

HAITONG MIDDLE KINGDOM FUND

C1

EXPLANATORY MEMORANDUM

January 2020

C21

Issuer: Haitong International
Investment Managers Limited

Table of Contents

	Page
Management and Administration	1
Introduction	2
Preliminary Information	3
Definitions	6
Table of Key Features	10
Policy and Objectives of the Fund	12
Risk Factors	13
Management	17
Trustee and Registrar’s Agent	20
Application for Units	22
Redemption of Units	25
Valuation and Price Calculation	26
Publication of Prices	28
Suspension of Dealings	28
Limits on Redemption	28
Charges and Expenses	29
Taxation	31
Investment and borrowing Restrictions	34
Distribution and Income	34
Financial Reports	34
Trust Deed	34
Unitholders’ Meetings	35
Duration and Termination of the Fund	36
Anti-money Laundering Regulations	37
Conflicts of Interest	39
CERTIFICATION FOR COMPLIANCE WITH FATCA OR OTHER APPLICABLE LAWS	39
POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES	39
Data protection	40
Documents available for Inspection	40
Schedule 1 – Investment and Borrowing Restrictions	41

MANAGEMENT AND ADMINISTRATION

Manager:

Haitong International Investment Managers Limited
22/F., Li Po Chun Chambers,
189 Des Voeux Road Central
Central, Hong Kong
General Line: (852) 2116 8200

C3(a)

Directors of the Manager:

Chen Xuan
Lo Wai Ho
Poon Mo Yiu
Sun Tong
Yang Jianxin

C3(a)

Trustee and Registrar:

HSBC Trustee (Cayman) Limited
Principal address:
Strathvale House
Ground Floor, 90 North Church Street,
George Town,
Grand Cayman
Cayman Islands
Registered address:
P.O. Box 309,
Ugland House,
Grand Cayman, KY1-1104,
Cayman Islands

C3(b)

C3(g)

Alternate Trustee:

HSBC Bank Bermuda Limited
Bank of Bermuda Building, 6 Front Street
Hamilton HM11
Bermuda

C3(b)

Trustee's and Registrar's Agent:

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

Solicitors:

King & Wood Mallesons
13/F Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Auditors:

KPMG
Century Yard, Cricket Square George Town
Grand Cayman
Cayman Islands
British West Indies

C3(f)

INTRODUCTION

The Haitong Middle Kingdom Fund is a unit trust established pursuant to the Trust Deed dated 18 April 1989 (as amended) under the laws of Hong Kong. Details of the constituent documents of the Fund are set out below in the section headed "Trust Deed". The base currency of the Fund is Hong Kong dollars.

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Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value, is available on the website www.htisec.com/asm. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

C22A

PRELIMINARY INFORMATION

Important - If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice. C19(a)

Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the Fund will be achieved. Investors should read this Explanatory Memorandum, particularly the section headed “Risk Factors” before making their investment decisions.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the product key facts statement in relation to the Fund at the date of publication, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading. However, neither the delivery of this Explanatory Memorandum and the product key facts statement nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum or the product key facts statement is correct as of any time subsequent to such date. This Explanatory Memorandum and the product key facts statement may from time to time be updated. Prospective investors should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum have been issued. C22
C19A

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisors and take legal advice as appropriate as to whether any government or other consents are required, or other formalities need to be observed and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable, to enable them to acquire Units.

No action has been taken to permit an offering of Units or distribution of this Explanatory Memorandum or the product key facts statement in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum or the product key facts statement may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized. Receipt of any document about the Fund does not constitute an offer of Units in those jurisdictions in which it is illegal to make such an offer. 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 (as defined in Regulation S under such Act); and
- (b) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Units issued in respect of the Fund after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory

Memorandum, the product key facts statement and the latest annual report and accounts or semi-annual report of the Fund. Any further information or representations made by any dealer, salesman or other person must be regarded as unauthorized and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of Units shall not in any way constitute a representation that the information and representations given herein or in such documents is correct as at any time subsequent to the date of such documents.

The Fund is authorised by the SFC. 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.

The Fund is registered with CIMA as a regulated mutual fund under Section 4(1)(b) of the Mutual Funds Law and, accordingly, is regulated pursuant to that law. In compliance with the requirements of Section 4(1)(b) of the Mutual Funds Law, the Trustee, being a licensed mutual fund administrator for the purposes of the Mutual Funds Law, provides the principal office of the Fund in the Cayman Islands.

In connection with its registration under the Mutual Funds Law, the Fund has filed with CIMA a copy of this Explanatory Memorandum and certain details of this Explanatory Memorandum prescribed by the Mutual Funds Law. The Fund has also paid the prescribed initial registration fee as required by the Mutual Funds Law.

The Fund's continuing obligations under the Mutual Funds Law are: (a) to file with CIMA prescribed details of any changes to this Explanatory Memorandum, (b) to file annually with CIMA accounts audited by an approved auditor and an annual return containing certain key statistical data, and (c) to pay the relevant prescribed annual fee.

As a regulated mutual fund, the Fund is subject to the supervision of CIMA. At any time, CIMA may instruct the Fund to have its accounts audited and to submit them to CIMA within such time as CIMA may specify. 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:

- (a) is or is likely to become unable to meet its obligations as they fall due; or
- (b) 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: (i) the power to require the Trustee to be replaced; (ii) the power to appoint a person, at the expense of the Fund to advise the Fund on the proper conduct of its affairs; and (iii) the power to appoint a person, at the expense of the Fund, 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 re-organise its affairs in a manner specified by CIMA.

Investors may contact the Manager for any queries or complaints in relation to the Fund using the following methods:

In writing to: 22/F., Li Po Chun Chambers,
189 Des Voeux Road Central
Central, Hong Kong
Attention: Client Services Team
Telephone: (852) 2116 8200
Email: htiim@htisec.com

The Manager will respond to any enquiry or complaint as soon as practicable in writing or by telephone.

DEFINITIONS

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

Auditor	KPMG or the auditors of the Fund as from time to time appointed	
business day	a day on which licensed banks in Hong Kong generally are open for business (excluding Saturdays)	
CIMA	the Cayman Islands Monetary Authority	
Code	the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time	
connected person	in relation to the Manager, means: <ul style="list-style-type: none"> (a) any person, company or fund beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or (b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or (c) any member of the group of which the Manager forms part; or (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above 	
Explanatory Memorandum	this Explanatory Memorandum as may be amended, updated or supplemented from time to time	
FATCA	the U.S. Foreign Account Tax Compliance Act	
Fund	Haitong Middle Kingdom Fund	C1
Government and other public securities	any investment issued by, or the payment of principal and interest on, which is guaranteed by the government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies	Note (1) to 7.5
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China	

Hong Kong dollars or HK\$	Hong Kong Dollars, the lawful currency of Hong Kong
HTISG	Haitong International Securities Group Limited
Investment Delegate	an entity that has been delegated the investment management function of all or part of the assets of the Fund
Manager	Haitong International Investment Managers Limited
Mutual Funds Law	the Mutual Funds Law (2015 Revision) of the Cayman Islands, as amended or re-enacted from time to time
Net Asset Value	the net asset value of the Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed
PRC or China	the People's Republic of China excluding Hong Kong, Macau and Taiwan
Qualified Exchange Traded Funds	exchange traded funds that are: <ul style="list-style-type: none"> (a) authorized by the SFC under 8.6 or 8.10 of the Code; or (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and either (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code
Registrar	HSBC Trustee (Cayman) Limited in its capacity as registrar of the Fund
Registrar's Agent	HSBC Institutional Trust Services (Asia) Limited in its capacity as registrar's agent of the Fund
REITs	real estate investment trusts
reverse repurchase transactions	transactions whereby the Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future

sale and repurchase transactions	transactions whereby the Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future
Securities	includes any investment which is a security within the meaning of the SFO and any other instrument commonly known or recognized as a security
securities financing transactions	collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions
Securities Market	any stock exchange, over-the-counter market or other organized securities market that is open to the international public and on which such securities are regularly traded
securities lending transactions	Transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571) as amended or supplemented from time to time
substantial financial institution	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency
Trust Deed	the trust deed dated 18 April 1989 establishing the Fund and entered into by the Manager and the Trustee (as amended and/or supplemented from time to time)
Trustee	HSBC Trustee (Cayman) Limited in its capacity as trustee of the Fund
Unit(s)	one equal undivided part or share of the Fund including as the context may require a fraction of a Unit
Unitholder(s)	the person or persons who are for the time being registered in the register as the holder or joint holders of any Units
U.S.	the United States of America
U.S. dollars or US\$	the lawful currency of the United States of America
Valuation Date	a date on which the Net Asset Value is determined in accordance with the Trust Deed

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Valuation Point

the time of 6:00 p.m. in Hong Kong or such other time as the Manager shall determine pursuant to the Trust Deed

TABLE OF KEY FEATURES

Name of Fund	Haitong Middle Kingdom Fund	C1
Investment Objective	To manage a portfolio of publicly quoted equity or equity-linked securities of companies within the Pacific region whose business relates substantially or in part to the PRC	
Base Currency	Hong Kong dollars	C5
<u>Dealing Deadline</u>		
Application for Units	3:00 p.m. Hong Kong time on a Valuation Date	
Redemption of Units	3:00 p.m. Hong Kong time on a Valuation Date	
Dealing Frequency	Daily, on every business day in Hong Kong except Saturday	C7
Minimum Subscription Amount	HK\$5,000	C4
Minimum Subsequent Subscription Amount	HK\$5,000	C4
Minimum Redemption Amount	HK\$5,000	
Minimum Holding	HK\$5,000	C4
Distribution Policy	No distribution will be made	C13
Financial year end	30 June	C17
<u>Fees payable by investors</u>		C14(a)
Initial Charge	Up to 5% of the total subscription amount received in relation to an application for Units	
Redemption Charge	Nil	
Switching Fee	Not applicable	

Fee payable by the Fund

Management Fee

1.75% per annum of the Net Asset Value of the Fund

C14(b)

Trustee Fee

0.3% per annum of the Net Asset Value of the Fund
(plus a fee of USD4,000 per annum with effect from 1
April 2020), subject to a minimum fee of HK\$125,000
per annum

POLICY AND OBJECTIVES OF THE FUND

The investment objective of the Fund is to manage a portfolio of publicly quoted equity or equity-linked securities of companies within the Pacific region whose business relates substantially or in part to the PRC.

C2

At least 70% of such investments will be made in Hong Kong companies or companies listed on The Stock Exchange of Hong Kong Limited, but investment in Taiwan, Singapore, Japan and other countries will be considered if deemed appropriate by the Manager in consideration of factors such as higher expected returns from the markets of those countries or areas, the outperformance of which may benefit the overall profitability in a certain degree. The Fund aims to achieve capital growth.

The Fund and/or the Manager:

- (a) does not intend to obtain exposure to debt securities issued within mainland China and China A-Shares by using the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor quotas or China B-Shares;
- (b) does not invest in any financial derivative instruments (e.g. options, warrants and financial futures contracts) for investment purposes, but may invest in financial derivative instruments for hedging purposes; and
- (c) does not intend to enter into any securities financing transactions or similar over-the-counter transactions in respect of the Fund.

Prior approval may be sought from the SFC and at least one month's prior notice will be given to Unitholders if the Fund and/or the Manager intend(s) to make such investment in the future.

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

LIQUIDITY RISK MANAGEMENT

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

C2C(b)
C2C(c)

The liquidity risk management of the Fund is carried out by the Manager's liquidity risk management function which is functionally independent from the portfolio investment function. The oversight of the liquidity risk management function will be performed by a risk management team.

The Manager would regularly assess the liquidity of the Fund's assets under the current and likely future market conditions. The Manager may also set an internal limit

as to each individual investment that may be held by the Fund.

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

The following tools may be employed by the Manager to manage liquidity risks:

- In the event of redemption requests being received in excess of 10% of the Units in issue, the Manager may with the approval of the Trustee and with a view to protecting the best interests of Unitholders, limit the number of Units to be redeemed to 10% of the Units in issue (please refer to the section headed "Limits on Redemption" for details). If such limitation is imposed, this would restrict the ability of a Unitholder to redeem in full the Units he intends to redeem on a particular Valuation Date; C11
10.6
- The Manager may suspend redemption under certain circumstances as set out under the section headed "Suspension of Dealings". During such period of suspension, Unitholders would not be able to redeem their investments in the Fund;
- The Trustee may, at the request of the Manager, borrow up to the value of 10% of the latest available Net Asset Value of the Fund to meet redemption requests. For further details, please refer to the sub-section headed "6. Borrowing and Leverage" in Schedule 1 to this Explanatory Memorandum. 7.21

Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risks.

RISK FACTORS

Investors should consider the following risks before investing in the Fund. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the Fund is suitable for them, they should obtain independent professional advice.

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

Equity market risks: Investing in equity securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value, which may have an adverse impact on the value of the Fund's investments.

Risk relating to small- and mid-capped companies: The Fund may invest in the securities of small and/or mid-capped companies. Investing in these securities may expose the Fund to risks such as greater market price volatility, less publicly available information, lower liquidity and greater vulnerability to fluctuations in the economic cycle.

Liquidity risks: Some of the markets in which the Fund invests may be less liquid and more volatile than the world's leading security markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Fund's ability to acquire or dispose of such securities at their intrinsic value.

C2C(a)

Currency risks: The Fund may invest in part in assets quoted in currencies other than its base currency. The performance of the Fund will therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the base currency of the Fund. Since the Manager aims to maximise returns for the Fund in terms of their base currency, investors in the Fund may be exposed to additional currency risk. Adverse movements in the foreign currency rates may adversely impact on the value of the Fund.

Credit risks: The value of the Fund may fall if any of the financial institutions or companies with which cash is invested or deposited or which are counterparties to transactions suffer insolvency or other difficulties.

Custodial risk: Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where the Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Fund may take a longer time to recover its assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Fund may even be unable to recover all of its assets. The costs borne by the Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.

C26

Hedging risks: While the Manager may enter into hedging transactions to seek to reduce risk, there is no guarantee that hedging will be successful in all circumstances. Insofar as the Fund acquires derivative instruments for hedging purposes, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Fund. Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Fund's use of derivatives for hedging may become ineffective and the Fund may suffer significant losses. The price of a derivative instrument can be very volatile which may result in losses in excess of the amount invested in the derivative instruments by the Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Fund, and this may result in losses to the Fund.

Emerging market risks: In accordance with the Fund's investment policies, the assets of the Fund will to a certain extent invest in new and emerging markets. Investors should therefore be aware of a number of special risk factors in investing in the Fund particularly in respect of investments in the emerging markets:-

(a) Volatility

As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which the Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries are not as large as the more established securities markets and have a substantially lower trading volume.

(b) Investment and repatriation restrictions

Investment in emerging markets may be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital. There are also possibilities of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of the Fund's investments.

(c) Settlement risk

Settlement systems in some of the emerging markets may be less well organised than in developed markets. Thus there may be a risk that settlement may be delayed and that cash or securities of the Fund may be in jeopardy because of failure or of defects in the systems. The Fund may incur substantial losses if its counterparty fails to pay for securities the Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for the Fund if investment opportunities are missed or if the Fund is unable to acquire or dispose of a security as a result.

(d) Legal, political and social factors

Investments in emerging markets will be sensitive to any change in political, social or economic development in the region. Many emerging countries have historically been subject to political instability which may affect the value of securities in emerging markets to a significant extent.

(e) Different financial treatment

Accounting, auditing and financial reporting standards in some of the emerging markets are different from the developed countries standards, for example, less information is available to investors and such information may be out of date. As a result, certain material disclosures may not be made, and information may not be available, to the Fund and other investors than would be in the case if the Fund's investments were restricted to securities in developed markets.

Restricted Market Risk: The Fund may invest in securities in jurisdictions which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Fund may be required to make investments in the relevant markets

directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

Risk relating to FATCA: Sections 1471 through 1474 of the United States Internal Revenue Code (commonly referred to as “**FATCA**”) will impose a withholding tax of 30 per cent on certain U.S.-sourced gross amounts paid to the Fund unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules include gross U.S.-source dividend and interest income and gross proceeds from the sale of property that produces U.S.-source dividend or interest income. To avoid withholding under FATCA, the Fund is 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 the Units may be materially affected.

The Fund’s ability to comply with FATCA will depend on each Unitholder providing the Fund with information that the Fund requests concerning the Unitholder or its direct and indirect owners. If a Unitholder fails to provide the Fund with any information the Fund requests, and, in the opinion of the Manager, holding of Units by such person (whether directly or beneficially) will result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or the Fund being exposed to any liability, penalty or regulatory action, then the Manager, with the approval of the Trustee, may take any action and/or pursue any remedy at its disposal.

Please refer to sub-section “Compliance with Automatic Exchange of Information Legislation” under the section headed “Taxation” for details of FATCA.

All prospective investors and Unitholders should consult with their own tax advisors regarding the possible implications of FATCA and the tax consequences on their investments in the Fund. Unitholders who hold their Units through intermediaries should also confirm the FATCA compliance status of those intermediaries.

MANAGEMENT

The Manager of the Fund is Haitong International Investment Managers Limited which is formerly known as Taifook Investment Managers Limited. The Manager is registered with the SFC as a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

The Manager is a wholly owned subsidiary of HTISG (SEHK Stock Code 0665; formerly known as Taifook Securities Group Limited), which is listed on the Stock Exchange of Hong Kong. With more than 40 years of history, HTISG provides a wide spectrum of integrated financial services covering corporate finance, asset management and brokerage services to global and local institutional and corporate clients as well as individual investors. With effect from 21 December 2009, Haitong International Holdings (formerly known as Hai Tong (HK) Financial Holdings Limited), a company incorporated in Hong Kong and wholly owned by the leading mainland securities firm - Haitong Securities Company Limited ("Haitong"; Stock Code: 600837.SH; 6837.HK), has acquired Taifook Securities Group Limited from NWS Holdings Limited and become HTISG's major shareholder.

The Manager is entitled under the Trust Deed to delegate all or part of its powers, duties and discretion under the Trust Deed and has delegated to HSBC Institutional Trust Services (Asia) Limited the functions of valuing the Fund's assets and calculating the subscription and redemption prices. The Manager may appoint investment advisers for the Fund, subject to the prior approval of the SFC and provided the fees for such investment advisers are borne by the Manager.

The Manager is principally engaged in fund management. The Manager's investment approach adopted with respect to investments of the Fund focuses on carrying on disciplined analysis of the underlying investments and leverages on the investment experience of the Haitong principals, each of whom has gained extensive investment experience during their tenure at renowned international asset management companies. The team has extensive investment experience; and is well versed in many kinds of investment products and services.

The directors of the Manager are as follows:

Chen Xuan

Mr. Chen serves as Managing Director of Haitong International Securities Company Limited and Chief Executive Officer of Haitong International Securities Group (Singapore) Pte Limited. He is also the Head of the Wealth Management - Sales Management. Prior to that he was the Head of the Asset Management - Alternative Investment, and the Head of the Equity Investment Management Department. Mr. Chen also worked in the Leverage and Acquisition Finance Department as well as in the Fixed Income, Currency and Commodities Department. He has over 10 years of investment and management experience in the finance industry, covering multiple business sectors, including trading, equity and bond investment, asset management and wealth management as well. Mr. Chen obtained a Master's Degree in International Financial Analysis from Newcastle University, United Kingdom.

Lo Wai Ho

Mr. Lo joined HTISG in April 2004 and is the Company Secretary of HTISG, a member of the Executive Committee and a director of various subsidiaries of HTISG. He has been appointed as the Chief Operating Officer, responsible for managing the middle and back office of HTISG, and worked as the Finance Director of HTISG, responsible for the financial management and accounting function. Mr. Lo holds a Master of Business Administration Degree from Columbia Southern University in the United States and a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. Mr. Lo has over 30 years of experience in the securities and futures industry. Prior to joining HTISG, he has held senior positions in regional financial institutions in Hong Kong. Mr. Lo is a member of the Institute of Chartered Accountants in England and Wales and a member of the HKICPA.

Poon Mo Yiu

Mr. Poon joined HTISG in August 2008. He was appointed as an Executive Director of HTISG on 1 July 2009 and was the Chief Operating Officer of HTISG and its subsidiaries as well as a member of the Executive Committee of HTISG prior to his re-designation as a Non-executive Director of HTISG on 16 February 2016. Mr. Poon was re-designated as an Executive Director of HTISG and was appointed as a member of the Executive Committee of HTISG on 8 February 2018. Mr. Poon was appointed as the Chief Operating Officer of HTISG on 15 August 2018. He is a board member of Haitong Bank, S.A., which is a wholly-owned subsidiary of Haitong International Holdings Limited, the controlling shareholder of HTISG. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Haitong Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

Sun Tong

Mr. Sun is Executive Director and Chief Investment Officer of HTISG, and a responsible officer of Haitong International Securities Company Limited under the SFO. He is responsible for assisting and deputizing the Chief Executive Officer of HTISG to take charge of the overall operation and development of HTISG. Mr. Sun graduated with a Bachelor's Degree in Computer Science from Nanjing Normal University and finished a postgraduate program of finance at Shanghai Fudan University. He also obtained an Executive Master of Business Administration from the Chinese University of Hong Kong. He has 18 years of experience in securities industry. Mr. Sun joined Haitong Securities Co., Ltd. in 2000. He was the senior manager of the president office and the secretary to president of Haitong Securities Co., Ltd. from 2007 to April 2010. Mr. Sun has been the Deputy Chief Executive Officer of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") since 2010 and responsible for frontline business. Since September 2017, he has been the Chief

Investment Officer of HTISG and in March 2018, he was appointed as Executive Director of HTISG.

Yang Jianxin

Dr. Yang Jianxin is responsible for HTISG asset management and related business as Head of Asset Management Department. He is also the Chief Investment Officer and Managing Director of Haitong International Asset Management (HK) Limited, Haitong International Asset Management Limited and the Manager, responsible for the overall asset management business segment and investment activities. He has over 17 years of research and investment experience, covering multiple asset classes, including both equities and fixed income products.

Dr. Yang holds a Ph.D. degree in Statistics from Xiamen University in China and he is licensed by the SFC as a responsible officer of the Manager to supervise the conduct of Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities by the SFC under the SFO.

TRUSTEE AND REGISTRAR'S AGENT

The Trustee, HSBC Trustee (Cayman) Limited, was incorporated in the Cayman Islands on 10 November 1981 and is regulated by CIMA. It is licensed as an unrestricted trust company under the Banks and Trust Companies Law (2018 Revision) of the Cayman Islands, as well as being licensed as a mutual fund administrator under the Mutual Funds Law.

Under the terms of the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other assets forming part of the assets of the Fund and hold them in trust for the Unitholders of the Trust in accordance with the provisions of the Trust Deed and, to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and such investments, cash and other assets of the Trust shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof. The Trustee may, however, appoint any person or persons to be the custodian of such assets. The investments of the Fund will normally be held to the order of the Trustee by HSBC Institutional Trust Services (Asia) Limited.

C26
4.5(a)(i)
4.5(a)(ii)

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its connected persons) as custodian, co-custodian, sub-custodian, delegate, nominee or agent for the custody and/or safekeeping of all or any of the Investments, assets or other property comprised in the Fund or any of the Sub-Funds and may empower any such person to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, delegate, nominee, agent, co-custodian and sub-custodian a “**Correspondent**”). The fees and expenses of any Correspondent shall be paid out of the assets of the Fund.

The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and on-going monitoring of any Correspondents and (b) during the term of appointment of such Correspondent, be satisfied that Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund. The Trustee shall be responsible for the acts and omissions of any Correspondent which is a connected person of the Trustee as if the same were the acts or omissions of the Trustee but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a connected person of the Trustee.

4.5(i)

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed, including the necessary notification to Unitholders. For its services, the Trustee is entitled to the fees set out below under the section headed “Charges and Expenses”.

The Trustee is entitled to be indemnified by the Fund from and against any and all liabilities arising in connection with the performance of its duties other than those liabilities to Unitholders arising from breach of trust through fraud or negligence and those liabilities to Unitholders imposed under the laws of Hong Kong and/or the laws of the Cayman Islands in relation to its duties.

The Trustee is entitled to exemptions of liabilities on account of various matters as set

out in the Trust Deed and shall have the power to enter into agreements on behalf of the Trust with other service providers to the Trust which contains such indemnity provisions as the Trustee may deem appropriate subject always to applicable regulatory requirements including the Code.

The Trustee in no way acts as guarantor or offeror of the Fund's Units or any underlying investment.

The Trustee is a service provider to the Fund and is not responsible for the preparation of this document or for the activities of the Fund and therefore accepts no responsibility for any information contained in this document other than information contained in this section relating to itself.

The Trustee also act as the Registrar of the Fund. It has also appointed HSBC Institutional Trust Services (Asia) Limited to act as its agent in Hong Kong in relation to its duties as the Registrar of the Fund.

HSBC Institutional Trust Services (Asia) Limited was incorporated in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance (Cap 29) in Hong Kong.

Both the Trustee and the Registrar's Agent are indirect wholly-owned subsidiaries of HSBC Holdings plc, a public company incorporated in England and Wales. The HSBC Group is one of the largest banking and financial services organizations in the world with well-established businesses in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

Neither the Trustee nor the Registrar's Agent will participate in transactions or activities or make any payments denominated in U.S. dollars, which, if carried out by a U.S. person, would be subject to sanctions of the Office of Foreign Assets Control.

APPLICATION FOR UNITS

C9

Units may be acquired on any Valuation Date at the Unit value determined on that day (see "Valuation and Price Calculation" below). The Valuation Date is every business day in Hong Kong except Saturday. Application should be made by returning the duly completed and signed application form to the Manager or the Trustee through the Registrar's Agent. Application forms can be obtained from the Manager or the Registrar's Agent. Applications may be sent by fax or by other electronic means as agreed between the Manager, the Trustee and the Registrar's Agent. The Manager or the Registrar's Agent shall proceed with the application once the duly completed and signed application form or the fax or electronic means as agreed thereof is received. Confirmation will also be issued once the application is successfully completed. To avoid any doubt, please note that save and except the initial subscription where investors are required to return the original completed and signed application form together with other required documents as set out in the application form to the Manager or the Registrar's Agent, no original application forms need to be produced by the investors for all subsequent subscription unless specifically requested by the Manager or the Registrar's Agent. Investors should be reminded that if they choose to send application forms by fax or by other electronic means as agreed between the Manager, the Trustee and the Registrar's Agent, they bear their own risk of the forms not being received by the Manager or the Registrar's Agent and the risk of sending duplication of orders to the Manager or the Registrar's Agent. Investors should therefore, for their own benefit, confirm with the Manager or the Registrar's Agent the receipt of the form. Notwithstanding the above, the Manager or the Registrar's Agent reserves the right not to effect application pending receipt of the original completed and signed application form and if such rights are exercised, the Manager or the Registrar's Agent shall notify the relevant Unitholders of such decision forthwith.

To take effect on a Valuation Date an application must be received by 3:00 p.m. Hong Kong time on that Valuation Date. Applicants should be aware of the internal Dealing Deadline of different distributors for receiving application requests. Applications received on a day which is not a business day or after 3:00 p.m. on any day will be treated as having been received on the next Valuation Date.

Attention of investors is drawn to the section headed "Anti-Money Laundering Regulations".

The subscription monies should be forwarded in full as outlined below at the same time such application form is sent to the Manager or the Registrar's Agent. Each applicant whose application is accepted will be sent a contract note by HSBC Institutional Trust Services (Asia) Limited confirming details of the purchases of Units. The minimum initial investment amount for the Fund is HK\$5,000, with subsequent minimum investments of no less than HK\$5,000, in both cases inclusive of the initial charge. Payment of subscription monies should normally be made in Hong Kong dollars for the Fund. If an applicant pays in any other currency acceptable to the Manager then it will be converted by the Trustee at the cost and expense of the applicant.

C4
C14(a)

Payment should be made in any of the following ways:-

- (a) by telegraphic transfer in Hong Kong dollars (net of any bank charges) to:

The Hongkong and Shanghai Banking Corporation Limited

(SWIFT Address: HSBCHKHCHKH)

1 Queen's Road Central

Hong Kong

A/C Name : HSBC Institutional Trust Services (Asia) Limited – IFS
Subscription Account

A/C No: 502-547839-001

Sub account No. : 541094

In each case the remitter should instruct the remitting bank to send a SWIFT advice (format MT103) to HSBC Institutional Trust Services (Asia) Limited (SWIFT Address: BTFEHKHH) advising details of remittance, including the full name of the applicant and the Fund, for ease of identification.

- (b) by cheque or bank draft sent to the Manager or the Registrar's Agent. Each cheque or bank draft should be made payable to "HSBC Institutional Trust Services (Asia) Limited" and bear the name of the applicant on its reverse along with the name of the Fund.

If payment is made by cheque or banker's draft, applicants should be aware the Manager or the Registrar's Agent may not process an application to subscribe for Units until the Manager or the Registrar's Agent has received cleared funds in respect of such payment. Applicants should further note that it may take several weeks for the Manager or the Registrar's Agent to receive cleared funds where subscription monies are paid by U.S. dollar cheques or U.S. dollar banker's drafts.

Application monies will not be accepted in cash and will not be treated as having been received unless paid in any of the ways described above. No money should be paid to any intermediary in Hong Kong which is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under the SFO.

C12

If payment in full in cleared funds and the original application form (if applicable) have not been received within five business days of the Valuation Date upon which the application was dealt with, the Manager or the Trustee may enforce payment of the sum due or cancel the Units applied for, at its discretion.

Units will only be issued in registered form. No certificates will be issued to Unitholders. Instead, Unitholders will receive confirmation of their holdings from the Registrar's Agent following receipt of the subscription monies in cleared funds and the duly completed and signed application form.

C6

If an applicant wishes to make his application through an intermediary, the applicant is advised to satisfy himself that the relevant intermediary has all relevant approvals and/or registrations (an intermediary in Hong Kong should be a licensed corporation or registered institution under the SFO) which it may require in order to receive clients' money and the intermediary is adequately supervised by an appropriate regulatory authority. Under the Trust Deed, the Manager is given the exclusive right to accept or reject applications for Units. The provisions as to the valuation and pricing of Units are set out below in the section headed "Valuation and Price

Calculation".

REDEMPTION OF UNITS

Units may be redeemed on any Valuation Date, at the redemption price applicable as at the close of business in Hong Kong on such day. The Manager or the Trustee through the Registrar's Agent shall proceed with the redemption once the duly completed and signed redemption notice is received. The form of redemption notice can be obtained from the Manager or the Registrar's Agent and such notice can be given by fax or by other electronic means as agreed between the Manager, the Trustee and the Registrar's Agent. Confirmation will also be issued once the redemption is successfully completed. To avoid any doubt, no original redemption notice needs to be produced by the Unitholders unless as specifically requested by the Manager or the Registrar's Agent. If a certificate has been previously issued, in case of redemption, Unitholders are required to return the original certificate to the Manager or the Registrar's Agent before the redemption proceeds can be released to them and there is a form to be endorsed on the reverse of the certificate. A notice of redemption to be given by joint Unitholders must be signed by all joint Unitholders. If the redemption notice (either originals, fax copies or other electronic means as agreed) and the certificate (if any) are received before 3:00 p.m. Hong Kong time on a Valuation Date, such redemption shall take effect on that Valuation Date; if not or such redemption notice (either originals, fax copies or other electronic means as agreed) and the certificate (if any) are received on a day which is not a business day, such redemption shall take effect on next Valuation Date. Unitholders should be reminded that if they choose to send notices of redemption by fax or by other electronic means as agreed between the Manager, the Trustee and the Registrar's Agent, they bear their own risk of the notices not being received by the Manager or the Registrar's Agent and the risk of sending duplication of orders to the Manager or the Registrar's Agent. Unitholders should therefore for their own benefit confirm with the Manager or the Registrar's Agent the receipt of the notices. Notwithstanding the above, the Manager or the Registrar's Agent reserves the right not to effect redemption pending receipt of the original completed and signed notice of redemption and if such rights are exercised, the Manager or the Registrar's Agent shall notify the relevant Unitholders of such decision forthwith.

C9

The minimum amount which can be redeemed at any one time is HK\$5,000, and a Unitholder may not make a partial redemption if this would result in his holding being less than the minimum holding of HK\$5,000. There is no redemption charge payable.

Redemption proceeds will normally be paid in Hong Kong dollars, by cheque in favour of registered holder sent by HSBC Institutional Trust Services (Asia) Limited as soon as possible and at the latest within 21 days from the Valuation Date on which the redemption is effected or, if later, on the day of receipt of the duly completed and signed notice (either originals, fax copies or other electronic means as agreed) and the original certificate (if any). The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption proceeds will not exceed one calendar month unless in exceptional circumstances if the market(s) in which a substantial portion of the Fund's investments is made is subject to legal or regulatory requirements rendering the timely redemption to be impractical, in which case the extended time frame for the payment of redemption proceeds shall reflect the additional time needed in light of the specific circumstances in the relevant market(s) and such redemption proceeds will be paid as soon as possible after the receipt of the proceeds by the Fund. No certificate will be issued in respect of any balance of the Units

C10
6.14

held after the partial redemption has been effected.

The Trustee may arrange for payment of redemption proceeds by telegraphic transfer or in another currency approved by the Manager if the Unitholder so wishes but the cost of conversion and other charges or expenses will be deducted from the redemption proceeds. No third party payments are allowed.

The Manager has power to compulsorily redeem Units in certain circumstances set out in the Trust Deed if the holding of Units by investors may result in adverse tax or other consequences for the Fund, the Manager or the Trustee or their associates.

VALUATION AND PRICE CALCULATION

C2B
C7

The Trust Deed provides for the Net Asset Value of the Fund to be determined on each Valuation Date by reference to the value of each asset of the Fund as at the Valuation Point (i.e. time) on that Valuation Date. The current Valuation Point is 6:00 p.m. Hong Kong time. The Manager has power from time to time on one month's notice to the Trustee and the Unitholders to change the Valuation Dates to such other day or days as it thinks fit or to increase or decrease the number of Valuation Dates. In addition the Manager may at any time with the consent of the Trustee change the Valuation Point on such Valuation Dates.

The Net Asset Value of the Fund and the price of Units depend inter alia on the value of the Fund's investments. The Net Asset Value of the Fund is established by deducting from the aggregate value of the assets of the Fund its liabilities (including accrued charges and expenses and a provision for contingent liabilities, where appropriate). The Net Asset Value per Unit is determined by dividing the Net Asset Value of the Fund by the total number of Units in issue.

Quoted investments are normally valued at the latest available closing price on the stock exchange or market on which the investment is listed, traded or ordinarily dealt in. As for future contracts, they are included in, or deducted from, the assets of the Fund in respect of each outstanding contract entered into on behalf of the Fund an amount equal to the gain or loss respectively which would have accrued to the Fund at the time as at which the relevant valuation is made if the Manager had at the time closed out the position of the Fund under such futures contract by entering into an equal and opposite futures contract at market prices prevailing at that time.

The Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if the Manager considers that such adjustment or other method of valuation is more appropriate.

To calculate the subscription price the Net Asset Value is divided by the number of Units in issue to give the Net Asset Value per Unit and the resulting figure is rounded down to two (2) decimal places. To calculate the redemption price the Net Asset Value is divided by the number of Units in issue to give the Net Asset Value per Unit and the resulting figure is rounded down to two (2) decimal places.

The Trust Deed contains provisions for a fiscal charge to be added to the subscription price and deducted from the redemption price. However, it is not the Manager's present

intention to levy this charge. Unitholders will be given 3 months' advance notice if the Manager decides to levy a fiscal charge. The Manager may deal in Units and subscriptions and redemptions may accordingly at the Manager's discretion be either for the direct account of the Fund or sales or purchases by the Manager.

Where a third party is engaged in the valuation of the assets of the Fund, the Manager shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such third party in ensuring such entity possesses the appropriate level of knowledge, experience and resources is commensurate with the valuation policies and procedures for the Fund. The valuation activities of such third party shall be subject to ongoing supervision and periodic review by the Manager.

6.11C

PUBLICATION OF PRICES

The subscription and redemption prices of Units are published on the Manager's website at www.htisec.com/asm. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

C8
C22A

SUSPENSION OF DEALINGS

The Trust Deed contains powers for the Manager, after consultation with the Trustee, having regard to the best interests of Unitholders, to cease to issue or redeem Units in certain circumstances where for example the markets, on which investments of the Fund are listed, are closed otherwise than for ordinary holidays or where any dealings on such markets are restricted or suspended, or there is a breakdown in the means of communication normally used so that valuation of the investments cannot be promptly and accurately ascertained. Full details of these circumstances are contained in the Trust Deed. No Units of the Fund may be issued or redeemed during such a period of suspension. If there is a suspension of dealings, the Manager will give notice to any person whose subscription or redemption request is affected by the suspension. The Manager will also immediately after any such declaration notify the SFC of such suspension and will, immediately after any such declaration and at least once a month during the period of such suspension, cause a notice to be published on the Manager's website at www.htisec.com/asm (this website has not been reviewed by the SFC) or any other appropriate manner stating that such declaration has been made. The Manager will regularly review any prolonged suspension of dealings and take all necessary steps to resume normal operations as soon as practicable.

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10.6
10.7

LIMITS ON REDEMPTION

In the event of redemption requests being received in excess of 10% of the Units in issue, the Manager may with the approval of the Trustee and with a view to protecting the best interests of Unitholders, limit the number of Units to be redeemed to 10% of the Units in issue. In that event, applications for redemption will be scaled down pro rata so that all Unitholders wishing to redeem their Units on that day redeem the same proportion of such Units. Units not so redeemed will be carried forward for redemption on the next Valuation Date, subject to the same limitation. Alternatively, the Manager may sell a proportion of the Fund's assets corresponding to the proportion of the Units to be redeemed and recalculate the redemption price based on the investments actually sold and in such event, the redemption proceeds will usually be payable only when the proceeds of sale of such investments are received.

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10.6

CHARGES AND EXPENSES

The Manager

C14(b)
C14(c)

The Manager is entitled under the Trust Deed to a management fee at a maximum rate of 2.5% per annum of the Net Asset Value of the Fund, calculated and accrued on each Valuation Date and payable monthly in arrears. The Manager currently receives a management fee at the rate of 1.75% per annum. The Manager may only increase the level of its fee up to 2.5% per annum by giving to the Trustee and the Unitholders not less than three months' notice in writing or at such earlier date as may be approved by extraordinary resolution.

The Manager is also entitled to receive an initial charge on the issue of Units of up to 5% of the total subscription amount received in relation to the application for Units.

The Manager and its associates may enter into portfolio transactions for or with the Fund either as agent, in which case they may receive and retain customary brokerage commissions, or with the approval of the Trustee as principal in accordance with normal market practice. The Fund will generally pay brokerage at customary institutional full service brokerage rates. The Manager, the Investment Delegate and any of their connected persons will not retain cash or other rebates from brokers or dealers in respect of transactions from the Fund but may enter into soft commission arrangements for the provision to the Manager, the Investment Delegate or any of their connected persons of goods and services which are of demonstrable benefit to Unitholders. Execution of transactions for the Fund will be consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates. The availability of soft dollar arrangements will not be the sole or primary purpose to perform or arrange transaction with such broker or dealer. Periodic disclosure will be made in the annual report and accounts of the Fund in the form of a statement describing the soft commission policies and practices of the Manager or the Investment Delegate, including a description of the goods and services received by them.

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10.12

The Manager may, in its absolute discretion, waive, reduce, share with or rebate to any person(s), including those by or through whom Units are offered for subscription, the payment of all or any portion of the initial charge received by the Manager for its own use and benefit, and may share with or rebate to any person(s), including those by or through whom Units are offered for subscription, the payment of all or any portion of the management fee and/or performance fee received by the Manager for its own use and benefit.

The Manager, the Investment Delegate and/or any of their connected persons reserves the right to effect transactions by or through the agency of another person with whom the Manager, the Investment Delegate and/or any of their connected persons has an arrangement under which that party will from time to time provide to or procure for the Manager, the Investment Delegate and/or any of their connected persons goods, services or other benefits (such as research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services) the nature of which is such that their provision can

reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund or of the Manager, the Investment Delegate, and/or any of their connected persons in providing services to the Fund and for which no direct payment is made but instead the Manager, the Investment Delegate, and/or any of their connected persons 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.

The Trustee

C14(b)
C14(c)

The Trustee currently receives a trustee fee of 0.3% per annum of the Net Asset Value of the Fund, payable monthly in arrears (in addition, a fee of USD4,000 per annum may be payable to the Trustee in relation to the performance of its duties to the Fund with effect from 1 April 2020), and may only increase the aggregate fees payable to the Trustee to the maximum rate of 0.5% per annum of the Net Asset Value of the Fund with the agreement of the Manager and by giving to Unitholders not less than three months' notice in writing.

The Trustee is entitled under the Trust Deed to receive a minimum trustee fee of HK\$250,000 per annum, however it is currently only entitled to receive a minimum fee of HK\$125,000 per annum in the Fund. Such minimum fee can be increased up to the stated maximum with the approval of the Manager and upon three months' notice to Unitholders.

Other Expenses and Charges

The Fund is liable to pay a number of expenses in addition to the fees payable to the Manager and the Trustee. These expenses include the cost of investing and realising the assets of the Fund, of safe-keeping the investments which includes the fee of any custodian or sub-custodian (including transaction fees which may be payable to associates of the Trustee), fees payable to the Cayman Islands government, any tax or similar duties payable by the Fund, the cost of publishing, printing and circulating the annual report and notices of Unitholders' meetings, the costs of publishing subscription and redemption prices and other communications to Unitholders.

C14(b)

The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an authorised alteration, modification or variation of the Trust Deed. The costs and expenses of auditing the Fund, their legal costs, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund, the Manager's and the Trustee's expenses properly incurred, and any other costs incurred by the Manager or the Trustee wholly and exclusively for the benefit of the Fund, are also borne by the Fund. Under the Trust Deed, the Fund may receive the benefit of rounding adjustments made in the calculation of the redemption price.

TAXATION

The following comments are based on advice received by the Manager regarding current law and practice and are intended to assist investors. Investors should appreciate that as a result of changing law or practice, or unfulfilled expectations as to how the Fund or investors will be regarded by revenue authorities in different jurisdictions, the taxation consequences for investors may be otherwise than as stated below.

C16

Investors should consult their professional advisers on the taxes applicable and possible tax consequences on their subscribing for, purchasing, holding, selling or redeeming Units under the laws of their countries of citizenship, residence, ordinary residence or domicile.

Hong Kong

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

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

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

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the countries in which the payment is made and these taxes would not normally be recoverable by the Fund, though they may be recoverable by individual Unitholders who are able to claim the benefit of appropriate double taxation relief.

Compliance with Automatic Exchange of Information Legislation

- (a) **FATCA**

The United States Foreign Account Tax Compliance Act and sections 1471 through 1474 of the United States Internal Revenue Code (collectively referred to as “FATCA”) requires certain “Foreign Financial Institutions”, including the Fund, to report on assets held by U.S. person. Failure to do so could result in the Foreign Financial Institution being subject to a withholding tax (currently at the rate of 30%) on certain payments. Payments subject to withholding under these rules generally include gross U.S.-source dividend and interest income, gross proceeds from the sale of property that produces

dividend or interest income from sources within the U.S. and certain other payments made by or through “Participating Foreign Financial Institutions” to “recalcitrant account holders” and “Non-participating Financial Institutions” (so called “foreign pass thru payments”).

The Cayman Islands Government has entered into a Model 1 intergovernmental agreement with the United States (the “**US IGA**”) and implemented domestic regulations (the “**Cayman US FATCA Regulations**”) to facilitate compliance with FATCA. The US IGA provides that Cayman Islands Financial Institutions, including the Fund, which comply with the Cayman US FATCA Regulations (and through them the US IGA) will be treated as satisfying the due diligence and reporting requirements of FATCA and accordingly will be “deemed compliant” with the requirements of FATCA. To comply with its obligations under the Cayman US FATCA Regulations, the Fund is required to identify whether Units are held directly or indirectly by “Specified US Persons” (as defined in the US IGA) and report information on such Specified US Persons to the Cayman Islands Tax Information Authority (the “**Cayman TIA**”). The Cayman TIA will in turn report relevant information to the United States Internal Revenue Service (“**IRS**”). If the Fund is not able to comply with its reporting requirements under the US IGA (whether due to a failure of one or more Unitholders to provide adequate information or otherwise), the Fund could be deemed to be a “Non-participating Financial Institution” as a result of “significant non-compliance”. In such a situation, the withholding tax under FATCA could be imposed on U.S.-sourced amounts paid to the Fund.

The Fund has registered with the IRS as a reporting Foreign Financial Institution and has obtained a global intermediary identification number (GIIN No. KM6F5D.99999.SL.136) from the IRS.

(b) OECD Common Reporting Standard requirements regarding tax reporting

The “Common Reporting Standard” (“**CRS**”) was developed by the OECD to be an international standard for the automatic exchange of financial account information between relevant jurisdictions. Jurisdictions committed to the CRS (each a “**Participating Jurisdiction**”) will either be a signatory to the multi-lateral competent authority agreement (“**MCAA**”) or will sign bilateral competent authority agreements with certain other Participating Jurisdictions.

Under the MCAA (or the relevant bilateral agreement), Participating Jurisdictions will become “**Reportable Jurisdictions**” once they have implemented appropriate domestic legislation, put in place the necessary administrative and IT infrastructure (both to collect and exchange information and to protect confidentiality and safeguard data) and provided the necessary notifications for exchange. Participating Jurisdictions will have to collect and exchange relevant information with relevant Reportable Jurisdictions.

The Cayman Islands Government is a signatory to the MCAA and has implemented CRS through the Tax Information Authority (International Tax Compliance) (Common Reporting Standards) Regulations (2018 Revision) (the “**CRS Regulations**”). Under the CRS Regulations, the Fund is required to make an annual filing to the Cayman TIA in respect of Unitholders who are tax resident in a Reportable Jurisdiction and/or whose

“Controlling Persons” are tax resident in a Reportable Jurisdiction (unless one or more of the limited exemptions in the CRS Regulations apply).

The list of Reportable Jurisdictions for the Cayman Islands is available on the Cayman TIA website at http://www.tia.gov.ky/pdf/CRS_Legislation.pdf.

(c) Impact to the Fund and Unitholders

In order to comply with the US IGA, the MCAA (or any relevant bilateral agreement) and the relevant domestic legislation (collectively “**AEOI Legislation**”), the Fund may be required to disclose certain confidential information provided by Unitholders to the Cayman TIA, which in turn will report the information to the relevant foreign fiscal authority. In addition, the Fund, the Manager or its agents 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.

Each Unitholder shall also be required to: (a) inform the Fund, the Manager or its agents as soon as possible of any change in any information provided in relation to its tax status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) subject to the Unitholder’s express consent, waive any and all rights of such Unitholder under any relevant law or regulation in any applicable jurisdiction that would prevent the Fund, the Manager or its agents from meeting applicable regulatory and legal requirements.

In the event 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 or being required to withhold amounts from distributions to be made to any Unitholder, the Fund, the Manager or its agents may, and acting in good faith and on reasonable grounds as permitted under applicable laws and regulations (including those in the Cayman Islands and Hong Kong) may take any action and/or pursue any remedy at its disposal. Such action or remedy may include (i) reporting the relevant information of such Unitholder to the IRS and/or any other tax authorities in the relevant jurisdictions; (ii) withholding such amount from any redemption and/or distributions moneys which would otherwise be payable to a Unitholder; and/or (iii) exercising its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder if in the opinion of the Manager, holding of Units by such person (whether directly or beneficially) will result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or the Fund being exposed to any liability, penalty or regulatory action, with the approval of the Trustee.

Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. Investors should consult their own tax advisors regarding the AEOI Legislation requirements, possible implications and related tax consequences with respect to their own situation. In particular, investors who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their

investment returns.

INVESTMENT AND BORROWING RESTRICTIONS

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager and borrowing restrictions for the Fund. The investment and borrowing restrictions are set out in Schedule 1 to this Explanatory Memorandum.

C2

If the investment restrictions and limitations in relation to the Fund are breached, the Manager shall take as a priority objective all steps as are necessary within a reasonable period of time to remedy such breach taking due account of the interests of the Unitholders.

7.41

DISTRIBUTION AND INCOME

The Trust Deed empowers the Manager to distribute the income of the Fund but it is the Manager's intention to accumulate it and make no distribution.

C13

If distributions were to be made, then on the reinvestment of a distribution in Units, the initial charge would not be payable. Distributions will not be paid out of, or effectively out of, the capital of the Fund.

FINANCIAL REPORTS

The financial year end of the Fund is 30 June. Audited annual financial reports (in English only) will be made available to Unitholders as soon as possible, in any event within four months after the end of the relevant financial year. Annual reports of the Fund will also be made available to Unitholders upon request. Unaudited semi-annual financial reports (in English only) will also be made available to Unitholders shortly, in any event within two months after 31 December in each year.

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C18A
11.6

Notice will be given to Unitholders to notify them where the financial reports (in printed and electronic forms) can be obtained within the relevant timeframe. In any event, the financial reports will be available on the website of the Manager at www.htisec.com/asm and printed copies of the financial reports will be provided to Unitholders upon their request and will be available at the offices of the Manager. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

C22A

TRUST DEED

The Fund was established under Hong Kong law by a Trust Deed dated 18 April 1989 and made between SHK Unit Trust Managers Limited as Manager, Standard Chartered International Trustee Limited (as it was then known) as Trustee and Standard Chartered Trust Company Limited as Alternate Trustee. This Trust Deed has been amended by supplemental trust deeds dated 16th October 1989, 1 June 1991, 31 March 1992, 7 June

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C20

1993, 15 April 1996, 24 June 1999, 31 October 2001, 9 July 2007, 22 November 2010, 6 March 2015, 15 November 2018 and 31 December 2019 respectively and a Deed of Retirement and Appointment of the Trustee and the Alternate Trustee dated 20 May 1995, a Deed of Retirement and Appointment of Manager and Modification of the Trust Deed constituting Kingsway Middle Kingdom Fund (as the Fund was then known) dated 24 October 2003 and a Deed of Retirement and Appointment of Trustee and Variation dated 11 December 2017.

Since the Fund was established, the Trustee and the Alternate Trustee have changed. Bank of Bermuda (Cayman) Limited and The Bank of Bermuda Limited (now known as HSBC Bank Bermuda Limited) became Trustee and Alternate Trustee respectively with effect from 30 September 1994. Further, HSBC Trustee (Cayman) Limited became Trustee with effect from 22 March 2018 and HSBC Bank Bermuda Limited remains as the Alternate Trustee.

The Fund was formerly known as Polaris Middle Kingdom Fund, Kingsway Middle Kingdom Fund and Taifook Middle Kingdom Fund before 1 August 2001, 1 August 2007 and 29 November 2010 respectively and has changed to its present name with effect from 29 November 2010.

The Trust Deed contains provisions for the indemnification of the parties and their exclusion from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

The Trustee and Manager may agree to modify the Trust Deed by supplemental deed without the approval of an extraordinary resolution provided that the Trustee certifies in writing that in its opinion such change (a) does not materially prejudice the interests of the Unitholders, does not to any material extent release the Trustee or the Manager or any other person from any liability to the Unitholders and does not increase the costs and charges payable from the Fund's property (other than the costs, charges, fees and expenses incurred in connection with any such supplemental deed); or (b) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (c) is made to correct a manifest error. In all other cases involving any material changes, no alteration may be made except by an extraordinary resolution of the Unitholders and, where applicable, the approval of the SFC.

6.7

UNITHOLDERS' MEETINGS

Meetings of Unitholders may be convened by the Manager or the Trustee and the Manager is required to convene a meeting on the request of the Unitholders of not less than 1/10 of the Units for the time being in issue. Unitholders will be given not less than 14 days' notice of any meeting (or not less than 21 days' notice in case an extraordinary resolution is to be proposed). Unitholders may appoint proxies to attend and vote on their behalf.

Unitholders may by ordinary resolution, that is a simple majority of the votes passed for and against the relevant proposal, elect a chairman of the meeting, adjourn a meeting and approve further unrestricted investments. In addition, Unitholders may by

extraordinary resolution, that is a 75% majority of the votes, of those present or represented at the meeting, passed for the relevant proposal, sanction a modification of the Trust Deed as approved by the Manager and the Trustee, remove the Trustee, terminate the Fund or approve amalgamation with another trust.

The quorum required for all meetings is Unitholders present in person or by proxy representing (i) 25% of the Units in issue on the day immediately preceding the date of the meeting where an extraordinary resolution is to be considered and (ii) 10% of all the Units in issue on the day immediately preceding the date of the meeting if only an ordinary resolution is to be considered. The Manager and its associates may not be counted in the quorum at any meeting nor vote in respect of Units beneficially held by them if the Manager or any of its associates has a material interest in the business to be transacted at the meeting. Where the original meeting was inquorate, separate notice will be given of the re-convened meeting. Equivalent restrictions apply to voting by the Trustee and its associates and the counting of Units held by the Trustee for quorum purposes.

On a poll, every Unitholder present in person, by proxy or by representative has one vote for every whole Unit held.

DURATION AND TERMINATION OF THE FUND

C24

The Fund will continue indefinitely until terminated as provided in the Trust Deed.

The Trustee may terminate the Fund by giving notice to the Manager (if there shall be a Manager in office) and thereafter by giving not less than three (3) months' notice in writing to all Unitholders in certain circumstances including:

- (a) within a period of 6 months from the date of the removal of the Manager pursuant to the Trust Deed, the Trustee is unable to appoint some other company to act as Manager;
- (b) the passing of any laws rendering it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund;
- (c) within a period of 6 months from the date of the Trustee giving notice in accordance with the Trust Deed of its desire to retire, the Trustee and the Manager shall have failed to appoint a new Trustee; or
- (d) at any time after the expiry of 5 years from the date of establishment of the Fund, an extraordinary resolution of the Unitholders authorising the termination of the Fund is passed; or
- (e) the Manager shall go into liquidation (save a voluntary liquidation for the purpose of and followed by a reconstruction or amalgamation upon terms previously approved in writing by the Trustee).

The Manager may terminate the Fund by giving notice to the Trustee and thereafter by

giving not less than three (3) months' notice to all Unitholders in certain circumstances including:

- (a) where the aggregate Net Asset Value of the Fund falls below HK\$50 million for a continuous period of 3 months; or
- (b) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund.

Upon termination of the Fund, all investments forming part of the Fund will be sold, such sale being carried out and completed in such manner and within such period as the Trustee deems fit. The Trustee will distribute to the Unitholders pro rata to the Units held by them all the net cash proceeds derived from the realisation of the Fund's assets after making provisions for all costs, charges, expenses and claims arising out of the liquidation of the Fund. Every such distribution will be made in respect of Units for which a certificate (if any) is in issue against production of the Unit certificate upon which will be endorsed a memorandum of every interim distribution made and on a final distribution the certificate will be surrendered to the Trustee. Where a certificate has not been issued, a certificate of payment signed by the Trustee shall be given to Unitholders.

The Trustee shall not be bound except in the final distribution to pay out less than HK\$0.50 per Unit. Any distribution which remains unclaimed for a period of 6 years after the date on which it is first made available will be paid to the Manager for its account subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying out the final distribution.

C25

ANTI-MONEY LAUNDERING REGULATIONS

In order to comply with legislation or regulations aimed at the prevention of money laundering, the Fund is required to adopt and maintain anti-money laundering procedures, and may require investors to provide evidence to verify their identity, the identity of their beneficial owners/controllers (where applicable), and source of funds. Where permitted, and subject to certain conditions, the Trustee may also delegate the maintenance of its anti-money laundering procedures (including the acquisition of due diligence information) to a suitable person.

The Trustee, the Registrar and the Manager reserve the right to request such information as is necessary to verify the identity of an investor and the identity of their beneficial owners/controllers (where applicable). A detailed verification may not be required in certain circumstances specified under the Anti-Money Laundering Regulations (2018 Revision) of the Cayman Islands, as amended and revised from time to time, or any other applicable law ("**AML Regulations**"). However, detailed verification information may be required prior to the payment of any proceeds or any transfer of any Units. In the event of delay or failure on the part of an investor in producing any information required for verification purposes, the Trustee, the Registrar or the Manager may refuse to accept the application, or if the application has already been processed, may suspend dealings in or redeem the relevant Units, in which case any funds received will be

returned without interest to the account from which they were originally debited.

The Trustee, the Registrar and the Manager also reserve the right to refuse to make any redemption or distribution payment to an investor if any of them suspect or are advised that the payment of such monies to such investor may be non-compliant with applicable laws or regulations, or if such refusal is considered necessary or appropriate to ensure the compliance by the Fund, the Trustee, the Registrar and/or the Manager with any applicable laws or regulations.

If any person in the Cayman Islands knows or suspects or has reasonable grounds for knowing or suspecting that another person is engaged in criminal conduct or money laundering, or is involved with terrorism or terrorist financing and property and the information for that knowledge or suspicion came to their attention in the course of business in the regulated sector, or other trade, profession, business or employment, the person will be required to report such knowledge or suspicion to (i) the Financial Reporting Authority ("**FRA**") of the Cayman Islands, pursuant to the Proceeds of Crime Law (2018 Revision) of the Cayman Islands if the disclosure relates to criminal conduct or money laundering, or (ii) a police officer of the rank of constable or higher, or the FRA, pursuant to the Terrorism Law (2018 Revision) of the Cayman Islands, if the disclosure relates to involvement with terrorism or terrorist financing and 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.

Pursuant to the AML Regulations, the Fund must designate natural persons to act as its Anti-Money Laundering Compliance Officer, Money Laundering Reporting Officer and Deputy Money Laundering Reporting Officer (the "**AML Officer Roles**"). The Trustee has ensured that natural persons have been designated to perform the AML Officer Roles in accordance with Cayman Islands law. Investors can obtain further information in respect of the AML Officer Roles from the Manager.

By subscribing for Units, the applicant consents to the disclosure by the Trustee, the Manager, the Registrar and their delegates, agents and affiliates, of any information provided by the applicant to government agencies, regulatory bodies and other relevant persons in connection with anti-money laundering requirements and similar matters.

Each applicant for Units will be required to make such representations as may be required by the Trustee in connection with anti-money laundering programmes, including, without limitation, representations that such applicant is not a prohibited country, territory, individual or entity listed on the United States Department of Treasury's Office of Foreign Assets Control (**OFAC**) website and that it is not directly or indirectly affiliated with any country, territory, individual or entity named on an OFAC list or prohibited by any OFAC sanctions programmes. Each applicant will also be required to represent that subscription monies are not directly or indirectly derived from activities that may contravene United States federal or state, or international, laws and regulations, including anti-money laundering laws and regulations.

CONFLICTS OF INTEREST

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

CERTIFICATION FOR COMPLIANCE WITH FATCA OR OTHER APPLICABLE LAWS

Each Unitholder (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund receives payments and/or (B) to satisfy reporting or other obligations under FATCA and its regulations or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments, and (iii) will otherwise comply with any reporting obligations imposed by the United States, the Cayman Islands, Hong Kong or any other jurisdiction (including any law, rule and requirement relating to CRS), including reporting obligations that may be imposed by future legislation.

POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES

Subject to applicable laws and regulations in the Cayman Islands and Hong Kong, the Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the U.S. IRS, Cayman TIA and the Inland Revenue Department of Hong Kong), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, taxpayer identification number (if any) and certain information relating to the Unitholder's holdings, account balance/value, and income or sale or redemption proceeds, to enable the Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under CRS or FATCA).

DATA PROTECTION

Prospective investors should note that personal data must be supplied in order for an investment in the Fund to be made and for that investment in the Fund to continue. Certain personal data must be supplied to enable the investment to be redeemed. If the required personal data is not provided, a prospective investor will not be able to invest or continue to invest in the Fund.

The Fund's use of personal data is governed by the Cayman Islands Data Protection Law, 2017 and, in respect of data subjects of the European Union ("EU"), the EU General Data Protection Regulation (together, the "Data Protection Legislation").

Under the Data Protection Legislation, individual data subjects have rights and the Fund as data controller has obligations with respect to the processing of personal data by the Fund and its affiliates and delegates, including but not limited to the Administrator. Breach of the Data Protection Legislation by the Fund could lead to enforcement action. The Fund's privacy notice provides information on the Fund's use of personal data under the Data Protection Legislation. The Fund's privacy notice is contained in the application form for subscription and is made available to existing investors via routine investor communications.

If you are an individual prospective investor, the processing of personal data by and on behalf of the Fund is directly relevant to you. If you are an institutional investor that provides personal data on individuals connected to you for any reason in relation to your investment with us (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents), this will be relevant for those individuals and you should transmit the privacy notice to such individuals or otherwise advise them of its content.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager at 22/F., Li Po Chun Chambers, Des Voeux Road Central free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:

C20

- (a) the Trust Deed, and any supplemental deeds; and
- (b) the latest financial reports of the Fund.

SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS

1. Investment limitations applicable to the Fund

C2

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

- (a) the aggregate value of the Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the Fund: 7.1
- (i) investments in securities issued by that entity;
 - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
 - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 3.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

Note (3)
to 7.1

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

Note (4)
to 7.1

- (b) subject to sub-paragraphs 1(a) and 3.4(c) of this Schedule 1, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the Fund: 7.1A
- (i) investments in securities issued by those entities;
 - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
 - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "entities

Note (1)
to 7.1A

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

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 5(e) and (j) of this Schedule 1.

Note (2)
to 7.1A

- (c) the value of the Fund’s cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available Net Asset Value of the Fund provided that the 20% limit may be exceeded in the following circumstances:

7.1B

Note (2)
to 7.1B

- (i) cash held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
- (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
- (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors’ interests.

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

Note (1) to
7.1B

- (d) the Fund’s holding of any ordinary shares exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Fund’s investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available Net Asset Value of the Fund.
- (f) the value of the Fund’s total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of the Fund (save that the Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

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7.5

Note (2)
to 7.5
7.11

- (g) (i) the value of the Fund’s investment in units or shares in other collective investment schemes (namely “**underlying schemes**”) which are non-eligible schemes (the list of “eligible schemes” is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and
- (ii) the value of the Fund’s investment in units or shares in each underlying scheme which is either an eligible scheme (the list of “eligible schemes” is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of the Fund, 7.11A
- provided that:
- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code; 7.11B
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1; 7.11B
Note (3) to 7.11B
- (C) the underlying scheme’s objective may not be to invest primarily in other collective investment scheme(s); Note (4) to 7.11B
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its connected persons; and 7.11C
- (E) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme. 7.11D
- For the avoidance of doubt:
- (aa) unless otherwise provided under the Code, the spread requirements “Investment in other schemes” in Ch. 7

under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by the Fund;

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|------|---|---|
| (bb) | the investment by the Fund in a Qualified Exchange Traded Fund will be considered and treated as listed securities for the purposes of and subject to the requirements in sub-paragraphs 1(a), (b) and (d) of this Schedule 1. Notwithstanding the aforesaid, the investments by the Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by the Fund shall be consistently applied; | Note to
“Investment in
other schemes”
in Ch. 7 |
| (cc) | where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and | Note to
7.14 |
| (dd) | where the Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code. | Note (2) to
7.28(a) |

2. **Investment prohibitions applicable to the Fund**

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

- | | | |
|-----|---|-----------------------------|
| (a) | invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary; | 7.10 |
| (b) | invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs); | 7.14 |
| (c) | make short sales unless (i) the liability of the Fund’s to deliver securities does not exceed 10% of its latest available Net Asset Value; | 7.15 |
| | (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations; | 7.16

Note to
7.15 |

- | | | |
|-----|--|-----------------|
| (d) | carry out any naked or uncovered short sale of securities; | Note to
7.15 |
| (e) | subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e); | 7.17 |
| (f) | acquire any asset or engage in any transaction which involves the assumption of any liability by the Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of the Fund is limited to their investments in the Fund; | 7.18
7.18A |
| (g) | invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class; | 7.19 |
| (h) | invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 3.5 and 3.6 of this Schedule 1. | 7.20 |

3. Use of financial derivative instruments

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|-----|---|---------------------|
| 3.1 | The Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 3.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria: | 7.25 |
| (a) | they are not aimed at generating any investment return; | |
| (b) | they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged; | Note (1)
to 7.25 |
| (c) | although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and | |
| (d) | they exhibit price movements with high negative correlation with the | |

investments being hedged under normal market conditions.

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

Note (2)
to 7.25

- 3.2 The Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that the Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% of its latest available Net Asset Value provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 3.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 3.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

Note (3)
to 7.26

Notes (2)
to 7.26

7.27

- 3.3 Subject to sub-paragraphs 3.2 and 3.4 of this Schedule 1, the Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

- 3.4 The financial derivative instruments invested by the Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:

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- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter financial

derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party service. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Fund's initiative. Further, the valuation agent/administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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| 3.5 | The Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of the Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 3.5, assets that are used to cover the Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes. | 7.29 |
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| 3.6 | Subject to sub-paragraph 3.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund shall be covered as follows: | 7.30 |
| | (a) in the case of financial derivative instruments transactions which will, | |

or may at the Fund's discretion, be cash settled, the Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

- (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations. 7.31

3.7 The requirements under sub-paragraphs 3.1 to 3.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an “**embedded financial derivative**” is a financial derivative instrument that is embedded in another security.

4. **Securities financing transactions**

4.1 The Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of the Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision. 7.32

4.2 The Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions. 7.33

4.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Fund. 7.34

4.4 The Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered. 7.35

5. **Collateral**

In order to limit the exposure to each counterparty as set out in sub-paragraphs 3.4(c) and 4.2 of this Schedule 1, the Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

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

the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

- (j) Re-investment of collateral – any re-investment of collateral received for the account of the Fund shall be subject to the following requirements:
 - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
 - (ii) non-cash collateral received may not be sold, re-invested or pledged;
 - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;
 - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
 - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

6. Borrowing and Leverage

The expected maximum level of leverage of the Fund is as follows:

Cash borrowing

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| 6.1 | No borrowing shall be made in respect of the Fund which would result in the principal amount for the time being of all borrowings made for the account of the Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 4.1 to 4.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 6.1. | 7.21
8.2(h) |
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Leverage from the use of financial derivative instruments

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| 6.3 | The Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the section “POLICY AND OBJECTIVES OF THE FUND”. | |
| 6.4 | In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time. | |
| 6.5 | The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices. | |

7. Name of the Fund

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| 7.1 | If the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents. | 7.42 |
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