher risk of default by the issuer. If a security is downgraded to below investment grade, the Manager will use reasonable effort to divest the relevant security. However, the ability of the Manager to dispose of the relevant security may be limited by a number of factors such as the market liquidity, including the liquidity of the security which may decline rapidly in case of downgrading. There is no assurance that the Manager will be able to dispose of the security at a favourable price. Therefore, in the event of credit rating downgrading of a security, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

The credit rating of a bond is not the only selection criterion for investment by the Sub-Fund. Investors should further note the limitations of credit ratings in general. Please refer to the risks set out under the risk factors headed "Credit rating downgrading risk" in the main part of the Explanatory Memorandum.

Below investment grade and unrated securities risk –

The Sub-Fund may invest in securities which are below investment grade or which are unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated, lower yielding securities and may be subject to greater fluctuation in value and higher chance of default. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. Valuation of these securities is more difficult and thus the Sub-Fund's prices may be more volatile.

The value of lower-rated or unrated corporate bonds may be affected by investors' perceptions. When economic conditions appear to be deteriorating, below investment grade or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

Counterparty and settlement risk –

Investment in debt securities will expose the Sub-Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher

in over-the-counter market where deals are negotiated between two counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

There are various transaction settlement methods through which bonds are traded, such as the delivery of security by the counterparty after receipt of payment by the Sub-Fund; payment by the Sub-Fund after delivery of security by the counterparty; or simultaneous delivery of security and payment by each party. Although the Manager may endeavour to negotiate terms which are favourable to the Sub-Fund (e.g. requiring simultaneous delivery of security and payment), there is no assurance that settlement risks can be eliminated. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund will sustain losses.

Interest rate risk –

Investment in fixed income securities are generally subject to fluctuations in interest rates. Please refer to the risk factor headed “Interest rate risk” in the main part of the Explanatory Memorandum.

Liquidity risk –

Some debt securities markets are at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated debt securities market may result in prices of debt securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund’s Net Asset Value.

The debt securities in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities.

The price at which the debt securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spreads of the price of debt securities in which the Sub-Fund invests may be high,

and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

Valuation risk – Valuation of the Sub-Fund’s investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of debt securities may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.

Risks relating to distributions from capital – The Manager may in its discretion distribute dividends out of capital or effectively out of capital of the Sub-Fund. Please note the relevant risk associated with distributions out of capital or effectively out of capital as set out in the risk factor “Distribution out of capital” in the main part of the Explanatory Memorandum and further disclosures set out under the heading “Distributions” below.

Hedging Risk - The Manager may enter into certain transactions using derivative instruments or by the purchasing of securities (“Hedging Transactions”) for hedging purpose only. Hedging Transactions, while potentially reducing the currency conversion risk, involve certain other risks. There is no guarantee that a Hedging Transaction will fully protect the Sub-Fund against foreign exchange risks. Also, the desired hedging instruments may be illiquid and are complex in nature. There is no guarantee that the hedging techniques will achieve their desired result. In adverse situations, the use of hedging instruments may become ineffective in hedging and the Sub-Fund may suffer significant losses. The price of a derivative instrument can be very volatile which may result in losses in excess of the amount invested in the derivative instruments by the Sub-Fund.

Derivative instruments are subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Sub-Fund. The Sub-Fund is therefore subject to risks relating to the financial soundness and credit worthiness of the counterparty and may suffer substantial losses in its investment in derivative instruments if the counterparty defaults. Settlement risk exists when such instruments are not settled in a timely manner, thereby increasing counterparty credit risk prior to settlement and potentially incurring funding costs for the Sub-Fund.

Over-the-counter derivatives are not guaranteed by an exchange or clearing house and may not be regulated by any governmental authority. It may not be possible to dispose of or close out a

derivative position without the consent of the counterparty, and the Sub-Fund may not be able to enter into an offsetting contract in order to cover this risk.

Please refer to the relevant risk factors “Counterparty risk”, “Over-the-counter markets risk”, “Derivative and structured product risk”, and “Hedging risk” under the section headed “Risk Factors” in the main part of the Explanatory Memorandum.

Risk associated with sale and repurchase transactions – The following risk factors are relevant to sale and repurchase transactions:

Market risk and counterparty risk –

In respect of the collateral which has been placed with the counterparty, there is a risk that the value of the collateral placed with the counterparty is higher than the cash originally received owing to factors including the value of the collateral placed having exceeded the cash received, market appreciation of the value of the collateral or an improvement in the credit rating of the issuer of the collateral. Whilst the increased value of collateral, which is to be marked to market on a daily basis could be fully protected by margin calls to the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to return the relevant securities, the Sub-Fund would experience delays in recovering its securities and may possibly incur a capital loss.

The security collateral provided by the Sub-Fund to the counterparty is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. In the event that the value of the collateral placed with the counterparty falls by a value that exceeds the threshold pre-determined by the counterparty, due to factors including adverse market movements or a downgrade in the credit rating of the collateral, the Sub-Fund may be required to top up the value by changing the security collateral or providing a margin. Notwithstanding that the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

Re-investment risk –

Cash obtained in sale and repurchase transactions may be re-invested in securities subject to the restrictions applicable to the Sub-Fund. While it is the intention of the Manager to generate

additional income for the Sub-Fund through reinvestment of cash, it is possible that the Sub-Fund may suffer loss of some or the entire re-invested amount.

Risk associated with reverse repurchase transactions – In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund 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.

Market risk and counterparty risk –

In respect of the cash which has been advanced to the counterparty, there is a risk that the value of the collateral acquired by the Sub-Fund is lower than that of the cash originally lent owing to factors including market depreciation of the value of the collateral or a decline in the credit rating of the issuer of the collateral. Whilst the decreased value of collateral, which is to be marked to market on a daily basis could be fully protected by requiring additional collateral from the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to buy back the relevant securities, the Sub-Fund would experience delays in recovering the sum lent and may possibly incur a capital loss.

The security collateral provided by the counterparty to the Sub-Fund is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. It is worth noting that the Sub-Fund is subject to a higher risk in a reverse repurchase transaction (such as risk of default by the counterparty to repurchase the security from the Sub-Fund at a pre-determined future date). In the event that the value of the collateral acquired by the Sub-Fund increases by a value that exceeds the threshold pre-determined by the counterparty, due to factors including favourable market movements or an improvement in the credit rating of the collateral, the Sub-Fund may be required to return part of the collateral or provide a margin. Although the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

Collateral management risk – Where the Sub-Fund enters into sale and repurchase transactions and/or reverse repurchase transactions or a financial derivative transaction, collateral may be received from or provided to the relevant counterparty.

Notwithstanding that the Sub-Fund may only accept non-cash collateral which is highly liquid, the Sub-Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Sub-Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where cash collateral received by the Sub-Fund is re-invested, the Sub-Fund will be exposed to the risk of a failure or default of the issuer of the relevant security in which the cash collateral has been invested.

Where collateral is provided by the Sub-Fund to the relevant counterparty, in the event of the insolvency of the counterparty, the Sub-Fund 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 Sub-Fund under sale and repurchase transactions and/or reverse repurchase transactions may be reinvested in order to generate additional income. Similarly cash collateral received by the Sub-Fund may also be reinvested in order to generate additional income. In both circumstances, the Sub-Fund 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 Sub-Fund to the sale and repurchase transaction and/or reverse repurchase transaction counterparty at the conclusion of the sale and repurchase transaction and/or reverse repurchase transaction contract. The Sub-Fund 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 Sub-Fund.

Under a sale and repurchase transaction, the Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase. If the Sub-Fund chooses to reinvest the cash collateral received under the sale and repurchase transaction, it is also subject to market risk arising in respect of such investment.

If the additional income which is generated through finance charges imposed by the Sub-Fund on the counterparty of a reverse repurchase transaction is reinvested, the Sub-Fund will assume market risk in respect of such investments.

Risk of Investing in other collective investment schemes - Investors should note that such investment may involve another layer of fees charged at the underlying fund level. This is because, in addition to the expenses and charges payable by the Sub-Fund as disclosed in this Explanatory Memorandum, the Sub-Fund will bear indirectly the fees charged by the managers and other service providers of the underlying funds, or will incur charges in subscribing for or redeeming shares in the underlying funds.

The Manager will consider various factors in selecting the underlying funds, for example, the investment objective and strategy, level of fees and charges, the redemption frequency and liquidity of such funds. However, there is no assurance that the investment objective or strategy of an underlying fund will be successfully achieved.

If the Sub-Fund invests in an underlying fund managed by the Manager or a connected person of the Manager, all initial charges on such underlying fund will be waived. The Manager may not obtain a rebate on any fees or charges levied by such underlying fund or its manager. Where potential conflicts of interest arise, the Manager will endeavour to ensure that such conflicts are resolved fairly. Please refer to the section headed “Conflicts of Interest” in the main part of the Explanatory Memorandum.

Available Classes

Class A (HKD) Units, Class A (RMB) Units and Class A (USD) Units are available for sale to the retail public in Hong Kong. Class I (HKD) Units, Class I (RMB) Units and Class I (USD) Units are offered to institutional investors.

The Manager will make an application with the CSRC for offering the Sub-Fund to retail investors in mainland China under the Mainland-Hong Kong Mutual Recognition of Funds regime. The Manager may issue Class M Units in due course subject to applicable laws and regulations. Class M Units will be available to investors in mainland China only and will not be offered in Hong Kong. In respect of details in relation to Class M Units, please refer to the Sub-Fund’s offering documents applicable to investors in mainland China.

Investment Minima

Minimum Subscription Amount

Class A (HKD): HKD10,000

Class A (RMB): RMB10,000

Class A (USD): USD1,000

Class I (HKD): HKD8,000,000

Class I (RMB): RMB8,000,000

	Class I (USD): USD1,000,000
Minimum Subsequent Subscription Amount	Class A (HKD): HKD10,000 Class A (RMB): RMB10,000 Class A (USD): USD1,000 Class I (HKD): HKD8,000,000 Class I (RMB): RMB8,000,000 Class I (USD): USD1,000,000
Minimum Holding	Class A (HKD): HKD10,000 Class A (RMB): RMB10,000 Class A (USD): USD1,000 Class I (HKD): HKD8,000,000 Class I (RMB): RMB8,000,000 Class I (USD): USD1,000,000
Minimum Redemption Amount	Class A (HKD): HKD10,000 Class A (RMB): RMB10,000 Class A (USD): USD1,000 Class I (HKD): HKD8,000,000 Class I (RMB): RMB8,000,000 Class I (USD): USD1,000,000
Fees	
<i>Fees payable by investors</i>	
Preliminary Charge (% of Issue Price)	For all classes: up to 5%
Redemption Charge (% of Redemption Price)	For all classes: nil
Switching Charge (% of Issue Price of the Units of the New Class)	For all classes: nil

Fees payable by the Sub-Fund

Management Fee (% Net Asset Value of the Sub-Fund)	Class A (HKD), Class A (RMB) and Class A (USD): 0.7% p.a. Class I (HKD), Class I (RMB) and Class I (USD): 0.5% p.a.
Trustee Fee (% Net Asset Value of the Sub-Fund)	For all classes: up to 0.10% p.a., and a transaction fee of RMB200 per transaction
Performance Fee	Nil

Establishment Costs

The costs of establishment of the CSOP Select US Dollar Bond Fund have been fully amortised.

Dealing Day

Every Business Day.

Dealing Deadline

4p.m. (Hong Kong time) on the relevant Dealing Day.

The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscriptions, redemptions or switching. Investors should confirm with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

Subscription, Redemption and Switching of Units

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes”.

Further, the Manager may at its sole discretion reopen the Sub-Fund to new subscriptions at any time without prior notice.

Distributions

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is the current intention of the Manager that distributions (if any) will be on a semi-annual basis (i.e. in respect of the period ending June and December each year), and paid within two months of the relevant period.

Investors should note that there is no guarantee of regular distribution payments during the period investors hold the Units of the Sub-Fund. On the other hand, the Manager may at its discretion determine that dividends shall be paid more frequently having regard to the available income for the Sub-Fund and/or market conditions.

Dividends, if any, may be paid from income and/or capital of the Sub-Fund at the Manager's discretion. The Manager may also in its discretion pay dividends out of gross income while charging / paying all or part of the Sub-Fund's fees and expenses to / out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund. Therefore, the Sub-Fund may effectively pay dividends 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 Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit. Compositions of the dividend distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months will be available from the Manager upon request and on the website of the Manager www.csopasset.com. Please note that the aforesaid website has not been reviewed by the SFC. Please refer to the risk factor headed "Distribution out of Capital" in the section headed "Risk Factors" in the main part of the Explanatory Memorandum for the relevant risks.

Distributions will be paid in the class currency of the relevant Units.

The Manager may change the distribution policy subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to Unitholders.

Valuation

Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.

Documents Available for Inspection

- (iii) Please refer to the section headed “Documents Available for Inspection” in the main part of the Explanatory Memorandum.

Annex A – Overview of the Mainland China Debt Securities Market

The mainland China bond market consists of three markets: (i) the interbank bond market regulated by the People's Bank of China and functions as a wholesale market for institutional investors; (ii) the exchange bond market regulated by the China Securities Regulatory Commission and targets non-bank institutions and individuals investors; and (iii) the bank over-the-counter market regulated by the People's Bank of China and targets non-financial institutions and individual investors. However, the current size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange bond market.

With its dominant market position, the interbank bond market accounts for more than 90% of the total bonds outstanding and 99% of the trading volume as at the end of October 2014. At the same time, the interbank bond market had a diversified investor base with over 6,400 members, approximately 5,600 of which have direct access to the centralised trading system, which covers all types of financial institutions such as commercial banks, securities firms, fund houses, insurance companies and various kinds of investment products like mutual funds and pension funds. The remaining approximately 800 members, which include small financial institutions, non-financial enterprises and foreign entities as well, gain access to the market through settlement agencies.

The China Central Depository & Clearing Co., Ltd. ("CCDC") acts as the central custodian of all marketable RMB bonds. For the exchange bond market, it adopts a two-level custody system, with the CCDC acting as the primary custodian and the China Securities Depository and Clearing Corporation Limited ("CSDCCL") acting as the secondary custodian.

The main features of the different mainland China bond markets are set out in the table below.

	Interbank Bond Market	Exchange Bond Market
Size	Approximately RMB 31 trillion as of 30 September 2014 (Data source: CCDC and Shanghai Clearing House)	Approximately RMB 2.4 trillion as of 30 September 2014 (Data source: CSDC)
Major types of products being traded	Government bonds, central bank bills, financial bonds, enterprise bonds, commercial papers, mid-	Government bonds, listed company bonds, enterprise

	term notes, asset backed securities, panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within mainland China)	bonds, convertible bonds, asset backed securities
Key market participants	Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), QFIIs, RQFIIs	Individuals and non-bank institutions (such as insurance companies and funds), QFIIs, RQFIIs
Trading and settlement mechanism	Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1	Centralised trade matching with netting settlement; settlement cycle: T+1
Regulator(s)	People's Bank of China	China Securities Regulatory Commission
Counterparty	The trading counterparty	China Securities Depository and Clearing Corporation Limited acting as the central counterparty to all securities transactions on the Shanghai and Shenzhen Stock Exchanges
Central Clearing Entity (if any)	China Central Depository & Clearing Co., Ltd. or Shanghai Clearing House, depending on the type of securities	China Securities Depository and Clearing Corporation Limited
Liquidity of Market	High	Medium to low
Associated Risks	Counterparty risk Credit risk of bond issuers Liquidity risk	Counterparty risk Credit risk of bond issuers Liquidity risk

Minimum rating requirements (if any)	No minimum rating requirement	AA for the exchange trading platform which is accessible by QFIIs and RQFIIs; no minimum rating requirement for the electronic trading platform
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The common types of debt securities and their issuers are set out below.

Debt Securities	Issuer
Central Bank Notes/Bills	People's Bank of China
Government Bonds, Treasury Bonds	Ministry of Finance
Policy Bank Bonds	Three policy banks (China Development Bank, Agriculture Development Bank of China, and The Export-Import Bank of China)
Financial Bonds	Commercial Banks, non-bank financial institutions
Enterprise Bonds (企業債)	Enterprises (mostly state-owned)
Commercial Paper (短期融資券) / Medium-Term Notes (中期票據)	Non-financial enterprises
Corporate Bonds (公司債)	Listed corporations
Urban investment bonds (城投債)	Local Government Financing Vehicles (LGFVs)

The major types of bonds available in the mainland China inter-bank bond market can be grouped into six broad categories: (i) Central bank bills issued by the PBOC; (ii) Treasury Bonds issued by Ministry of Finance of the PRC; (iii) Policy bank bonds issued by policy banks, including China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China; (iv) Financial bonds, including commercial bank bonds and non-bank financial institution bonds; (v) Non-financial credit bonds issued by non-financial institution corporates, including enterprise bonds, commercial papers ("CP"), medium-term notes ("MTN") and corporate bonds; (vi) other types of bonds or instruments such as local government bonds issued by provincial or city governments, foreign bonds issued by foreign entities, asset-backed securities and mortgage-backed securities, etc.

The PRC central government (through the Ministry of Finance) issues the PRC government bonds, so called “Treasury Bonds” in the mainland China bonds markets. It is generally considered by market participants that Treasury Bonds have a solid financial foundation and therefore they have received the widest market acceptance. The outstanding amount of Treasury Bonds in the interbank bond market is over RMB 8,000 billion, comprising approximate 30% of the whole market. It offers the most diverse tenors and the best liquidity in secondary market amongst all types of bonds.

Besides Treasury Bonds, the central government also allows local provinces and cities to issue bonds, so called “local government bonds”. The local government needs to seek permission from the central government before issuing such bonds, and the Ministry of Finance acts as the proxy agent on local government debt issuance and interest and principal payment. This mechanism aims to afford better protection for investors on the financial transparency.

On the other hand, local governments may set up corporate vehicles (local government financing vehicles) to issue bonds, to avoid the budget control regulations imposed by the central government. The bonds issued by local government financing vehicles are called urban investment bonds (城市投资平台债 or 城投债), which are a type of credit bonds.

The yield of the major RMB denominated instruments issued in mainland China was in the range of 3.30% to 3.70% for government bonds and 4.25% to 4.90% for corporate bonds, as of end October 2014 (Source: HSBC, Chinabond). However, investors should note that this is not an indication of the expected return of the Sub-Fund. There is no assurance that the Sub-Fund’s return will be correlated with the expected yield of its underlying investments.

Mainland China Credit Rating Agencies

Mainland China bonds are generally rated by local credit rating agencies. On the other hand, international rating agencies (such as Moody’s, Standard & Poor’s and Fitch) have assigned long-term ratings for the China sovereign and some other well-known financial institutions and corporations (e.g. Export-import Bank of China, Bank of China, China National Offshore Oil Corp., and State Grid Corporation of China).

The major domestic credit rating agencies in mainland China include:

- Dagong Global Credit Rating Co., Ltd;
- China Chengxin International Credit Rating Co., Ltd (in partnership with Moody’s);
- China Chengxin Security Rating Co., Ltd;

- China Lianhe Credit Rating Co., Ltd (in partnership with Fitch Ratings);
- Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.

The mainland China ratings agencies mainly provide credit ratings to publicly listed and interbank market bonds. The definition and methodology of ratings vary among mainland China credit rating agencies.

In relation to the exchange bond market, the China Securities Regulatory Commission (“CSRC”) and its agencies regulate securities rating business activities according to law. The People’s Bank of China (“PBOC”) has issued guidance notes in relation to recognition of credit rating agencies in the interbank bond market. As with other global rating agencies, they apply quantitative method and qualitative methods in their rating. Such credit ratings are subject to the credit rating agency’s evaluation of the likelihood that the issuer will fulfil its repayment obligations. In contrast with international rating agencies, mainland China credit rating agencies may take into account additional factors such as the importance of the corporate to the PRC central and local government and the potential support from the government. Rating information and reports are available on the websites of the relevant credit rating agencies and other financial data providers.



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