

CHINA BALANCED FUND
a Sub-Fund of
CITI INVESTMENT TRUST (CAYMAN) II

EXPLANATORY MEMORANDUM

January 2015

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IMPORTANT INFORMATION FOR INVESTORS

Important-If you are in any doubt about the contents of this Explanatory Memorandum, you should consult your stockbroker, bank manager, accountant, solicitor or other independent financial adviser.

Citi Investment Trust (Cayman) II (the "Trust") is an umbrella unit trust established as an exempted trust under the laws of the Cayman Islands by a trust deed dated 7 October 2010 between Citigroup First Investment Management Limited as manager (the "Manager") and Cititrust (Cayman) Limited as trustee (the "Trustee"), as amended from time to time. This Explanatory Memorandum comprises information relating to the Trust and the China Balanced Fund, a Sub-Fund of the Trust.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information 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 its publication. This Explanatory Memorandum may from time to time be updated.

The Manager of the Trust and the Fund is Citigroup First Investment Management Limited, a company incorporated in Hong Kong. Citigroup First Investment Management Limited is regulated by the Securities and Futures Commission of Hong Kong (the "SFC"). The SFC can be contacted at 35/F, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong.

The Trustee of the Trust and the Fund is Cititrust (Cayman) Limited, a company incorporated with limited liability in the Cayman Islands.

Any investor enquiries or complaints should be submitted in writing to the Manager's office (50/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong) and the Manager will issue a response within 14 Business Days of receipt of the enquiry or complaint.

Distribution and selling restrictions

The distribution of this Explanatory Memorandum and the offering or purchase of the Units may be restricted in certain jurisdictions. Accordingly, this Explanatory Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Explanatory Memorandum and any persons wishing to apply for the Units pursuant to this Explanatory Memorandum to inform themselves of and to observe all applicable laws and regulations of any relevant jurisdiction.

Hong Kong: China Balanced Fund (the "Fund") has been authorised by the SFC under Section 104 of the Securities and Futures Ordinance of Hong Kong. This Fund is a fund falling within Chapter 8.9 of the SFC's Code on Unit Trusts and Mutual Funds which may extensively invest in financial derivative instruments. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

China: The Units may not be offered or sold, directly or indirectly, to holders of an identity card or a resident card issued by the People's Republic of China, regardless of the current residence or domicile of such individuals, or to entities which are established under the laws of the People's Republic of China unless such entity is an approved qualified domestic institutional investor ("QDII") and the purchase of the Units is permitted under the rules issued by the relevant QDII's regulator and applicable foreign exchange rules.

Singapore: The offer or invitation of the Units in the Fund, which is the subject of this Memorandum, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA" or the "Act") or recognised under section 287 of the SFA. The scheme is not authorised or recognised by the Authority and units in the scheme are not allowed to be offered to the retail public. The Information Memorandum is not a prospectus as defined in the Act and accordingly, statutory liability under the Act in relation to the content of prospectuses does not apply and the offeree should consider carefully whether the investment is suitable for him.

This Explanatory Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (as used in the paragraph above, the "Authority"). Accordingly, pursuant to section 305A of the SFA, this Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Units may not be circulated or distributed, nor may Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under section 304 of the SFA, (ii) to a relevant person as defined in section 305(5) of the SFA or any person pursuant to an offer referred to in section 305(2) of the SFA, and in accordance with the conditions specified in section 305 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where Units are subscribed or purchased under section 305 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Units pursuant to an offer made under section 305 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in section 305(5) of the SFA, or to any person pursuant to an offer referred to in section 275(1A) or section 305(A)(3)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) as specified in section 305(A)(5) of the SFA.

Investment products are not deposits and are not subject to the provision of the “Deposit Insurance and Policy Owners’ Protection Schemes Act 2011 (Cap 77B)” of the republic of Singapore nor eligible for deposit insurance coverage under the deposit insurance scheme.

United States:

- (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 U.S. Person (defined as (i) an individual who is a United States citizen, a US green card holder, or a resident of the United States for U.S. federal income tax purposes, (ii) a corporation or partnership organised under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source);
- (b) Units will not be issued to a person who is a U.S. Person (as defined above) for U.S. federal income tax purposes and Unitholders will be required to notify the Trustee within 60 days of any change of status; and
- (c) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

Cayman Islands: This Explanatory Memorandum does not constitute, and shall not be construed as, an invitation to the public of the Cayman Islands to subscribe for Units and Units may not be directly or indirectly offered or sold to any persons resident or domiciled in the Cayman Islands.

This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

Prospective applicants for the Units should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This Explanatory Memorandum may refer to information and materials included in websites. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC.

Reliance on this Explanatory Memorandum

No representations or warranties of any kind are intended or should be inferred with respect to the economic return from, or the tax consequences of an investment in the Fund. No assurance can be given that existing laws will not be changed or interpreted adversely. Prospective investors should not construe this Explanatory Memorandum as legal, investment or tax advice. No person is authorised to make any representations concerning the Fund which are inconsistent with those contained in this Explanatory Memorandum.

The Units are offered only on the basis of the information contained in this Explanatory Memorandum. Any further information or representations given or made by any dealer, broker or other person should be disregarded and accordingly, should not be relied upon. No person has been authorised to give any information or to make any representations in connection with the offering of the Units other than those contained in this Explanatory Memorandum and, if given or made, such information or representations must not be relied on as having been authorised by the Manager.

Before making an investment in the Fund, prospective investors should review this Explanatory Memorandum carefully and in its entirety and consult with their legal, tax and financial advisors in relation to: (i) the legal and regulatory requirements within their own countries for the purchase, holding, redeeming or disposing of the Units; (ii) any foreign exchange restrictions to which they are subject in their own countries in relation to the purchase, holding, redeeming or disposing of the Units; and (iii) the legal, tax, financial or other consequences of subscribing for, purchasing, holding, redeeming or disposing of the Units.

By applying for Units, each prospective investor is deemed to acknowledge that it understands that neither the Trustee nor the Manager offer legal or tax advice and has not relied upon and will not rely on the Trustee or the Manager for any legal or tax advice. Neither the Trustee nor the Manager accepts responsibility for the tax treatment of any Units issued to an investor. The Trustee and the Manager both assume that each applicant for Units has taken whatever tax, legal or other advice it considers necessary.

Risks

Investment in the Fund carries substantial risk. The Fund is not insured by any government agency; and an investment in the Fund is not a deposit or other obligations of, or guaranteed by, a bank. There can be no assurance that the Fund's investment objective will be achieved and investment results may vary substantially over time. The value of the Units may go down as well as up and investors may not get back the amount invested. An investment in the Fund is only suitable for investors who are able to sustain losses up to and including a total loss of their investment in the Fund. An Investment in the Fund is not intended to be a complete investment programme for any investor.

Prospective investors should carefully consider the risk factors set out in the section headed "Risk Factors" of this Explanatory Memorandum when considering whether an investment in the Units is suitable for them in light of their circumstances and financial resources. Investors are advised to seek independent professional advice on the implications of investing in the Fund.

DIRECTORY

Manager	Citigroup First Investment Management Limited 50/F Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong Telephone No.: +852 2868 8811 Fax No.: +852 3018 7322
Directors of the Manager	Cyrille Troublaiewitch Song Li
Sub-Manager	Bosera Asset Management (International) Co., Limited Suite 4109, Jardine House One Connaught Place Central Hong Kong Telephone No.: +852 2537 6658 Fax No.: +852 2537 1583
Trustee, Administrator and Principal Office	Cititrust (Cayman) Limited 27 Hospital Road Grand Cayman Cayman Islands
Transfer Agent	Citi Fund Services (Asia) Limited 50/F, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
Custodian and Sub-Administrator	Citibank, N.A., Hong Kong Branch 50/F, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong

**Legal Counsel to the
Manager**

as to matters of Hong Kong law
Simmons & Simmons
13/F, One Pacific Place
88 Queensway
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as to matters of Cayman Islands law
Harney Westwood & Riegels
3601 Two Exchange Square
8 Connaught Place
Central
Hong Kong

Auditors

KPMG
Century Yard, Cricket Square
Grand Cayman, KY1-1106
Cayman Islands

DEFINITIONS

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

- “A Shares”** means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in RMB;
- “Access Product”** means an A Share access product, being a financial derivative instrument (such as a note, warrant, option or participation certificate) linked to A Shares or portfolios of A Shares which aim to synthetically replicate the economic benefit of the relevant A Shares or portfolios of A Shares;
- “Administrator”** means Cititrust (Cayman) Limited;
- “AP Issuer”** means an issuer of an Access Product in which the Fund invests;
- “AUD Units”** means Units comprising the Class which is denominated in Australian dollar;
- “AUD” or “Australian dollar”** means the currency of Australia;
- “B Shares”** means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currency (US dollar on the Shanghai Stock Exchange, and Hong Kong dollar on the Shenzhen Stock Exchange) and available for investment by domestic and foreign investors;
- “Base Currency”** means, in respect of the Fund, the US dollar;
- “Business Day”** means a day (other than a Saturday or Sunday) on which:
- (a) 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 will not be a Business Day unless the Manager and the Trustee determine otherwise; and
 - (b) commercial banks are open for normal banking business and settle payments in each Class Currency in the relevant principal place of presentation for each such Class Currency.
- “China” or “PRC”** means the People’s Republic of China, excluding for the purposes of interpretation only, Hong Kong and Taiwan;
- “Class”** means each class of Units within the Fund;

“Class Currency”	<p>means the applicable currency of denomination of each relevant Class of Units and which is:</p> <ul style="list-style-type: none"> (a) in respect of AUD Units, Australian dollar; (b) in respect of EUR Units, euro; (c) in respect of GBP Units, British pound; (d) in respect of HKD Units, Hong Kong dollar; (e) in respect of JPY Units, Japanese yen; (f) in respect of SGD Units, Singapore dollar; and (g) in respect of USD Units, US dollar.
“Connected Person”	<p>in relation to a company means:</p> <ul style="list-style-type: none"> (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or (c) any member of the group of which that company forms part; or (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c);
“CSDCC”	<p>means the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限公司) of the PRC;</p>
“CSRC”	<p>means the China Securities Regulatory Commission;</p>
“Custodian”	<p>means Citibank, N.A., Hong Kong Branch;</p>
“Dealing Day”	<p>means:</p> <ul style="list-style-type: none"> (a) each Business Day; or (b) such other day as the Manager may determine from time to time with the approval of the Trustee;
“Dealing Deadline”	<p>in relation to any Dealing Day, means 4:00 pm (Hong Kong time) on the relevant Dealing Day;</p>
“EUR” or “euro”	<p>means the currency of the eurozone;</p>
“EUR Units”	<p>means Units comprising the Class which is denominated in euro;</p>

“Fund”	means China Balanced Fund, a Sub-Fund of the Trust;
“GBP” or “British pound”	means the currency of the United Kingdom;
“GBP Units”	means Units comprising the Class which is denominated in British pound;
“HKD” or “Hong Kong dollar”	means the currency of Hong Kong;
“HKD Units”	means Units comprising the Class which is denominated in Hong Kong dollar;
“HKEx”	means Hong Kong Exchanges and Clearing Limited or its successors;
“HKSCC”	means the Hong Kong Securities Clearing Company Limited or its successors;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board;
“Initial Offer Period”	means the period during which AUD Units, EUR Units, GBP Units, JPY Units and SGD Units are being offered for subscription at a fixed price, which commenced at (for EUR Units) 9:00 am (Hong Kong time) on 14 November 2011 and (for AUD Units, GBP Units, JPY Units and SGD Units) 9:00 am (Hong Kong time) on 15 December 2014 respectively, and which will close at 5:00 pm (Hong Kong time) on the Business Day on which a subscription for Units of the relevant Class is first received (or such other dates and times as the Manager may determine). The Initial Offer Period in respect of HKD Units and USD Units has closed;
“Investment Regulations”	means (i) the QFII Measures; (ii) the “Notice on Relevant Issues in relation to the Implementation of the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by CSRC on 24 August 2006, effective 1 September 2006; (iii) the “Provisional Regulations for Foreign Exchange Control of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by SAFE on 28 November 2002, effective 1 December 2002, and such other regulations governing the establishment and operation of the qualified foreign institutional investors regime in the PRC, as may be issued or amended from time to time;
“JPY” or “Japanese yen”	means the currency of Japan;
“JPY Units”	means Units comprising the Class which is denominated in Japanese yen;
“Manager”	means Citigroup First Investment Management Limited;

“Net Asset Value”	means the net asset value of the Fund, of a Class or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised under the section headed “Valuation” below;
“QFII”	means a qualified foreign institutional investor approved under the QFII Measures;
“QFII Measures”	means the “Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by CSRC, People’s Bank of China and SAFE on 24 August 2006, effective 1 September 2006, as may be amended from time to time;
“RMB”	means Renminbi Yuan, the currency of the PRC;
“SAFE”	means the State Administration of Foreign Exchange of the PRC;
“SEHK”	means The Stock Exchange of Hong Kong Limited or its successors;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“SGD” or “Singapore dollar”	means the currency of the Republic of Singapore;
“SGD Units”	means Units comprising the Class which is denominated in Singapore dollar;
“SSE”	means the Shanghai Stock Exchange;
“Stock Connect”	means the Shanghai-Hong Kong Stock Connect;
“Sub-Administrator”	means Citibank N.A., Hong Kong Branch;
“Sub-Fund”	means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed;
“Sub-Manager”	means Boserá Asset Management (International) Co., Limited;
“Subscription Price”	means the price at which Units may be issued as described in the section headed “Purchase of Units” below;
“Transfer Agent”	means Citi Fund Services (Asia) Limited;
“Trust”	means Citi Investment Trust (Cayman) II;

“Trust Deed”	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 7 October 2010, and as amended and/or supplemented from time to time;
“Trustee”	means Cititrust (Cayman) Limited;
“Unit”	means a unit representing a certain number or fraction of undivided shares in the Fund, and, except where used in relation to a particular Class, a reference to Units means and includes all Units of the Fund. The number of undivided shares represented by each Class is adjusted to take account of the different terms of issue of the different Classes;
“Unitholder”	means a person registered as a holder of a Unit;
“Unit Realisation Price”	means the price at which Units may be realised as described in the section headed “Payment of Realisation Proceeds” below;
“USD” or “US dollar”	means the currency of the United States of America;
“USD Units”	means Units comprising the Class which is denominated in US dollar;
“Valuation Day”	means each Dealing Day; and
“Valuation Point”	means such time on the relevant Valuation Day as the Manager with the approval of the Trustee may from time to time determine as at which to calculate the Net Asset Value.

INTRODUCTION

Citi Investment Trust (Cayman) II is an open-ended unit trust established under the laws of the Cayman Islands pursuant to a Trust Deed dated 7 October 2010 between the Trustee and the Manager, as amended from time to time. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and the assets of the Trust are separated into different Sub-Funds. Each Sub-Fund has its own investment objective and policies. More than one class of units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of units relating to the same Sub-Fund are commonly invested in accordance with such Sub-Fund's investment objective.

A separate Net Asset Value per Unit is (and, in respect of EUR Units, AUD Units, GBP Units, JPY Units and SGD Units, following the close of the relevant Initial Offer Period, will be) calculated for each Class. Additional Classes within the Fund and/or additional Sub-Funds may be created in the future.

This Explanatory Memorandum has been prepared for Classes in the Fund which are being offered to the public in Hong Kong. There may be certain Classes of the Fund which are not authorised by the SFC as at the date of this Explanatory Memorandum and accordingly no Units in such Classes may be offered to the public in Hong Kong for investment by Hong Kong retail investors. References in this Explanatory Memorandum to "Classes" and "Units" are therefore references to only those Classes and Units which are offered to the public in Hong Kong.

Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports, information of past performance of the Fund and the latest available Net Asset Value will be available on the website <http://funds.citi.com>.

MANAGEMENT OF THE FUND

The Manager

The Manager of the Trust is Citigroup First Investment Management Limited.

The Manager is incorporated in Hong Kong and is wholly owned by Citigroup Global Markets Hong Kong Holdings Limited, an indirect wholly owned subsidiary of Citigroup Inc.

The Manager is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust and each Sub-Fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the accounts and records of the Trust as well as certain other administrative matters relating to the Trust.

The Manager may appoint sub-managers or investment advisers in relation to specific Sub-Funds, subject to the approval of the SFC. Where the investment management functions in respect of a Sub-Fund are delegated to third party sub-managers or investment advisers, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager may be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

The directors of the Manager are Song Li and Cyrille Troublaiewitch. Any change to the Manager's directors is subject to the Trustee's approval. The Manager shall provide the Trustee with at least 10 Business Days' prior notice of any proposed change to the directors of the Manager for the Trustee's approval, and unless the Trustee notifies the Manager of its express objection, such change will be deemed approved by the Trustee upon expiry 10 Business Days from the Trustee's receipt of such notice.

The Sub-Manager

Bosera Asset Management (International) Co., Limited has been appointed by the Manager as the Sub-Manager of the Fund. The Manager has delegated its investment management duties to the Sub-Manager and the Sub-Manager is responsible for the selection and ongoing monitoring of the Fund's investments. The Sub-Manager is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

The Sub-Manager is a wholly owned subsidiary of Bosera Asset Management Co., Limited ("Bosera"). Established on 13 July 1998, Bosera is one of the largest independent management institutions in the PRC, serving over 12 million accounts. Total client assets under management as at the end of December 2013 exceeded USD32.31 billion, including USD13.82 billion in pension assets. The Sub-Manager was established on 4 March 2010 in Hong Kong as a part of Bosera's focused approach of developing its investment management capabilities in the Greater China markets.

The Sub-Manager will be reimbursed out of the Manager's management fee.

The Trustee, Administrator and Principal Office

Cititrust (Cayman) Limited is the Trustee, Administrator and Principal Office of the Trust.

Cititrust (Cayman) Limited is a Cayman Islands incorporated Company and is a wholly-owned subsidiary of Citibank, N.A., which is a wholly-owned subsidiary of Citigroup Inc. ("Citigroup"). The Trustee maintains both a Trust Licence and a Mutual Fund Administrator's Licence pursuant to Cayman Islands legislation and accordingly is regulated by the Cayman Islands Monetary Authority. The Cayman Islands Monetary Authority can be contacted at PO Box 10052, 80e Shedden Road, Elizabethan Square, Grand Cayman KY1-1001, Cayman Islands.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust. The Trustee may, in accordance with the provisions of the Trust Deed, appoint any person or persons to be custodian of such assets. Notwithstanding any such appointment, in accordance with the terms of the Trust Deed, the Trustee will remain liable for any act or omission of any custodian appointed by the Trustee as if the same were the act or omission of the Trustee. In no event shall the Trustee be bound to make any payment in respect of the Trust except out of the funds held by it for that purpose under the provisions of the Trust Deed.

The Trustee is not responsible for the preparation of this Explanatory Memorandum and therefore accepts no responsibility for the information contained in it, other than information relating specifically to the Trustee and its affiliates.

The Trustee as Administrator has delegated its administration duties to the Sub-Administrator.

The Transfer Agent

The Trustee has appointed Citi Fund Services (Asia) Limited as Transfer Agent of the Fund, in which capacity it is responsible for maintaining the register of Unitholders and for processing subscriptions and realisations of Units.

The Transfer Agent will be reimbursed out of the administration fee paid to the Sub-Administrator.

The Custodian and Sub-Administrator

The Trustee has appointed Citibank, N.A. ("Citibank"), acting through its Hong Kong Branch, as Custodian of the assets of the Fund and as the Sub-Administrator of the Fund. Citibank is a wholly-owned subsidiary of Citigroup.

Citibank has been a provider of custodial and settlement services to domestic and international clients since its establishment in the United States of America in 1814. Citibank's global custodial network covers all mature and major emerging markets. Citibank began offering securities services in Hong Kong in the mid-1970's and developed a full-blown capability by the mid-1980's. Today, Citibank's Securities and Funds Services business has a global client base of premier banks, fund managers, broker dealers, insurance companies and government entities.

Citibank is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

In its capacity as Sub-Administrator, Citibank is responsible for certain financial, administrative and other services in relation to the Fund, including:

- determining the Net Asset Value and the Net Asset Value per Unit;
- preparing and maintaining the Fund's financial and accounting records and statements; and
- assisting in preparing the financial statements of the Fund.

INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS

Investment objective

The investment objective of the Fund is to provide Unitholders with moderate long term capital appreciation and an income stream by primarily investing in equity and fixed income securities that are available both onshore and offshore China, and are related to the growth or development of the Chinese economy.

Investment strategy

Introduction

The Fund seeks to take investment exposure to equity securities for approximately 40% to 70% of its Net Asset Value and to fixed income securities for approximately 30% to 60% of its Net Asset Value; such equity and fixed income securities will be issued by companies which are headquartered in or which, in the Sub-Manager's opinion, have significant business exposure to China, and which the Sub-Manager believes have the potential to generate excess return in the long term.

The allocation of the Fund's portfolio according to asset class is expected to be as follows:

China equities: 40-70%

- *A Shares (primarily through Access Products and Stock Connect)* 0-40%
- *H Shares and other China-related listed shares* 20-70%

Fixed income: 30-60%

- *RMB debt securities – offshore* 10-30%
- *RMB debt securities – onshore (through investment in other funds)* 0-30%
- *Other debt securities* 0-40%

Cash: 0-30%

The equity portion of the Fund's portfolio is invested directly or indirectly in equity securities issued by companies which are listed, or being offered in an initial public offering, on an official stock exchange in China (A Share and B Share markets), Hong Kong, the United States, Singapore and other countries. For the A Share markets in China, the Fund may obtain exposure via Access Products (which are financial derivative instruments used by the Fund for investment purposes, as described in further detail below), the Stock Connect, or invest in funds which provide such exposure. It is expected that up to 40% of the Fund's portfolio may be exposed to A Shares (primarily via Access Products and the Stock Connect, while up to 10% may be obtained via investing in other funds), although the actual proportion will depend on, amongst other things, the availability of appropriate investment opportunities and assessment of prevailing market conditions.

The fixed income portion of the Fund's portfolio is invested in debt securities such as bonds (including convertible bonds and synthetic RMB bonds, which are bonds denominated in RMB but settled in a different currency, such as USD) issued by governments, government agencies, supra-national or corporate entities, commercial paper, short-term bills, bank certificates of deposits. Such debt securities will mainly be issued outside of China. It is expected that 10% to 30% of the Fund's Net Asset Value may be invested in offshore RMB-denominated debt securities (excluding synthetic RMB bonds). The Fund may also obtain exposure of up to 30% of its Net Asset Value to onshore RMB-denominated debt securities issued or listed in China by investing in funds which provide such exposure. The Fund's investment in other debt securities generally does not exceed 40% of its Net Asset Value (which may include up to 10% synthetic RMB bonds).

The Fund aims to diversify its asset allocation between the equity and fixed income components and will employ an active asset allocation approach. During the asset allocation and portfolio construction process, the Sub-Manager will aim to maintain risk at a medium level expected to be represented by a volatility of the portfolio of around or lower than 15% on an annualized basis under normal market conditions.

The Fund's portfolio may also include a cash component of up to 30% of the Net Asset Value of the Fund, and the Sub-Manager will adjust the Fund's allocation to cash depending on the Fund's operational needs and prevailing market conditions.

Subject to applicable regulations, the Fund may also directly invest in onshore securities issued or listed in China, and at least one month's prior notice will be provided to investors before the Fund makes any such investments.

Other than Access Products, the Fund will not invest in any structured products or financial derivative instruments for investment purposes. The Fund may, however, use financial derivatives instruments (including but not limited to index futures, index options, currency forwards and swaps) to hedge certain components of the Fund's market risk, such as currency risk.

Equity portfolio construction

The Fund's equity portfolio is expected to be diversified between growth and value equity investment styles, employing an active blend investment approach. The Sub-Manager intends to select growth and value equity securities based on its fundamental growth and value investment disciplines to produce a blended portfolio. Within each investment discipline, the Sub-Manager draws on the capabilities of separate investment teams.

The equity portfolio's growth stocks are selected using the Sub-Manager's growth investment discipline. The Sub-Manager's growth investment team selects stocks using a process that seeks to identify companies with strong management, leading industry positions and superior earnings-growth prospects. The Sub-Manager's growth analysts use proprietary research to identify companies or industries that other investors have underestimated, overlooked or ignored – for example, some hidden earnings driver (including, but not limited to, reduced competition, market share gain, better margin trend, increased customer base, or similar factors) that would cause a company to grow faster than the average market forecasts.

The equity portfolio's value stocks are selected using the Sub-Manager's fundamental value investment discipline. The Sub-Manager's value investment team looks for stocks that are attractively priced relative to their long-term earnings prospects and dividend distribution capability. The Sub-Manager generally evaluates a company's financial performance over a full economic cycle, including a trough and a peak, within the context of forecasts for real economic growth, inflation and interest rate changes. The Sub-Manager focuses on the valuation implied by the current price, relative to the earnings the company will be generating in five years, or "normalized" earnings, assuming average mid-economic cycle growth for the fifth year.

It is expected that 60% to 70% of the stock holdings within the equity portfolio would be selected from the Sub-Manager's in-house blend core stock portfolio where stocks have been selected based on the growth and value investment disciplines described above. Under normal market conditions, the equity portfolio is expected to comprise approximately 50% value stocks and 50% growth stocks. The Sub-Manager may allow the relative weightings of the growth and value stocks to vary in response to the prevailing market conditions but ordinarily within a narrow range. Beyond such range, the Sub-Manager generally rebalances the equity portfolio as necessary to maintain this target allocation between value and growth stocks. However, under extraordinary circumstances, when conditions favouring one or the other investment style are compelling, the range may vary to a 30%/70% allocation before rebalancing takes place.

The Sub-Manager also uses a top-down macro and sector overlay, where the Sub-Manager has a team of macro economists and strategy analysts who conduct thorough analysis of macroeconomic factors, government policies, consensus earnings growth, market valuation and liquidity to formulate asset and sector allocation strategies. The team also conducts thematic analysis to identify cross-sector opportunities in a systematic way. During the equity portfolio construction process described above, the Sub-Manager considers these top-down strategies and recommendations to determine the overall equity exposure and adjust any unintended sector exposures.

As the Fund is expected to gain exposure to both onshore and offshore Chinese stocks, the Sub-Manager also evaluates valuation differences for stocks of the same company or sector on different exchanges and the dynamics between these different markets in order to benefit from possible market inefficiencies and thereby potentially creating additional investment opportunities for the Fund.

Please refer to the section “Exposure to China A Share markets” below for further details of how the Fund gains investment exposure to A Shares.

Fixed income portfolio construction

The Fund’s fixed income portfolio is expected to be diversified across a wide range of debt securities and cash equivalents based on analysis of the macro-economic, monetary and fiscal market environment, as well as on individual securities’ fundamentals. The fixed income portfolio generally comprises fixed income securities diversified across various maturity buckets and across the credit spectrum, and each security is expected to be selected based on extensive fundamental research carried out by the Sub-Manager, and taking into account various factors, including but not limited to duration, term structure, sector allocation, and credit quality.

Duration: Based on macroeconomic and policy research, the Sub-Manager intends to actively monitor and dynamically adjust the duration risk of the fixed income portfolio. For example, the duration of the portfolio may be reduced if the RMB interest rate is expected to rise, as such rise is expected to affect the price of instruments with longer duration more negatively.

Term structure: The Sub-Manager intends to allocate the Fund’s assets to short-term, medium-term and long-term securities based on its expectations on the changes in the shape of the RMB yield curve term structure.

Sector allocation: The Sub-Manager intends to actively allocate the Fund’s assets among government bonds, agency bonds, corporate bonds as well as deposits in order to seek optimal risk-adjusted returns across the various investments comprising the portfolio.

Credit: The portfolio generally has a focus on credit products to leverage on the Sub-Manager’s strong understanding and analytical skills on credits within the Greater China region. Through credit analysis, liquidity analysis, fundamental analysis, the portfolio will adjust the allocation among credit products within different rating spectrum to seek better risk-adjusted returns.

The onshore and offshore PRC RMB-denominated bond markets are still in the early stages of development, and as such most of the bonds are not rated and some may be below investment grade. In particular, the offshore RMB-denominated bond market is relatively new, and as a result the number of available issues may be limited compared to more developed markets. The Sub-Manager intends to leverage on its extensive fundamental research capabilities and its strong local knowledge of the relevant issuers and its local market insight in order to evaluate the creditworthiness of each bond and seek optimal allocation to such RMB-denominated bonds in the portfolio.

The Fund may also obtain exposure to PRC onshore RMB-denominated debt securities through investing in other funds which provide such exposure. The Fund's investment in such other funds will be in accordance with all applicable investment restrictions set out in the section headed "Investment and borrowing restrictions" below. In deciding whether or not to invest in any such fund, the Sub-Manager will have regard to the same considerations as set out above for the construction of the fixed income portfolio generally, and in addition such a fund should meet the following criteria: (a) at least 80% of the fund's assets should be invested into PRC onshore RMB-denominated debt securities; and (b) the fund must provide at least monthly liquidity.

Currency Hedging

The Manager intends to systematically hedge the foreign currency exposure between the Class Currency of each relevant Class and the Base Currency of the Fund.

In particular, the Manager intends to hedge such exposure by entering into foreign exchange hedging transactions in the form of forward contracts which are expected to have residual maturities not exceeding 1 month. The hedge ratio between the Base Currency and the Class Currency for each relevant Class is expected to be maintained within a reasonable range and is not expected to be adjusted on a daily basis. The residual risk of any potential adverse movement of the Class Currency against the Base Currency will be borne by the Unitholders of the relevant Class.

For the avoidance of doubt, the Manager does not intend to hedge the foreign currency exposure that may arise between the Class Currency of each relevant Class and the currency of denomination of the Fund assets attributable to each such Class.

General

Investors should note that although the Fund's portfolio is always invested directly or indirectly in assets that best reflect the Fund's investment strategy, the views and process that influence the selection of assets in the investment strategy could be contrary to other views or opinions contained in research reports or notes published by Citigroup or its affiliates.

Exposure to China A Share markets

The Fund may from time to time gain access to the A Share markets primarily by investing into Access Products and through the Stock Connect. The Fund may also obtain exposure to A Shares through investing in other funds which provide such exposure. The Fund's investment in such other funds will be in accordance with all applicable investment restrictions set out in the section headed "Investment and borrowing restrictions" below. In deciding whether or not to invest in any such fund, the Sub-Manager pays regard to the same considerations as set out above for the construction of the equity portfolio generally, and in addition such a fund should meet the following criteria: (a) at least 80% of the fund's assets should be invested into A Shares (unless it is a fund which primarily provides exposure to PRC onshore debt securities meeting the criteria set out above in the section "Fixed income portfolio construction" but which provides ancillary exposure to A Shares); and (b) the fund must provide at least monthly liquidity.

Access Products and counterparty risk management procedures

An Access Product represents only an obligation of the relevant AP Issuer to provide to the Fund the economic performance equivalent to holding the underlying A Shares or basket of A Shares (net of fees, charges and indirect costs). Access Products are valued on a mark-to-market basis on each Valuation Day by the relevant AP Issuer and such valuations are subject to periodic tolerance checks (at least on a weekly basis) which are performed on such valuations by the Manager or a suitably qualified person appointed by the Manager. Pursuant to their terms, Access Products can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative.

An Access Product does not provide any beneficial or equitable entitlement or interest in the A Shares to which the Access Product is linked. Because an Access Product is an obligation of the AP Issuer, rather than a direct investment in A Shares, the Fund may suffer losses, potentially equal to the full value of the Access Product, if the AP Issuer fails to perform its obligations under the Access Product.

The Manager screens potential AP Issuers according to a number of factors including execution quality, financial soundness, approach to PRC taxation and price competitiveness. Each AP Issuer must meet the following criteria: (i) it must be a QFII or an affiliate of a QFII; (ii) it must be a substantial financial institution which is (A) a banking entity which is, on an ongoing basis, subject to prudential and regulatory supervision and has a minimum paid up capital of HK\$150,000,000 or its equivalent in foreign currency, or (B) an entity which may be considered as a substantial financial institution on a case-by-case basis taking into account factors such as the regulatory status of the entity or the group to which it belongs, the net asset value of the entity and any other applicable regulatory requirements; and (iii) it must have a credit rating in respect of senior debt of at least investment grade (BBB-) from Standard & Poor's or an equivalent rating given by Moody's or by Fitch. As at the date of this Explanatory Memorandum there are three AP Issuers. The Fund's gross and net exposure to each Access Product Issuer at any given time will be provided to investors upon a written request to the Manager.

The Manager seeks to mitigate the credit risk of AP Issuers, subject to normal market conditions, by diversifying the number of, and the relative exposure of the Fund to, AP Issuers such that not more than 10% of the Fund's Net Asset Value is exposed to the credit risk of any one AP Issuer. To achieve this the Manager implements measures such as seeking to obtain credit support or collateral from the relevant AP Issuer or an affiliate of the AP Issuer and/or the orderly disposal of relevant Access Products. The provision of credit support or collateral is by way of a securities lending and borrowing arrangement or in such other manner as the Manager considers appropriate in the prevailing circumstances.

Where the collateral arrangement is by way of a securities lending and borrowing arrangement, whenever the Fund's exposure under Access Products to the relevant AP Issuer is over 10% of the Fund's Net Asset Value, the relevant collateral provider will borrow Access Products from, and post collateral to, the Fund. The market value of the Access Products borrowed and the collateral posted will be adjusted on a daily mark-to-market basis. In the event of the insolvency or an event of default in respect of the relevant AP Issuer or collateral provider, the payment and delivery obligations of the parties under the securities and borrowing arrangements will be accelerated and netted off, and replaced by an obligation of one party to pay a single sum to the other based on the latest mark-to-market valuations. In such circumstances, the relevant collateral provider will keep the Access Products that it borrowed from the Fund and the Fund will keep any collateral transferred to it and held under the custody of the Custodian, and the parties will calculate whether any cash payment is required to be made after netting off.

The Manager accepts cash or constituent stock of the Hang Seng Index and/or the Hang Seng China Enterprise Index as collateral. This may change in light of prevailing market conditions but (a) the collateral will take the form of listed equity securities; and (b) the collateral will not include any structured products whose payouts rely on embedded derivatives or synthetic instruments; or securities issued by special purpose vehicles, special investment vehicles or similar entities.

In addition, collateral must meet the following requirements:

- (i) Liquidity – sufficiently liquid 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;

- (ii) Valuation – mark to market daily;
- (iii) Issuer credit quality – of high credit quality; collateral on assets that exhibit high price volatility may be accepted only if suitably conservative haircuts are in place;
- (iv) Diversification – must be appropriately diversified so as to avoid concentrated exposure to any single issuer. The counterparty or other investment limit/exposure of the collateral as a percentage of the Fund’s Net Asset Value must not contravene the investment restrictions or limitations set out in Chapter 7 of the Code;
- (v) Correlation – correlation between the AP Issuer and its group companies and the collateral received must be avoided (for the avoidance of doubt, collateral will not consist of securities issued by the AP Issuers or any of their group companies);
- (vi) Management of operational and legal risks – there must be in existence appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (vii) Independent custody – must be held by the Sub-Custodian;
- (viii) Enforceability – must be readily accessible/enforceable by the Sub-Custodian without further recourse to the AP Issuer; and
- (ix) Not available for secondary recourse – collateral cannot be applied for any purpose except for the purpose of being used as collateral.

Where at any time the aggregate value of all collateral held by the Fund represents 30% or more of its Net Asset Value, a description of holdings of collateral will be disclosed in the Fund’s annual and interim reports for the relevant period. The identity of any counterparty providing collateral to the Fund at any given time will be provided to investors upon a written request to the Manager.

If the credit rating of an AP Issuer is subsequently downgraded, such that the AP Issuer ceases to have a credit rating in respect of senior debt of at least investment grade (BBB-) from Standard & Poor’s or equivalent, the Fund will dispose of any Access Products issued by that AP Issuer and will select alternative AP Issuers who meet the criteria set above.

Shanghai-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect (the “Stock Connect”) is a securities trading and clearing linked programme developed by the HKEx, the SSE and the CSDCC, with an aim to achieve mutual stock market access between mainland China and Hong Kong.

The Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and a securities trading service company established by the SEHK and the HKSCC, are able to trade eligible shares listed on the SSE by routing orders to the SSE. Under the Southbound Trading Link, eligible investors, through PRC securities firms and a securities trading service company established by the SSE, are able to trade eligible shares listed on the SEHK by routing orders to the SEHK.

Eligible securities – Initially, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the “SSE Securities”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A Shares that are not included as constituent stocks of the relevant indices but which have corresponding H Shares listed on the SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are included in the “risk alert board”.

It is expected that the list of eligible securities will be subject to review.

Trading day – Investors (including the Fund) will only be allowed to trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days.

Trading quota – Trading under the Stock Connect will be subject to a maximum cross-boundary investment quota (“Aggregate Quota”), together with a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading. The Aggregate Quota caps the absolute amount of fund inflow into the PRC under Northbound trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Fund and are utilised on a first-come-first-serve basis. The SEHK will monitor the quota and publish the remaining balance of the Northbound Aggregate Quota and Daily Quota at scheduled times on the HKEx’s website. The Aggregate Quota and the Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

Settlement and Custody – The HKSCC is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

Corporate actions and shareholders’ meetings – Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

Currency – Hong Kong and overseas investors (including the Fund) trade and settle SSE Securities in RMB only.

Further information about the Stock Connect is available at the website: http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm.

Investment and borrowing restrictions

The Fund is subject to the following principal investment restrictions:

- (a) not more than 10% of the Net Asset Value of the Fund may be invested in securities (other than Government and other public securities) issued by any single issuer;
- (b) the Fund’s holding of ordinary shares of a single issuer (other than Government and other public securities) when aggregated with other the holdings held by all the other Sub-Funds may not exceed 10% of the ordinary shares of the same issuer in issue;
- (c) not more than 15% of the Net Asset Value of the Fund may be invested in securities which are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organized securities market which is open to the international public and on which such securities are regularly traded;

- (d) notwithstanding (a) and (b) above, up to 30% of the Net Asset Value of the Fund may be invested in Government and other public securities of the same issue;
- (e) subject to (d), the Fund may invest all of its assets in Government and other public securities in at least six different issues;
- (f) not more than 20% of the Net Asset Value of the Fund may be invested in (i) commodities (including physical commodities, forward and futures contracts in respect of commodities, options on commodities, options on futures contracts in respect of commodities, and other commodity-based investments and excluding, for this purpose, securities of companies engaged in the production, processing or trading of commodities) and (ii) futures contracts on an unhedged basis (by reference to the net aggregate value of contract prices, whether payable to or by the Fund);
- (g) the Fund may invest in options and warrants for hedging purposes, and in addition the value of the Fund's total holding of warrants and options in terms of the total amount of premium paid (other than for hedging purposes) may not exceed 15% of its Net Asset Value;
- (h) the value of the Fund's total holding of units or shares in other collective investment schemes ("underlying schemes"), which are neither authorised pursuant to overseas laws as listed in the list of recognised jurisdiction schemes published by the SFC for the purposes of Chapter 7.11A of the Code from time to time ("recognised jurisdiction schemes") nor authorised by the SFC, may not exceed 10% of its Net Asset Value. The Fund may invest in one or more underlying schemes which are either recognised jurisdiction schemes or schemes authorised by the SFC, but the value of the Fund's holding of units or shares in each such underlying scheme may not exceed 30% of its Net Asset Value, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the offering document of the Fund. In addition, the objective of each underlying scheme may not be to invest primarily in any investment prohibited by the other investment restrictions of the Fund, and where that underlying scheme's objective is to invest primarily in investments restricted by the other investment restrictions of the Fund, such holdings may not be in contravention of the relevant limitation. Where the Fund invests in any underlying scheme(s) managed by the Manager or the Sub-Manager or any of their Connected Persons, all initial charges on the underlying scheme(s) must be waived. Neither the Manager nor Sub-Manager may obtain a rebate on any fees or charges levied by an underlying scheme or its management company; and
- (i) not more than 50% of the Net Asset Value of the Fund may be invested in assets which do not fall within the definition of "Specified Assets" under the Act Concerning Investment Trust and Investment Company of Japan (Law No. 198 of 1951, as amended).

For the purposes of this section:

- "Government and other public securities" means any investment issued by, or the payment of principal and interest on which is guaranteed by, the government of any member state of the Organisation for Economic Co-operation and Development ("OECD") or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing.
- 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.

For the avoidance of doubt, the Fund shall comply with the above investment restrictions other than those in respect of Access Products, which are aggregated and covered by the following investment restrictions:

- (a) the Fund may acquire financial derivative instruments for investment purpose subject to the limit that the Fund's global exposure relating to these financial derivative instruments does not exceed 100% of the total Net Asset Value of the Fund;
- (b) for the avoidance of doubt, financial derivative instruments acquired for hedging purposes will not be counted towards the 100% limit stated in (a) above;
- (c) for the purpose of calculating global exposure, the commitment approach shall be used, whereby the derivative positions of the Fund are converted into the equivalent position in the underlying assets embedded in those derivatives, taking into account the prevailing value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions; and
- (d) the risk exposure to a counterparty of the Fund in an over-the-counter derivative transaction may not exceed 10% of its Net Asset Value.

Neither the Manager nor Sub-Manager shall in respect of the Fund:

- (i) invest in a security of any class in any company or body if any director or officer of the Manager or Sub-Manager individually own more than 0.5% of the total nominal amount of all the issued securities of that class or collectively own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs));
- (iii) make short sales if as a consequence the liability to deliver securities would exceed 10% of the Net Asset Value of the Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) write uncovered options;
- (v) write a call option if the aggregate of the exercise prices of all such call options written in respect of the Fund would exceed 10% of the Net Asset Value of the Fund;
- (vi) make a loan out of the assets of the Fund without the prior written consent of the Trustee;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (viii) enter into any obligation in respect of the Fund or acquire any asset for the account of the Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of the assets of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of the Fund which has not been appropriated and set aside for any other purposes.

The Manager may borrow up to 10% of the latest available Net Asset Value of the Fund. The assets of the Fund may be charged or pledged as security for any such borrowings.

Other than with regard to the provision of credit support or collateral in respect of the Fund's exposure to Access Products for the benefit of the Fund where securities lending arrangements may be used, the Fund will not enter into any repurchase agreements, securities lending arrangements or any other similar over-the-counter transactions for investment purposes.

If any of the investment and borrowing restrictions are breached, the Manager and the Sub-Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders.

If the name of the Fund indicates a particular objective, geographic region or market, the Fund should invest at least 70% of its non-cash assets in securities and other investments to reflect the particular objective or geographic region or market which the Fund represents.

Risk management policies and procedures for derivatives

Investors should refer to the risk factors in this Explanatory Memorandum and in particular the risk factors headed "Credit risk" and "Risk of investing in Access Products" for the risks associated with the use of financial derivative instruments. A summary of the risk management policy and methods employed by the Fund to measure and manage the risks associated with investments in financial derivative instruments (in particular Access Products) is set out below.

The Manager has in place risk management policies and methods that cover risks including credit, market, liquidity, settlement, operations and legal risks of their business activities and the Fund's investment in financial derivative instruments, and which involve oversight by its respective senior management, prudent risk limits, comprehensive measurement processes and information systems, regular monitoring and management reporting, strict internal control and audit procedures and contingency planning.

In particular, in respect of the Fund's investment in Access Products, the Fund has in place detailed counterparty selection criteria, credit exposure monitoring and collateral arrangements, as set out in detail in the above section headed "Investment strategy".

Information regarding the risk management and control policy, procedures and methods employed by the Fund are available to investors upon a written request sent to the Manager's office in Hong Kong.

PURCHASE OF UNITS

Classes of Units

As at the date of this Explanatory Memorandum, Units in the following Classes will be available to Hong Kong retail investors:

- AUD Units
- EUR Units
- GBP Units
- HKD Units
- JPY Units
- SGD Units
- USD Units

Initial issue of Units

The following Classes of Units are being offered during the relevant Initial Offer Period at the following initial issue prices:

- AUD10 per AUD Unit
- EUR10 per EUR Unit
- GBP10 per GBP Unit
- JPY100 per JPY Unit
- SGD10 per SGD Unit

Dealing of the above Units will commence on the Dealing Day immediately following the last day of the relevant Initial Offer Period.

The Initial Offer Period for HKD Units and USD Units has closed.

Subsequent issue of Units

HKD Units and USD Units are and, following the close of the relevant Initial Offer Period, AUD Units, EUR Units, GBP Units, JPY Units and SGD Units will be, available for issue on each Dealing Day at the relevant Subscription Price.

In relation to a particular Class, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of such Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Subscription Price will be calculated and quoted in the relevant Class Currency.

In determining the Subscription Price, in certain extraordinary scenarios such as where there is a large subscription by a single investor, the Manager is entitled to add an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred in investing a sum equal to the application monies. Any such additional amount will be paid to the Trustee and will form part of the assets of the Fund.

The Manager is entitled to impose a preliminary charge on the Subscription Price of each Unit. The Manager may retain the benefit of such preliminary charge or may pay all or part of the preliminary charge (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the preliminary charge are set out in the section headed “Expenses and Charges” below.

Minimum subscription and minimum holding

In respect of each Class, subscriptions for less than 100 Units will not be accepted during the relevant Initial Offer Period. After the relevant Initial Offer Period the minimum subscription amounts for Units in each Class will be as follows:

Class	Initial subscription (inclusive of preliminary charges)	Each subsequent subscription (inclusive of preliminary charges)
AUD Units	AUD 1,000	AUD 1,000
EUR Units	EUR 1,000	EUR 1,000
GBP Units	GBP 1,000	GBP 1,000
HKD Units	HKD 1,000	HKD 1,000
JPY Units	JPY 10,000	JPY 10,000
SGD Units	SGD 1,000	SGD 1,000
USD Units	USD 1,000	USD 1,000

The Manager may decide not to issue any Units of a Class in the event that less than USD5 million (or its equivalent in the relevant Class Currency) is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not in the interests of investors or commercially viable, as a result of adverse market conditions or otherwise, to proceed. In such event subscription monies paid by an applicant will be returned by cheque at the applicant’s risk (without interest) within 14 Business Days after the expiry of the relevant Initial Offer Period.

There is no minimum holding requirement in respect of the Fund.

Application procedure

To purchase Units an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Transfer Agent.

Unless otherwise agreed by the Manager and the Trustee, applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by no later than 5:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. Unless otherwise agreed by the Manager, applications for HKD Units and USD Units and, after the relevant Initial Offer Period, AUD Units, EUR Units, GBP Units, JPY Units and SGD Units, and cleared funds must be received by the Dealing Deadline.

Unless otherwise agreed by the Manager and the Trustee, application forms that are faxed to the Transfer Agent must always be followed by their original. Applicants who choose to send an application form by fax, bear the risk of the form not being received by the Transfer Agent. Applicants should therefore, for their own benefit, confirm with the Transfer Agent safe receipt of an application form. None of the Manager, Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by facsimile.

Unless the Trustee and the Manager otherwise agree, payment for Units shall be due in cleared funds in the relevant Class Currency prior to the relevant Dealing Deadline. If payment in cleared funds is not received prior to such time as may be agreed by the Manager and the Trustee, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager may require the applicant to pay to the Trustee, for the account of the Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Date exceeds the applicable Unit Realisation Price on the date of cancellation.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds (in particular, distributors may impose a cut-off time that is earlier than the Dealing Deadline). Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

Where an applicant applies for Units through a distributor, the Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as holder of the relevant Units. The Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and realisation of Units and any related matters, as well as any costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

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

The Manager may, and at the request of the Trustee shall, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest by cheque through the post or by telegraphic transfer at the risk of the applicant.

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

Payment procedure

Subscription monies should be paid in the Class Currency of the Units being subscribed for. Payment details are set out in the application form.

General

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Transfer Agent is informed of any change to the registered details. Fractions of Units may be issued to 3 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Fund.

REALISATION OF UNITS

Realisation procedure

Unitholders who wish to realise their Units may do so on any Dealing Day by submitting a realisation request to the Transfer Agent. Unless otherwise agreed by the Manager and the Trustee, any realisation request must be received by the Transfer Agent before the Dealing Deadline. Investors realising Units through a distributor or a nominee should submit their realisation requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have different dealing procedures, including earlier cut-off times for receipt of realisation requests. Where an investor holds its investment in Units through a nominee, the investor wishing to realise Units must ensure that the nominee, as the registered Unitholder, submits the relevant realisation request by the Dealing Deadline. Unless otherwise agreed by the Manager and the Trustee, realisation requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be deemed to have been received on the next Dealing Day and will be dealt with accordingly.

A realisation request must be given in writing or by facsimile and must specify the name of the Fund, the Class and the value or number of Units to be realised, the name(s) of the registered holder(s) and give payment instructions for the realisation proceeds. Unless otherwise agreed by the Trustee, the original of any realisation request given by facsimile should be forwarded to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any realisation request sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile believed in good faith to have originated from properly authorised persons.

Partial realisation of a holding of Units in the Fund may be effected, but a request for a partial realisation of less than 10 Units will not be accepted unless otherwise agreed by the Manager and the Trustee.

Payment of realisation proceeds

In relation to a particular Class, the Unit Realisation Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Unit Realisation Price will be calculated and quoted in the Class Currency.

In determining the Unit Realisation Price, in certain extraordinary scenarios such as where there is a large realisation request by a single investor, the Sub-Administrator is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred by the Fund. Any such deducted amount will be retained by the Fund and will form part of the assets of the relevant Class.

The Manager may at its option impose a realisation charge in respect of the Units to be realised as described in the section headed "Expenses and Charges" below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit provided in the Trust Deed) on each Unitholder.

The amount due to a Unitholder on the realisation of a Unit will be the Unit Realisation Price, less any realisation charge. The realisation charge will be retained by the Manager.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed in writing by the Transfer Agent on behalf of the Trustee, the written original of the realisation request duly signed by the Unitholder has been received by the Transfer Agent and (b) the signature of the Unitholder has been verified to the satisfaction of the Transfer Agent on behalf of the Trustee.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, realisation proceeds will normally be paid in the Class Currency of the Units realised by telegraphic transfer, within 10 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for realisation of Units, unless the markets in which a substantial portion of the Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the realisation proceeds within the aforesaid time period not practicable, but in such a case the SFC's prior approval will be sought before extending the time frame for payment, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the relevant markets.

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

Realisation proceeds in respect of each Class will be paid in the relevant Class Currency. Realisation proceeds can be paid in a currency other than Class Currency of the Units realised at the request and expense of the Unitholder. In such circumstances, the Transfer Agent on behalf of the Trustee will use such currency exchange rates as it may from time to time determine.

The Trust Deed provides that realisations may be made in specie at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of the Fund. In any event, realisations may only be made in specie with the consent of the Unitholder requesting the realisation.

Restrictions on realisation

The Manager may suspend the realisation of Units, or delay the payment of realisation proceeds in respect of any realisation request received, during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the written approval of the Trustee, to limit the number of Units realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units in issue on such Dealing Day. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Class or Classes wishing to realise Units of the Fund on that Dealing Day will realise the same proportion of such Units, and Units not realised (but which would otherwise have been realised) will be carried forward for realisation based on the Unit Realisation Price as at the next Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent realisation requests received in respect of such Dealing Day. If requests for realisation are so carried forward, the Manager will promptly inform the Unitholders concerned.

Compulsory realisation

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person; (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the Fund to any additional regulation to which the Manager, the Trustee or the Fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the realisation of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or realise such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the realisation of all such Units.

CONVERSION

The Manager may from time to time permit Unitholders to convert some or all of their Units of any Class (the "Existing Class") into Units of any other class whether in respect of the Fund or any other Sub-Fund which has been authorised by the SFC (the "New Class"). Unitholders may request such a conversion by giving notice in writing or by facsimile to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt, duplication or illegibility of a request for conversion transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the conversion of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Class (if applicable).

Where a request for conversion is received by the Transfer Agent prior to the Dealing Deadline, or such later time as the Manager and the Trustee may agree, in respect of a Dealing Day, conversion will be effected as follows:

- realisation of the Units of the Existing Class will be dealt with by reference to the Unit Realisation Price on that Dealing Day (the "Conversion Realisation Day");
- where the Existing Class and the New Class have different currencies of denomination, the realisation proceeds of Units of the Existing Class, after deduction of any switching fee, shall be converted into Class Currency of the New Class; and
- the resulting amount will be used to subscribe for units of the New Class at the relevant subscription price on the dealing day for such New Class next following receipt of cleared funds in the relevant currency are received by the Transfer Agent (the "Conversion Subscription Day").

Subject to the time required to remit Realisation Proceeds in respect of the units of the Existing Class, the Conversion Subscription Day may be later than the Conversion Realisation Day.

The Manager is entitled to impose a switching fee on the conversion of Units of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

The Manager may suspend the conversion of Units during any period in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

VALUATION

Valuation rules

The Net Asset Value of the Fund is calculated by valuing the assets of the Fund and deducting the liabilities attributable to the Fund. These liabilities include, without limitation, any management fee or trustee fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

To ascertain the Net Asset Value of a Class, a separate Class account (a "Class Account") will be established in the books of the Fund in respect of each Class. An amount equal to the proceeds of issue of each Unit will be credited to the relevant Class Account. Any increase or decrease in the Net Asset Value of the Fund (disregarding for these purposes any increase in the Net Asset Value due to new subscriptions or decreases due to realisations or any designated Class Adjustments (as defined below)) will be allocated to the relevant Class Account on a pro-rata basis based on the previous Net Asset Value of each such Class Account. There will then be allocated to each Class Account the "designated Class Adjustments" being those costs, pre-paid expenses, losses, dividends, profits, gains and income which the Manager determines relate to a single Class.

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market (including listed financial derivative instruments, such as listed Access Products) will be valued by the Sub-Administrator by reference to the last traded price or "exchange close" price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed or normally dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee, the Sub-Administrator and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed or ordinarily dealt in on any securities market (including unlisted financial derivative instruments, such as unlisted Access Products) shall initially be the value equal to the amount expended on behalf of the Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Sub-Administrator on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Manager considers appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments;
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest);

- (d) the value of any commodity or futures contract shall be ascertained by the Sub-Administrator in accordance with the following:
- (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager shall consider appropriate;
 - (ii) if any such price as referred to in (i) is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;
 - (iii) the value of any futures contract (the “relevant Contract”), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
 - (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day, or if such collective investment scheme is not valued as at the same day as the Fund, shall be the last published net asset value per unit share or other interest in such collective investment scheme;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to fairly reflect the value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or cash) in a currency other than the Base Currency of the Fund or the Class Currency will be converted into the Base Currency or the Class Currency (as the case may be) at the spot rate or on such other basis as the Manager may from time to time determine.

Suspension of calculation of Net Asset Value

The Manager may, with the consent of the Trustee and having regard to the interests of Unitholders, declare a suspension of the determination of the Net Asset Value of the Fund in exceptional circumstances, being 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 any securities market on which a substantial part of the investments of the Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments of the Fund; or
- (b) for any other reason the prices of investments of the Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in the systems and/or means of communication usually employed to determine the Net Asset Value of the Fund or the Net Asset Value per Unit in the Fund or the Subscription Price and Unit Realisation Price or when for any other reason the Net Asset Value or the Subscription Price and Unit Realisation Price cannot be ascertained in a prompt or accurate manner; or
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the Fund or the issue or realisation of Units in the Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Sub-Manager, the Trustee or the Sub-Administrator in respect of the 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
- (g) the issue, realisation or transfer of Units would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

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

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 in the South China Morning Post and the Hong Kong Economic Times.

No Units may be issued, converted or realised during such a period of suspension.

Publication of Net Asset Value

The latest Subscription Price and Unit Realisation Price in respect of Units of each Class or the Net Asset Value per Unit of each Class will be published at least once every month in the South China Morning Post and the Hong Kong Economic Times.

EXPENSES AND CHARGES

Fees payable by Unitholders

The following fees and charges are payable by Unitholders:

Preliminary Charge

The Manager is entitled to impose a preliminary charge on the issue of units of any Sub-Fund of up to 5% of the subscription price of such units.

In relation to the Fund, the Manager imposes a preliminary charge of up to 5% of the applicable Subscription Price in respect of each Unit. The preliminary charge is payable in addition to the Subscription Price per Unit and will be retained by or paid to the Manager. The Manager may pay to approved distributors a proportion of this preliminary charge, based on the value of the relevant business introduced to the Fund.

The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the preliminary charge.

Realisation Charge

The Manager is entitled to impose a realisation charge on the realisation of units of any Sub-Fund of up to 5% of the unit realisation price of each unit realised. However, in relation to the Fund, the Manager does not intend to impose any realisation charge.

Switching fee

The Manager is entitled to impose a switching fee on the conversion of units of any Sub-Fund of up to 5% of the unit realisation price of each unit converted.

In relation to the Fund, where Unitholders request a conversion of Units, the Manager imposes a switching fee of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager. The Manager may pay to approved distributors a proportion of this switching fee, based on the value of the relevant business introduced to the Fund.

Fees payable by the Fund

The following fees and charges are payable out of the assets of the Fund:

Fees payable to the Manager

Management fee

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 5% per annum of the Net Asset Value of the relevant Sub-Fund.

In relation to the Fund, the Manager charges a management fee of 1.5% per annum of the Net Asset Value of the Fund, payable monthly in arrears. Any increase in this rate of management fee will only be implemented after giving one month's notice to the affected Unitholders. No increase beyond the maximum management fee stated in the Trust Deed may occur without Unitholder approval. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Sub-Manager is reimbursed out of the Manager's management fee.

The Manager may share any fees, charges or amounts it is entitled to receive as Manager of a Sub-Fund with any persons who distribute or otherwise procure subscriptions to that Sub-Fund.

Performance fee

The Trust Deed provides that the Manager is entitled to receive a performance fee in respect of each Sub-Fund it manages. However, in relation to the Fund, the Manager does not currently charge any performance fee.

Fees payable to the Trustee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the relevant Sub-Fund.

In relation to the Fund, the Trustee is paid a fixed fee of USD10,000 per annum. Any increase in this fee will only be implemented after giving one month's notice (or such period of notice as may be approved by the SFC) to the affected Unitholders. No increase beyond the maximum trustee fee stated in the Trust Deed may occur without Unitholder approval.

Fees payable to the Sub-Administrator and Custodian

The Sub-Administrator and Custodian is paid an administration fee of up to 0.075% per annum of the Net Asset Value of each Class (subject to a minimum of USD5,500 per month in respect of the Fund) and a custodian fee of up to 0.03% per annum of the Net Asset Value of each Class. Any increase in these fees will only be implemented after giving one month's notice (or such period of notice as may be approved by the SFC) to the affected Unitholders.

Fees and charges relating to Access Products

When the Fund buys or sells an Access Product the price payable or receivable, as the case may be, is net of any commissions and/or fees charged by the AP Issuer. Such commissions and fees are therefore an expense borne by the Fund. Any such commissions and fees are based on market rates. Please refer to "Tax associated with Access Products" in the section headed "Taxation" for information regarding the possible tax consequences of the Fund holding Access Products.

Other charges and expenses

Each Sub-Fund bears 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, each Sub-Fund bears such costs in proportion to its respective Net Asset Value immediately following the preceding Valuation Point. Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures (for example, fees charged by AP Issuers for the provision of collateral), the fees and expenses of the administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any explanatory memorandum and preparation and printing of any financial statements.

Expenses arising out of any advertising or promotional activities in connection with the Trust or a Sub-Fund are not charged to the Fund.

The costs of establishing the Fund were approximately USD100,000 and were charged to the Fund. These costs are currently being amortised over 12 months from the inception of the Fund but such amortisation may take place over such other period as the Manager may determine at its discretion.

It should be noted that the proposed treatment of amortising the establishment costs over 12 months is not in accordance with the requirements of IFRS, under which the establishment costs should be expensed at the point of commencement of the Fund's operations. The Manager believes that such treatment is more equitable to the initial Unitholders than expensing the entire amounts as they are incurred and is of the opinion that the departure is unlikely to be material to the Fund's overall financial statements. However, if the amounts involved are material to the audit of the Fund's financial statements the Manager may be required to make adjustments in the annual financial statements of the Fund in order to comply with IFRS, and if relevant will include a reconciliation note in the annual accounts of the Fund to reconcile amounts shown in the annual financial statements determined under IFRS to those arrived at by applying the amortisation basis to the Fund's establishment costs.

Cash rebates and soft commissions

Neither the Manager nor Sub-Manager currently receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager, the Sub-Manager and/or any company associated with either of them reserve the right to effect transactions by or through the agency of another person (the "Agent") with whom the Manager, the Sub-Manager and/or any company associated with either of them has such an arrangement.

The Manager, the Sub-Manager and/or any company associated with either of them further reserve the right to effect transactions by or through the agency of another person with whom the Manager, the Sub-Manager and/or any company associated with either of them has an arrangement under which that party will from time to time provide to or procure for the Manager, the Sub-Manager and/or any company associated with either of them 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 Trust as a whole and may contribute to an improvement in the performance of the Trust or of the Manager, the Sub-Manager and/or any company associated with either of them in providing services to the Trust and for which no direct payment is made but instead the Manager, the Sub-Manager and/or any company associated with either of them undertakes to place business with that party. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates. 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.

RISK FACTORS

The nature of the Fund's investments involves certain risks. An investment in Units therefore carries risk and is suitable only for persons which can assume the risk of losing their investment. Prospective investors should consider the following factors, as well as the information in this Explanatory Memorandum, and should consult their financial advisers before making any investment in the Fund:

Market risk

Investors should be aware that investment in the Fund is subject to normal market fluctuations and other risks inherent to the underlying assets which the Fund may invest in or get exposure to. There can be no assurance that any appreciation in the value of the Fund's assets will occur. As a result, the price of Units may go down as well as up.

Concentration risk

Although there are various investment restrictions with which the Manager and the Sub-Manager have to comply when managing the investments of the Fund, the concentration of the Fund's investments in the companies headquartered in or that have significant business exposure to China may subject the Fund's investments to greater volatility than portfolios which comprise broad-based global investments.

Risks relating to RMB

Government control of currency conversion and future movements in exchange rates: It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In April 2012, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/-0.5% to +/-1%. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future. Any depreciation of the RMB will decrease the value of RMB-denominated assets the Fund may hold and of any dividends that the Fund may receive from such investments, which may have a detrimental impact on the Net Asset Value of the Fund, and vice versa. In addition, the PRC government's imposition of restrictions on the repatriation of proceeds out of the PRC may limit the depth of the offshore RMB market and reduce the liquidity of the Fund to the extent it holds offshore RMB denominated securities. The PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Fund.

Risks relating to the PRC

In addition to investment risk, investing in the PRC is also subject to certain other inherent risks and uncertainties. In addition, investors should note that although the Fund does not invest directly in A Shares, it will nevertheless be exposed to the risk associated with investments in A Shares by virtue of its investments in Access Products.

Accounting and reporting standards: PRC companies are required to follow PRC accounting standards and practice which follow international accounting standards to a certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to PRC companies may be less rigorous, and there may be significant differences between financial statements prepared in accordance with the PRC accounting standards and practice and those prepared in accordance with international accounting standards. As the disclosure and regulatory standards in the PRC are less stringent than in more developed markets, there might be substantially less publicly available information about issuers in the PRC on which the Sub-Manager can base investment decisions.

Developing legal and regulatory system: The PRC legal system is a codified legal system comprising written statutes, regulations, circulars, administrative directives, internal guidelines and their interpretation by the Supreme People's Court. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. However, experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into is also limited. In particular, the enforcement of the Investment Regulations, which regulate investments by QFIIs in the PRC and the repatriation and currency conversion, is relatively untested and there is no certainty as to how such regulations will be interpreted. CSRC and SAFE have been given wide discretions in the Investment Regulations and there is no precedent or certainty as to how these discretions might be exercised. There can be no assurance that revisions to the Investment Regulations will not prejudice QFIIs or Access Products issued by QFIIs, or that the QFII investment quotas, which are subject to review from time to time by CSRC and SAFE, will not be reduced substantially or entirely removed.

Nationalisation and expropriation: After the formation of the Chinese socialist state in 1949, the Chinese government renounced various debt obligations and nationalised private assets without providing any form of compensation. In recent years, PRC government has adopted a more progressive attitude towards foreign investment in the PRC. However, there can be no assurance that the PRC government will not take similar actions in the future.

Political and economic considerations: Prior to 1978, the PRC economy was centrally planned, and the PRC government was responsible for formulating five-year plans for the country which set forth economic targets. However, since 1978, the PRC has implemented a series of economic reform programmes emphasising the utilisation of market forces in the development of the PRC's economy and a high level of management autonomy. The economy of the PRC has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. However, there can be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. The PRC government may from time to time adopt corrective measures to control inflation and slow down the rate of economic growth, which may also have an adverse impact on the performance of the Fund. Further, political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including the expropriation of assets, confiscatory taxes or nationalisation of some or all of the investments held by the companies issuing the securities forming part of the Fund's portfolio. The above factors could negatively affect the value of the investments held by the Fund and consequently the Net Asset Value of the Units.

PRC's accession to the World Trade Organisation: With the PRC's accession to the World Trade Organisation on 11 December 2001 and the gradual opening up of the PRC market, the PRC companies to which the Fund gains economic exposure have faced increased competition as the PRC is required to significantly reduce existing import trade barriers through measures such as reducing restrictions on trading for certain kinds of products manufactured by foreign companies, lifting prohibitions, quantitative restrictions or other measures maintained against imports, and significantly reducing tariffs. Any present or future increase in foreign competition may have an adverse effect on the value of the securities issued by the PRC companies to which the Fund is exposed.

Securities markets: The securities markets in the PRC are still in a stage of development, and may be characterised by higher liquidity risk than markets in more developed countries, which may in turn result in higher transaction costs and price volatility. In addition, the PRC's securities markets are undergoing a period of growth and change, which lead to uncertainties and potentially result in difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. The PRC's regulatory authorities have only recently been given the power and duty to prohibit fraudulent and unfair market practices relating to securities markets, such as insider trading and market abuse, and to regulate substantial acquisitions of shares and takeovers of companies.

Risks of emerging markets generally: In addition to the above risks, which relate specifically to investing in the PRC, investors should note that the PRC is considered to be an emerging country and that investing in emerging markets generally subjects the Fund to a higher level of market risk than investments in a developed country. The economies of emerging markets may differ favourably or unfavourably from the economy of developed countries in such respects as growth of gross domestic product, rate of inflation, currency strength, resource self-sufficiency and balance of payments position. The economies of emerging countries generally are heavily dependent upon international trade and, accordingly, have been, and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of certain of these countries may be based predominantly on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

Risk of investing in Access Products

Limited liquidity: Any Access Product will be subject to the terms and conditions imposed by its issuer. These terms may lead to delays in implementing the Fund's investment strategy. Access Products typically have no active secondary market and so have limited liquidity. In order to liquidate investments, the Fund will rely upon the counterparty issuing the Access Product to quote a price to unwind any part of the Access Product. Accordingly the Manager's ability to adjust positions may be restricted which may have a detrimental impact on the performance of the Fund.

Counterparty risk: An investment in an Access Product is not an investment directly in the underlying instruments (such as shares) themselves. An investment in the Access Product does not entitle the holder to the beneficial interest in the shares nor to make any claim against the company issuing the shares.

Access Products constitute direct, general and unsecured contractual obligations of the AP Issuer. Accordingly, the Fund will be subject to the counterparty risk of the issuer of any Access Product invested by the Fund and would be exposed to potential losses equal to the full value of the Access Products issued by the AP Issuer if such AP Issuer became bankrupt or otherwise failed to perform its obligations due to financial difficulties. Any loss would result in a reduction in the Net Asset Value and impair the ability of the Fund to achieve its investment objective.

Investors should note that the credit rating of each AP Issuer, in respect of senior debt, may be as low as BBB-from Standard & Poor's or equivalent. However the Manager will mitigate such counterparty risk by putting in place appropriate counterparty risk management procedures, as described in the sub-section headed "Access Products and counterparty risk management procedures" in the section entitled "Investment Objective, Strategy and Restrictions".

Risks associated with credit support/collateral: Such counterparty risk management measures may involve risks of their own such as settlement, operational and realisation risks arising out of credit support. For example, the AP Issuer may default in providing credit support or collateral, or in case of collateral which comprises listed securities, a substantial drop in value of such securities may result in more than 10% of the Fund's Net Asset Value being exposed to the credit risk of any one AP Issuer on a particular trading day. In addition, the listing of such securities may be suspended or revoked or the trading of such securities on the stock exchanges may be suspended, and during the period of suspension or upon revocation, it may not be possible to realise the relevant collateral securities. The Fund may also incur additional fees, charges and expenses, including without limitation, stamp duty, as a result of the implementation of such measures. Accordingly, the value of the collateral realised may not be sufficient to cover the value of the Access Products secured by such collateral. Investors may therefore suffer a substantial loss if an AP Issuer becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, notwithstanding the measures put in place to mitigate the counterparty risk of the AP Issuer.

Valuation risk: Access Products, being a type of over-the-counter derivatives, are generally subject to the risk of differing valuations arising out of different permitted valuation methods. Many derivatives, in particular over-the-counter derivatives, are complex and often valued subjectively and the valuation can only be provided by a limited number of market professionals which often are acting as counterparties to the transaction to be valued. Inaccurate valuations of Access Products can result in increased cash payment requirements to counterparties or a loss of value to the Fund.

Volatility risk: Access Products are linked to the performance of underlying A Shares or a basket of A Shares. The value of an Access Product is therefore subject to the fluctuations in the relevant A Shares' market price and to the changes in exchange rate of the currency of denomination of such Access Product against the RMB. The limited liquidity of Access Products can further increase the volatility of their price, which may in turn adversely affect the Net Asset Value of the Fund.

Cost of Access Products risk: The availability of QFII quota is limited by applicable PRC regulations, and as a result the cost of investing in Access Products is subject to market supply and demand forces. Where the market supply is low relative to market demand, acquiring further Access Products may involve a higher cost or a premium, which may affect the Fund's overall performance. However, in constructing the Fund's portfolio and deciding whether to use Access Products to gain exposure to a certain company, the Sub-Manager will take into account all relevant considerations, including the cost involved in investing in Access Products.

Limitations posed by QFII restrictions: Under the Investment Regulations, QFIIs are subject to compliance with certain investment restrictions. In particular, (i) shares held by a QFII in a listed PRC company should not exceed in aggregate 10% of the total outstanding share capital of such company (regardless of the fact that the QFII may hold such shares on behalf of a number of different ultimate clients); and (ii) the aggregated holdings of all QFIIs in any listed PRC company should not exceed 20% of the total outstanding share capital of that company. These restrictions may restrict the ability of an AP Issuer to issue, and therefore the ability of the Fund to purchase, Access Products linked to certain A Shares.

Repatriation risk: Repatriation of capital is subject to SAFE's approval and there are restrictions imposed on the repatriation amount and interval. Access Products are issued outside the PRC and the existing restrictions on the ability of QFIIs in general to repatriate US dollars should not affect the operation of the Fund. However, where the AP Issuer is also a QFII or the AP Issuer hedges the Access Product with an affiliate which is a QFII, the inability to repatriate US dollars may give rise to liquidity problems for that AP Issuer, which may impact the Fund if that AP Issuer is unable to perform its obligations under the relevant Access Product.

Contagion risk: AP Issuers are predominantly financial institutions, which may pose a concentration risk. Any adverse event affecting the performance of a particular AP Issuer may also have a negative effect on the performance of other AP Issuers due to contagion effect.

Equity risk

The Fund is subject to the risks generally associated with equity investment, namely, the market value of the stocks may go down as well as up. Investors may not be able to get back their original investments. Factors affecting the stock values are numerous, including but are not limited to changes in investment sentiments, political environment, economic environment, business and social conditions in local and global marketplace. Securities exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible and the Fund may be subject to losses.

Risks in the A Share market

The A Share market is considered volatile and unstable, with the risk of suspension of a particular stock or government intervention. It is undergoing a period of growth and change which may lead to difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. Investments in A Shares by the Fund and the relevant QFII are subject to restrictions on the proportion of foreign shareholdings imposed in the PRC. The Fund may therefore be subject to a higher degree of volatility.

Risks associated with the Stock Connect

The Fund's investments through the Stock Connect may be subject to the following risks. In the event that the Fund's ability to invest in A Shares through the Stock Connect on a timely basis is adversely affected, the Fund will seek to rely on Access Products to achieve its investment objective.

Quota limitations: The Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Fund's ability to invest in A Shares through the Stock Connect may be affected.

Suspension risk: It is contemplated that both the SEHK and the SSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading is effected, the Fund's ability to access the A Share market through the Stock Connect will be adversely affected.

Differences in trading day: The Stock Connect only operates on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as the Fund) cannot carry out any A Shares trading.

Operational risk: The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the China stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

Recalling of eligible stocks: If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Fund’s ability to invest in A Shares through the Stock Connect.

Clearing and settlement risk: The HKSCC and CSDCC establish clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. Should the remote event of CSDCC default occur and the CSDCC be declared as a defaulter, HKSCC’s liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC’s liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

Regulatory risk: The Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

No Protection by Investor Compensation Fund: The Fund’s investments through the Stock Connect will not be covered by Hong Kong’s Investor Compensation Fund. Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund. On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, they are not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC. Therefore the Fund is exposed to the risks of default of the broker(s) it engages in its trading in A Shares through the programme.

Risks associated with PRC taxation

By investing in Access Products, A Shares and RMB-denominated bonds issued by tax resident enterprises in the PRC, the Fund may be subject to withholding and other taxes imposed in the PRC.

Please refer to the discussion on PRC taxation in the section headed “Taxation” below, particularly the sub-sections “Tax associated with Access Products”, “Tax associated with Stock Connect” and “Tax associated with RMB-denominated bonds”, for details of PRC tax considerations and the risks involved.

There can be no assurance that the existing tax laws, regulations and practice will not be revised or amended, and new tax laws may be promulgated in the future. Any of these changes may reduce the income from, and/or value of, the Units. If the actual applicable tax levied is higher than that provided for by the Manager and/or AP Issuers so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Fund may be adversely impacted as the Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied is lower than that provided for by the Manager and/or AP Issuers so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before the ruling, decision or guidance by the authorities in this respect will be disadvantaged as they would have borne the loss from the overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Fund.

Foreign exchange risk

Fluctuations in foreign exchange rates may affect the value of the Units. Foreign exchange rates are determined by factors of supply and demand on international currency markets, which are influenced by macro-economic factors including but not limited to interest rates, international investment flows, economic growth rate, speculation, and state and central banks policies. The Base Currency of the Fund is USD and each Class of Units may be denominated in a different Class Currency. Prospective investors should be aware that an investment in Units involves foreign exchange risks, as the Units may be denominated in a Class Currency other than the currency of the investor’s home jurisdiction and/or the Units may be denominated in a Class Currency other than the currency in which an investor wishes to receive his monies.

Investment objective and strategy risk

In constructing the Fund’s portfolio, the Sub-Manager will select companies with potential to generate excess return in the long term, and will invest the assets of the Fund in a manner which it considers will achieve the investment objective of the Fund. However, the Sub-Manager may not be successful in selecting the best-performing securities or investment techniques, and there can be no assurance that the companies selected will continue to perform an on-going basis through different economic cycles. Past performance is not indicative of future performance.

There is no assurance that the investment objectives of the Fund will actually be achieved, notwithstanding the efforts of the Sub-Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Sub-Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in the Fund or may lose a substantial part or all of their initial investment.

In addition, the Fund’s investment strategy involves up to 40% exposure to A Shares, primarily by investing in Access Products which are issued on the basis of the QFII system. However, the QFII system is relatively new. The future development of the QFII system is uncertain and the CSRC may impose restrictions on the operations of QFIIs. Such restrictions may adversely affect the ability of third parties to issue Access Products and therefore the capacity of the Sub-Manager to make investments in Access Products. The Fund may not be able to fully implement or pursue its investment strategy due to such restrictions and, in the worse case scenario, may have to be terminated.

The Fund is also subject to risks inherent in investing in Access Products. Investors' attention is drawn to "Derivatives risk" and "Risk of investing in Access Products" for more information in this regard.

Hedging considerations

It is the intention of the Manager to hedge the foreign currency exposure between the relevant Class Currency of each Class and the Base Currency of the Fund. The attention of investors is drawn to the fact that, whilst hedging reduces risks and the possibility of losses in adverse market conditions, it also reduces and may even completely offset the possibility of gains in market circumstances that would otherwise have been beneficial had the position not been hedged. Such hedging transactions may therefore dilute or even completely offset any potential gains that may have resulted from an appreciation of the Base Currency of the Fund against each relevant Class Currency.

Credit risk

The Fund is subject to the risk that any counterparty or issuer (including any AP Issuer and issuer of fixed income instruments) may be unable to perform with respect to any securities purchased or contracts entered into by the Fund. If a counterparty or issuer becomes bankrupt or otherwise fails to perform its obligations, the Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceedings. The Fund is likely to be considered as an unsecured creditor in any such proceedings and may in such circumstances obtain only a limited recovery on the value of the affected investments, or even no recovery value at all.

On the occurrence of any credit event affecting an AP Issuer, the Manager will take the necessary steps to find one or more alternative AP Issuers to replace the Fund's investment exposure under the Access Products issued by the AP Issuer in respect of which a credit event has occurred. However there is no guarantee that the Manager will be successful and if the Manager fails to find such alternative AP Issuers, as a result of which the Fund is not able to achieve its investment objective, the Fund may be terminated. Please see "Risk of investing in Access Products" below for further discussion regarding the credit risk of AP Issuers.

The Fund also faces the risk that an issuer of a debt security in which the Fund has invested will default on its obligations due to insolvency or financial distress, resulting in an adverse effect on the value of the Fund's investments. Please see "Risk of investing in fixed income instruments" below for further discussion regarding the credit risk of issuers of fixed income instruments.

Please see also refer to "Risk of early termination of the Trust and/or the Fund" below for further discussion regarding possible early termination of the Fund.

Risk of investing in fixed income instruments:

Interest rate risk: The Fund's investments in fixed income instruments are subject to interest rate risk. Generally, the value of fixed income instruments is expected to be inversely correlated with changes in interest rates. As interest rates rise, the market value of fixed income instruments tends to decrease. Long-term fixed income instruments in general are subject to higher sensitivity to interest rate changes than short-term fixed income instruments.

Credit risk: Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt instruments that have a lower credit rating, or that are unrated, are subject to a higher degree of credit risk. The credit rating of issuers of fixed income instruments may be put on watch list in case of negative forecasts, and may be subject to downgrades. In the event of a default or a degradation of the financial situation and credit rating of the issuer of any fixed income instrument held by the Fund, the Fund's Net Asset Value may be adversely affected and investors may suffer a substantial loss.

Fixed income instruments 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 fixed income instruments only after all secured claims have been satisfied in full. The Fund is therefore exposed to the credit risk of the issuers of the fixed income instruments as an unsecured creditor.

Risks of investing in non-investment grade and unrated fixed income instruments: The Fund may partially invest in fixed income instruments which are rated below investment grade or which may not even be rated by any relevant agency. As mentioned above, such instruments are generally subject to a higher degree of credit risk and a lower degree of liquidity, which may result in greater fluctuations in value. The value of these instruments may also be more difficult to ascertain and thus the Net Asset Value of the Fund may be more volatile.

Risks of PRC-related fixed income instruments: The Fund invests in fixed income instruments primarily issued by PRC-related companies. The financial market of the PRC is at an early stage of development, and many of such PRC fixed income instruments may be unrated, which as explained above involves greater risks. In addition, the Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated in the PRC who will not be subject to the laws of Hong Kong.

Risks of offshore RMB-denominated bonds: The Fund may invest in RMB-denominated bonds issued or distributed outside the PRC. However, the quantity of such offshore RMB bonds that are available is currently limited, and the remaining duration of such instruments may be short. In the absence of available offshore RMB bonds, or when RMB bonds held are at maturity, the Fund may have to allocate a significant portion of its portfolio to non-RMB denominated bonds or in RMB negotiated term deposits with authorised financial institutions until suitable offshore RMB bonds are available in the market. This may adversely affect the Fund's return and performance. There may not be an active secondary market for offshore RMB bonds. The bid and offer spread of the price may be large, so the Fund may incur significant trading and realisation costs and may suffer losses when selling such investments. Furthermore, currently most offshore RMB bonds that are available to the Fund are not rated. These securities are subject greater risk because of generally lower credit worthiness and liquidity, greater fluctuation in value and higher chance of default than investment grade debt securities. Also, as mentioned above, the RMB is currently not a freely convertible currency and is subject to exchange controls and restrictions. There is no guarantee that RMB will not depreciate.

Currency and concentration risks of synthetic RMB bonds: In addition to the risks associated with investing in fixed income instruments generally, synthetic RMB bonds are also subject to currency and concentration risks. As synthetic RMB bonds are denominated in RMB but settled in a different currency, any depreciation of the RMB against that other currency may adversely affect their value. Furthermore, to date, the majority of synthetic RMB bonds in the market has been issued by PRC property developers, and such concentrated exposure to a specific economic sector may make investing in synthetic RMB bonds more susceptible to changes in government policies and business and market risks associated with such sector.

Risk of investing in other funds

The Fund may from time to time invest in other funds which provide exposure to A Shares or to onshore PRC RMB-denominated debt securities, which may expose the Fund to the following risks.

Liquidity risk: Some underlying funds which provide exposure to onshore PRC securities may be subject to capital repatriation restrictions, in which case they may only be able to offer monthly liquidity to their investors. Any lack or limitation on the liquidity of underlying funds will affect the overall liquidity of the Fund's portfolio.

Additional fees associated with investing in underlying funds: The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their management companies or investment managers. Some underlying funds may also impose fees or levies which may be payable by the Fund when it subscribes to or redeems out of such underlying funds. Whilst the Sub-Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Fund.

Investment objective risk: Although the Sub-Manager will use due diligence procedures to select and monitor the underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.

Conflicts of interest: The Fund may from time to time invest in other funds managed by the Manager or the Sub-Manager. In such circumstances, in accordance with the Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Fund, and neither the Manager nor the Sub-Manager may obtain a rebate on any fees or charges levied by the underlying fund. However, despite such measures, conflicts of interest may nevertheless arise out of such investments, and in such event the Manager and the Sub-Manager will use their best endeavours to resolve such conflicts fairly.

Derivatives risk

Although, with the exception of Access Products, the use of derivatives for investment purposes will generally not form part of the investment strategy of the Fund, the Manager and/or Sub-Manager may from time to time utilise financial derivative instruments (including index futures, index options, currency forwards and swaps) for hedging purposes. The use of derivatives exposes the Fund to additional risks, including: (1) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (2) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (3) counterparty risk (the Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its contractual obligations); (4) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (5) settlement risk (the risk faced when one party to a transaction has performed its contractual obligations but the other party has yet to perform its reciprocal obligations under such transaction).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of the Fund.

Risks relating to distribution

It is currently intended that distributions will be made on a quarterly basis (i.e. March, June, September and December each year) in the relevant Class Currency. However, investors should note that the Sub-Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends, subject to the Manager's consent. There is no guarantee of regular distribution and, if distribution is made, the amount being distributed.

Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects the Fund. Differences in laws between countries or jurisdictions may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of the Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including but not limited to altering the investment policy or the investment objective of the Fund.

Lack of majority control over underlying companies

The Fund's holding of ordinary shares of a single issuer (other than Government and other public securities) may not exceed 10% of the ordinary shares of the same issuer in issue. All investments made or to be made in respect of the Fund will therefore be passive in nature and the Sub-Manager will not be able to exert any control over the relevant underlying companies.

Risk of early termination of the Trust and/or the Fund

The Fund may be terminated by the Manager or the Trustee under certain conditions and in the manner as specified in "Termination of the Trust or any Sub-Fund" in the section headed "General" in this Explanatory Memorandum and the Trust Deed. It is possible that, in the event of such termination, the Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will not be able to receive an amount equal to their capital originally invested.

Suspension risk

Under the terms of the Trust Deed, in certain circumstances, the Manager may suspend the calculation of the Net Asset Value of Units in the Fund as well as suspend subscriptions and realisations for Units in the Fund. Investors may not be able to subscribe or realise Units when such a suspension is in place. Investors may not be able to obtain the value of their investment if the calculation of the Net Asset Value of the Fund is suspended.

Please refer to the section headed "Suspension of calculation of Net Asset Value" for further information in this regard.

No guarantee

The Fund is not guaranteed or otherwise capital protected. As such, there is no certainty that investors in the Fund will be able to recover the total value of their initial investment. Investors in the Fund should be prepared to sustain losses up to a total loss of the amount invested.

FATCA

Sections 1471 through 1474 of the US Internal Revenue Code (referred to as "FATCA") will impose a withholding tax of 30 per cent on certain US-sourced gross amounts paid to the Fund, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules include gross US-source dividend and interest income and gross proceeds from the sale of property that produces US-source dividend or interest income. To avoid withholding under FATCA, the Fund will be required to report certain information to the Cayman Islands Tax Information Authority which in turn will report relevant information to the United States Internal Revenue Service. Although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of this withholding tax, no assurance can be given that the Fund will be able to comply with the relevant reporting requirements or other obligation. If the Fund becomes subject to a withholding tax as a result of FATCA, the value of Units may be materially affected.

TAXATION

Prospective Unitholders should consult their professional advisers on the consequences to them of acquiring, holding, realising, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability and the value of tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on general advice received by the Manager regarding the law and practice in force in the Cayman Islands, Hong Kong and the PRC and at the date of this Explanatory Memorandum and are not intended nor purport to specifically address the particular circumstances of any investor.

Cayman taxation

There are at present no corporation, income, capital gains, profits or other taxes in the Cayman Islands which would apply to the profits in respect of the Fund, nor are there at present gift, estate or inheritance taxes in the Cayman Islands.

The Trustee has received an undertaking from the Governor in Cabinet of the Cayman Islands, in accordance with section 81 of the Trusts Law (2009 Revision) of the Cayman Islands that for a period of 50 years from the date of that undertaking, no laws of the Cayman Islands thereafter enacted imposing any tax or duty to be levied on income or on capital assets, gains or appreciations or any tax in the nature of estate duty or inheritance tax shall apply to any property comprised in or any income arising under the Fund or to the Trustee or the Unitholders in respect of any such property or income.

No stamp duty is levied in the Cayman Islands on the transfer or realisation of Units. There is, at the date of this Explanatory Memorandum, no exchange control in the Cayman Islands.

Hong Kong taxation

During such period as the Fund is authorised by the SFC pursuant to Section 104 of the SFO, under present law and practice:

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

PRC taxation

Corporate Income Tax ("CIT")

The Manager and the Trustee intend to manage and operate the Fund in such a manner that the Fund should not be treated as a tax resident enterprise of the PRC or a non-tax resident enterprise with an establishment or place of business in the PRC for CIT purposes. As such, it is expected that the Fund should not be subject to CIT on an assessment basis and would only be subject to CIT on a withholding basis to the extent the Fund directly derives PRC sourced income, although this cannot be guaranteed.

Tax associated with Access Products

The Fund obtains an economic exposure to A Shares through acquiring or disposing of Access Products. AP Issuers may implement hedging arrangements on the Access Products through one or more QFIIs, which would acquire or dispose of the underlying A Shares to which the relevant Access Product is linked. As under PRC law, the relevant QFII is the legal owner of the A Shares, any PRC taxes arising from the QFIIs' investments in the underlying A Shares would be legally borne by the QFII directly. Given that any PRC tax liabilities accruing to the QFII in respect of the A Shares to which the Access Products are linked arise because of the trading activities of the Fund, such tax liabilities may ultimately be passed on to and be borne by the Fund under the terms of the relevant Access Products.

Under current PRC tax law, there are no specific rules or regulations governing the taxation of QFIIs (including taxation of dividends paid and gains realised by a QFII on the disposal of A Shares). The tax treatment for a QFII investing in A Shares is governed by the general taxation provisions of the Corporate Income Tax Law ("CIT Law"). Under the CIT Law, a QFII is subject to 10% CIT on a withholding basis on interest income, dividends and capital gains from PRC listed securities. This is on the basis that the QFII would be managed and operated such that it would not be considered a tax resident enterprise in the PRC and it would not be considered to have a permanent establishment in the PRC. Any double tax treaty between the PRC and the country of the QFII may further reduce the 10% withholding tax rate.

To date, PRC withholding tax has been enforced on dividend and interest payments from PRC listed companies to QFIIs at the rate of 10%. PRC withholding tax has generally not yet been enforced on any capital gains realised by QFIIs from dealing in A Shares. However, such gains are technically subject to the 10% withholding tax under PRC tax law and it is anticipated that QFIIs may become liable to PRC withholding tax on any such capital gains in the future, possibly retrospectively. Please refer to the discussion on "Notice No. 79" below.

There is a risk the PRC tax authorities would seek to collect this tax on capital gains realised by QFIIs on sale of A Shares, on a retrospective basis, without giving any prior warning. If such tax is collected, the tax liability will be payable by the QFII. In such event, under the terms of the Access Products or as otherwise agreed between the Manager and an AP Issuer, any tax levied on and payable by the QFII in the PRC may be passed on to and borne by the Fund to the extent such tax is indirectly attributable to the Fund through its holdings of Access Products. In addition, when the Manager sells an Access Product, the sale price may take into account the QFII's tax liability. In such circumstance the value of the Access Products held by the Fund may be reduced relative to the value of the underlying A Shares to which the Access Product is linked because, ultimately, the PRC tax liability, if any, will be passed on to and borne by the Fund, which may have a detrimental effect on the Net Asset Value.

Certain AP Issuers have been withholding an amount representing the PRC tax in respect of any capital gains which would be payable on an actual sale of the notional underlying A Shares of any Access Product. Prior to the issuance of Notice No. 79 (see below), the market practice of AP Issuers was generally to withhold an amount equal to approximately 10% of capital gains. Such withholding by AP Issuers have been reflected in the bid prices they quote for their Access Products and, therefore, in the Net Asset Value of the Fund on any Valuation Day.

Depending on the terms of the Access Product, any amounts withheld would typically be retained for a period of at least 5 to 7 years (pending clarification of the tax rules by the PRC authorities), or indefinitely. Some AP Issuers have agreed that, at the end of a certain number of years, if tax on capital gains has not been enforced against it (or its affiliate), or the amount withheld is greater than the actual capital gains tax liability, the amount withheld (or the excess withholding) will be returned to the Fund (and in some cases interest accrued on amounts withheld may be payable to the

Fund), although the Fund will still remain liable to the AP Issuer for any future tax liability that may have arisen in respect of such AP Issuer's hedging of its obligations under such Access Products. However, even for such Access Products, if the Fund is terminated before the expiry of the specified period, then notwithstanding such terms the Fund will not recover the amounts withheld. Other AP Issuers have chosen to retain amounts withheld indefinitely, regardless of whether, and the rate at which, tax on capital gains becomes chargeable. Still other AP Issuers have imposed further or different terms in relation to amounts withheld.

The Ministry of Finance, the State Administration of Taxation (the "SAT") and the CSRC on 14 November 2014 promulgated the "Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of PRC equity investment assets such as PRC domestic stocks by qualified foreign institutional investors and renminbi qualified foreign institutional investors" (Caishui [2014] No.79) (the "Notice No. 79"), which states that (i) CIT will be imposed on capital gains derived by QFIIs and renminbi qualified foreign institutional investors ("RQFIIs") from the transfer of PRC equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws; and (ii) QFIIs and RQFIIs without an establishment or place of business in the PRC will be temporarily exempt from CIT on gains derived from the transfer of PRC equity investment assets (including A-Shares) effective from 17 November 2014.

In light of Notice No. 79, the AP Issuers have generally agreed not to withhold any amounts representing CIT in respect of capital gains realised from 17 November 2014 onwards on an actual sale of the notional underlying A Shares of any Access Products.

It should be noted, however, that Notice No. 79 states that the exemption on CIT derived from capital gains realised by QFIIs and RQFIIs from trading A-Shares is temporary only, and, as such, as and when the PRC authorities announce the expiration of such exemption, the AP Issuers may need to recommence provisioning for future potential tax liability, which would in turn adversely affect the Net Asset Value of the Fund.

The Fund will establish a reserve for any potential PRC tax liabilities which may be incurred when a gain is crystallised if, in the opinion of the Manager, a reserve is warranted. Generally, an amount equal to 10% of any capital gains, realised or unrealised, will be reserved to the extent that such amount is not otherwise withheld by the relevant AP Issuer or exempted pursuant to relevant regulations. However, the actual percentage applicable from time to time will vary in accordance with market practice. Any such reserve will have the effect of reducing the Net Asset Value per Unit by the pro rata amount of estimated tax liability. In the event that the Fund is required to make payments reflecting tax liabilities for which no reserves or insufficient reserves have been taken, the Net Asset Value per Unit may decrease substantially, without notice, by the pro rata amount of the unreserved tax exposure. The amount of any reserve established by the Fund will be disclosed in the Fund's annual and semi-annual reports.

Tax associated with Stock Connect

Pursuant to the "Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect" (Caishui [2014] No.81) ("Notice No.81") promulgated by the Ministry Of Finance, the State Administration of Taxation and the CSRC on 14 November 2014, dividends received by Hong Kong and overseas investors (including the Fund) from A Share investment via the Stock Connect will be subject to 10% withholding income tax and the company distributing the dividend has the withholding obligation. If the recipient of the dividend is entitled to a lower treaty rate, it can apply to the tax bureau in-charge of the payer for a refund.

The Notice No. 81 also provides that PRC corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A Shares through the Stock Connect. Based on Notice No. 81, no provision for gross realised or unrealised capital gains derived from trading of A Shares via the Stock Connect is made by the Manager on behalf of the Fund.

It should be noted that the corporate income tax exemption under Notice No. 81 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

Stamp duty

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

Tax associated with bonds issued by tax residents in the PRC

By investing in corporate and government bonds issued by tax residents in the PRC, the Fund may be subject to withholding and other taxes imposed in the PRC.

Corporate Income Tax:

Interests

Interests derived from government bonds are exempt from PRC income tax under the CIT Law.

Unless a specific exemption is applicable, for recipients that are treated as non-residents in the PRC under the CIT Law, an income withholding tax is levied on the payment of interests on debt instruments issued by PRC tax residents, including bonds issued by enterprises established within mainland China. The general withholding income tax rate applicable is 10%.

Capital gains

Capital gains arising from the disposal of corporate, government and non-government bonds issued by tax residents in the PRC may be subject to PRC withholding income tax and the general withholding income tax rate applicable is 10%.

Business Tax:

Interests and capital gains derived from corporate and government bonds issued by PRC tax residents may be subject to business tax at a rate of 5% in the PRC, unless there is an applicable exemption.

Where there is Business Tax payable, City Construction Tax and Education Surcharge has been imposed since 1 December 2010.

Tax provision:

The Manager will decide whether tax provisions will be made in respect of the Fund for the above tax obligations which may arise in respect of the Fund's investments in bonds issued by tax residents in the PRC based on independent tax advice obtained. Even if provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on gains derived from investments held by the Fund. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how income will be taxed, the level of provision and when they subscribed and/or redeemed their Units in/from the Fund. In case of any shortfall between the provisions and actual tax liabilities, which will be debited from the Fund's assets, the Fund's Net Asset Value will be adversely affected.

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 PRC 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 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 the PRC which the Fund invests in, thereby reducing the income from, and/or value of the Units.

The Fund may be subject to tax in other countries on interest and capital gains derived from bonds issued by the tax residents of such countries according to the local tax laws.

Compliance with US, UK and other jurisdictions requirements regarding tax

US Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the US Internal Revenue Code (referred to as "FATCA") will impose a withholding tax of 30 per cent on certain US-sourced gross amounts paid to certain "Foreign Financial Institutions", including the Fund, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules generally include gross US-source dividend and interest income, gross proceeds from the sale of property that produces dividend or interest income from sources within the US and certain other payments made by "Participating Foreign Financial Institutions" to "recalcitrant account holders" (so called "foreign pass thru payments").

The Government of the Cayman Islands has entered into a Model 1 intergovernmental agreement with the United States (the "US IGA") and implemented domestic regulations to facilitate compliance with FATCA. To comply with its obligations under applicable legislation, the Fund will be required to report FATCA information to the Cayman Islands Tax Information Authority (the "Cayman TIA") which in turn will report relevant information to the United States Internal Revenue Service ("IRS"). To avoid withholding under FATCA, the Fund may request additional information from any Unitholder and its beneficial owners (that may be disclosed to the Cayman TIA and the IRS) to identify whether Units are held directly or indirectly by "Specified US Persons" (as defined in the US IGA). If the Fund is not able to comply with reporting requirements under the US IGA (whether due to a failure of one or more Unitholders to provide adequate information or otherwise), the 30 per cent withholding tax under FATCA could apply to the Fund.

The Fund has registered with the IRS as a reporting foreign financial institution pursuant to the requirements of FATCA.

UK and additional jurisdictional requirements regarding tax

The Cayman Islands has also signed with the UK a separate inter-governmental agreement (the “UK IGA”) in broadly similar form to the US IGA. The UK IGA imposes similar requirements to the US IGA, so that the Fund will be required to identify Units held directly or indirectly by “Specified United Kingdom Persons” (as defined in the UK IGA) and report information on such Specified United Kingdom Persons to the Cayman TIA, which will exchange such information annually with HM Revenue & Customs, the United Kingdom tax authority. It is possible that further inter-governmental agreements (“future IGAs”) similar to the US IGA and the UK IGA may be entered into by the Cayman Islands Government to introduce similar regimes for reporting to other countries’ fiscal authorities (“foreign fiscal authorities”), including regimes arising from or in connection with the OECD Common Reporting Standard.

Implications for Unitholders

In order to comply with the US IGA, the UK IGA or any future IGAs, the Fund may be required to disclose certain confidential information provided by Unitholders to the relevant foreign fiscal authority or to the Cayman TIA, which in turn will report the information to the relevant foreign fiscal authority. In addition, the Fund may at any time require a Unitholder to provide additional information and/or documentation which the Fund may be required to disclose to the Cayman TIA and/or relevant foreign fiscal authority.

If a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund, or a risk of the Fund being subject to any withholding tax or other liability, the Trustee and/or the Manager may take any action and/or pursue any remedy at its disposal. Such action or remedy may include the compulsory redemption of some or all of the Units held by the Unitholder concerned, as permitted by applicable laws and regulations and the Manager will act in good faith and on reasonable grounds. No Unitholder affected by any such action or remedy shall have any claim against the Fund, the Trustee, the Manager or their delegates for any form of damages or liability as a result of actions taken or remedies pursued by or on behalf of the Fund in order to comply with the US IGA, the UK IGA, any future IGAs or any of the relevant underlying or implementing legislation.

Unitholders should consult their own advisors regarding the possible application of FATCA, the US IGA, the UK IGA or any applicable future IGA and the potential impact of the same, on any their investment in the Fund.

GENERAL

Reports and accounts

The Trust's financial year end is on 31 December in each year. An annual report with audited accounts in the Base Currency will be prepared for each financial year. The first accounts for the Fund will cover the period to 31 December 2012. Unaudited semi-annual reports will also be prepared. Such reports will contain a statement of the Net Asset Value of the Fund and of the investments comprising its portfolio.

Annual and semi-annual reports and financial statements will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of annual reports and audited financial statements, and within two months after 30 June in each year in the case of unaudited semi-annual reports. Once issued the annual and semi-annual reports will be available in softcopy from the website www.funds.citi.com and in hardcopy for inspection at the Manager's office free of charge during normal working hours.

Any changes to the mode of distribution of financial reports will be implemented only after providing Unitholders with at least one month's prior notice.

Distribution policy

The Sub-Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends, subject to the Manager's consent. There is no guarantee of regular distribution and, if distribution is made, the amount being distributed.

It is currently intended that distributions will be made on a quarterly basis (i.e. March, June, September and December each year) in the relevant Class Currency, based on the performance of the investments of the Fund. There is no guarantee of regular distribution and if distribution is made the amount being distributed. It is the current intention of the Sub-Manager that only the net income (the income net of expenses) of the Fund may be distributed. No distribution will be paid out of the Fund's capital.

Meetings of Unitholders

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 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 (as defined below). The quorum for passing an Extraordinary Resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue ("Extraordinary Resolution"). 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. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding Units of different Classes where only the interests of Unitholders of such Class are affected.

Transfer of Units

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. 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. The Transfer Agent on behalf of the Trustee is entitled to require from the transferor and/or the transferee, the payment to it of a fee (which will be based on prevailing market rates and the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any reasonable expenses incurred by the Transfer Agent in connection therewith.

The Manager or the Transfer Agent on behalf of the Trustee may refuse to enter the name of a transferee in the Register or recognise a transfer of any Units if either of them believe that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

Trust Deed

The Trust was established under the laws of the Cayman Islands by a Trust Deed dated 7 October 2010 made between the Manager and the Trustee with an initial trust fund of USD10.

In accordance with the terms of the Trust Deed, the Manager has full power to deal in any way with or dispose of the assets of any Fund provided that the Manager shall comply at all times with the investment objectives and policies and investment restrictions and guidelines contained in the constitutive documents of the Trust and this Explanatory Memorandum.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances.

Under the Trust Deed, the Trustee may remove the Manager if: (a) the Manager goes into liquidation, (b) the Trustee is of the opinion that a change in manager of the Trust is desirable in the interests of the Unitholders and (c) the Unitholders representing not less than 50% by value of all Units outstanding deliver a notice to the Trustee to do so. The Manager may also retire on a voluntary basis under certain other circumstances specified in the Trust Deed.

Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Auditors

The Manager, with the prior approval of the Trustee, shall from time to time appoint to be the auditors of the Trust an accountant or accountants being qualified to act as an auditor or auditors (the "Auditors"). Any such Auditors so appointed will be independent of the Trustee and the Manager. The Auditors may voluntarily retire by notice in writing to the Manager, upon which the Manager shall appoint another qualified auditor or auditors in their stead.

KPMG has been appointed by the Manager as the auditors of the Trust.

Termination of the Trust or any Sub-Fund

The Trust shall continue for a period of 150 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trust may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the Trust; (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal or retirement of the Manager; (c) the Trustee shall have decided to retire but within three months from the date of the Trustee giving its written notice to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and the unitholders of the Trust sanction the termination by way of Extraordinary Resolution; or (e) the unitholders of the Trust determine, by Extraordinary Resolution, that the Trust should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Any Sub-Fund may be terminated on the occurrence of any of the following events: (a) the Trust is terminated; (b) the Net Asset Value of the relevant Sub-Fund is less than USD5 million and the Manager by notice in writing to the Trustee directs that the relevant Sub-Fund be terminated; (c) any law is passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the relevant Sub-Fund; (d) in the case of a Sub-Fund the sole investment objective of which is to track the performance of an index or rules based investment strategy, the relevant index or strategy becomes unavailable for any reason whatsoever and no suitable replacement index or strategy can be identified by the Manager, such that, in the opinion of the Manager, the investment objective of the relevant Sub-Fund can no longer be achieved; (e) if the Trustee and the Manager agree that it is undesirable to continue the relevant Sub-Fund and the holders of units of the relevant Sub-Fund sanction the termination by way of Extraordinary Resolution; or (f) the holders of units of the relevant Sub-Fund determine, by Extraordinary Resolution, that the Sub-Fund should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Upon termination of the Trust or a Sub-Fund, the Trustee and the Manager will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Trust or the relevant Sub-Fund (as the case may be). Thereafter, the Trustee will distribute to the unitholders, in proportion to the units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Please refer to the Trust Deed for further details.

Documents available for inspection

Copies of the Trust Deed, this Explanatory Memorandum, the investment management agreement between the Manager and the Sub-Manager and the latest annual and semi-annual reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at 50/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

Anti-Money Laundering Regulations

As part of the Trustee's and the Manager's responsibility for the prevention of money laundering, the Transfer Agent on behalf of the Trustee and/or the Manager may require a detailed verification of an investor's identity and the source of payment of application monies. 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 financial institution which is regulated by a recognised regulatory authority and carries on business in a country listed in Schedule 3 of the Money Laundering Regulations (2010 Revision) of the Cayman Islands (the "Regulations"); or
- (c) the application is made through a recognised intermediary which is regulated by a recognised regulatory authority and carries on business in a country recognised in Schedule 3 of the Regulations. In these situations the Trustee or the Manager may rely on a written assurance from the intermediary that the requisite identification procedures on the applicant for business have been carried out.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised by the Cayman Islands as having sufficient anti-money laundering regulations.

Each of the Transfer Agent, the Trustee and the Manager reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Transfer Agent on behalf of the Trustee and/or the Manager may refuse to accept the application and the subscription monies relating thereto.

The Transfer Agent on behalf of the Trustee and the Manager also reserve the right to refuse to make any realisation payment to a Unitholder if the Transfer Agent on behalf of the Trustee or the Manager suspects or are advised that the payment of realisation proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Fund or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

If any person resident in the Cayman Islands knows or suspects that another person is engaged in money laundering or knows, suspects or has reasonable grounds to suspect that another person is involved in terrorist activity or with terrorist property and the information for that knowledge, suspicion or grounds for suspicion came to their attention in the course of their business, the person will be required to report such knowledge, suspicion or grounds of suspicion (as applicable) to either (i) the Financial Reporting Authority of the Cayman Islands, pursuant to the Proceeds of Crime Law, 2008 if the disclosure relates to money laundering, or (ii) a police officer of the rank of constable or higher, pursuant to the Terrorism Law (2009 Revision) if the disclosure relates to involvement with terrorist activity or terrorist property. Such a report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

By subscribing, applicants consent to the disclosure by the Trustee and the Manager of any information about them to regulators and others upon required in connection with money laundering and similar matters both in the Cayman Islands and in other jurisdictions.

Conflicts of Interest

The Manager, the Sub-Manager and the Trustee (and any of their affiliates) may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager 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 the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Trust. Each will, at all times, have regard in such event to its obligations to the Trust and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager and the Sub-Manager will ensure that all investment opportunities will be fairly allocated.

It is expected that transactions for the Fund may be carried out with or through Connected Persons of the Manager. There is no limit on the volume of transactions which may be conducted with or through such Connected Persons but the Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on an arm's length basis and are consistent with best execution standards. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the Fund's annual report. In cases where the investment is in a fund managed by the Manager or Sub-Manager, in accordance with the Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Fund, and neither the Manager nor the Sub-Manager may obtain a rebate on any fees or charges levied by the underlying fund.

The Manager shall not engage in any transaction to jeopardise appropriate management of the assets of the Fund—for example, a transaction for the sole benefit of itself or a third party other than the Unitholders.

Regulation of the Trust in the Cayman Islands

The Trust falls within the definition of a "Mutual Fund" in terms of the Mutual Funds Law (2009 Revision) of the Cayman Islands (the "Mutual Funds Law") and accordingly is regulated in terms of that Law. In compliance with the requirements of Section 4(1)(b) of the Law, the Trustee, being a licensed mutual fund administrator for the purposes of the Law, provides the principal office of the Trust in the Cayman Islands

The Trustee has filed with the Cayman Islands Monetary Authority ("CIMA") a copy of this Memorandum together with certain details about this Memorandum as required by the Mutual Funds Law.

The Trustee has ongoing obligations under the Mutual Funds Law following the initial registration of the Trust and the Fund. These are:

- (i) to file with CIMA prescribed details of any changes to this Memorandum;
- (ii) to file annually with CIMA accounts audited by an approved auditor; and
- (iii) to pay a prescribed annual fee.

As a regulated mutual fund, the Trust is subject to the supervision of CIMA. At any time, CIMA may instruct the Trustee to have the accounts of the Trust and the Fund audited and to submit them to CIMA within a specified time. Failure to comply with any supervisory request by CIMA may result in substantial fines. CIMA has wide powers to take certain actions if certain events occur. For instance, it has wide powers to take action if it is satisfied that a regulated mutual fund:

- is or is likely to become unable to meet its obligations as they fall due; or
- is carrying on or is attempting to carry on business or is winding up its business voluntarily in a manner that is prejudicial to its investors or creditors.

The powers of CIMA include, amongst others, the following: (i) the power to require the substitution of the Trustee; (ii) the power to appoint a person (at the Trust's expense) to advise the Trustee on the proper conduct of the affairs of the Trust; and (iii) the power to appoint a person to assume control of the affairs of the Trust, including for the purpose of terminating the business of the Trust or the Fund. CIMA also has other remedies available to it including applying to the courts of the Cayman Islands for approval of other actions, and requiring the Trust to be re-organise in a manner specified by CIMA.

CHINA SELECT FUND

a Sub-Fund of

CITI INVESTMENT TRUST (CAYMAN) II

EXPLANATORY MEMORANDUM

January 2015

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IMPORTANT INFORMATION FOR INVESTORS

Important-If you are in any doubt about the contents of this Explanatory Memorandum, you should consult your stockbroker, bank manager, accountant, solicitor or other independent financial adviser.

Citi Investment Trust (Cayman) II (the "Trust") is an umbrella unit trust established as an exempted trust under the laws of the Cayman Islands by a trust deed dated 7 October 2010 between Citigroup First Investment Management Limited as manager (the "Manager") and Cititrust (Cayman) Limited as trustee (the "Trustee"), as amended from time to time. This Explanatory Memorandum comprises information relating to the Trust and the China Select Fund, a Sub-Fund of the Trust.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information 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 its publication. This Explanatory Memorandum may from time to time be updated.

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 Manager of the Trust and the Fund is Citigroup First Investment Management Limited, a company incorporated in Hong Kong. Citigroup First Investment Management Limited is regulated by the Securities and Futures Commission of Hong Kong (the "SFC"). The SFC can be contacted at 35/F, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong.

The Trustee of the Trust and the Fund is Cititrust (Cayman) Limited, a company incorporated with limited liability in the Cayman Islands.

This Explanatory Memorandum may refer to information and materials included in websites. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC.

Any investor enquiries or complaints should be submitted in writing to the Manager's office (50/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong) and the Manager will issue a response within 14 Business Days of receipt of the enquiry or complaint.

Distribution and selling restrictions

Hong Kong: China Select Fund (the "Fund") has been authorised by the SFC under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Singapore: The offer or invitation of the Units in the Fund, which is the subject of this Explanatory Memorandum, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA” or the “Act”) or recognised under section 287 of the SFA. The scheme is not authorised or recognised by the Authority and units in the scheme are not allowed to be offered to the retail public. The Information Memorandum is not a prospectus as defined in the Act and, accordingly, statutory liability under the Act in relation to the content of prospectuses does not apply, and the offeree should consider carefully whether the investment is suitable for him.

This Explanatory Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (as used in the paragraph above, the “Authority”). Accordingly, pursuant to section 305A of the SFA, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Units may not be circulated or distributed, nor may Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under section 304 of the SFA, (ii) to a relevant person as defined in section 305(5) of the SFA or any person pursuant to an offer referred to in section 305(2) of the SFA, and in accordance with the conditions specified in section 305 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where Units are subscribed or purchased under section 305 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Units pursuant to an offer made under section 305 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in section 305(5) of the SFA, or to any person pursuant to an offer referred to in section 275(1A) or section 305(A)(3)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; or
- (4) as specified in section 305(A)(5) of the SFA.

Investment products are not deposits and are not subject to the provision of the “Deposit Insurance and Policy Owners’ Protection Schemes Act 2011 (Cap 77B)” of the republic of Singapore nor eligible for deposit insurance coverage under the deposit insurance scheme.

Cayman Islands: This Explanatory Memorandum does not constitute, and shall not be construed as, an invitation to the public of the Cayman Islands to subscribe for Units and Units may not be directly or indirectly offered or sold to any persons resident or domiciled in the Cayman Islands.

General: No action has been taken in any jurisdiction (other than Hong Kong and Singapore) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

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 U.S. Person (defined as (i) an individual who is a United States citizen, a US green card holder, or a resident of the United States for U.S. federal income tax purposes, (ii) a corporation or partnership organised under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source);
- (b) Units will not be issued to a person who is a U.S. Person (as defined above) for U.S. federal income tax purposes and Unitholders will be required to notify the Trustee within 60 days of any change of status;
- (c) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended); and
- (d) the Units may not be offered or sold, directly or indirectly, to holders of an identity card or a resident card issued by the People's Republic of China, regardless of the current residence or domicile of such individuals, or to entities which are established under the laws of the People's Republic of China unless such entity is an approved qualified domestic institutional investor ("QDII") and the purchase of the Units is permitted under the rules issued by the relevant QDII's regulator and applicable foreign exchange rules.

Prospective applicants for the Units should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

DIRECTORY

Manager	Citigroup First Investment Management Limited 50/F Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong Telephone No.: +852 2868 8811 Fax No.: +852 3018 7322
Directors of the Manager	Song LI Cyrille TROUBLAIEWITCH
Sub-Manager	China Asset Management (Hong Kong) Limited 37/F, Bank of China Tower 1 Garden Road Central Hong Kong Telephone No.: +852 3406 8688 Fax No.: +852 3406 8500
Trustee, Administrator and Principal Office	Cititrust (Cayman) Limited 27 Hospital Road Grand Cayman Cayman Islands
Transfer Agent	Cititrust Limited 50/F, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
Custodian and Sub-Administrator	Citibank, N.A., Hong Kong Branch 50/F, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong

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13/F, One Pacific Place
88 Queensway
Hong Kong

as to matters of Cayman Islands law
Harney Westwood & Riegels
3601 Two Exchange Square
8 Connaught Place
Central
Hong Kong

Auditors

KPMG
Century Yard, Cricket Square
Grand Cayman, KY1-1106
Cayman Islands

DEFINITIONS

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

- “A Shares”** means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in RMB;
- “Access Product”** means an A Share access product, being a security (such as a note, warrant, option or participation certificate) linked to A Shares or portfolios of A Shares which aim to synthetically replicate the economic benefit of the relevant A Shares or portfolios of A Shares;
- “Administrator”** means Cititrust (Cayman) Limited;
- “AP Issuer”** means an issuer of an Access Product in which the Fund invests;
- “AUD Units”** means Units comprising the Class which is denominated in Australian Dollars;
- “Australian Dollars” or “AUD”** means the currency of Australia;
- “B Shares”** means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currency (US Dollars on the Shanghai Stock Exchange, and Hong Kong Dollars on the Shenzhen Stock Exchange) and available for investment by domestic and foreign investors;
- “Base Currency”** means, in respect of the Fund, the US Dollar;
- “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 will not be a Business Day unless the Manager and the Trustee determine otherwise;
- “China” or “PRC”** means the People’s Republic of China, excluding for the purposes of interpretation only, Hong Kong and Taiwan;
- “Class”** means each class of Units within the Fund;
- “Connected Person”** in relation to a company means:
- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or

- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or
- (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c);

“CSDCC”	means the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限公司) of the PRC;
“CSRC”	means the China Securities Regulatory Commission;
“Custodian”	means Citibank, N.A., Hong Kong Branch;
“Dealing Day”	means: <ul style="list-style-type: none"> (a) each Business Day, except any Business Day, determined at the Manager’s discretion, on which any exchange or market on which a substantial portion of the Fund’s investments is traded is closed or on which dealings are restricted or suspended; or (b) such other day as the Manager may determine from time to time with the approval of the Trustee;
“Dealing Deadline”	means 4:00 pm (Hong Kong time) on the relevant Dealing Day;
“EUR Units”	means Units comprising the Class which is denominated in Euros;
“Fund”	means China Select Fund, a Sub-Fund of the Trust;
“GBP Units”	means Units comprising the Class which is denominated in British Pounds Sterling;
“HKD Units”	means Units comprising the Class which is denominated in Hong Kong Dollars;
“HKEx”	means Hong Kong Exchanges and Clearing Limited or its successors;
“HKSCC”	means the Hong Kong Securities Clearing Company Limited or its successors;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Dollars” or “HKD” or “HK\$”	means the currency of Hong Kong;
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board

“Initial Offer Period”	means the period during which GBP Units and JPY Units are being offered for subscription at a fixed price which commenced (for JPY Units) at 9:00 am (Hong Kong time) on 18 November 2010 and (for GBP Units) at 9:00 am (Hong Kong time) on 15 December 2014 and which will close, in respect of a Class, at 5:00 pm (Hong Kong time) on the Business Day on which a subscription for Units of such Class is first received (or such other dates and times as the Manager may determine). The Initial Offer Period in respect of Issued Units has closed;
“Investment Regulations”	means (i) the QFII Measures; (ii) the “Notice on Relevant Issues in relation to the Implementation of the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by CSRC on 24 August 2006, effective 1 September 2006; (iii) the “Provisional Regulations for Foreign Exchange Control of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by SAFE on 28 November 2002, effective 1 December 2002, and such other regulations governing the establishment and operation of the qualified foreign institutional investors regime in the PRC, as may be issued or amended from time to time;
“Issued Units”	Units which have been issued as at the date of this Explanatory Memorandum being, AUD Units, EUR Units, HKD Units, SGD Units and USD Units;
“Japanese Yen” or “JPY”	means the currency of Japan;
“JPY Units”	means Units comprising the Class which is denominated in Japanese Yen;
“Manager”	means Citigroup First Investment Management Limited;
“Net Asset Value”	means the net asset value of the Fund, of a Class or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised under the section headed “Valuation” below;
“QFII”	means a qualified foreign institutional investor approved under the QFII Measures;
“QFII Measures”	means the “Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” issued by CSRC, People’s Bank of China and SAFE on 24 August 2006, effective 1 September 2006, as may be amended from time to time;
“RMB”	means Renminbi Yuan, the currency of the PRC;
“SAFE”	means the State Administration of Foreign Exchange of the PRC;
“SEHK”	means The Stock Exchange of Hong Kong Limited or its successors;

“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“SGD Units”	means Units comprising the Class which is denominated in Singapore Dollars;
“Singapore Dollar” or “SGD”	means the currency of Singapore;
“SSE”	means the Shanghai Stock Exchange;
“Stock Connect”	means the Shanghai-Hong Kong Stock Connect;
“Sub-Administrator”	means Citibank N.A., Hong Kong Branch;
“Sub-Fund”	means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed;
“Sub-Manager”	means China Asset Management (Hong Kong) Limited;
“Subscription Price”	means the price at which Units may be issued as described in the section headed “Purchase of Units” below;
“Transfer Agent”	means Cititrust Limited;
“Trust”	means Citi Investment Trust (Cayman) II;
“Trust Deed”	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 7 October 2010, and as amended and/or supplemented from time to time;
“Trustee”	means Cititrust (Cayman) Limited;
“Unit”	means a unit in a Class representing a certain number or fraction of undivided shares in the Fund, and, except where used in relation to a particular Class, a reference to Units means and includes Units of all Classes. The number of undivided shares represented by each Class is adjusted to take account of the different terms of issue of the different Classes;
“Unitholder”	means a person registered as a holder of a Unit;
“Unit Realisation Price”	means the price at which Units may be realised as described in the section headed “Payment of Realisation Proceeds” below;
“US Dollars” or “USD” or “US\$”	means the currency of the United States of America;

“USD Units” means Units comprising the Class which is denominated in US Dollars;

“Valuation Day” means each Dealing Day;

“Valuation Point” means such time on the relevant Valuation Day as the Manager with the approval of the Trustee may from time to time determine as at which to calculate the Net Asset Value;

INTRODUCTION

Citi Investment Trust (Cayman) II is an open-ended unit trust established under the laws of the Cayman Islands pursuant to a Trust Deed dated 7 October 2010 between the Trustee and the Manager, as amended from time to time. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and the assets of the Trust are separated into different Sub-Funds. Each Sub-Fund has its own investment objective and policies. More than one class of units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets is not maintained for each class. All classes of units relating to the same Sub-Fund are commonly invested in accordance with such Sub-Fund's investment objective.

A separate Net Asset Value per Unit is (and, in respect of JPY Units, following the close of the Initial Offer Period, will be) calculated for each Class. Additional Classes within the Fund and/or additional Sub-Funds may be created in the future.

Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports, information of past performance of the Fund and the latest available Net Asset Value will be available on the website <http://funds.citi.com>.

MANAGEMENT OF THE FUND

The Manager

The Manager of the Trust is Citigroup First Investment Management Limited.

The Manager is incorporated in Hong Kong and is wholly owned by Citigroup Global Markets Hong Kong Holdings Limited, an indirect wholly owned subsidiary of Citigroup Inc.

The Manager is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust and each Sub-Fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the accounts and records of the Trust as well as certain other administrative matters relating to the Trust.

The Manager may appoint sub-managers or investment advisers in relation to specific Sub-Funds, subject to the approval of the SFC. Where the investment management functions in respect of a Sub-Fund are delegated to third party sub-managers or investment advisers, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager may be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

The directors of the Manager are Song Li and Cyrille Troublaiewitch.

The Sub-Manager

China Asset Management (Hong Kong) Limited has been appointed by the Manager as the Sub-Manager of the Fund. The Manager has delegated its investment management duties to the Sub-Manager and the Sub-Manager is responsible for the selection and ongoing monitoring of the Fund's investments. The Sub-Manager is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

The Sub-Manager is a wholly-owned subsidiary of China Asset Management Co., Ltd. ("ChinaAMC"). Established on April 9, 1998 with approval from the China Securities Regulatory Commission (CSRC), ChinaAMC is one of the first nation-wide fund management firms in China and is currently the largest fund management company in China in terms of mutual fund assets under management (RMB228.17 billion as of December 31, 2013).

The Sub-Manager was established in September 2008 as ChinaAMC's first venture in expanding its overseas activities. The Sub-Manager is incorporated in Hong Kong. The Sub-Manager is now an integral part and extension of ChinaAMC's overseas investment and research team, providing international clients with investment products and services.

The Sub-Manager will be reimbursed out of the Manager's management fee.

The Trustee, Administrator and Principal Office

Cititrust (Cayman) Limited is the Trustee, Administrator and Principal Office of the Trust.

Cititrust (Cayman) Limited is a Cayman Islands incorporated Company and is a wholly-owned subsidiary of Citibank, N.A., which is a wholly-owned subsidiary of Citigroup Inc. ("Citigroup"). The Trustee maintains both a Trust Licence and a Mutual Fund Administrator's Licence pursuant to Cayman Islands legislation and accordingly is regulated by the Cayman Islands Monetary Authority. The Cayman Islands Monetary Authority can be contacted at PO Box 10052, 80e Shedden Road, Elizabethan Square, Grand Cayman KY1-1001, Cayman Islands.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust. The Trustee may, in accordance with the provisions of the Trust Deed, appoint any person or persons to be custodian of such assets. Notwithstanding any such appointment, in accordance with the terms of the Trust Deed, the Trustee will remain liable for any act or omission of any custodian appointed by the Trustee as if the same were the act or omission of the Trustee. In no event shall the Trustee be bound to make any payment in respect of the Trust except out of the funds held by it for that purpose under the provisions of the Trust Deed.

The Trustee is not responsible for the preparation of this Explanatory Memorandum and therefore accepts no responsibility for the information contained in it, other than information relating specifically to the Trustee and its affiliates.

The Trustee as Administrator has delegated its administration duties to the Sub-Administrator.

The Transfer Agent

The Trustee has appointed Cititrust Limited as Transfer Agent of the Fund, in which capacity it is responsible for maintaining the register of Unitholders and for processing subscriptions and realisations of Units.

The Transfer Agent will be reimbursed out of the administration fee paid to the Sub-Administrator.

The Custodian and Sub-Administrator

The Trustee has appointed Citibank, N.A. ("Citibank"), acting through its Hong Kong Branch, as Custodian of the assets of the Fund and as the Sub-Administrator of the Fund. Citibank is a wholly-owned subsidiary of Citigroup.

Citibank has been a provider of custodial and settlement services to domestic and international clients since its establishment in the United States of America in 1814. Citibank's global custodial network covers all mature and major emerging markets. Citibank began offering securities services in Hong Kong in the mid-1970's and developed a full-blown capability by the mid-1980's. Today, Citibank's Securities and Funds Services business has a global client base of premier banks, fund managers, broker dealers, insurance companies and government entities.

Citibank is licensed by the SFC for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

In its capacity as Sub-Administrator, Citibank is responsible for certain financial, administrative and other services in relation to the Fund, including:

- determining the Net Asset Value and the Net Asset Value per Unit;
- preparing and maintaining the Fund's financial and accounting records and statements; and
- assisting in preparing the financial statements of the Fund.

INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS

Investment objective

The investment objective of the Fund is to provide Unitholders with long term capital growth through exposure to China-related companies by investing in their equities and equity related instruments traded both onshore and offshore China.

Investment strategy

Introduction

The investment strategy of the Fund seeks to identify and take investment exposure to companies which are headquartered in or which, in the Sub-Manager's opinion, have significant business exposure to China, and which the Sub-Manager believes will generate excess return in the long term.

It is expected that approximately 70% to 100% of the Fund's portfolio will be invested directly and indirectly in equity securities issued by companies which are listed or being offered in an initial public offer on official stock markets in Hong Kong, China (A Share and B Share markets), the United States, Singapore and other countries.

For the A Share markets in China, the Fund uses Access Products and invests via the Stock Connect, as described in further detail below respectively. It is expected that Access Products and investment via Stock Connect will generally account for up to approximately 40% of the Fund's portfolio, although the actual proportion depends on, amongst other things, the availability of appropriate investment opportunities and the Manager's assessment of prevailing market conditions. The Fund's portfolio may, if the Manager considers it appropriate, also include cash and/or cash based instruments such as short-term fixed deposits (together referred to as "cash assets"); the allocation of the Fund's portfolio to cash assets fluctuates in light of prevailing market conditions, but it is expected that such allocation will not exceed 30% of the Net Asset Value of the Fund. The Fund may also use financial derivative instruments (including index futures, index options and index and currency swaps) to hedge market and currency risk only.

Selection of portfolio stocks

The investment process is a combination of bottom-up stock selection and top-down macro and sector overlay.

The bottom-up approach means that each stock is selected on its individual merits. The strategy uses fundamental analysis, which involves an assessment of a company's potential for success in light of factors including its financial condition, earnings growth potential and outlook, profit generating capability, corporate strategy, experienced management, industry position and/or favourable valuation. The Sub-Manager has a team of in-house dedicated sector and stock analysts who cover Chinese stocks by carrying out rigorous fundamental research and analysis, including on-site visits, supplier/distributor surveys, management interviews and proprietary financial valuation models. The research output is summarised into internal ratings with key financial forecasts of each stock for the portfolio managers' consideration in the portfolio construction process. The portfolio managers then combine the internal research with their investment skill and experience to build portfolios that are aimed to deliver returns.

In the top-down macro and sector overlay, the Sub-Manager has a team of macro economists and strategy analysts who conduct thorough analysis of macroeconomic factors, government policies, consensus corporate earnings growth, market valuation and liquidity to formulate asset allocation and sector allocation strategies. The team also conducts thematic analysis to identify cross-sector opportunities in a systematic way. During the bottom-up stock selection, the portfolio managers also consider these top-down strategies and recommendations to determine the overall equity exposure and adjust unintended sector exposures.

The Sub-Manager actively monitors the investment portfolio of the Fund on a continuous basis and makes adjustments as and when the Sub-Manager deems necessary. There is no pre-determined frequency of rebalancing of the Fund's portfolio.

As the Fund is expected to invest in both onshore and offshore Chinese stocks, the Sub-Manager also looks at valuation differences of the same company on different stock exchanges and the dynamics between different markets to explore more investment opportunities.

Access Products

The Fund gains access to the A Share market by investing in Access Products. An Access Product represents an obligation of the relevant AP Issuer to pay to the Fund an economic return equivalent to holding the underlying A Shares. Access Products are valued on a mark-to-market basis on each Valuation Day by the relevant AP Issuer and independent verification (at least on a weekly basis) is performed on such valuations by the Manager or a suitably qualified person appointed by the Manager.

An Access Product does not provide any beneficial or equitable entitlement or interest in the A Shares to which the Access Product is linked. Because an Access Product is an obligation of the AP Issuer, the Fund would be exposed to the counterparty risk of the AP Issuer and to potential losses equal to the full value of the Access Product if the AP Issuer failed to perform its obligations under the Access Product.

However the Manager seeks to mitigate such counterparty risk by putting in place appropriate counterparty risk management procedures.

Shanghai-Hong Kong Stock Connect

The Shanghai-Hong Kong Stock Connect (the "Stock Connect") is a securities trading and clearing linked programme developed by the HKEx, the SSE and the CSDCC, with an aim to achieve mutual stock market access between mainland China and Hong Kong.

The Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and a securities trading service company established by the SEHK and the HKSCC, are able to trade eligible shares listed on the SSE by routing orders to the SSE. Under the Southbound Trading Link, eligible investors, through PRC securities firms and a securities trading service company established by the SSE, are able to trade eligible shares listed on the SEHK by routing orders to the SEHK.

Eligible securities – Initially, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the “SSE Securities”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A Shares that are not included as constituent stocks of the relevant indices but which have corresponding H Shares listed on the SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are included in the “risk alert board”.

It is expected that the list of eligible securities will be subject to review.

Trading day – Investors (including the Fund) will only be allowed to trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days.

Trading quota – Trading under the Stock Connect will be subject to a maximum cross-boundary investment quota (“Aggregate Quota”), together with a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading. The Aggregate Quota caps the absolute amount of fund inflow into the PRC under Northbound trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Fund and are utilised on a first-come-first-serve basis. The SEHK will monitor the quota and publish the remaining balance of the Northbound Aggregate Quota and Daily Quota at scheduled times on the HKEx’s website. The Aggregate Quota and the Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

Settlement and Custody – The HKSCC is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

Corporate actions and shareholders’ meetings – Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

Currency – Hong Kong and overseas investors (including the Fund) trade and settle SSE Securities in RMB only.

Further information about the Stock Connect is available at the website: http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm.

General

Investors should note that although the Fund’s portfolio is always invested directly or indirectly in assets that best reflect the Fund’s investment strategy, the views and process that influence the selection of assets in the investment strategy could be contrary to other views or opinions contained in research reports or notes published by Citigroup or its affiliates.

Investment and borrowing restrictions

The Fund is subject to the following principal investment restrictions:

- (a) not more than 10% of the Net Asset Value of the Fund may be invested in securities (other than Government and other public securities) issued by any single issuer;
- (b) the Fund's holding of securities of a single class (other than Government and other public securities) when aggregated with other the holdings of the same class of securities held by all the other Sub-Funds may not exceed 10% of the nominal amount of the securities of the same class in issue;
- (c) not more than 15% of the Net Asset Value of the Fund may be invested in securities which are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (d) notwithstanding (a) and (b) above, up to 30% of the Net Asset Value of the Fund may be invested in Government and other public securities of the same issue;
- (e) subject to (d), the Fund may invest all of its assets in Government and other public securities in at least six different issues;
- (f) not more than 20% of the Net Asset Value of the Fund may be invested in (i) commodities (including physical commodities, forward and futures contracts in respect of commodities, options on commodities, options on futures contracts in respect of commodities, and other commodity-based investments and excluding, for this purpose, securities of companies engaged in the production, processing or trading of commodities) and (ii) futures contracts on an unhedged basis (by reference to the net aggregate value of contract prices, whether payable to or by the Fund);
- (g) the value of the Fund's total holding of warrants and options in terms of the total amount of premium paid (other than for hedging purposes) may not exceed 15% of its Net Asset Value; and
- (h) the value of the Fund's total holding of units or shares in other collective investment schemes ("underlying schemes"), which are neither authorised pursuant to overseas laws as listed in the list of recognised jurisdiction schemes published by the SFC from time to time ("recognised jurisdiction schemes") nor authorised by the SFC, may not exceed 10% of its Net Asset Value. The Fund may invest in one or more underlying schemes which are either recognised jurisdiction schemes or schemes authorised by the SFC, but the value of the Fund's holding of units or shares in each such underlying scheme may not exceed 30% of its Net Asset Value, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the offering document of the Fund. In addition, the objective of each underlying scheme may not be to invest primarily in any investment prohibited by the other investment restrictions of the Fund, and where that underlying scheme's objective is to invest primarily in investments restricted by the other investment restrictions of the Fund, such holdings may not be in contravention of the relevant limitation. Where the Fund invests in any underlying scheme(s) managed by the Manager or the Sub-Manager or any of their Connected Persons, all initial charges on the underlying scheme(s) must be waived. Neither the Manager nor Sub-Manager may obtain a rebate on any fees or charges levied by an underlying scheme or its management company.

Neither the Manager nor Sub-Manager shall in respect of the Fund:

- (i) invest in a security of any class in any company or body if any director or officer of the Manager or Sub-Manager individually own more than 0.5% of the total nominal amount of all the issued securities of that class or collectively own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs));
- (iii) make short sales if as a consequence the liability to deliver securities would exceed 10% of the Net Asset Value of the Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) write uncovered options;
- (v) write a call option if the aggregate of the exercise prices of all such call options written in respect of the Fund would exceed 25% of the Net Asset Value of the Fund;
- (vi) make a loan out of the assets of the Fund without the prior written consent of the Trustee;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person in respect of borrowed money without the prior written consent of the Trustee;
- (viii) enter into any obligation in respect of the Fund or acquire any asset for the account of the Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of the assets of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of the Fund which has not been appropriated and set aside for any other purposes.

The Manager may borrow up to 25% of the latest available Net Asset Value of the Fund. The assets of the Fund may be charged or pledged as security for any such borrowings but the value of the assets charged or pledged will not exceed the amount of the borrowing.

The Manager may, with the consent of the Trustee, enter into securities lending arrangements in respect of the Fund. However, it is not the current intention of the Manager that such arrangements will be made. Should the Manager decide to enter into such arrangements in the future, this Explanatory Memorandum will be amended to provide details of the arrangements and Unitholders will be provided with not less than one month's prior written notice of the amendment.

If any of the investment and borrowing restrictions are breached, the Manager and the Sub-Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders.

PURCHASE OF UNITS

Classes of Units

As at the date of this Explanatory Memorandum, Units in the following Classes are available in relation to the Fund:

- AUD Units
- EUR Units
- GBP Units
- HKD Units
- JPY Units
- SGD Units
- USD Units

The Manager may in future determine to issue additional Classes.

Initial issue of Units

JPY Units are being offered to investors during the Initial Offer Period at an initial issue price of JPY100 per JPY Unit and GBP Units are being offered to investors during the Initial Offer Period at an initial issue price of GBP10 per GBP Unit. Dealing in JPY Units and GBP will commence on the Dealing Day immediately following the closure of the relevant Initial Offer Period. The Initial Offer Period in respect of AUD Units, EUR Units, HKD Units, SGD Units and USD Units has closed.

Subsequent issue of Units

Issued Units are, and, following the close of the relevant Initial Offer Period, JPY Units and GBP Units will be, available for issue on each Dealing Day at the relevant Subscription Price.

In relation to a particular Class, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Subscription Price will be calculated and quoted in the currency of denomination of the relevant Class.

In determining the Subscription Price, in certain extraordinary scenarios such as where there is a large subscription by a single investor, the Manager is entitled to add an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred in investing a sum equal to the application monies. Any such additional amount will be paid to the Trustee and will form part of the assets of the relevant Class.

The Manager is entitled to impose a preliminary charge on the Subscription Price of each Unit. The Manager may retain the benefit of such preliminary charge or may pay all or part of the preliminary charge (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the preliminary charge are set out in the section headed “Expenses and Charges” below.

Minimum subscription and minimum holding

Subscriptions for less than 100 JPY Units or 100 GBP Units will not be accepted during the Initial Offer Period. The minimum subscription amounts for each Class of Issued Units is and, in respect of JPY Units and GBP Units, following the relevant Initial Offer Period, will be, as follows:

Class	Initial subscription (inclusive of preliminary charges)	Each subsequent subscription (inclusive of preliminary charges)
AUD Units	AUD 1,000	AUD 1,000
EUR Units	EUR 1,000	EUR 1,000
GBP Units	GBP 1,000	GBP 1,000
HKD Units	HKD 1,000	HKD 1,000
JPY Units	JPY 10,000	JPY 10,000
SGD Units	SGD 1,000	SGD 1,000
USD Units	USD 1,000	USD 1,000

The Manager may decide not to issue any JPY Units or GBP Units in the event that less than the JPY equivalent or GBP equivalent of USD5 million is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not in the interests of investors or commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque at the applicant’s risk (without interest) within 14 Business Days after the expiry of the Initial Offer Period.

There is no minimum holding requirement in respect of the Fund.

Application procedure

To purchase Units an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Transfer Agent.

Unless otherwise agreed by the Manager and the Trustee, applications for JPY Units or GBP Units during the relevant Initial Offer Period, together with cleared funds, must be received by no later than 5:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. Unless otherwise agreed by the Manager, applications for Issued Units and, after the relevant Initial Offer Period, JPY Units and GBP Units, and cleared funds must be received by the Dealing Deadline.

Unless otherwise agreed by the Manager and the Trustee, application forms that are faxed to the Transfer Agent must always be followed by their original. Applicants who choose to send an application form by fax, bear the risk of the form not being received by the Transfer Agent. Applicants should therefore, for their own benefit, confirm with the Transfer Agent safe receipt of an application form. None of the Manager, Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by facsimile.

Unless the Trustee and the Manager otherwise agree, payment for Units shall be due in cleared funds in the relevant currency prior to the relevant Dealing Deadline. If payment in cleared funds is not received prior to such time as may be agreed by the Manager and the Trustee, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager may require the applicant to pay to the Trustee, for the account of the Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Date exceeds the applicable Unit Realisation Price on the date of cancellation.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds (in particular, distributors may impose a cut-off time that is earlier than the Dealing Deadline). Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

Where an applicant applies for Units through a distributor, the Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as holder of the relevant Units. The Manager, the Trustee and the Transfer Agent will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and realisation of Units and any related matters, as well as any costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

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

The Manager may, and at the request of the Trustee shall, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest by cheque through the post or by telegraphic transfer at the risk of the applicant.

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

Payment procedure

Subscription monies should be paid in the currency in which the relevant Class is denominated, being Australian Dollars for AUD Units, Euros for EUR Units, British Pounds Sterling for GBP Units, Hong Kong Dollars for HKD Units, Japanese Yen for JPY Units, Singapore Dollars for SGD Units and US Dollars for USD Units. Payment details are set out in the application form.

General

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Transfer Agent is informed of any change to the registered details. Fractions of Units may be issued calculated to 3 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Fund. A maximum of 4 persons may be registered as joint Unitholders.

REALISATION OF UNITS

Realisation procedure

Unitholders who wish to realise their Units in the Fund may do so on any Dealing Day by submitting a realisation request to the Transfer Agent. Unless otherwise agreed by the Manager and the Trustee, any realisation request must be received by the Transfer Agent before the Dealing Deadline. Investors realising Units through a distributor or a nominee should submit their realisation requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have different dealing procedures, including earlier cut-off times for receipt of realisation requests. Where an investor holds its investment in Units through a nominee, the investor wishing to realise Units must ensure that the nominee, as the registered Unitholder, submits the relevant realisation request by the Dealing Deadline. Unless otherwise agreed by the Manager and the Trustee, realisation requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A realisation request must be given in writing or by facsimile and must specify the name of the Fund, the Class and the value or number of Units to be realised, the name(s) of the registered holder(s) and give payment instructions for the realisation proceeds. Unless otherwise agreed by the Trustee, the original of any realisation request given by facsimile should be forwarded to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any realisation request sent by facsimile or for any loss caused in respect of any action taken as a consequence of such facsimile believed in good faith to have originated from properly authorised persons.

Partial realisation of a holding of Units in the Fund may be effected, but a request for a partial realisation of less than 10 Units will not be accepted unless otherwise agreed by the Manager and the Trustee.

Payment of realisation proceeds

In relation to a particular Class, the Unit Realisation Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 3 decimal places (0.0005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Fund. The Unit Realisation Price will be calculated and quoted in the currency of denomination of the relevant Class.

In determining the Unit Realisation Price, in certain extraordinary scenarios such as where there is a large realisation request by a single investor, the Sub-Administrator is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred by the Fund. Any such deducted amount will be retained by the Fund and will form part of the assets of the relevant Class.

The Manager may at its option impose a realisation charge in respect of the Units to be realised as described in the section headed "Expenses and Charges" below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit provided in the Trust Deed) on each Unitholder.

The amount due to a Unitholder on the realisation of a Unit will be the Unit Realisation Price, less any realisation charge. The realisation charge will be retained by the Manager.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed in writing by the Transfer Agent on behalf of the Trustee, the written original of the realisation request duly signed by the Unitholder has been received by the Transfer Agent and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Transfer Agent on behalf of the Trustee.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, realisation proceeds will normally be paid in the currency of denomination of the Units realised by telegraphic transfer, within 10 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for realisation of Units (unless the markets in which a substantial portion of the Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the realisation proceeds within the aforesaid time period not practicable, but in such a case the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets). Any bank charges associated with the payment of realisation proceeds will be borne by the Fund.

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

Realisation proceeds will be paid in the currency in which the relevant Class is denominated, being Australian Dollars for AUD Units, Euros for EUR Units, British Pounds Sterling for GBP Units, Hong Kong Dollars for HKD Units, Japanese Yen for JPY Units, Singapore Dollars for SGD Units and US Dollars for USD Units. Realisation proceeds can be paid in a currency other than the currency of denomination of the Units realised at the request and expense of the Unitholder. In such circumstances, the Transfer Agent on behalf of the Trustee will use such currency exchange rates as it may from time to time determine.

The Trust Deed provides that realisations may be made in specie at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of the Fund. In any event, realisations may only be made in specie with the consent of the Unitholder requesting the realisation.

Restrictions on realisation

The Manager may suspend the realisation of Units, or delay the payment of realisation proceeds in respect of any realisation request received, during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the written approval of the Trustee, to limit the number of Units of the Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 15% of the total number of Units of the Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Class or Classes wishing to realise Units of the Fund on that Dealing Day will realise the same proportion of such Units, and Units not realised (but which would otherwise have been realised) will be carried forward for realisation based on the Unit Realisation Price as at the relevant Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent realisation requests received in respect of such subsequent Dealing Day. If requests for realisation are so carried forward, the Manager will promptly inform the Unitholders concerned.

Compulsory realisation

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person; (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the Fund to any additional regulation to which the Manager, the Trustee or the Fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the realisation of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or realise such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the realisation of all such Units.

CONVERSION

The Manager may from time to time permit Unitholders to convert some or all of their Units of any Class (the "Existing Class") into Units of any other class whether in respect of the Fund or any other Sub-Fund which has been authorised by the SFC (the "New Class"). Unitholders may request such a conversion by giving notice in writing or by facsimile to the Transfer Agent. None of the Manager, the Trustee or the Transfer Agent (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt, duplication or illegibility of a request for conversion transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the conversion of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Class (if applicable).

Where a request for conversion is received by the Transfer Agent prior to the Dealing Deadline, or such later time as the Manager and the Trustee may agree, in respect of a Dealing Day, conversion will be effected as follows:

- realisation of the Units of the Existing Class will be dealt with by reference to the Unit Realisation Price on that Dealing Day (the "Conversion Realisation Day");
- where the Existing Class and the New Class have different currencies of denomination, the realisation proceeds of Units of the Existing Class, after deduction of any switching fee, shall be converted into the currency of denomination of the New Class; and
- the resulting amount will be used to subscribe for units of the New Class at the relevant subscription price on the dealing day for such New Class next following receipt of cleared funds in the relevant currency are received by the Transfer Agent (the "Conversion Subscription Day").

Subject to the time required to remit Realisation Proceeds in respect of the units of the Existing Class, the Conversion Subscription Day may be later than the Conversion Realisation Day.

The Manager is entitled to impose a switching fee on the conversion of Units of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

The Manager may suspend the conversion of Units during any period in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

VALUATION

Valuation rules

The Net Asset Value of the Fund is calculated by valuing the assets of the Fund and deducting the liabilities attributable to the Fund. These liabilities include, without limitation, any management fee or trustee fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

To ascertain the Net Asset Value of a Class, a separate Class account (a "Class Account") will be established in the books of the Fund in respect of each Class. An amount equal to the proceeds of issue of each Unit will be credited to the relevant Class Account. Any increase or decrease in the Net Asset Value of the Fund (disregarding for these purposes any increase in the Net Asset Value due to new subscriptions or decreases due to realisations or any designated Class Adjustments (as defined below)) will be allocated to the relevant Class Account on a pro-rata basis based on the previous Net Asset Value of each such Class Account. There will then be allocated to each Class Account the "designated Class Adjustments" being those costs, pre-paid expenses, losses, dividends, profits, gains and income which the Manager determines relate to a single Class.

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market (including listed financial derivative instruments, such as listed Access Products) will be valued by the Sub-Administrator by reference to the last traded price or "exchange close" price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed or normally dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee, the Sub-Administrator and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed or ordinarily dealt in on any securities market (including unlisted financial derivative instruments, such as unlisted Access Products) shall initially be the value equal to the amount expended on behalf of the Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Sub-Administrator on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Manager considers appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments;
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest);

- (d) the value of any commodity or futures contract shall be ascertained by the Sub-Administrator in accordance with the following:
- (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager shall consider appropriate;
 - (ii) if any such price as referred to in (i) is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;
 - (iii) the value of any futures contract (the “relevant Contract”), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended by the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
 - (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day, or if such collective investment scheme is not valued as at the same day as the Fund, shall be the last published net asset value per unit share or other interest in such collective investment scheme;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to fairly reflect the value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or cash) in a currency other than the Base Currency of the Fund or the currency of denomination of the relevant Class will be converted into the Base Currency or the currency of denomination of such Class (as the case may be) at the spot rate or on such other basis as the Manager may from time to time determine.

Suspension of calculation of Net Asset Value

The Manager may, with the consent of the Trustee and having regard to the interests of Unitholders, declare a suspension of the determination of the Net Asset Value of the Fund in exceptional circumstances, being 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 any securities market on which a substantial part of the investments of the Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments of the Fund; or
- (b) for any other reason the prices of investments of the Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in the systems and/or means of communication usually employed to determine the Net Asset Value of the Fund or the Net Asset Value per Unit in the Fund or the Subscription Price and Unit Realisation Price or when for any other reason the Net Asset Value or the Subscription Price and Unit Realisation Price cannot be ascertained in a prompt or accurate manner; or
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the Fund or the issue or realisation of Units in the Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Sub-Manager, the Trustee or the Sub-Administrator in respect of the 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
- (g) the issue, realisation or transfer of Units would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

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

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 in the South China Morning Post and the Hong Kong Economic Times.

No Units in the Fund may be issued, converted or realised during such a period of suspension.

Publication of Net Asset Value

The latest Subscription Price and Unit Realisation Price in respect of Units of each Class or the Net Asset Value per Unit of each Class will be published once every month in the South China Morning Post and the Hong Kong Economic Times.

EXPENSES AND CHARGES

Fees payable by Unitholders

The following fees and charges are payable by Unitholders:

Preliminary Charge

The Manager is entitled to impose a preliminary charge on the issue of units of any Sub-Fund of up to 5% of the subscription price of such units.

In relation to the Fund, the Manager imposes a preliminary charge of up to 5% of the applicable Subscription Price in respect of each Unit. The preliminary charge is payable in addition to the Subscription Price per Unit and will be retained by or paid to the Manager. The Manager may pay to approved distributors a proportion of this preliminary charge, based on the value of the relevant business introduced to the Fund.

The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the preliminary charge.

Realisation Charge

The Manager is entitled to impose a realisation charge on the realisation of units of any Sub-Fund of up to 5% of the unit realisation price of each unit realised. However, in relation to the Fund, the Manager does not intend to impose any realisation charge.

Switching fee

The Manager is entitled to impose a switching fee on the conversion of units of any Sub-Fund of up to 5% of the unit realisation price of each unit converted.

In relation to the Fund, where Unitholders request a conversion of Units, the Manager imposes a switching fee of up to 2% of the Unit Realisation Price of each Unit converted. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

Fees payable by the Fund

The following fees and charges are payable out of the assets of the Fund:

Fees payable to the Manager

Management fee

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 5% per annum of the Net Asset Value of the relevant Sub-Fund.

In relation to the Fund, the Manager charges a management fee of 1.8% per annum of the Net Asset Value of the relevant Class, payable monthly in arrears. Any increase in this rate of management fee will only be implemented after giving one month's notice to the affected Unitholders. No increase beyond the maximum management fee stated in the Trust Deed may occur without Unitholder approval. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Sub-Manager is reimbursed out of the Manager's management fee.

The Manager may share any fees, charges or amounts it is entitled to receive as Manager of a Sub-Fund with any persons who distribute or otherwise procure subscriptions to that Sub-Fund.

Performance fee

The Trust Deed provides that the Manager is entitled to receive a performance fee in respect of each Sub-Fund it manages.

In relation to the Fund, the performance fee will be calculated and accrued on each Valuation Day and will be payable in arrears after the end of each Performance Period (as defined below).

In respect of each Class, the period during which performance fee will be assessed is the "Performance Period". The first Performance Period in respect of JPY Units and GBP Units will be the period from and including the first Valuation Day following the close of the Initial Offer Period of that Class to the last Valuation Day on or prior to 31 December of the same financial year. In respect of Issued Units, each Performance Period is the period (of approximately 12 months' duration) from and including the first Valuation Day up to and including the last Valuation Day of each financial year of the Fund.

The performance fee in respect of each Unit will be equal to 10% of the appreciation in the Net Asset Value per Unit during the relevant Performance Period above the High Watermark (as described below) for the relevant Class. The performance fee is calculated daily on a high-on-high basis and accrued on each Valuation Day throughout the relevant Performance Period. On each Valuation Day, a new performance fee accrual is calculated and made in accordance with the above methodology.

The following formula illustrates how the performance fee per Unit is calculated and accrued on a particular Valuation Day (assuming that the Net Asset Value per Unit on such Valuation Day is higher than the High Watermark for the relevant Class):

$$(a - b) \times 10\%$$

where

"a" is the Net Asset Value per Unit on the relevant Valuation Day (after deduction of all other charges and expenses but before the relevant deduction for any performance fee accrual); and

"b" is the High Watermark for the relevant Class.

The performance fee for each Valuation Day accrues and is included in the total liabilities of the Fund for the purpose of calculating the Net Asset Value of per Unit for each Class for subscription and realisation purposes.

At the end of a Performance Period, the total amount (if any) of the performance fee accrual will be paid to the Manager.

“High Watermark”: The initial issue price per Unit of each Class will be set as the initial High Watermark for the Units of the relevant Class. In respect of any Class, where a performance fee is payable to the Manager for a Performance Period, and if the Net Asset Value per Unit on the last Valuation Day of such Performance Period is higher than the High Watermark for the relevant Class currently used in the formula for determination of the performance fee, such Net Asset Value per Unit will be set as the High Watermark for the relevant Class for the next Performance Period. Where, however, no performance fee is payable to the Manager for such Performance Period or where the Net Asset Value per Unit on the last Valuation Day of such Performance Period is lower than the High Watermark for the relevant Class currently used, there will not be any resetting of High Watermark and the High Watermark currently used will continue to be the High Watermark for the relevant Class to be used for the next Performance Period.

If any Units are realised on a Dealing Day, the performance fee accrued so far in respect of such Units will crystallise and be paid to the Manager at the end of the Performance Period.

The Net Asset Value per Unit at which Unitholders subscribe or realise Units at different times will be affected by the amount of performance fee accrual imbedded therein which may vary each day and in turn is determined by the performance of the Fund and the level of subscriptions to and realisations from the Fund at different times during the Performance Period and there will not be any adjustment to the relevant Net Asset Value per Unit.

Investors should note that there will be no equalisation payment or series units for the purposes of determining the performance fee payable to the Manager. The use of equalisation payment or issue of series units ensures that the performance fee payable by an investor is directly referable to the specific performance of such individual investor’s holding of Units. The current methodology for calculating the performance fee as set out above involves adjusting the Subscription Price and Unit Realisation Price to make provision for accrual for the performance fee upon the issue and realisation of Units during the Performance Period. Investors may therefore be advantaged or disadvantaged as a result of this method of calculation, depending upon the Net Asset Value per Unit at the time an investor subscribes or redeems relative to the overall performance of the Fund during the relevant Performance Period and the timing of subscriptions to and realisations from the Fund during the course of such Performance Period.

This can mean, for example, an investor who subscribes to the Fund during the course of a Performance Period when the Net Asset Value per Unit is below the High Watermark, and who subsequently realises his Units prior to the end of such Performance Period when the Net Asset Value per Unit has increased up to (but does not exceed) the High Watermark as at the time of his realisation will be advantaged as no performance fee will be chargeable in such circumstances. Conversely, an investor who subscribes to the Fund during the course of a Performance Period when the Net Asset Value per Unit is above the High Watermark will pay a price which is reduced by a provision for the performance fee because that provision will have been accrued and taken into account in calculating the Subscription Price as at the relevant Valuation Day. If he subsequently realises his Units prior to or at the end of such Performance Period when the Net Asset Value per Unit at the time of his realisation has decreased (but remains above the High Watermark) he may be disadvantaged as he could still be required to bear a performance fee calculated on the increase in the Net Asset Value per Unit above the High Watermark.

As a result of the foregoing, there is a risk that a Unitholder realising his Units may still incur a performance fee in respect of the Units, even though a loss in investment capital has been suffered by the realising Unitholder.

Fees payable to the Trustee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the relevant Sub-Fund.

In relation to the Fund, the Trustee is paid a fixed fee of USD10,000 per annum. Any increase in this fee will only be implemented after giving one month's notice (or such period of notice as may be approved by the SFC) to the affected Unitholders. No increase beyond the maximum trustee fee stated in the Trust Deed may occur without Unitholder approval.

Fees payable to the Sub-Administrator and Custodian

The Sub-Administrator and Custodian is paid an administration fee of up to 0.075% per annum of the Net Asset Value of each Class (subject to a minimum of USD5,500 per month in respect of the Fund) and a custodian fee of up to 0.03% per annum of the Net Asset Value of each Class. Any increase in these fees will only be implemented after giving one month's notice (or such period of notice as may be approved by the SFC) to the affected Unitholders.

Fees and charges relating to Access Products

When the Fund buys or sells an Access Product the price payable or receivable, as the case may be, is net of any commissions and/or fees charged by the AP Issuer. Such commissions and fees are therefore an expense borne by the Fund. Any such commissions and fees are based on market rates. Please refer to "Tax associated with Access Products" in the section headed "Taxation" for information regarding the possible tax consequences of the Fund holding Access Products.

Other charges and expenses

Each Sub-Fund bears 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, each Sub-Fund bears such costs in proportion to its respective Net Asset Value immediately following the preceding Valuation Point. Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of the administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any explanatory memorandum and preparation and printing of any financial statements.

Expenses arising out of any advertising or promotional activities in connection with the Trust or a Sub-Fund are not charged to the Trust or any Sub-Fund.

The costs of establishing the Fund were approximately US\$165,000 and were charged to the Fund. These costs were amortised over the 12 month period from the inception of the Fund.

It should be noted that amortising establishment costs over 12 months is not in accordance with the requirements of IFRS, under which establishment costs should have been expensed at the point of commencement of the Fund's operations. The Manager believes that such treatment is more equitable to the initial Unitholders than expensing the entire amounts as they are incurred and is of the opinion that the departure is unlikely to be material to the Fund's overall financial statements. However, if the amounts involved are material to the audit of the Fund's financial statements the Manager may be required to make adjustments in the annual financial statements of the Fund in order to comply with IFRS, and if relevant will include a reconciliation note in the annual accounts of the Fund to reconcile amounts shown in the annual financial statements determined under IFRS to those arrived at by applying the amortisation basis to the Fund's establishment costs.

Cash rebates and soft commissions

Neither the Manager nor Sub-Manager currently receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager, the Sub-Manager and/or any company associated with either of them reserve the right to effect transactions by or through the agency of another person (the "Agent") with whom the Manager, the Sub-Manager and/or any company associated with either of them has such an arrangement.

The Manager, the Sub-Manager and/or any company associated with either of them further reserve the right to effect transactions by or through the agency of another person with whom the Manager, the Sub-Manager and/or any company associated with either of them has an arrangement under which that party will from time to time provide to or procure for the Manager, the Sub-Manager and/or any company associated with either of them 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 Trust as a whole and may contribute to an improvement in the performance of the Trust or of the Manager, the Sub-Manager and/or any company associated with either of them in providing services to the Trust and for which no direct payment is made but instead the Manager, the Sub-Manager and/or any company associated with either of them 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.

RISK FACTORS

The nature of the Fund's investments involves certain risks. An investment in Units therefore carries risk and is suitable only for persons which can assume the risk of losing their investment. Prospective investors should consider the following factors, as well as the information in this Explanatory Memorandum, and should consult their financial advisers before making any investment in the Fund:

Concentration risk

Although there are various investment restrictions with which the Manager and Sub-Manager has to comply when managing the investments of the Fund, the concentration of the Fund's investments in the companies headquartered in or have significant business exposure to China may subject the Fund's investments to greater volatility than portfolios which comprise broad-based global investments.

Credit risk

The Fund is subject to the risk of the inability of any counterparty (including any AP Issuer) to perform with respect to any investments or contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. The Fund is likely to be an unsecured creditor in any such proceeding and may obtain only a limited recovery or may obtain no recovery in such circumstances. Where there has been a credit event of any AP Issuer, the Manager will take the necessary steps to find one or more alternative AP Issuers to replace the Fund's investment exposure under the Access Products issued by the AP Issuer in respect of which a credit event has occurred. However there is no guarantee that the Manager will be successful and if the Manager fails to find such alternative AP Issuers, as a result of which the Fund is not able to achieve its investment objective, the Fund will be terminated.

The Fund also faces the risk that an issuer of a security in which the Fund has invested will default on its obligations due to insolvency or financial distress, resulting in an adverse effect on the value of the Fund's investments.

Please see "Risk of investing in Access Products" and "Risk of early termination of the Trust and/or the Fund" below for further discussion regarding the credit risk of AP Issuers and possible early termination of the Fund.

Investment objective and strategy risk

In constructing the Fund's portfolio, the Sub-Manager will select companies with strong earnings growth potential, profit generating capability, experienced management and favourable valuation. However, the Sub-Manager may not be successful in selecting the best-performing securities or investment techniques, and there can be no assurance that the companies selected will continue to perform an on-going basis through different economic cycles. Past performance is not indicative of future performance.

There is no assurance that the investment objectives of the Fund will actually be achieved, notwithstanding the efforts of the Sub-Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Sub-Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in the Fund or may lose a substantial part or all of their initial investment.

In addition, the Fund's strategy will involve up to approximately 40% exposure to Access Products, which are issued on the basis of the QFII system. However, the QFII system is relatively new. It is not possible to predict the future development of the QFII system and the CSRC may impose restrictions on the operations of QFIIs. Such restrictions may adversely affect the ability of third parties to issue Access Products and therefore the capacity of the Manager to make investments in Access Products. The Fund may not be able to fully implement or pursue its investment strategy due to such restrictions and, in the worse case scenario, may have to be terminated.

The Fund is also subject to risks inherent in investing in Access Products. Investors' attention is drawn to "Derivatives risk" and "Risk of investing in Access Products" for more information in this regard.

Investment and market risk

Investors should be aware that investment in the Fund is subject to market fluctuations and other risks inherent in the underlying assets into which the Fund may invest. There can be no assurance that any appreciation in the value of the Fund's investments will occur. As a result, the price of Units may go down as well as up.

Risk of investing in Access Products

Limited liquidity: Any Access Product will be subject to the terms and conditions imposed by its issuer. These terms may lead to delays in implementing the Fund's investment strategy. Access Products typically have no active secondary market and so have limited liquidity. In order to liquidate investments, the Fund will rely upon the counterparty issuing the Access Product to quote a price to unwind any part of the Access Product. Accordingly the Manager's ability to adjust positions may be restricted which may have an impact on the performance of the Fund.

Credit risk: An investment in an Access Product is not an investment directly in the underlying investments (such as shares) themselves. An investment in the Access Product does not entitle the holder to the beneficial interest in the shares nor to make any claim against the company issuing the shares.

Access Products constitute direct, general and unsecured contractual obligations of the AP Issuer. Accordingly, the Fund will be subject to credit risk of the issuer of any Access Product invested by the Fund and would be exposed to potential losses equal to the full value of the Access Products issued by the AP Issuer if such AP Issuer became bankrupt or otherwise failed to perform its obligations due to financial difficulties. Any loss would result in a reduction in the Net Asset Value and impair the ability of the Fund to achieve its investment objective.

However the Manager will mitigate such counterparty risk by putting in place appropriate counterparty risk management procedures.

Cost of Access Products risk: The availability of Access Products is limited by applicable PRC regulations, and as a result the cost of investing in Access Products is subject to market supply and demand forces. Where the market supply is low relative to market demand, acquiring further Access Products may involve a higher cost or a premium, which may affect the Fund's overall performance. However, in constructing the Fund's portfolio and deciding whether to use Access Products to gain exposure to a certain company, the Sub-Manager will take into account all relevant considerations, including the cost involved in investing in Access Products.

Limitations posed by QFII restrictions: Under the Investment Regulations, QFIIs are subject to compliance with certain investment restrictions. In particular, (i) shares held by a QFII in a listed PRC company should not exceed in aggregate 10% of the total outstanding share capital of the company (regardless of the fact that the QFII may hold its interest on behalf of a number of different ultimate clients); and (ii) the aggregated holdings of all QFIIs in any listed PRC company should not exceed 20% of the total outstanding share capital of that company. These restrictions may restrict the ability of the AP Issuer to issue, and therefore the ability of the Fund to purchase, Access Products linked to certain A Shares.

Repatriation risk: Repatriation of capital is subject to SAFE's approval and there are restrictions imposed on the repatriation amount and interval. Access Products are issued outside the PRC and restrictions on or suspension of the ability of QFIIs in general to repatriate US dollars should not affect the operation of the Fund. However, where the AP Issuer is also a QFII or the AP Issuer hedges the Access Product with an affiliate which is a QFII, the inability to repatriate US dollars may give rise to liquidity problems for that AP Issuer, which may impact the Fund if that AP Issuer is unable to perform its obligations under the relevant Access Product.

Equity risk

The Fund is subject to the risks generally associated with equity investment, namely, the market value of the stocks may go down as well as up. Investors may not be able to get back their original investments. Factors affecting the stock values are numerous, including but are not limited to changes in investment sentiments, political environment, economic environment, business and social conditions in local and global marketplace. Securities exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible and the Fund may be subject to losses.

Risks in the A Share market

The A Share market is considered volatile and unstable, with the risk of suspension of a particular stock or government intervention. It is undergoing a period of growth and change which may lead to difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. Investments in A Shares by the Fund and the relevant QFII are subject to restrictions on the proportion of foreign shareholdings imposed in the PRC. The Fund may therefore be subject to a higher degree of volatility.

Risks associated with the Stock Connect

The Fund's investments through the Stock Connect may be subject to the following risks. In the event that the Fund's ability to invest in A Shares through the Stock Connect on a timely basis is adversely affected, the Fund will seek to rely on Access Products to achieve its investment objective.

Quota limitations: The Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Fund's ability to invest in A Shares through the Stock Connect may be affected.

Suspension risk: It is contemplated that both the SEHK and the SSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading is effected, the Fund's ability to access the A Share market through the Stock Connect will be adversely affected.

Differences in trading day: The Stock Connect only operates on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as the Fund) cannot carry out any A Shares trading.

Operational risk: The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the China stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

Recalling of eligible stocks: If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Fund’s ability to invest in A Shares through the Stock Connect.

Clearing and settlement risk: The HKSCC and CSDCC establish clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. Should the remote event of CSDCC default occur and the CSDCC be declared as a defaulter, HKSCC’s liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC’s liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

Regulatory risk: The Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

No Protection by Investor Compensation Fund: The Fund’s investments through the Stock Connect will not be covered by Hong Kong’s Investor Compensation Fund. Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund. On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, they are not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC. Therefore the Fund is exposed to the risks of default of the broker(s) it engages in its trading in A Shares through the programme.

Currency risk

The Fund will hold investments denominated in currencies different to the Base Currency of the Fund, meaning the Fund's assets will be at risk to adverse movements in the foreign currency rates. The value of the Fund's assets, and therefore the Net Asset Value of the Units, will be affected by, amongst other factors, the relative exchange rates of the Base Currency and the currency in which the assets of the Fund are denominated. In addition, any Class not denominated in the Base Currency will be exposed to possible adverse currency fluctuations between its currency of denomination and the Base Currency.

Derivatives risk

Although, with the exception of Access Products, the use of derivatives will generally not form part of the investment strategy of the Fund, the Manager and/or Sub-Manager may from time to time utilise financial derivative instruments (including index futures, index options and index and currency swaps) for hedging purposes. The use of derivatives exposes the Fund to additional risks, including: (1) volatility risk (derivatives can be highly volatile and expose investors to a high risk of loss); (2) leverage risk (as the low initial margin deposits normally required to establish a position in derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (3) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (4) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (5) counterparty risk (the Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (6) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (7) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of the Fund.

Emerging market risk

Investing in emerging markets such as China subjects the Fund to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk, greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects the Fund. Differences in laws between countries or jurisdictions may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of the Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including altering investments of the Fund or restructuring the Fund.

Performance fee

In addition to receiving a management fee, the Manager may also receive a performance fee based on the appreciation in the Net Asset Value per Unit. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised. Furthermore, due to the way in which the performance fee is calculated (and investors should note that there will not be any equalisation payment or series units issued in respect of the Fund), a Unitholder may incur a performance fee even though ultimately the Unitholder does not receive a positive return from the Fund. The performance fee may also create an incentive for the Manager to make investments for the Fund which are riskier than would be the case in the absence of such a performance fee.

Please refer to the explanation of how performance fee is calculated set out under the section headed “Expense and Charges” in this Explanatory Memorandum.

Risk of early termination of the Trust and/or the Fund

The Fund may be terminated by the Manager or the Trustee under certain conditions and in the manner as specified in “Termination of the Trust or any Sub-Fund” in the section headed “General” in this Explanatory Memorandum and the Trust Deed. It is possible that, in the event of such termination, the Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will not be able to receive an amount equal to their capital originally invested.

Risks associated with PRC taxation

By investing in Access Products and A Shares issued by tax resident enterprises in the PRC, the Fund may be subject to withholding and other taxes imposed in the PRC.

Please refer to the discussion on PRC taxation in the section headed “Taxation” below, particularly the sub-sections “Tax associated with Access Products” and “Tax associated with Stock Connect”, for details of PRC tax considerations and the risks involved.

Please see also “Tax associated with Access Products” and “Tax associated with Stock Connect” in the section headed “Taxation” below.

There can be no assurance that the existing tax laws regulations and practice will not be revised or amended or that new tax laws may be promulgated in the future. Any of these changes may reduce the income from, and/or value of, the Units. If the actual applicable tax levied is higher than that provided for by the Manager and/or AP Issuers so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Fund may be adversely impacted as the Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied is lower than that provided for by the Manager and/or AP Issuers so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before the ruling, decision or guidance by the authorities in this respect will be disadvantaged as they would have borne the loss from the overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Fund.

Risks relating to the PRC

Apart from the usual investment risk, investing in the PRC is also subject to certain other inherent risks and uncertainties. In addition, investors should note that although the Fund will not be directly investing in A Shares, it will nevertheless be exposed to the risk associated with investments in A Shares by virtue of its investments in Access Products.

Accounting and reporting standards: PRC companies are required to follow PRC accounting standards and practice which follow international accounting standards to a certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to PRC companies may be less rigorous, and there may be significant differences between financial statements prepared in accordance with the PRC accounting standards and practice and those prepared in accordance with international accounting standards. As the disclosure and regulatory standards in the PRC are less stringent than in more developed markets, there might be substantially less publicly available information about issuers in the PRC on which the Manager can base investment decisions.

Government control of currency conversion and future movements in exchange rates: Since 1994, the conversion of RMB into US Dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In April 2012, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/-0.5% to +/-1%. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US Dollar or any other foreign currency in the future. Any appreciation of RMB will increase the value of any dividends that the Fund may receive from its PRC investments and the Net Asset Value, which will be quoted in US Dollars, and vice versa.

Developing Legal and regulatory system: The PRC legal system is a codified legal system comprising written statutes, regulations, circulars, administrative directives, internal guidelines and their interpretation by the Supreme People's Court. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. However, experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into is also limited. In particular, the Investment Regulations, which regulate investments by QFIIs in the PRC and the repatriation and currency conversion, is relatively untested and there is no certainty as to how they will be applied. CSRC and SAFE have been given wide discretions in the Investment Regulations and there is no precedent or certainty as to how these discretions might be exercised. There can be no assurance that revisions to the Investment Regulations will not prejudice QFIIs or Access Products issued by QFIIs, or that the QFII investment quotas, which are subject to review from time to time by CSRC and SAFE, will not be removed substantially or entirely.

Nationalisation and expropriation: After the formation of the Chinese socialist state in 1949, the Chinese government renounced various debt obligations and nationalised private assets without providing any form of compensation. In recent years, PRC government has adopted a more friendly attitude towards foreign investment in the PRC. However, there can be no assurance that the PRC government will not take similar actions in the future.

Political and economic considerations: Prior to 1978, the PRC economy was centrally planned, and the PRC government was responsible for formulating five-year plans for the country which set forth economic targets. However, since 1978, the PRC has implemented a series of economic reform programmes emphasising the utilisation of market forces in the development of the PRC's economy and a high level of management autonomy. The economy of the PRC has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. However, there can be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. The PRC government may from time to time adopt corrective measures to control inflation and restrain the rate of economic growth, which may also have an adverse impact on the capital growth and performance of the Fund. Further, political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including the expropriation of assets, confiscatory taxes or nationalisation of some or all of the investments held by the underlying securities in which the Fund may invest. The above factors could negatively affect the value of the investments held by the Fund and consequently the Net Asset Value of the Units.

PRC's accession to the World Trade Organisation: With PRC's accession to the World Trade Organisation on 11 December 2001 and the gradual opening of the PRC market, companies in which the Fund invests in the PRC may face increased competition as the PRC is required to significantly reduce the trade barriers for imports that have historically existed and that currently exist in the PRC, such as reducing restrictions on trading for certain kinds of products of foreign companies, lifting prohibitions, quantitative restrictions or other measures maintained against imports and significantly reducing tariffs. Any present or future increase in foreign competition may have an adverse effect on the Fund's investments in the PRC.

Securities Markets: The stock exchanges and markets in the PRC have experienced significant fluctuations in the prices of securities, and no assurance can be given that such volatility will not continue in the future. The PRC's securities markets are undergoing a period of growth and change which may lead to difficulties in the settlement and recording of transactions and in interpreting and applying the relevant regulations. The PRC's regulatory authorities have only recently been given the power and duty to prohibit fraudulent and unfair trade practices relating to securities markets, including insider trading and market abuse, and to regulate substantial acquisitions of shares and takeovers of companies.

Suspension risk

Under the terms of the Trust Deed, in certain circumstances, the Manager may suspend the calculation of the Net Asset Value of Units in the Fund as well as suspend subscriptions and realisations for Units in the Fund. Investors may not be able to subscribe or realise when such a suspension is invoked. Investors may not be able to obtain a market value of their investment if the unit price is suspended.

Please refer to the section headed "Suspension of calculation of Net Asset Value" for further information in this regard.

FATCA related risk

Sections 1471 through 1474 of the US Internal Revenue Code (referred to as “FATCA”) will impose a withholding tax of 30 per cent on certain US-sourced gross amounts paid to the Fund, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules include gross US-source dividend and interest income and gross proceeds from the sale of property that produces US-source dividend or interest income. To avoid withholding under FATCA, the Fund will be required to report certain information to the Cayman Islands Tax Information Authority which in turn will report relevant information to the United States Internal Revenue Service. Although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of this withholding tax, no assurance can be given that the Fund will be able to comply with the relevant reporting requirements or other obligation. If the Fund becomes subject to a withholding tax as a result of FATCA, the value of Units may be materially affected.

TAXATION

Prospective Unitholders consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on advice received by the Manager regarding the law and practice in force in the Cayman Islands, Hong Kong and the PRC and at the date of this Explanatory Memorandum.

Cayman taxation

There are at present no corporation, income, capital gains, profits or other taxes in the Cayman Islands which would apply to the profits in respect of the Fund. Nor are there at present gift, estate or inheritance taxes in the Cayman Islands.

The Trustee has applied for and received an undertaking from the Governor in Cabinet of the Cayman Islands, in accordance with section 81 of the Trusts Law (2009 Revision) of the Cayman Islands that for a period of 50 years from the date of that undertaking, no laws of the Cayman Islands thereafter enacted imposing any tax or duty to be levied on income or on capital assets, gains or appreciations or any tax in the nature of estate duty or inheritance tax shall apply to any property comprised in or any income arising under the Fund or to the Trustee or the Unitholders in respect of any such property or income.

No stamp duty is levied in the Cayman Islands on the transfer or realisation of Units. There is, at the date of this Explanatory Memorandum, no exchange control in the Cayman Islands.

Hong Kong taxation

During such period as the Fund is authorised by the SFC pursuant to Section 104 of the SFO, under present law and practice:

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

PRC taxation

Corporate Income Tax ("CIT")

The Manager and the Trustee intend to manage and operate the Fund in such a manner that the Fund should not be treated as a tax resident enterprise of the PRC or a non-tax resident enterprise with an establishment or place of business in the PRC for CIT purposes. As such, it is expected that the Fund should not be subject to CIT on an assessment basis and would only be subject to CIT on a withholding basis to the extent the Fund directly derives PRC sourced income.

Tax associated with Access Products

The Fund obtains an economic exposure to A Shares through acquiring or disposing of Access Products. AP Issuers may implement hedging arrangements on the Access Products through one or more QFIIs, which would acquire or dispose of the underlying A Shares to which the relevant Access Product is linked. As under PRC law, the relevant QFII is the legal owner of the A Shares, any PRC taxes arising from the QFIIs' investments in the underlying A Shares would be legally borne by the QFII directly. Given that any PRC tax liabilities accruing to the QFII in respect of the A Shares to which the Access Products are linked arise because of the trading activities of the Fund, such tax liabilities may ultimately be passed on to and be borne by the Fund under the terms of the relevant Access Products.

Under current PRC tax law, there are no specific rules or regulations governing the taxation of QFIIs (including taxation of dividends paid and gains realised by a QFII on the disposal of A Shares). The tax treatment for a QFII investing in A Shares is governed by the general taxation provisions of the Corporate Income Tax Law ("CIT Law"). Under the CIT Law, a QFII is subject to 10% CIT on a withholding basis on interest income, dividends and capital gains from PRC listed securities. This is on the basis that the QFII would be managed and operated such that it would not be considered a tax resident enterprise in the PRC and it would not be considered to have a permanent establishment in the PRC. Any double tax treaty between the PRC and the country of the QFII may further reduce the 10% withholding tax rate.

To date, PRC withholding tax has been enforced on dividend and interest payments from PRC listed companies to QFIIs at the rate of 10%. PRC withholding tax has generally not yet been enforced on any capital gains realised by QFIIs from dealing in A Shares. However, such gains are technically subject to the 10% withholding tax under PRC tax law and it is anticipated that QFIIs may become liable to PRC withholding tax on any such capital gains in the future, possibly retrospectively. Please refer to the discussion on "Notice No. 79" below.

There is a risk the PRC tax authorities would seek to collect this tax on capital gains realised by QFIIs on sale of A Shares, on a retrospective basis, without giving any prior warning. If such tax is collected, the tax liability will be payable by the QFII. In such event, under the terms of the Access Products or as otherwise agreed between the Manager and an AP Issuer, any tax levied on and payable by the QFII in the PRC may be passed on to and borne by the Fund to the extent such tax is indirectly attributable to the Fund through its holdings of Access Products. In addition, when the Manager sells an Access Product, the sale price may take into account the QFII's tax liability. In such circumstance the value of the Access Products held by the Fund may be reduced relative to the value of the underlying A Shares to which the Access Product is linked because, ultimately, the PRC tax liability, if any, will be passed on to and borne by the Fund, which may have a detrimental effect on the Net Asset Value.

Certain AP Issuers have been withholding an amount representing the PRC tax in respect of any capital gains which would be payable on an actual sale of the notional underlying A Shares of any Access Product. Prior to the issuance of Notice No. 79 (see below), the market practice of AP Issuers was generally to withhold an amount equal to approximately 10% of capital gains. Such withholding by AP Issuers have been reflected in the bid prices they quote for their Access Products and, therefore, in the Net Asset Value of the Fund on any Valuation Day.

Depending on the terms of the Access Product, any amounts withheld would typically be retained for a period of at least 5 to 7 years (pending clarification of the tax rules by the PRC authorities), or indefinitely. Some AP Issuers have agreed that, at the end of a certain number of years, if tax on capital gains has not been enforced against it (or its affiliate), or the amount withheld is greater than the actual capital gains tax liability, the amount withheld (or the excess withholding) will be returned to the Fund (and in some cases interest accrued on amounts withheld may be payable to the Fund), although the Fund will still remain liable to the AP Issuer for any future tax liability that may have arisen in respect of such AP Issuer's hedging of its obligations under such Access Products. However, even for such Access Products, if the Fund is terminated before the expiry of the specified period, then notwithstanding such terms the Fund will not recover the amounts withheld. Other AP Issuers have chosen to retain amounts withheld indefinitely, regardless of whether, and the rate at which, tax on capital gains becomes chargeable. Still other AP Issuers have imposed further or different terms in relation to amounts withheld.

The Ministry of Finance, the State Administration of Taxation (the "SAT") and the CSRC on 14 November 2014 promulgated the "Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of PRC equity investment assets such as PRC domestic stocks by qualified foreign institutional investors and renminbi qualified foreign institutional investors" (Caishui [2014] No.79) (the "Notice No. 79"), which states that (i) CIT will be imposed on capital gains derived by QFIIs and renminbi qualified foreign institutional investors ("RQFIIs") from the transfer of PRC equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws; and (ii) QFIIs and RQFIIs without an establishment or place of business in the PRC will be temporarily exempt from CIT on gains derived from the transfer of PRC equity investment assets (including A-Shares) effective from 17 November 2014.

In light of Notice No. 79, the AP Issuers have generally agreed not to withhold any amounts representing CIT in respect of capital gains realised from 17 November 2014 onwards on an actual sale of the notional underlying A Shares of any Access Products.

It should be noted, however, that Notice No. 79 states that the exemption on CIT derived from capital gains realised by QFIIs and RQFIIs from trading A-Shares is temporary only, and, as such, as and when the PRC authorities announce the expiration of such exemption, the AP Issuers may need to recommence provisioning for future potential tax liability, which would in turn adversely affect the Net Asset Value of the Fund.

The Fund will establish a reserve for any potential PRC tax liabilities which may be incurred when a gain is crystallised if, in the opinion of the Manager, a reserve is warranted. Generally, an amount equal to 10% of any capital gains, realised or unrealised, will be reserved to the extent that such amount is not otherwise withheld by the relevant AP Issuer or exempted pursuant to relevant regulations. However, the actual percentage applicable from time to time will vary in accordance with market practice. Any such reserve will have the effect of reducing the Net Asset Value per Unit by the pro rata amount of estimated tax liability. In the event that the Fund is required to make payments reflecting tax liabilities for which no reserves or insufficient reserves have been taken, the Net Asset Value per Unit may decrease substantially, without notice, by the pro rata amount of the unreserved tax exposure. The amount of any reserve established by the Fund will be disclosed in the Fund's annual and semi-annual reports.

Tax associated with Stock Connect

Pursuant to the “Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No.81) (“Notice No.81”) promulgated by the Ministry of Finance, the State Administration of Taxation and the CSRC on 14 November 2014, dividends received by Hong Kong and overseas investors (including the Fund) from A Share investment via the Stock Connect will be subject to 10% withholding income tax and the company distributing the dividend has the withholding obligation. If the recipient of the dividend is entitled to a lower treaty rate, it can apply to the tax bureau in-charge of the payer for a refund.

The Notice No. 81 also provides that PRC corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A Shares through the Stock Connect. Based on Notice No. 81, no provision for gross realised or unrealised capital gains derived from trading of A Shares via the Stock Connect is made by the Manager on behalf of the Fund.

It should be noted that the corporate income tax exemption under Notice No. 81 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

Compliance with US, UK and other jurisdictions requirements regarding tax

US Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the US Internal Revenue Code (referred to as “FATCA”) will impose a withholding tax of 30 per cent on certain US-sourced gross amounts paid to certain “Foreign Financial Institutions”, including the Fund, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules generally include gross US-source dividend and interest income, gross proceeds from the sale of property that produces dividend or interest income from sources within the US and certain other payments made by “Participating Foreign Financial Institutions” to “recalcitrant account holders” (so called “foreign pass thru payments”).

The Government of the Cayman Islands has entered into a Model 1 intergovernmental agreement with the United States (the “US IGA”) and implemented domestic regulations to facilitate compliance with FATCA. To comply with its obligations under applicable legislation, the Fund will be required to report FATCA information to the Cayman Islands Tax Information Authority (the “Cayman TIA”) which in turn will report relevant information to the United States Internal Revenue Service (“IRS”). To avoid withholding under FATCA, the Fund may request additional information from any Unitholder and its beneficial owners (that may be disclosed to the Cayman TIA and the IRS) to identify whether Units are held directly or indirectly by “Specified US Persons” (as defined in the US IGA). If the Fund is not able to comply with reporting requirements under the US IGA (whether due to a failure of one or more Unitholders to provide adequate information or otherwise), the 30 per cent withholding tax under FATCA could apply to the Fund.

The Fund has registered with the IRS as a reporting foreign financial institution pursuant to the requirements of FATCA.

UK and additional jurisdictional requirements regarding tax

The Cayman Islands has also signed with the UK a separate inter-governmental agreement (the "UK IGA") in broadly similar form to the US IGA. The UK IGA imposes similar requirements to the US IGA, so that the Fund will be required to identify Units held directly or indirectly by "Specified United Kingdom Persons" (as defined in the UK IGA) and report information on such Specified United Kingdom Persons to the Cayman TIA, which will exchange such information annually with HM Revenue & Customs, the United Kingdom tax authority. It is possible that further inter-governmental agreements ("future IGAs") similar to the US IGA and the UK IGA may be entered into by the Cayman Islands Government to introduce similar regimes for reporting to other countries' fiscal authorities ("foreign fiscal authorities"), including regimes arising from or in connection with the OECD Common Reporting Standard.

Implications for Unitholders

In order to comply with the US IGA, the UK IGA or any future IGAs, the Fund may be required to disclose certain confidential information provided by Unitholders to the relevant foreign fiscal authority or to the Cayman TIA, which in turn will report the information to the relevant foreign fiscal authority. In addition, the Fund may at any time require a Unitholder to provide additional information and/or documentation which the Fund may be required to disclose to the Cayman TIA and/or relevant foreign fiscal authority.

If a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund, or a risk of the Fund being subject to any withholding tax or other liability, the Trustee and/or the Manager may take any action and/or pursue any remedy at its disposal. Such action or remedy may include the compulsory redemption of some or all of the Units held by the Unitholder concerned, as permitted by applicable laws and regulations and the Manager will act in good faith and on reasonable grounds. No Unitholder affected by any such action or remedy shall have any claim against the Fund, the Trustee, the Manager or their delegates for any form of damages or liability as a result of actions taken or remedies pursued by or on behalf of the Fund in order to comply with the US IGA, the UK IGA, any future IGAs or any of the relevant underlying or implementing legislation.

Unitholders should consult their own advisors regarding the possible application of FATCA, the US IGA, the UK IGA or any applicable future IGA and the potential impact of the same, on any their investment in the Fund.

GENERAL

Reports and accounts

The Trust's financial year end is on 31 December in each year. An annual report with audited accounts in US Dollars will be prepared for each financial year. The first accounts for the Fund covered the period to 31 December 2011. Unaudited semi-annual reports will also be prepared. Such reports will contain a statement of the Net Asset Value of the Fund and of the investments comprising its portfolio.

Annual and semi-annual reports and financial statements will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of annual reports and audited financial statements, and within two months after 30 June in each year in the case of unaudited semi-annual reports. Once issued the annual and semi-annual reports will be available in softcopy from the website www.funds.citi.com and in hardcopy for inspection at the Manager's office free of charge during normal working hours.

Distribution policy

It is not envisaged that any income or gain derived from investments of the Fund will be distributed.

Meetings of Unitholders

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 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 (as defined below). The quorum for passing an Extraordinary Resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue ("Extraordinary Resolution"). 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. Every individual 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.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding Units of different Classes where only the interests of Unitholders of such Class are affected.

Transfer of Units

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. 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. The Transfer Agent on behalf of the Trustee is entitled to require from the transferor and/or the transferee, the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any expenses incurred by the Transfer Agent in connection therewith.

The Manager or the Transfer Agent on behalf of the Trustee may refuse to enter the name of a transferee in the Register or recognise a transfer of any Units if either of them believe that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

Trust Deed

The Trust was established under the laws of the Cayman Islands by a Trust Deed dated 7 October 2010 made between the Manager and the Trustee with an initial trust fund of US\$10.

In accordance with the terms of the Trust Deed, the Manager has full power to deal in any way with or dispose of the assets of any Fund provided that the Manager shall comply at all times with the investment objectives and policies and investment restrictions and guidelines contained in the constitutive documents of the Trust and this Explanatory Memorandum.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances.

Under the Trust Deed, the Trustee may remove the Manager if: (a) the Manager goes into liquidation, (b) the Trustee is of the opinion that a change in manager of the Trust is desirable in the interests of the Unitholders and (c) the Unitholders representing not less than 50% by value of all Units outstanding deliver a notice to the Trustee to do so. The Manager may also retire on a voluntary basis under certain other circumstances specified in the Trust Deed.

Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Auditors

The Manager, with the prior approval of the Trustee, shall from time to time appoint to be the auditors of the Trust an accountant or accountants being qualified to act as an auditor or auditors (the "Auditors"). Any such Auditors so appointed will be independent of the Trustee and the Manager. The Auditors may voluntarily retire by notice in writing to the Manager, upon which the Manager shall appoint another qualified auditor or auditors in their stead.

KPMG has been appointed by the Manager as the auditors of the Trust.

Termination of the Trust or any Sub-Fund

The Trust shall continue for a period of 150 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trust may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the Trust; (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal or retirement of the Manager; (c) the Trustee shall have decided to retire but within three months from the date of the Trustee giving its written notice to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and the unitholders of the Trust sanction the termination by way of Extraordinary Resolution; or (e) the unitholders of the Trust determine, by Extraordinary Resolution, that the Trust should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Any Sub-Fund may be terminated on the occurrence of any of the following events: (a) the Trust is terminated; (b) the Net Asset Value of the relevant Sub-Fund is less than US\$5 million and the Manager by notice in writing to the Trustee directs that the relevant Sub-Fund be terminated; (c) any law is passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable to continue the relevant Sub-Fund; (d) in the case of a Sub-Fund the sole investment objective of which is to track the performance of an index or rules based investment strategy, the relevant index or strategy becomes unavailable for any reason whatsoever and no suitable replacement index or strategy can be identified by the Manager, such that, in the opinion of the Manager, the investment objective of the relevant Sub-Fund can no longer be achieved; (e) if the Trustee and the Manager agree that it is undesirable to continue the relevant Sub-Fund and the holders of units of the relevant Sub-Fund sanction the termination by way of Extraordinary Resolution; or (f) the holders of units of the relevant Sub-Fund determine, by Extraordinary Resolution, that the Sub-Fund should be terminated (in which case, such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide).

Upon termination of the Trust or a Sub-Fund, the Trustee and the Manager will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Trust or the relevant Sub-Fund (as the case may be). Thereafter, the Trustee will distribute to the unitholders, in proportion to the units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Please refer to the Trust Deed for further details.

Documents available for inspection

Copies of the Trust Deed, this Explanatory Memorandum, the investment management agreement between the Manager and the Sub-Manager and the latest annual and semi-annual reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at 50/F Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

Anti-Money Laundering Regulations

As part of the Trustee's and the Manager's responsibility for the prevention of money laundering, the Transfer Agent on behalf of the Trustee and/or the Manager may require a detailed verification of an investor's identity and the source of payment of application monies. 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 has its head office or is organised within a country that is a member of the Financial Action Task Force or recognised as having sufficient anti-money laundering regulations.

Each of the Transfer Agent, the Trustee and the Manager reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Transfer Agent on behalf of the Trustee and/or the Manager may refuse to accept the application and the subscription monies relating thereto.

The Transfer Agent on behalf of the Trustee and the Manager also reserve the right to refuse to make any realisation payment to a Unitholder if the Transfer Agent on behalf of the Trustee or the Manager suspects or are advised that the payment of realisation proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Fund or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

If any person resident in the Cayman Islands knows or suspects that another person is engaged in money laundering or knows, suspects or has reasonable grounds to suspect that another person is involved in terrorist activity or with terrorist property and the information for that knowledge, suspicion or grounds for suspicion came to their attention in the course of their business, the person will be required to report such knowledge, suspicion or grounds of suspicion (as applicable) to either (i) the Financial Reporting Authority of the Cayman Islands, pursuant to the Proceeds of Crime Law, 2008 if the disclosure relates to money laundering, or (ii) a police officer of the rank of constable or higher, pursuant to the Terrorism Law (2009 Revision) if the disclosure relates to involvement with terrorist activity or terrorist property. Such a report shall not be treated as a breach of confidence or of any restriction upon the disclosure of information imposed by any enactment or otherwise.

By subscribing, applicants consent to the disclosure by the Trustee and the Manager of any information about them to regulators and others upon required in connection with money laundering and similar matters both in the Cayman Islands and in other jurisdictions.

Conflicts of Interest

The Manager, the Sub-Manager and the Trustee (and any of their affiliates) may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager 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 the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Trust. Each will, at all times, have regard in such event to its obligations to the Trust and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager and the Sub-Manager will ensure that all investment opportunities will be fairly allocated.

It is expected that transactions for the Fund may be carried out with or through Connected Persons of the Manager. There is no limit on the volume of transactions which may be conducted with or through such Connected Persons but the Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on an arm's length basis and are consistent with best execution standards. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the Fund's annual report.

Regulation of the Fund in the Cayman Islands

The Fund falls within the definition of a "Mutual Fund" in terms of the Mutual Funds Law (2009 Revision) of the Cayman Islands (the "Mutual Funds Law") and accordingly is regulated in terms of that Law. In compliance with the requirements of Section 4(1)(b) of the Law, the Trustee, being a licensed mutual fund administrator for the purposes of the Law, provides the principal office of the Fund in the Cayman Islands.

The Trustee has filed with the Cayman Islands Monetary Authority ("CIMA") a copy of this Memorandum together with certain details about this Memorandum as required by the Mutual Funds Law. It has also paid the prescribed initial registration fee. These are matters required in connection with its initial registration under the Mutual Funds Law.

The Trustee has ongoing obligations under the Mutual Funds Law following the initial registration of the Trust and the Fund. These are:

- (i) to file with CIMA prescribed details of any changes to this Memorandum;
- (ii) to file annually with CIMA accounts audited by an approved auditor; and
- (iii) to pay a prescribed annual fee.

As a regulated mutual fund, the Fund is subject to the supervision of CIMA. At any time, CIMA may instruct the Trustee to have the accounts of the Fund audited and to submit them to CIMA within a specified time. Failure to comply with any supervisory request by CIMA may result in substantial fines. CIMA has wide powers to take certain actions if certain events occur. For instance, it has wide powers to take action if it is satisfied that a regulated mutual fund:

- is or is likely to become unable to meet its obligations as they fall due; or
- is carrying on or is attempting to carry on business or is winding up its business voluntarily in a manner that is prejudicial to its investors or creditors.

The powers of CIMA include, amongst others, the following: (i) the power to require the substitution of the Trustee; (ii) the power to appoint a person (at the Fund's expense) to advise the Trustee on the proper conduct of the affairs of the Trust; and (iii) the power to appoint a person to assume control of the affairs of the Fund, including for the purpose of terminating the business of the Fund. CIMA also has other remedies available to it including applying to the courts of the Cayman Islands for approval of other actions, and requiring the Fund to be re-organise in a manner specified by CIMA.