

Value Partners Hong Kong Limited

June 2018

- This statement provides you with key information about this product.
- This statement is a part of the fund's Explanatory Memorandum.
- You should not invest in this product based on this statement alone.

## Quick facts

| <b>Manager:</b>                         | Value Partners Hong Kong Limited  |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
|---|---|--|----------------------------|--------------------------------|-------|--------------------------------|-------|--------------------------------|-------|---------------------------------|-------|----------------------------------|-------|--------------------------------|-------|--------------------------------|-------|----------------------------------|-------|-------------------------------|-------|--------------------------------|-------|---------------------------------|-------|----------------------------------|-------|---------------------------------|-------|----------------------------------|-------|
| <b>Trustee:</b>                         | HSBC Institutional Trust Services (Asia) Limited  |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Ongoing charges over a year*:</b>    | <table> <thead> <tr> <th></th> <th>Estimated ongoing charges*</th> </tr> </thead> <tbody> <tr><td>Class A Units: AUD Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: CAD Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: EUR Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: HKD Unhedged Acc</td><td>1.82%</td></tr> <tr><td>Class A Units: HKD Unhedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: NZD Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: RMB Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: RMB Unhedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: SGD Hedged Acc</td><td>1.82%</td></tr> <tr><td>Class A Units: SGD Hedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: SGD Unhedged Acc</td><td>1.82%</td></tr> <tr><td>Class A Units: SGD Unhedged MDis</td><td>1.82%</td></tr> <tr><td>Class A Units: USD Unhedged Acc</td><td>1.82%</td></tr> <tr><td>Class A Units: USD Unhedged MDis</td><td>1.82%</td></tr> </tbody> </table> |  | Estimated ongoing charges* | Class A Units: AUD Hedged MDis | 1.82% | Class A Units: CAD Hedged MDis | 1.82% | Class A Units: EUR Hedged MDis | 1.82% | Class A Units: HKD Unhedged Acc | 1.82% | Class A Units: HKD Unhedged MDis | 1.82% | Class A Units: NZD Hedged MDis | 1.82% | Class A Units: RMB Hedged MDis | 1.82% | Class A Units: RMB Unhedged MDis | 1.82% | Class A Units: SGD Hedged Acc | 1.82% | Class A Units: SGD Hedged MDis | 1.82% | Class A Units: SGD Unhedged Acc | 1.82% | Class A Units: SGD Unhedged MDis | 1.82% | Class A Units: USD Unhedged Acc | 1.82% | Class A Units: USD Unhedged MDis | 1.82% |
|   | Estimated ongoing charges*  |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: AUD Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: CAD Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: EUR Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: HKD Unhedged Acc         | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: HKD Unhedged MDis        | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: NZD Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: RMB Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: RMB Unhedged MDis        | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: SGD Hedged Acc           | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: SGD Hedged MDis          | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: SGD Unhedged Acc         | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: SGD Unhedged MDis        | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: USD Unhedged Acc         | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| Class A Units: USD Unhedged MDis        | 1.82%   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Dealing frequency:</b>               | Daily   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Base currency:</b>                   | USD   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Dividend policy:</b>                 | <p>Class A Units: AUD Hedged MDis, CAD Hedged MDis, EUR Hedged MDis, HKD Unhedged MDis, NZD Hedged MDis, RMB Hedged MDis, RMB Unhedged MDis, SGD Hedged MDis, SGD Unhedged MDis, USD Unhedged MDis:</p> <p>At its discretion, the Manager currently intends to make monthly dividend distribution at its discretion. Dividends may be paid out of capital or effectively out of capital of the relevant Class and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund.</p> <p>Class A Units: HKD Unhedged Acc, SGD Hedged Acc, SGD Unhedged Acc, USD Unhedged Acc:</p> <p>It is the current intention of the Manager that dividend distributions will not be made in respect of these Classes.</p>   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Financial year end of this fund:</b> | 31 December   |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |
| <b>Classes available:</b>               | Class A: AUD Hedged MDis, CAD Hedged MDis, EUR Hedged MDis, HKD Unhedged Acc, HKD Unhedged MDis, NZD Hedged MDis, RMB Hedged MDis, RMB Unhedged MDis, SGD Hedged Acc, SGD Hedged MDis, SGD Unhedged Acc, SGD Unhedged MDis, USD Unhedged Acc and USD Unhedged MDis  |  |                            |                                |       |                                |       |                                |       |                                 |       |                                  |       |                                |       |                                |       |                                  |       |                               |       |                                |       |                                 |       |                                  |       |                                 |       |                                  |       |

\* The ongoing charges figure is only an estimate as the Sub-Fund is newly set up. The actual figure may be different upon the actual operation of the Sub-Fund. The ongoing charges figure represents the sum of the estimate ongoing expenses chargeable to the Sub-Fund expressed as a percentage of the Sub-Fund's estimated average net asset value.

|                                       |  |
|---------------------------------------|--|
| <b>Minimum initial investment:</b>    | Class A Units: USD10,000 or equivalent |
| <b>Minimum subsequent investment:</b> | Class A Units: USD5,000 or equivalent  |
| <b>Minimum holding:</b>               | Class A Units: USD10,000 or equivalent |
| <b>Minimum redemption amount:</b>     | Class A Units: Nil                     |

## What is this product?

- The Value Partners Asian Income Fund (the "Sub-Fund") is a sub-fund of Value Partners Fund Series which is a unit trust established by a trust deed dated 10 September 2014 as an umbrella fund under the laws of Hong Kong.
- The Sub-Fund will invest predominantly in Asian equity and/or fixed income securities.

## Objectives and Investment Strategy

### Objective

The investment objective of the Sub-Fund is primarily to maximize return and income by investing in Asian equities, Asian fixed income securities and other assets relating to Asian companies that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia. The Sub-Fund aims to deliver lower portfolio volatility by actively screening and selecting a combination of lower volatility equities and fixed income securities. There can be no assurance that the Sub-Fund will achieve its investment objective.

### Strategy

The Sub-Fund seeks to achieve its investment objective by primarily investing in Asian equity and/or fixed income securities and to deliver lower portfolio volatility. The Sub-Fund will be actively managed and will invest in the Asian region which includes emerging market countries as well as developed countries.

Investments will be selected by the Manager by identifying high-yielding investments through bottom-up research and a screening process followed by a preliminary evaluation and a detailed qualitative and quantitative analysis in companies or issuers that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia. Companies or issuers selected following the screening process are subjected to evaluation and ongoing review by sector analysts, and the Manager will focus on the selection of companies which offer potential long term value and consider quantitative factors including sustainable business models, robust balance sheets, market capitalisation, liquidity and dividend yield, as well as qualitative factors, such as quality of management and industry analysis.

### *Equity investments*

The Sub-Fund may invest 30% to 70% of its Net Asset Value in Asian equity securities (including but not limited to American Depositary Receipts ("ADRs"), A-Shares, B-Shares and H-Shares). The Sub-Fund's investment in A-Shares may be made indirectly via China access products (such as participatory notes) (the "Access Products") and/or directly via the Stock Connect (which comprises the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect). The Sub-Fund will not in aggregate invest more than 20% of its Net Asset Value in A-Shares and B-Shares, and not more than 10% of the Sub-Fund's Net Asset Value may be invested in Access Products issued by any single Access Products issuer. There is no restriction on market capitalizations or industries in relation to the equity securities in which the Sub-Fund may invest, and the Sub-Fund may invest substantially in securities issued by small and mid-cap companies.

*Fixed income securities investments*

The Sub-Fund may also invest 30% to 70% of its Net Asset Value in Asian fixed income securities, such as PRC offshore bonds and other fixed income securities (including but not limited to convertible bonds and contingent convertible bonds (each up to 30% of its Net Asset Value), which are mainly denominated and settled in USD, HKD or RMB. The Sub-Fund will have no restrictions on the credit ratings of the fixed income securities it holds, and may invest up to 40% of its Net Asset Value in fixed income securities which are rated below investment grade (i.e. below BBB-/Baa3) by internationally recognised credit rating agencies (such as Standard & Poor's, Moody's and/or Fitch), or which are unrated. For the purpose of the Sub-Fund, an "unrated" fixed income security is defined as a fixed income security which neither the security itself nor its issuer has a credit rating.

*Other investments*

The Sub-Fund may also invest up to 30% of its Net Asset Value in aggregate in the following categories: "Dim Sum" bonds and collateralised and/or securitised products (such as asset backed securities/mortgage backed securities/asset backed commercial papers). The Sub-Fund will not invest in urban investment bonds, which are debt instruments issued by local government financing vehicles in the PRC exchange-traded bond markets and inter-bank bond market.

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country).

The Sub-Fund may invest up to 10% of its Net Asset Value in one or more underlying scheme(s) which are non-recognised jurisdiction schemes and not authorised by the SFC and up to 30% of its Net Asset Value in one or more underlying scheme(s) which are recognised jurisdiction schemes and authorised by the SFC, including those which are managed by the Manager or its Connected Persons or other third parties.

If the Manager considers fit, the Sub-Fund may, to a limited extent (up to 20% of its Net Asset Value), seek exposure to other asset classes including but not limited to non-Asian securities and commodities indirectly through exchange traded funds and/or similar instruments (such as other underlying scheme(s) as permitted under Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds).

The Sub-Fund's portfolio may also temporarily include cash and cash equivalents, up to 100% of its Net Asset Value, under exceptional circumstances (such as in the event of market crashes, major crisis or to mitigate the risk of potential sharp reversals and fall in the equity or bond markets) for cash flow management.

The Sub-Fund may invest in financial derivative instruments for hedging purposes only. The Manager will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund.

*Asset allocation table*

The Sub-Fund's portfolio will be allocated, according to asset class, as follows:

| <b>Asset class</b>  | <b>Indicative percentage of Net Asset Value</b> |
|---|---|
| Equities<br>(Equities of Asian companies that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia)  | 30% to 70%                                      |
| Fixed income securities<br>(Asian fixed income securities including PRC offshore bonds and other fixed income securities (including but not limited to convertible bonds and contingent convertible bonds) which are mainly denominated and settled in USD, HKD or RMB) | 30% to 70%                                      |
| Other asset classes<br>(Including but not limited to non-Asian securities and commodities indirectly through exchange traded funds and/or similar instruments)  | 0% to 20%                                       |
| Cash and cash equivalents   | 0% to 100%                                      |

The asset allocation of the Sub-Fund will change according to the Manager's views of fundamental economic and market conditions and investment trends, taking into consideration factors such as liquidity, costs, timing of execution, relative attractiveness of individual securities and issuers available in the market.

## What are the key risks?

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

### 1. Investment risk

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

### 2. Concentration risk

- The Sub-Fund is subject to concentration risk as a result of the concentration of its investments in the Asian markets. The Sub-Fund may be more volatile than a broadly based fund as it is more susceptible to fluctuation in value resulting from adverse conditions in the Asian market.

### 3. Risk relating to dynamic asset allocation strategy

- The investments of the Sub-Fund may be periodically rebalanced and therefore the Sub-Fund may incur greater transaction costs than a fund with static allocation strategy. The dynamic asset allocation strategy may not achieve the desired results under all circumstances and market conditions.

### 4. Risk of investing in equity securities

- *General:* The Sub-Fund's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.
- *Small and mid-capitalisation companies:* The Sub-Fund may invest in small and mid-capitalisation companies. The stocks of such companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

### 5. Risk of investing in fixed income securities

- *Interest rate risk:* Generally, the value of fixed income securities is expected to be inversely correlated with changes in interest rates. Any increase in interest rates or changes in macro-economic policies in the Asian markets may adversely impact the value of the Sub-Fund's fixed income portfolio.

- *Volatility and liquidity risk:* The fixed income securities in certain Asian markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may incur significant trading costs.
- *Credit risk:* Investment in fixed income securities is subject to the credit risk of the security or its issuers, who may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the securities or the issuers of the fixed income securities held by the Sub-Fund, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.
- *Downgrading risk:* The Manager may or may not be able to dispose of the securities that are being downgraded. There may also be difficulties or delays in enforcing rights against the issuers who will generally be incorporated outside of Hong Kong and therefore not subject to the laws of Hong Kong.
- *Risk of investing in below investment grade and unrated bonds:* Up to 40% of the Sub-Fund's Net Asset Value may be invested in fixed income securities which (or the issuers of which) are rated below investment grade, or may not be rated by any rating agency of an international standard. Such securities are generally subject to a higher degree of volatility and credit risk, a lower degree of liquidity and greater risk of loss of principal and interest than high-rated debt securities, which may result in greater fluctuations in value and, consequently, the Net Asset Value of the Sub-Fund.
- *Valuation risk:* Valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations. If such valuations are incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.
- *Credit ratings risk:* Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

#### 6. Risk of investing in convertible bonds

- Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

#### 7. Risk associated with investment in instruments with non-viability / loss absorption convertible features

- *Trigger level risk / conversion risk:* Contingent convertible bonds may have non-viability and/or loss absorption convertible features and may be subject to compulsory conversion by the issuer into ordinary shares upon the occurrence of a trigger event which may be out of the issuer's control. Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion. These instruments may be converted into shares potentially at a discounted price and the principal amount invested may be lost. In case of conversion, the Manager might be forced to sell these new equity shares and such forced sale may result in the Sub-Fund experiencing losses.
- *Coupon cancellation risk:* Coupon payments are entirely discretionary and may be cancelled by the issuer. As a result, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.
- *Sector concentration risk:* These instruments are issued by banking and insurance institutions. The performance of the Sub-Fund may depend to a greater extent on the overall condition of the financial services industry than for funds following a more diversified strategy.
- *Novelty and untested nature:* The structure of these instruments is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

**8. RMB currency risk**

- The Sub-Fund may have exposure to investments which are denominated in RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. Investors whose assets and liabilities are predominantly in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. There is no guarantee that RMB will not depreciate. Any depreciation of the RMB could adversely affect the value of the investor's investment in the Sub-Fund.
- Assets of the Sub-Fund denominated in RMB are valued with reference to the CNH rate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.
- Under exceptional circumstances, payment of redemption and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

**9. Foreign exchange risk**

- An investment in the Sub-Fund may involve exchange rate risk. The investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund (which is USD). Also, a class of units may be designated in a currency other than the base currency of the Sub-Fund as well. Fluctuations in the exchange rates between such currency and the base currency as well as associated fees and charges may have an adverse impact on the performance of the Sub-Fund.

**10. Derivative risk**

- The Sub-Fund may from time to time invest in financial derivative instruments for hedging purposes. The use of such derivatives exposes a sub-fund to additional risks, including volatility risk, valuation risk, leverage risk, liquidity risk, correlation risk, counterparty/credit risk, legal risk, over-the-counter transaction risk and settlement risk.

**11. Hedged class risk**

- There is no guarantee that the desired hedging instruments will be available or that the hedging techniques will be effective. Hedging can limit potential gains of a hedged class.

**12. Dividends risk / distributions payable out of capital or effectively out of capital risk**

- Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of Sub-Fund may result in an immediate reduction of the Net Asset Value per Unit of the relevant class.
- The distribution amount and Net Asset Value of the hedged unit classes may be adversely affected by differences in the interest rates of the reference currency of the hedged share class and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged share classes.

**How has the fund performed?**

The Sub-Fund is newly set up and has been launched for less than one full calendar year. As such, there is insufficient data to provide a useful indication of past performance to investors.

**Is there any guarantee?**

This Sub-Fund does not have any guarantees. You may not get back the full amount of money you invest.

## What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the units of the Sub-Fund.

| Fee                     | What you pay                        |
|-------------------------|-------------------------------------|
|                         | <b>Class A Units</b>                |
| <b>Subscription fee</b> | Up to 5% of the subscription monies |
| <b>Redemption fee*</b>  | Nil                                 |
| <b>Switching fee**^</b> | Nil                                 |

<sup>^</sup> Certain distributors may impose a charge for each switching of Units in a class of the Sub-Fund acquired through them for Units in another class of the Sub-Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their Units in one class to Units in another class should check with their respective distributors for the charge on switching.

## Ongoing fees payable by the Sub-Fund

The following expenses will be paid out of the Sub-Fund. They affect you because they reduce the return you get on your investments.

|                        | <b>Annual rate (as a % of the class of Units' Net Asset Value)</b>  |
|------------------------|---|
| <b>Management fee*</b> | Class A Units: 1.50%  |
| <b>Performance fee</b> | N/A   |
| <b>Trustee fee*</b>    | In respect of each class of Units, 0.14% per annum for the first USD150 million in Net Asset Value, 0.12% per annum for the portion over and above the first USD150 million in the Net Asset Value.<br><br>The Trustee fees are subject to a monthly minimum of USD4,500. |
| <b>Other fees</b>      | You may have to pay other fees when dealing in the Units of the Sub-Fund.   |

\* You should note that some fees may be increased, up to a specified permitted maximum, by giving affected unitholders at least one month's prior notice. For details please refer to the section headed "Expenses and Charges" in the Explanatory Memorandum.

## Additional information

- You generally buy and redeem units at the Sub-Fund's next-determined Net Asset Value after the registrar receives your request in good order at or before 5:00 pm (Hong Kong time), being the Sub-Fund's dealing cut-off time. Before placing your subscription orders or redemption request, please check with your distributor for the distributor's internal dealing cut-off time (which may be earlier than the Sub-Fund's dealing cut-off time).
- The Sub-Fund's Net Asset Value and the latest subscription and redemption prices of units are available on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com) (this website has not been reviewed by the SFC).
- The compositions of the dividends (i.e. the relative amounts paid from net distributable income and capital) for the last 12 months will be available from the Manager on request and on the Manager's website.
- Investors may obtain information on the distributor(s) appointed in respect of the Sub-Fund by making a telephone enquiry with the Manager on (852) 2143 0688.

**Important**

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

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



VALUE PARTNERS FUND SERIES

# EXPLANATORY MEMORANDUM



# VALUE PARTNERS FUND SERIES

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

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# VALUE PARTNERS FUND SERIES

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## IMPORTANT INFORMATION FOR INVESTORS

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

Value Partners Fund Series (the “Trust”) is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between Value Partners Hong Kong Limited 惠理基金管理香港有限公司 as manager (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited as trustee (the “Trustee”).

A product key facts statement which contains the key features and risks of each of the Sub-Funds is also issued by the Manager and such product key facts statement shall form part of this Explanatory Memorandum, and shall be read, in conjunction with, this Explanatory Memorandum.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as at any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated. Investors should check the Manager’s website at [www.valuepartners-group.com](http://www.valuepartners-group.com)\*) for the latest version of the Explanatory Memorandum.

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

The Trust and each Sub-Fund have been authorised by the Securities and Futures Commission in Hong Kong (the “SFC”) under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Trust or any Sub-Fund nor does it guarantee the commercial merits of any Sub-Fund or its performance. It does not mean a Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

\* This website has not been reviewed by the SFC.

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## Selling Restrictions

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

## United States:

- (a) The Units have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any state or other securities laws, and may not be offered or sold in the United States of America or to U.S. Persons (“U.S. Persons”, as defined in Regulation S under the Securities Act) other than distributors, unless the Units are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. Neither the Trust nor any Sub-Fund will be registered under the United States Investment Company Act of 1940, as amended (the “Investment Company Act”) in reliance on exemptions thereunder. Accordingly, the Units are subject to further restrictions on transferability and resale and may not be transferred or resold to U.S. Persons except as permitted under the Securities Act, the Investment Company Act and any other applicable federal, state or other securities laws, pursuant to registration or an exemption from them. There will be no public market in the United States for the Units, and there is no obligation on the part of any person to register the Units under the Securities Act or any state securities laws.
- (b) The Manager is exempt from registration with the U.S. Commodity Futures Trading Commission (“CFTC”) and is not registered with the CFTC as a Commodity Pool Operator (“CPO”), in respect of the Trust or any Sub-Fund pursuant to an exemption under CFTC Rule 4.13(a)(3) and as a Commodity Trading Adviser pursuant to Rule 4.14(a)(8) for pools (a) whose interests are exempt from registration under the Securities Act and are offered and sold without marketing to the public in the United States and (b) whose participants are limited to certain qualified eligible persons and accredited investors. To comply with Rule 4.13(a)(3), the Manager will not commit more than 5% of a Sub-Fund’s liquidation value, taking into account unrealised profits or loss on such positions to establishing commodity interest positions or have commodity

interest positions with an aggregate net notional value that exceed 100% of a Sub-Fund's liquidation value, taking into account unrealised profits or loss on such positions. Therefore, unlike a registered CPO, the Manager is not required to deliver a Disclosure Document (as defined in the CFTC Rules) or a certified annual report to investors. The CFTC does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of an offering memorandum. Consequently, the CFTC has not reviewed or approved this offering or this Explanatory Memorandum.

## Singapore:

Certain Sub-Funds ("Restricted Sub-Funds") have been entered onto the list of restricted schemes maintained by the Monetary Authority of Singapore (the "MAS") pursuant to section 305 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). The list of Restricted Sub-Funds may be accessed at the MAS website at <https://masnetvc2.mas.gov.sg/cisnet/home/CISNetHome.action>. **Investors should note that other Sub-Funds referred to in this Explanatory Memorandum other than the Restricted Sub-Funds are not available to persons in Singapore via section 305 of the SFA and references to such other Sub-Funds are not and should not be construed as an offer of Units of such other Sub-Funds to persons in Singapore.**

The offer or invitation of the Units of Restricted Sub-Funds, which is the subject of this Explanatory Memorandum, does not relate to a collective investment scheme which is authorised under Section 286 of the SFA or recognised under Section 287 of the SFA. Each of the Trust and the Sub-Fund(s) are not authorised or recognised by the MAS and Units are not allowed to be offered to the retail public. This Explanatory Memorandum and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectus would not apply. You should consider carefully whether the investment is suitable for you.

This Explanatory Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Units of the Restricted Sub-Funds may not be circulated or distributed, nor may such Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions, specified in Section 305 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

## VALUE PARTNERS FUND SERIES

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Where Units of the Restricted Sub-Funds are subscribed or purchased under Section 305 of the SFA by a relevant person which is:

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

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

- (1) to an institutional investor or to a relevant person defined in Section 305(5) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 305A(3)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 305A(5) of the SFA; or
- (5) as specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

Investors are required to ensure that any of their own transfer arrangements in relation to any Units of the Restricted Sub-Funds comply with the above restrictions and should seek legal advice to ensure compliance with the same.

Investors in Singapore should note that if they wish to obtain information on the past performance and a copy of the annual report of the Trust they should contact the relevant distributors to obtain such information.

## VALUE PARTNERS FUND SERIES

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

Investors may raise any questions on or make any complaints about the Trust (including the Sub-Fund) by contacting the Manager at its address as set out in the Directory of this Explanatory Memorandum, or by phone at its telephone number: (852) 2143 0688.

March 2018



# VALUE PARTNERS FUND SERIES

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

## DIRECTORY

|                                  |  |
|----------------------------------|--|
| <b>Manager</b>                   | Value Partners Hong Kong Limited<br>惠理基金管理香港有限公司<br>9/F, Nexxus Building<br>41 Connaught Road Central<br>Hong Kong                 |
| <b>Trustee and Registrar</b>     | HSBC Institutional Trust Services (Asia) Limited<br>1 Queen's Road Central, Hong Kong  |
| <b>Custodian<sup>^</sup></b>     | The Hongkong and Shanghai Banking Corporation Limited<br>1 Queen's Road Central<br>Hong Kong                                       |
| <b>PRC Custodian<sup>^</sup></b> | HSBC Bank (China) Company Limited<br>33/F, HSBC Building<br>Shanghai ifc<br>8 Century Avenue<br>Pudong<br>Shanghai 200120<br>China |
| <b>Auditors</b>                  | PricewaterhouseCoopers<br>22nd Floor, Prince's Building<br>Central<br>Hong Kong  |

<sup>^</sup> *Applicable to Value Partners China A-Share Select Fund only.*

## DEFINITIONS

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

- “A-Shares” means shares issued by companies incorporated in the PRC and listed on the SSE or the SZSE, traded in RMB.
- “Appendix” means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.
- “B-Shares” means shares issued by companies incorporated in the PRC and listed on the SSE or the SZSE, traded in foreign currencies and available for investment by domestic PRC investors and foreign investors.
- “Base Currency” means the base currency of a particular Sub-Fund, as specified in the relevant Appendix.
- “Business Day” means, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may determine from time to time, provided that where, as a result of a typhoon signal number 8, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise.
- “CCASS” means the Central Clearing and Settlement System operated by HKSCC.
- “CCDCC” means the China Central Depository & Clearing Co., Ltd.
- “Class Currency” means, in relation to a class of Units, the Base Currency of the Sub-Fund relating thereto or such other currency of account as the Manager may specify for such class of Units.

# VALUE PARTNERS FUND SERIES

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

## DEFINITIONS (Continued)

- “Code” means the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time.
- “Connected Person” has the meaning as set out in the Code which at the date of the Explanatory Memorandum, in relation to a company means:
- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company;
  - (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a);
  - (c) any member of the group of which that company forms part; or
  - (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).
- “CSDCC” means the China Securities Depository and Clearing Corporation Limited.
- “CSRC” means the China Securities Regulatory Commission.
- “Dealing Day” means, in relation to any Sub-Fund, the days on which Units of that Sub-Fund may be subscribed or redeemed, as specified in the relevant Appendix.
- “Dealing Deadline” means, in respect of any Sub-Fund, such time on the relevant Dealing Day or any other Business Day as the Manager may from time to time determine (in consultation with the Trustee) in relation to the subscription and redemption of Units, as specified in the relevant Appendix.

## DEFINITIONS (Continued)

|                                 |   |
|---------------------------------|---|
| “HKEx”                          | means Hong Kong Exchanges and Clearing Limited.   |
| “HKSCC”                         | means the Hong Kong Securities Clearing Company Limited or its successors.  |
| “Hong Kong”                     | means the Hong Kong Special Administrative Region of the PRC.   |
| “Hong Kong Dollars”<br>or “HKD” | means the lawful currency of Hong Kong.   |
| “IFRS”                          | means International Financial Reporting Standards issued by the International Accounting Standards Board.   |
| “Initial Offer Period”          | means, in respect of any class of Units, such period as may be specified by the Manager and notified to the Trustee for the purpose of making an initial offer of Units of such class, as specified in the relevant Appendix. |
| “Manager”                       | means Value Partners Hong Kong Limited 惠理基金管理香港有限公司 or any other person or persons for the time being duly appointed Manager of the Trust in succession thereto.  |
| “MOF”                           | means the Ministry of Finance of the PRC.   |
| “Net Asset Value”               | means, in relation to any Sub-Fund or class of Units, the net asset value of such Sub-Fund or class, as the context may require, calculated in accordance with the provisions of the Trust Deed.                              |
| “PBOC”                          | means the People’s Bank of China.   |
| “PRC” or “China”                | means the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.      |

# VALUE PARTNERS FUND SERIES

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

## DEFINITIONS (Continued)

|                           |   |
|---------------------------|---|
| “QFII”                    | means a qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time).  |
| “Redemption Price”        | means the price per Unit at which Units of the relevant class will be redeemed, which price shall be ascertained in accordance with the section headed “Redemption of Units” below. |
| “Registrar”               | means HSBC Institutional Trust Services (Asia) Limited or such person as the Trustee may from time to time appoint to maintain the register in respect of any Sub-Fund.             |
| “RMB” or “¥”              | means the lawful currency for the time being and from time to time of the PRC.  |
| “RQFII” or “RQFII holder” | means a renminbi qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time).   |
| “SAFE”                    | means the State Administration of Foreign Exchange of the PRC.  |
| “SAT”                     | means the State Administration of Taxation of the PRC.  |
| “SEHK”                    | means The Stock Exchange of Hong Kong Limited.  |
| “SFC”                     | means the Securities and Futures Commission of Hong Kong.   |
| “SFO”                     | means the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong.  |
| “SSE”                     | means the Shanghai Stock Exchange.  |
| “Stock Connect”           | means the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.  |

# VALUE PARTNERS FUND SERIES

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

## DEFINITIONS (Continued)

- “Sub-Fund” means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed and with respect to which one or more separate classes of Units is issued.
- “Subscription Price” means the price per Unit at which Units of a particular class will be issued, which price shall be ascertained in accordance with the section headed “Subscription of Units” below.
- “SZSE” means the Shenzhen Stock Exchange.
- “Trust” means Value Partners Fund Series and includes the Sub-Funds.
- “Trust Deed” means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 10 September 2014, and as amended and/or supplemented from time to time.
- “Trustee” means HSBC Institutional Trust Services (Asia) Limited or such other person or persons for the time being duly appointed trustee or trustees hereof in succession thereto.
- “Unit” means a unit of the class to which it relates and except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.
- “Unitholder” means a person registered as a holder of a Unit.
- “US dollars” or “USD” means the lawful currency of the United States of America.
- “Valuation Day” means, in relation to any class of Units, the Business Day as at which the Net Asset Value and the Net Asset Value per Unit is to be calculated and/or such other Business Day or Business Days as the Manager may from time to time determine.

# VALUE PARTNERS FUND SERIES

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

## **DEFINITIONS (Continued)**

“Valuation Point” means, unless otherwise specified in the relevant Appendix, the close of business in the last relevant market to close on each Valuation Day or such other time consistent with standard market practice as the Manager may determine either generally or in relation to a particular class of Units.

## INTRODUCTION

Value Partners Fund Series is an open-ended umbrella unit trust established under the laws of Hong Kong pursuant to the Trust Deed. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and separate and distinct Sub-Funds may be established by the Manager and the Trustee within the Trust from time to time. Each Sub-Fund has its own investment objective and policies. More than one class of Units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of Units relating to the same Sub-Fund will be commonly invested in accordance with such Sub-Fund's investment objective and policies. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts.

A separate Net Asset Value per Unit will be calculated for each class following the close of the relevant Initial Offer Period. Additional classes of Units of any of the Sub-Funds and/or additional Sub-Funds may be created in the future in accordance with the Trust Deed.

Information relating to the Trust and the Sub-Funds, including the latest versions of the Sub-Funds' offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

\* This website has not been reviewed by the SFC.



# VALUE PARTNERS FUND SERIES

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## MANAGEMENT OF THE TRUST

### The Manager

The Manager of the Trust is Value Partners Hong Kong Limited 惠理基金管理香港有限公司.

The Manager was incorporated in Hong Kong on 10 May 1999 and commenced its current operations in January 2008. It is dedicated to the philosophy of investing in “value” securities and concentrates its investment expertise in Asian markets, particularly the Greater China region. Using a disciplined, bottom-up approach, the Manager applies fundamental analysis to seek under-valued positions.

Value Partners Hong Kong Limited is licensed by the SFC for type 1 (dealing in securities), type 2 (dealing with futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the SFO with CE number AFJ002. The contact details of the SFC are set out below:

35/F, Cheung Kong Center  
2 Queen’s Road Central  
Hong Kong

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

The Manager may appoint investment managers or investment advisers in relation to specific Sub-Funds (details of any such appointments are set out in the relevant Appendix), subject to the approval of the SFC and at least one month’s prior notice to Unitholders (where applicable). Where the investment management functions in respect of a Sub-Fund are delegated to third party investment managers or investment advisers, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager’s accountability to investors is not diminished, and although the investment management role of the Manager may be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

## MANAGEMENT OF THE TRUST (Continued)

### The Manager (Continued)

The directors of the Manager are as follows:

#### *Dato' Seri CHEAH Cheng Hye*

Dato' Seri CHEAH Cheng Hye is Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners Group Limited (“Value Partners”). He is in charge of Value Partners’ fund management and investment research, business operations, product development and corporate management. He sets Value Partners’ overall business and portfolio strategy. (Note: In July 2010, Mr. Louis SO was promoted to become Co-CIO of Value Partners, working alongside Dato' Seri CHEAH).

Dato' Seri CHEAH has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm’s funds and business operation. He led Value Partners to a successful listing on the Main Board of the Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato' Seri CHEAH has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 140 professional awards and prizes since the firm’s inception in 1993.

Dato' Seri CHEAH has been serving as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited (“HKEX”) since April 2017. He has been a member of the Financial Services Development Council (“FSDC”), a high-level, cross-sector advisory body established by the Hong Kong Special Administrative Region Government, since 2015, following a two-year term as a member of the New Business Committee of FSDC since 2013. In addition, he has been a member of The Hong Kong University of Science and Technology (“HKUST”) Business School Advisory Council since June 2011.

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

# VALUE PARTNERS FUND SERIES

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

## MANAGEMENT OF THE TRUST (Continued)

### The Manager (Continued)

#### *Dato' Seri CHEAH Cheng Hye (Continued)*

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

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

#### *HO Man Kei, Norman*

Mr. Norman HO is Senior Investment Director of Value Partners, where he is a key leader in Value Partners' investment process, including a high degree of responsibility for portfolio management.

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

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

**MANAGEMENT OF THE TRUST (Continued)****The Manager (Continued)***SO Chun Ki Louis*

Mr. Louis SO is Deputy Chairman and Co-CIO of Value Partners, responsible for assisting Dato' Seri CHEAH Cheng Hye, Chairman of the Value Partners Group, in overseeing group affairs and activities, as well as daily operations and overall management of the firm's investment management team. He holds a leadership role in the Value Partners' investment process, including a high degree of responsibility for portfolio management.

Mr. SO has over 15 years of experience in the investment industry, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of "CIO of the Year in Asia" along with Dato' Seri CHEAH.

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

**The Trustee and the Registrar**

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, which is a registered trust company in Hong Kong. The Trustee is an indirect wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales. The Trustee will also act as the Registrar of each Sub-Fund.

# VALUE PARTNERS FUND SERIES

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

## MANAGEMENT OF THE TRUST (Continued)

### The Trustee and the Registrar (Continued)

The Trustee is registered as a trust company under the Trustee Ordinance (Cap. 29) of Hong Kong and it is also approved by the Mandatory Provident Funds Scheme Authority of Hong Kong (“MPFA”) as trustee of registered MPF schemes under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) of Hong Kong. The contact details for the MPFA are set out below:

Level 8, Tower 1,  
Kowloon Commerce Centre,  
51 Kwai Cheong Road,  
Kwai Chung,  
Hong Kong

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee or agent, all or any of the investments, assets or other property comprised in the Trust or any of the Sub-Funds and may empower any such custodian, nominee or agent to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a “Correspondent”). The Trustee is required to (a) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of Correspondents and (b) be satisfied that Correspondents retained remain suitably qualified and competent to provide the relevant custodial services to a Sub-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. For the purpose of the foregoing, “Correspondent” shall include the Custodian and the PRC Custodian (where applicable to the relevant Sub-Fund). The Custodian is The Hongkong and Shanghai Banking Corporation Limited and the PRC Custodian is HSBC Bank (China) Company Limited (please see below).

## **MANAGEMENT OF THE TRUST (Continued)**

### **The Trustee and the Registrar (Continued)**

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of: (i) a custodian which is not a member of the group of companies to which the Trustee belongs provided that the Trustee has discharged its obligations set out in (a) and (b) in the preceding paragraph; (ii) any depository or clearing system; or (iii) any lender or nominee of any lender in whose name all or any of the Sub-Fund's assets are registered for the purposes of any charge or pledge in securing any borrowing for the account of the Sub-Fund.

Subject as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Trust and/or any of the Sub-Funds.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the relevant Sub-Fund, in respect of all liabilities and expenses incurred in relation to such Sub-Fund, from and against any and all actions, proceedings, liabilities, costs, claims, damages and expenses, including all reasonable legal, professional and other similar expenses (other than any liability to Unitholders imposed under Hong Kong law or resulting from breaches of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with such Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of breach of trust through fraud, or negligence or wilful default by it or any agent, sub-custodian or delegate appointed by the Trustee, be liable for any losses, costs or damage to the Trust, the Sub-Fund or any Unitholder.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment. The Trustee has no responsibility or authority to make investment decisions, or render investment advice with respect to the Trust, which is the sole responsibility of the Manager.

# VALUE PARTNERS FUND SERIES

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## MANAGEMENT OF THE TRUST (Continued)

### The Trustee and the Registrar (Continued)

The Trustee will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury (“OFAC”). The OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent “prohibited transactions,” which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general licence for certain categories of transactions, or by specific licences issued on a case-by-case basis. HSBC group of companies has adopted a policy of compliance with the sanctions issued by OFAC. As part of its policy, the Trustee may request for additional information if deemed necessary.

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee is entitled to the fees set under the section on “Fees and expenses” and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Explanatory Memorandum and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or any Sub-Fund, and they are not responsible for the preparation or issue of this Explanatory Memorandum other than the description under the section on “The Trustee and the Registrar”.

## MANAGEMENT OF THE TRUST (Continued)

### The Trustee and the Registrar (Continued)

Where a Sub-Fund invests directly into the PRC's securities markets pursuant to the RQFII regime, the Trustee has put in place proper arrangements to ensure that:

- (a) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including onshore PRC assets which will be maintained by the PRC Custodian in electronic form via securities account(s) with CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories and any assets deposited in special deposit account(s) with the PRC Custodian, and holds the same in trust for the relevant Unitholders;
- (b) cash and registrable assets of the Sub-Fund, including assets deposited in the securities account(s) with CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories and cash of any Sub-Fund deposited in special deposit account(s) with or otherwise held by the PRC Custodian, are registered in the name of or held to the order of the Trustee; and
- (c) the PRC Custodian will look to the Trustee for instructions and solely act in accordance with the Trustee's instructions as provided under the PRC Participation Agreement.

### The Custodian and PRC Custodian

In respect of each Sub-Fund which invests directly into the PRC's securities markets pursuant to the RQFII regime, The Hongkong and Shanghai Banking Corporation Limited has been appointed by the Manager and the Trustee to act as the Custodian through the PRC Custodian, and will be responsible for the safe custody of the assets acquired through or in connection with the Manager's RQFII quota within the PRC under the RQFII scheme in accordance with the PRC Custodian Agreement. As at the date of this Explanatory Memorandum, no function of the PRC Custodian in connection with custody of assets under the RQFII regime is delegated to its associates within the group companies of the Trustee or any other person(s). According to the PRC Custodian Agreement, the Custodian is entitled to utilise its local subsidiary or its associates within the HSBC group of companies, which as at the date of the PRC Custodian Agreement is the PRC Custodian (i.e. HSBC Bank (China) Company Limited), as its delegate for the performance of services under the PRC Custodian Agreement. The Custodian will act through its delegate, the PRC Custodian, and remains responsible for any acts and omission of the PRC Custodian.



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## MANAGEMENT OF THE TRUST (Continued)

### The Custodian and PRC Custodian (Continued)

The Custodian is regulated by the Hong Kong Monetary Authority (“HKMA”). The contact details for the HKMA are set out below:

55th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

The PRC Custodian is regulated by China Securities Regulatory Commission (“CSRC”), The People’s Bank of China (“PBOC”), China Banking Regulatory Commission (“CBRC”) and State Administration of Foreign Exchange (“SAFE”) and/or any other applicable governmental departments or regulatory bodies in the People’s Republic of China (as the case may be).

The contact details of the CSRC are set out below:

Focus Plaza 19, Jin Rong Street,  
Xi Cheng District,  
Beijing, P.R. China 100033

The contact details of the PBOC are set out below:

No. 32 Chengfang Street,  
Xi Cheng District,  
Beijing, P.R. China 100800

The contact details of the CBRC are set out below:

Jia No. 15 Financial Street,  
Xi Cheng District,  
Beijing, P.R. China 100033

The contact details of the SAFE are set out below:

Huarong Plaza, No. 18 Fucheng Road,  
Haidian District,  
Beijing, P.R. China 100048

**MANAGEMENT OF THE TRUST (Continued)**

**The Custodian and PRC Custodian (Continued)**

Neither the Custodian nor the PRC Custodian is responsible for the preparation of this Explanatory Memorandum and they accept no responsibility or liability for the information contained here other than the description under the section “The Custodian and PRC Custodian”.

# VALUE PARTNERS FUND SERIES

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## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS

### Investment objective

The investment objective of each Sub-Fund is set out in the relevant Appendix.

### Investment strategy

The investment strategy of each Sub-Fund is set out in the relevant Appendix.

### Investment and borrowing restrictions

The following principal investment restrictions apply to each Sub-Fund authorised by the SFC, unless otherwise provided in the relevant Appendix:

- (a) the value of the Sub-Fund's holding of securities issued by any single issuer may not exceed 10% of its Net Asset Value;
- (b) the Sub-Fund may not hold more than 10% of any ordinary shares issued by any single issuer;
- (c) the value of the Sub-Fund's holding of securities which are not listed, quoted nor dealt in on a market (being any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded) may not exceed 15% of its Net Asset Value;
- (d) notwithstanding (a) and (b) above, up to 30% of the Net Asset Value of the Sub-Fund may be invested in Government and other public securities of the same issue;
- (e) subject to (d), the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues;
- (f) the Sub-Fund may invest in options and warrants for hedging purposes, and the value of the Sub-Fund's investment in warrants and options not held for hedging purposes in terms of the total amount of premium paid may not exceed 15% of its total Net Asset Value;

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)**

**Investment and borrowing restrictions (Continued)**

- (g) the Sub-Fund may enter into financial futures contracts for hedging purposes, and
- (h) the Sub-Fund may enter into futures contracts on an unhedged basis provided that the net total aggregate value of contract prices, whether payable to or by the Sub-Fund under all outstanding futures contracts, together with the aggregate value of holdings of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (excluding, for this purpose, shares in companies engaged in producing, processing or trading in commodities) may not exceed 20% of the total Net Asset Value of the Sub-Fund;
- (i) where the Sub-Fund invests in units or shares of other collective investment schemes (“underlying schemes”),
  - (1) the value of units or shares in underlying schemes which are neither recognised jurisdiction schemes (“recognised jurisdiction schemes” in this context is defined as schemes domiciled in such jurisdictions as may be specified by the SFC from time to time for the purposes of 7.11A of the Code) nor authorised by the SFC, held for the account of the Sub-Fund, may not exceed 10% of the total Net Asset Value of the Sub-Fund; and
  - (2) the Sub-Fund may invest in one or more underlying schemes which are either recognised jurisdiction schemes or authorised by the SFC, but the value of the units or shares held for the account of the Sub-Fund in each such underlying scheme may not exceed 30% of the Net Asset Value of the Sub-Fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the Appendix relating to that Sub-Fund,

# VALUE PARTNERS FUND SERIES

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## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)

### Investment and borrowing restrictions (Continued)

provided that:

- (A) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by the investment restrictions set out in Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in investments restricted by the provisions set out in Chapter 7 of the Code, such holdings may not be in contravention of the relevant limitation;
  - (B) where an investment is made in any underlying scheme(s) managed by the Manager or its Connected Persons, all initial charges on the underlying scheme(s) must be waived; and
  - (C) the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, and
- (j) ordinary shares issued by a single issuer held for the account of the Sub-Fund, when aggregated with the holdings of ordinary shares issued by the same issuer held for the account of all other Sub-Funds under the Trust may not collectively exceed 10% of the ordinary shares issued by such issuer.

For the purposes of this section:

- "Government and other public securities" means any investment issued by, or the payment of principal and interest on which is guaranteed by, the government of any member state of the Organisation for Economic Co-operation and Development ("OECD") or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing.
- Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)**

**Investment and borrowing restrictions (Continued)**

Each Sub-Fund shall not:

- (1) 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% of the total nominal amount of all the issued securities of that class, or, collectively the directors and officers of the Manager own more than 5% of those securities;
- (2) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts (REITs)) (and in the case of investments in such shares or REITs, such investments shall comply with the investment limits set out in (a), (b), (c) and (i) above, where applicable);
- (3) make short sales if as a consequence the Sub-Fund's liability to deliver securities would exceed 10% of its total Net Asset Value (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (4) write uncovered options;
- (5) write a call option on the Sub-Fund's portfolio investments if the aggregate of the exercise prices of all such call options would exceed 25% of the total Net Asset Value of the Sub-Fund;
- (6) make a loan out of the assets of the Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (7) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (8) acquire any asset which involves the assumption by the Sub-Fund of any liability which is unlimited; or

# VALUE PARTNERS FUND SERIES

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## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)

### Investment and borrowing restrictions (Continued)

- (9) apply any part of the assets of the Sub-Fund in the acquisition of any security where a call is to be made for any sum unpaid on that security unless that call could be met in full out of cash or near cash by the Sub-Fund which has not already been taken into account for the purposes of (5) above.

The Manager may cause to borrow up to 25% of the latest available Net Asset Value of a Sub-Fund unless otherwise stated in the relevant Appendix. The assets of any Sub-Fund may be charged or pledged as security for any such borrowings.

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

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

### *Stock Connect*

Certain Sub-Funds may seek to achieve their investment objective through investing in A-shares via the Stock Connect. The Stock Connect is a securities trading and clearing linked programme developed by the HKEx, the SSE, the SZSE and the CSDCC, with an aim to achieve mutual stock market access between mainland China and Hong Kong. It comprises the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

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

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)**

**Investment and borrowing restrictions (Continued)**

*Stock Connect (Continued)*

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

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

SZSE Securities will include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalisation of not less than RMB6 billion, and all the SZSE-listed A-Shares which have corresponding H shares listed on SEHK, except the following:

- a) SZSE-listed shares which are not traded in RMB; and
- b) SZSE-listed shares which are included in the “risk alert board” or under delisting arrangement.

At the initial stage of Shenzhen-Hong Kong Stock Connect, shares listed on the ChiNext Board of SZSE under Northbound Trading Link will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

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

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



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## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)

### Investment and borrowing restrictions (Continued)

#### *Stock Connect (Continued)*

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

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

*Corporate actions and shareholders’ meetings* – Under the Shanghai-Hong Kong Stock Connect, notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them. The same arrangement is applicable to SZSE Securities under the Shenzhen-Hong Kong Stock Connect.

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

*Trading fees* – In addition to paying trading fees and stamp duties in connection with A-Share trading, the Sub-Fund may be subject to other fees and taxes concerned with income arising from stock transfers which are determined by the relevant authorities.

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)****Investment and borrowing restrictions (Continued)*****Stock Connect (Continued)***

*Coverage of Investor Compensation Fund* – The Sub-Fund’s investments through Northbound trading under Stock Connect is not covered by Hong Kong’s Investor Compensation Fund. Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default in Northbound trading via Stock Connect do not involve products listed or traded in the SEHK or the Hong Kong Futures Exchanges Limited, such trading is not covered by Hong Kong’s Investor Compensation Fund. On the other hand, since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, such trading is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the PRC.

*Shenzhen-Hong Kong Stock Connect Specific Risks:* The Shenzhen-Hong Kong Stock Connect is newly launched and does not have an operating history and the risks identified above are particularly relevant to the Shenzhen-Hong Kong Stock Connect due to the lack of an operating history. Investors should note that the performance of the Shenzhen-Hong Kong Stock Connect may not be the same as the performance of the Shanghai-Hong Kong Stock Connect to date.

Further information about the Stock Connect is available at the website: [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)

***Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions***

The Trustee may, at the request of the Manager, enter into securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of a Sub-Fund. Please refer to the “Investment Strategy” section in each relevant Appendix for the policy regarding such arrangements of each Sub-Fund.

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## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)

### Investment and borrowing restrictions (Continued)

#### *Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions (Continued)*

Securities lending transactions will only be entered into:–

- (a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral; and
- (b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction.

Further, details of the securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter arrangements are as follows:–

- (a) any incremental income earned from any securities lending arrangement may be split between the relevant Sub-Fund and any security lending agent in such proportion as the Manager may determine in each case, provided that the amount payable to any security lending agent should not exceed 30% of such incremental income. All incremental income generated from repurchase transactions, including reverse repurchase agreements, entered into by the Sub-Fund will accrue to the Sub-Fund. Income accruing to the relevant Sub-Fund, after deduction of any fees or commission payable will be credited to the account of the relevant Sub-Fund and such income will be disclosed in its annual financial reports;
- (b) each counterparty is expected to have a minimum credit rating of A2 assigned by Moody's or equivalent, or deemed to have an implied rating of A2; alternatively, an unrated counterparty will be acceptable where the relevant Sub-Fund is indemnified against losses caused by the counterparty, by an entity which has a minimum credit rating of A2;

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)**

**Investment and borrowing restrictions (Continued)**

*Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions (Continued)*

- (c) the Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, sold or purchased (as the case may be) and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below;
- (d) the relevant Sub-Fund may be engaged in such transactions for up to 100% of its assets; and
- (e) where any transaction has been arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement. Such transactions with Connected Persons of the Trustee or the Manager (including the fee retained by the Trustee or the Manager or their Connected Persons) will be disclosed in the connected party transaction section of the relevant Sub-Fund's annual financial reports.

Where securities are accepted as collateral, the Manager will have regard to any relevant considerations which include, but are not limited to:

- Liquidity – sufficiently liquid in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – mark to market daily;
- Issuer credit quality – of high credit quality; collateral on assets that exhibit high price volatility may be accepted only if suitably conservative haircuts are in place;

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## **INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS (Continued)**

### **Investment and borrowing restrictions (Continued)**

#### *Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions (Continued)*

- Diversification – must be appropriately diversified so as to avoid concentrated exposure to any single issuer. The counterparty or other investment limit/exposure of the collateral as a percentage of the Sub-Fund's Net Asset Value must not contravene the investment restrictions or limitations set out in Chapter 7 of the Code;
- Correlation – correlation between the counterparty and the collateral received must be avoided;
- Management of operational and legal risks – there must be in existence appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – must be held by or to the order of the Trustee;
- Enforceability – must be readily accessible/enforceable by the Trustee without further recourse to the counterparty; and
- Not available for secondary recourse – collateral cannot be applied for any purpose except for the purpose of being used as collateral.

Where the aggregate value of all collateral held by a Sub-Fund represents 30% or more of its Net Asset Value, a description of holdings of collateral (including a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Sub-Fund (by percentage) secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Sub-Fund's annual and interim reports for the relevant period.

## SUBSCRIPTION OF UNITS

### Initial issue of Units

During an Initial Offer Period, Units in a Sub-Fund will be offered to investors at an initial Subscription Price of a fixed price per Unit as specified in the relevant Appendix.

If specified in the relevant Appendix, in the event that the total amount received by the Registrar from the subscription of the Units reaches a maximum amount for aggregate subscriptions (as specified in the relevant Appendix) at any time during an Initial Offer Period, the Manager is entitled (but not obliged) to close the Sub-Fund to further subscriptions before the end of the relevant Initial Offer Period.

If specified in the relevant Appendix, the Manager may decide not to issue any Units in the event that less than a minimum amount for aggregate subscriptions (as specified in the relevant Appendix) is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) promptly after the expiry of the Initial Offer Period.

Units will be issued on the Business Day following the close of the Initial Offer Period or such other Business Day as the Manager may determine. Dealing of the Units will commence on the Dealing Day immediately following the closure of the relevant Initial Offer Period.

### Subsequent issue of Units

Following the close of the relevant Initial Offer Period, Units will be available for issue on each Dealing Day at the relevant Subscription Price.

The Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 2 decimal places (0.005 and above being rounded up; below 0.005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager. Any rounding adjustment will be retained by the relevant Sub-Fund. The Subscription Price will be calculated and quoted in the relevant Class Currency.

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## **SUBSCRIPTION OF UNITS (Continued)**

### **Subsequent issue of Units (Continued)**

The Manager is entitled to impose a subscription fee on the subscription monies for the application for the issue of each Unit. Different levels of subscription fee may be imposed, in relation to the issue of Units of different Sub-Funds and also in relation to different classes of Units of a Sub-Fund. The Manager may retain the benefit of such subscription fee or may pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the subscription fee are set out in the section headed “Expenses and Charges” below.

In determining the Subscription Price, the Manager is entitled to add an amount (not exceeding 1% of the Net Asset Value per Unit of the relevant class unless otherwise specified in the relevant Appendix) it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) fiscal and purchase charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred in investing a sum equal to the application monies and issuing the relevant Units or the remittance of money to the Trustee. Any such additional amount will be paid to the Trust and will form part of the assets of the relevant Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Subscription Price under exceptional circumstances and if it considers it in the best interest of the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net subscriptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

### **Application procedure**

To subscribe for Units, an applicant should complete a subscription application form (a “Subscription Form”) supplied with this Explanatory Memorandum or is otherwise available and return the original Subscription Form, together with the required supporting documents, to the Registrar by post to its business address or, if the applicant has provided to the Registrar with an original fax indemnity in the Subscription Form, by fax to the Registrar. Please refer to the details set out under the heading “Fax or Electronic Instructions” of this Explanatory Memorandum. The Manager may, in its absolute discretion, accept any applications for subscription made by other written or electronic forms in addition to post and fax.

## **SUBSCRIPTION OF UNITS (Continued)**

### **Application procedure (Continued)**

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by the Registrar no later than 5:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the Registrar by the relevant Dealing Deadline. Application requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds. Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

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

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

The Manager may, at its discretion, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest and net of expenses by cheque through the post or by telegraphic transfer or by such other means as the Trustee considers appropriate at the risk of the applicant.

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



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## SUBSCRIPTION OF UNITS (Continued)

### Payment procedure

Subscription monies should be paid in the Class Currency of the relevant class of Units. Payment details are set out in the Subscription Form.

Subscription monies paid by any person other than the applicant will not be accepted.

The Manager may exercise its discretion to accept late payment of subscription monies, provisionally allot Units by reference to the Net Asset Value of the relevant class of Units in the relevant Sub-Fund and charge interest on such overdue monies until payment is received in full, at such rate as the Manager thinks appropriate. However, if payment of subscription monies in cleared funds are not made within such period as determined by the Manager (which shall not under normal circumstances be more than 3 Business Days following (i) the relevant Dealing Day on which an application was received by the Dealing Deadline or (ii) in the case of applications for Units during the Initial Offer Period, the last day of the relevant Initial Offer Period, unless otherwise agreed by the Manager), the application may, at the discretion of the Manager, be considered void and cancelled. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim against the Manager or the Registrar and any loss will be borne by the applicant, provided that: (i) no previous valuations of the relevant Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units; (ii) the Manager may require the applicant to pay to the Registrar, for the account of the relevant Sub-Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Day exceeds the applicable Redemption Price on the date of cancellation; and (iii) the Registrar shall be entitled to charge the applicant a cancellation fee for the administrative costs involved in processing the application and subsequent cancellation.

Payment in other freely convertible currencies may be accepted. Where amounts are received in a currency other than the relevant Class Currency, they will be converted into the relevant Class Currency and the proceeds of conversion (after deducting the costs of such conversions) will be applied in the subscription of Units in the relevant class of the relevant Sub-Fund. Conversion of currencies may involve delay. Bank charges (if any) incurred in converting the subscription monies shall be borne by the relevant applicant and accordingly will be deducted from the subscription proceeds.

## **SUBSCRIPTION OF UNITS (Continued)**

### **General**

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

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## REDEMPTION OF UNITS

### Redemption procedure

Unitholders who wish to redeem their Units in a Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Registrar.

Any redemption request must be received by the Registrar before the Dealing Deadline. Investors redeeming Units through a distributor (or its nominee) should submit their redemption requests to the distributor (or its nominee) in such manner as directed by the distributor (or its nominee). Distributors (or their nominees) may have different dealing procedures, including earlier cut-off times for receipt of redemption requests. Where an investor holds its investment in Units through a distributor (or its nominee), the investor wishing to redeem Units must ensure that the distributor (or its nominee), as the registered Unitholder, submits the relevant redemption request by the Dealing Deadline. Redemption requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A redemption request should be given to the Registrar in writing and sent by post to the Registrar's business address or, if the relevant Unitholder has provided to the Registrar with an original fax indemnity, by fax to the Registrar (with its original following promptly). Please refer to the details set out under the heading "Fax or Electronic Instructions" of this Explanatory Memorandum. The Manager may, in its absolute discretion, accept any redemption requests made by other written or electronic forms in addition to post and fax. The redemption request must specify: (i) the name of the Sub-Fund, (ii) the class (if applicable) and the value or number of Units to be redeemed, (iii) the name(s) of the registered Unitholder(s) and (iv) payment instructions for the redemption proceeds.

Partial redemption of a holding of Units in a Sub-Fund by a Unitholder may be effected, provided that such redemption will not result in the Unitholder holding Units in a class less than the minimum holding for that class specified in the relevant Appendix. In the event that, for whatever reason, a Unitholder's holding of Units in a class is less than such minimum holding for that class, the Manager may give notice requiring such Unitholder to submit a redemption request in respect of all the Units of that class held by that Unitholder. A request for a partial redemption of Units with an aggregate value of less than the minimum amount for each class of Units specified in the relevant Appendix (if any) will not be accepted.

**REDEMPTION OF UNITS (Continued)****Redemption procedure (Continued)**

All redemption requests must be signed by the Unitholder or, in the case of joint Unitholders, such one or more joint Unitholders who have been authorised to sign such requests on behalf of the other joint Unitholders (where such authorisation has been notified in writing to the Registrar) or, in the absence of such notification, by all joint Unitholders.

**Payment of redemption proceeds**

The Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the relevant Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 2 decimal places (0.005 and above being rounded up; below 0.005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager. Any rounding adjustment will be retained by the relevant Sub-Fund. The Redemption Price will be calculated and quoted in the relevant Class Currency of the relevant Sub-Fund.

In determining the Redemption Price, the Manager is entitled to deduct an amount (not exceeding 1% of the Net Asset Value per Unit of the relevant class unless otherwise specified in the relevant Appendix) which it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) fiscal and sale charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred by the relevant Sub-Fund in realising assets to provide funds to meet any redemption request. Any such deducted amount will be retained by and form part of the assets of the relevant Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Redemption Price under exceptional circumstances and if it considers it in the best interest of the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net redemptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

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

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## REDEMPTION OF UNITS (Continued)

### Payment of redemption proceeds (Continued)

The amount due to a Unitholder on the redemption of a Unit will be the Redemption Price, less any redemption fee. The redemption fee will be retained by the Manager.

Unitholders should note that redemption proceeds will not be paid to any Unitholder until (a) the duly signed original written redemption request (if such original is required by the Registrar) and all other supporting documents, if any are required, have been received by the Registrar; and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Registrar.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid at the risk and expense of the redeeming Unitholder in the Class Currency of the relevant Sub-Fund by telegraphic transfer to the Unitholder's pre-designated bank account as specified in the redemption request, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the markets in which a substantial portion of the relevant Sub-Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of redemption proceeds within the aforesaid time period not practicable, but in such a case the details of such legal or regulatory requirements will be set out in the relevant Appendix and the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets. Any bank and other administrative charges associated with the payment of such redemption proceeds as well as the costs incurred in currency conversion, if any, will be borne by the redeeming Unitholder and deducted from the redemption proceeds.

With the prior consent of the Manager, arrangements can be made for redemption proceeds to be paid in any major currency other than the Class Currency of the relevant class of Units of the relevant Sub-Fund being redeemed. Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

The Trust Deed provides that redemptions may be, in whole or in part, made *in specie* at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of any Sub-Fund unless otherwise specified in the relevant Appendix. In any event, redemptions may only be made *in specie*, in whole or in part, with the consent of the Unitholder requesting the redemption.

**REDEMPTION OF UNITS (Continued)****Restrictions on redemption**

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the number of Units of a Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10%, or such higher percentage as the Manager may determine either generally or in respect of any particular Dealing Day, of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund wishing to redeem Units of that Sub-Fund on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next Dealing Day based on the Redemption Price as at that Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent redemption requests received in respect of such subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will promptly inform the Unitholders concerned.

The Manager may suspend the redemption of Units of any Sub-Fund, or delay the payment of redemption proceeds in respect of any redemption request received, during any period in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details please see the section headed “Suspension of determination of Net Asset Value”).

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## REDEMPTION OF UNITS (Continued)

### Compulsory redemption

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person (unless such ownership is acceptable to the Manager); (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the relevant Sub-Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the relevant Sub-Fund to any additional regulation to which the Manager, the Trustee or the relevant Sub-Fund might not otherwise have incurred or suffered or been subject; (iii) in breach of, or reasonably deemed by the Manager to be in breach of, any applicable anti-money laundering or identification verification or national status or residency requirements imposed on him (whether under the terms of any underlying investment arrangement or otherwise) including without limitation the issue of any warranty or supporting document required to be given to the Registrar or the Manager; or (iv) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the redemption of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the redemption of all such Units.

## SWITCHING

The Manager may from time to time permit Unitholders to switch some or all of their Units of any Sub-Fund (the “Existing Sub-Fund”) into shares, units or interests in other collective investment schemes administered by the Trustee and managed by the Manager or its Connected Persons and which has been authorised by the SFC (the “New Fund”). Switching to such other collective investment schemes will be by way of redeeming the Units held by the relevant Unitholders in accordance with the redemption procedures set out in the section headed “Redemption of Units” above and by re-investing the redemption proceeds thereof in such other collective investment schemes in accordance with the provisions of the relevant offering documents for such other collective investment schemes. A request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Fund (if any) and/or the Existing Sub-Fund.

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 1% of the redemption proceeds payable in respect of the Units of the Existing Sub-Fund being switched. The switching fee will be deducted from the amount reinvested in the New Fund and will be paid to the Manager.

Where a request for switching is received by the Trustee prior to the Dealing Deadline in respect of a Dealing Day, switching will be effected as follows:

- redemption of the Units of the Existing Sub-Fund will be dealt with by reference to the Redemption Price on that Dealing Day (the “Switching Redemption Day”);
- where the Existing Sub-Fund and the New Fund have different currencies of denomination, the redemption proceeds of Units of the Existing Sub-Fund, after deduction of any switching fee, shall be converted into the currency of denomination of the New Fund; and



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## **SWITCHING (Continued)**

- the resulting amount will be used to subscribe for Units of the New Fund at the relevant subscription price on the relevant dealing day in respect of the New Fund (the “Switching Subscription Day”). The Switching Subscription Day shall be the same day as the Switching Redemption Day or (in the event that the Switching Redemption Day is not a dealing day in respect of the New Fund) the dealing day of the New Fund which immediately follows the relevant Switching Redemption Day, provided that the Trustee shall receive cleared funds in the relevant currency of the New Fund within such period as determined by the Manager. In the event that cleared funds are not received within the applicable period, the Switching Subscription Day shall be the day on which the Trustee receives cleared funds in the relevant currency by the dealing deadline of the New Fund.

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

## **FAX OR ELECTRONIC INSTRUCTIONS**

If applicants or Unitholders wish to give instructions for subscription, redemption or switching by facsimile or any other electronic means, applicants or Unitholders must first provide to the Registrar an original indemnity relating to fax or transmission via such other electronic means in the application or request.

The Registrar will generally act on faxed or any other electronic instructions for subscription, redemption or switching but may require signed original instructions. However, the Registrar may refuse to act on faxed or any other electronic instructions until the original written instructions are received. The Registrar may, in its absolute discretion, determine whether or not original instructions are also required in respect of subsequent applications or requests for subscription, redemption or switching sent by facsimile or any other electronic means by applicants or Unitholders.

Applicants or Unitholders should be reminded that if they choose to send the applications or requests for subscription, redemption or switching by facsimile or any other electronic means, they bear the risk of such applications or requests not being received. Applicants or Unitholders should note that the Trust, the Manager, the Trustee and the Registrar accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application or request sent by facsimile or any other electronic means or any amendment of such application or request or for any loss caused in respect of any action taken as a consequence of such faxed or any other electronic instruction believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile or any other electronic transmission report produced by the originator of such transmission discloses that such transmission was sent.

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## VALUATION

### Valuation rules

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

Where a Sub-Fund has more than one class of Units, to ascertain the Net Asset Value of a class of Units, a separate class account will be established in the books of the Sub-Fund. An amount equal to the proceeds of issue of each Unit will be credited to the relevant class account. The Net Asset Value of each class of Units as at any Valuation Point shall be calculated by:

- allocating among each class the Net Asset Value of the Sub-Fund pro rata in accordance with the Net Asset Value of each class, then adding the subscriptions and deducting the redemptions in respect of each class, immediately prior to the relevant Valuation Point; and
- deducting from the Net Asset Value of the class in question the fees, costs, expenses or other liabilities attributable to that class not already deducted in ascertaining the Net Asset Value of the Sub-Fund and adding to the Net Asset Value, assets specifically attributable to that class in order to arrive at the Net Asset Value of that relevant class.

**VALUATION (Continued)****Valuation rules (Continued)**

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the last traded price or “exchange close” price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;

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## VALUATION (Continued)

### Valuation rules (Continued)

- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Trustee on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (d) the value of any commodity or futures contract shall be ascertained in accordance with the following:
  - (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager, in consultation with the Trustee, shall consider appropriate;
  - (ii) if any such price as referred to in (i) is not, in the opinion of the Manager, ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;

**VALUATION (Continued)**

**Valuation rules (Continued)**

- (iii) the value of any futures contract (the “relevant Contract”), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
- (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Manager so determines, if such collective investment scheme is not valued as at the same day as the Sub-Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Trustee;

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## VALUATION (Continued)

### Valuation rules (Continued)

- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the Base Currency of the Sub-Fund or the currency of denomination of the relevant class will be converted into the Base Currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

### Suspension of calculation of Net Asset Value

The Manager may, after giving notice to the Trustee and having regard to the interests of Unitholders, declare a suspension of the determination of the Net Asset Value of any Sub-Fund, and/or the issue and/or switching and/or redemption of Units of any Sub-Fund, and/or extend the period for the payment of redemption moneys to all persons who have redeemed Units of any Sub-Fund, in exceptional circumstances, for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any securities market or commodities market or futures exchange on which a substantial part of the investments of the relevant Sub-Fund is normally listed, quoted, traded or dealt or a breakdown in any of the means normally employed in ascertaining the prices of investments of the relevant Sub-Fund; or
- (b) for any other reason the value of any of the investments or other assets of the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or

## VALUATION (Continued)

### Suspension of calculation of Net Asset Value (Continued)

- (c) there is a breakdown in any of the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price or Redemption Price of the relevant class, or when for any other reason the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price, or Redemption Price of the relevant class cannot be ascertained in a prompt or accurate manner; or
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of the relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the investments of the relevant Sub-Fund or the issue or redemption of Units in the relevant Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Trustee or any agent of the Manager or the Trustee in relation to the operations of the Trust and/or the relevant Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes, or acts of God; or
- (g) the issue, redemption or transfer of Units of the relevant Sub-Fund or class would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

Any suspension declared above will take effect immediately on the declaration thereof and thereafter there will be no determination of the Net Asset Value of the relevant Sub-Fund, and/or the issue and/or switching and/or redemption of Units of the relevant Sub-Fund, and/or payment of redemption moneys in respect of the relevant Sub-Fund, as the case may be, until the Manager declares the suspension at an end, except that the suspension will terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension has ceased to exist, and (ii) no other condition under which a suspension is authorised exists.



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## **VALUATION (ContinueD)**

### **Suspension of calculation of Net Asset Value (Continued)**

If the Manager declares a suspension, the Manager shall, as soon as may be practicable after any such declaration notify the SFC of such suspension and procure the notice of the suspension be published immediately following the decision to suspend and at least once a month during the period of suspension on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

### **Publication of Net Asset Value**

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of each Sub-Fund are available on each Dealing Day on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

\* This website has not been reviewed by the SFC.

## **EXPENSES AND CHARGES**

*There are different levels of fees and expenses applicable to investing in each Sub-Fund as set out below. For information concerning actual fees payable in respect of each Sub-Fund, please refer to the relevant Appendix.*

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### ***Subscription Fee***

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any Sub-Fund of up to a maximum of 5% of the subscription monies.

The subscription fee is payable in addition to the Subscription Price per Unit. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription fee (either generally or in any particular case) of a Sub-Fund.

#### ***Redemption fee***

Under the Trust Deed, the Manager is entitled to impose a redemption fee on the redemption of Units of any Sub-Fund of up to a maximum of 3% of the redemption proceeds payable in respect of such Units.

The redemption fee is deducted from the redemption proceeds payable to a Unitholder in respect of each Unit redeemed. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the redemption fee (either generally or in any particular case) of a Sub-Fund.

#### ***Switching fee***

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 1% of the redemption proceeds payable in respect of the Units of the Existing Sub-Fund being switched.

The switching fee is deducted from the amount realised from redemption of the Existing Sub-Fund and reinvested in the New Sub-Fund. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the switching fee (either generally or in any particular case) of a Sub-Fund.

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## **EXPENSES AND CHARGES (Continued)**

### **Fees payable by the Trust**

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

#### *Management fee*

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 3% per annum of the Net Asset Value of the relevant Sub-Fund. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

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

#### *Performance fee*

The Trust Deed provides that the Manager is entitled to charge a performance fee in respect of any class of Units, the maximum amount of which is equal to 15% per annum of the Net Asset Value of the relevant class of Units.

Details of any performance fee (if any) are set out in the relevant Appendix.

#### *Trustee fee*

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the Sub-Fund. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Trustee will also be entitled to recover out-of-pocket expenses in performing its services together with certain transaction costs and processing fees.

**EXPENSES AND CHARGES (Continued)****Fees payable by the Trust (Continued)***Other charges and expenses*

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated between all Sub-Funds pro-rata to the Net Asset Value of each Sub-Fund, unless otherwise determined by the Manager after consultation with the Trustee and/or the Auditor. Such costs include but are not limited to the costs of investing and realising the investments of a Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust and each Sub-Fund, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of any administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any explanatory memorandum and preparation and printing of any financial statements.

Expenses arising out of any advertising or promotional activities in connection with any Sub-Fund authorised by the SFC will not be charged to the Trust or that Sub-Fund.

**Increase in fees**

Any increase in the redemption fee, switching fee, management fee, performance fee or trustee fee in respect of a Sub-Fund, (i) up to the relevant maximum level stated above, will only be implemented after giving one month's notice (or such period of notice as may be approved under the Code) to the affected Unitholders, and (ii) beyond the relevant maximum level, is subject to approval by the SFC and by extraordinary resolution of the affected Unitholders.

**Establishment costs**

The costs of establishing the Trust and the first Sub-Fund (i.e. the Value Partners China A-Share Select Fund) were charged to and amortised over the first 5 accounting periods of the first Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of such Sub-Fund).

Where subsequent Sub-Funds under the Trust are established in the future, the Manager may determine that the unamortised establishment costs of the Trust or a part thereof may be re-allocated to such subsequent Sub-Funds.

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## **EXPENSES AND CHARGES (Continued)**

### **Establishment costs (Continued)**

Investors should also note that under IFRS, establishment costs should be expensed as incurred and that amortisation of the expenses of establishing Sub-Funds is not in accordance with IFRS; however, the Manager has considered the impact of such non-compliance and has considered that it will not have a material impact on the financial statements of Sub-Funds. To the extent that the basis adopted by a Sub-Fund for subscription and redemption purposes deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with IFRS.

### **Cash rebates and soft commissions**

Neither the Manager nor any of its Connected Persons receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager and/or any of its Connected Persons with it reserve the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its Connected Persons has such an arrangement.

The Manager and/or any of its Connected Persons further reserve the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Trust (or the relevant Sub-Fund) as a whole and may contribute to an improvement in the performance of the Trust (or the relevant Sub-Fund) or of the Manager and/or any of its Connected Persons in providing services to the Trust (or the relevant Sub-Fund) and for which no direct payment is made but instead the Manager and/or any of its Connected Persons undertakes to place business with that party. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Periodic disclosure in the form of a statement describing the Manager's soft dollar practices, including a description of the goods and services received by the Manager, will be made in the relevant Sub-Fund's annual report.

## **RISK FACTORS**

*The nature of each Sub-Fund's investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of any Sub-Fund will be achieved. This section sets out what the Manager believes are the general risks associated with investments in the Sub-Funds, but investors should note that the relevant Appendix may include additional risk factors which are specific or particular to a particular Sub-Fund. The risk factors below do not offer advice on the suitability of investing in any Sub-Fund. Prospective investors should carefully evaluate the merits and risks of an investment in a Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisors before making any investment in a Sub-Fund.*

### **General risks**

#### ***Investment risk***

Investors should be aware that investment in any Sub-Fund is subject to normal market fluctuations and other risks inherent in the underlying assets into which the Sub-Fund may invest. There can be no assurance that any appreciation in value of investments will occur. There is no assurance that the investment objectives of a Sub-Fund will actually be achieved, notwithstanding the efforts of the Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in a Sub-Fund or may lose a substantial part or all of their initial investment.

#### ***Market risk***

The Net Asset Value of a Sub-Fund will change with changes in the market value of the investments of such Sub-Fund. The value of such investments, and consequently the price of Units of the relevant Sub-Fund, may go down as well as up.

#### ***Concentration risk***

Certain Sub-Funds may invest only in a specific country, region, sector or type of investment with a particular focus. Although there are various investment restrictions with which the Manager has to comply when managing the investments of any Sub-Fund, the concentration of a Sub-Fund's investments may subject it to greater volatility than portfolios which comprise broad-based global investments.

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## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Emerging market risk*

Certain Sub-Funds may invest in emerging markets (including the PRC), which subjects the Sub-Funds to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk (including risks arising from settlement procedures), greater tax, economic and foreign exchange risk, greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### *Counterparty risk*

A Sub-Fund will be subject to the risk of the inability of any counterparty to perform with respect to any investments or contracts purchased by the Sub-Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Sub-Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. Such Sub-Fund is likely to be an unsecured creditor in any such proceeding and may obtain only a limited recovery or may obtain no recovery in such circumstances.

#### *Liquidity risk*

A Sub-Fund may invest in instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by a Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the relevant Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Net Asset Value of a Sub-Fund or prevent a Sub-Fund from being able to take advantage of other investment opportunities.

Liquidity risk also includes the risk that a Sub-Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, a Sub-Fund may be forced to sell investments, at an unfavourable time and/or conditions.

## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Exchange rate risk*

Assets of certain Sub-Funds may be denominated in currencies other than the base currencies of such Sub-Funds and the currency of some assets may not be freely convertible. Also, a class of units may be designated in a currency other than the base currencies of the Sub-Funds as well. These Sub-Funds may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant Sub-Fund are held and the base currency of such Sub-Fund.

#### *Risks relating to Currency Hedging and the Currency Hedged Classes*

The Manager may (but is not obliged to) enter into certain currency related transactions in order to hedge the currency exposure of the assets of a Sub-Fund attributable to a particular class into the Class Currency of the relevant class. Any financial instruments used to implement such strategies with respect to one or more classes shall be assets/liabilities of the relevant Sub-Fund as a whole but will be attributable to the relevant class(es) and the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant class. Where a class of Units is to be hedged (“Currency Hedged Class”) this will be disclosed in the relevant Appendix. Any currency exposure of a class may not be combined with, or offset against, that of any other class of the relevant Sub-Fund. The currency exposure of the assets attributable to a class may not be allocated to other classes.

Where the Manager seeks to hedge against currency fluctuations, while not intended, this could result in over-hedged or under-hedged positions due to external factors outside the control of the Manager. Investors in the Currency Hedged Classes may have exposure to currencies other than the currency of that Currency Hedged Class. Investors should also be aware that the hedging strategy may substantially limit the benefits of any potential increase in value of a Currency Hedged Class expressed in the Class Currency, if the Currency Hedged Class’ denominating currency falls against the base currency of the Sub-Fund.

The Manager may also, at its absolute discretion, seek to fully or partially hedge currency exposures arising from some or all of a Sub-Fund’s underlying assets to the base currency of such Sub-Fund. Investors whose base currency is different (or not in a currency linked to the relevant Sub-Fund’s base currency or the currency of that Currency Hedged Class) may be exposed to additional currency risk.



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## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Risks relating to Currency Hedging and the Currency Hedged Classes (Continued)*

The precise hedging strategy applied to a particular Currency Hedged Class may vary. In addition, there is no guarantee that the desired hedging instruments will be available or hedging strategy will achieve its desired result. In such circumstances, investors of the Currency Hedged Class may still be subject to the currency exchange risk on an unhedged basis (which means that, for example, if the hedging strategy in respect of an RMB Hedged Class is ineffective, depending on the exchange rate movements of RMB relative to the base currency of the relevant Sub-Fund, and/or other currency(ies) of the non-RMB denominated underlying investment of that Sub-Fund, (i) investors may still suffer losses even if there are gains or no losses in the value of the non-RMB denominated underlying investments; or (ii) investors may suffer additional losses if the non-RMB denominated underlying investments of that Sub-Fund fall in value).

If the counterparties of the instruments used for hedging purposes default, investors of the Currency Hedged Classes may be exposed to the currency exchange risk on an unhedged basis and may therefore suffer further losses.

Different Currency Hedged Classes are primarily targeted for investors whose base currencies of investment are the currencies of the Currency Hedged Classes.

**RISK FACTORS (Continued)****General risks (Continued)*****Risks relating to Currency Hedging and the Currency Hedged Classes (Continued)***

Each Currency Hedged Class may hedge a Sub-Fund's denominated currency back to its currency of denomination, with an aim to provide a return on investment which correlates with the return of the class which is denominated in the base currency of the relevant Sub-Fund by reducing the effect of exchange rate fluctuations between the base currency of the Sub-Fund and the Currency Hedged Classes whilst taking into account practical considerations such as transaction costs. However, the return of the Currency Hedged Classes will never correlate perfectly to the class which is denominated in the base currency of the Sub-Fund due to various factors, including but not limited to short-term interest rate differentials, unrealized gains/losses on currency forward positions not being invested until the gains/losses are realised and transaction costs attributable to the hedging activity. Investors should also note that the distribution amount and/or rate of the Currency Hedged Classes may be more than or less than such amount and/or rate of the class which is denominated in the base currency of the Sub-Fund due to various factors, including but not limited to short-term interest rate differentials. Where the Currency Hedged Class is subject to a performance fee, it should be noted that any divergence in the performance of different classes (for the reasons stated above), or different launch dates of different classes, could result in any such performance fees becoming chargeable at different points in time, as different classes reach their high watermark at different points in time. Accordingly the performance fee may adversely impact the correlation between different classes.

Consequently, a Currency Hedged Class is not recommended for investors whose base currency of investment is not in the same currency of such Currency Hedge Class. Investors who choose to convert other currencies into such base currency to invest in such Currency Hedge Class should understand that they may be exposed to higher currency risks and may suffer a higher loss as a result of exchange rate fluctuations than an investor whose base currency of investment is in the same currency of the Currency Hedged Class.

To the extent that hedging is successful for a particular Currency Hedged Class, the performance of the Currency Hedged Class is likely to move in line with the performance of the underlying assets with the result that investors in that Currency Hedged Class will not gain if the class currency falls against the base currency of the Sub-Fund.

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## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Risks relating to Currency Hedging and the Currency Hedged Classes (Continued)*

It is intended that the currency hedging strategy which will be employed will be based on the most up-to-date information in relation to the Net Asset Value of the relevant Sub-Fund, and will also take into account future transactions relating to Unitholder activity that will be processed through each class of Units in the Sub-Fund as at the relevant Valuation Point. The currency hedging strategy will be monitored and adjusted in line with the valuation cycle at which investors are able to subscribe to and redeem from the relevant Sub-Fund.

Futures, forwards, options and contracts for difference may be used to hedge against downward movements in the value of the relevant Sub-Fund's portfolio, either by reference to specific securities or markets to which such Sub-Fund may be exposed.

Forward foreign exchange contracts are also used more specifically to hedge the value of certain classes of Units in the relevant Sub-Fund against changes in the exchange rate between the Class Currency and the base currency of such Sub-Fund.

#### *Restricted markets risk*

Certain Sub-Funds may invest in securities in jurisdictions (including the PRC) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, such Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

#### *Performance fee risk*

Performance fees may encourage the Manager to make riskier investment decisions than in the absence of performance-based incentive systems. The increase in Net Asset Value which is used as a basis for the calculation of performance fees may comprise of both realised gains and unrealised gains as at the end of the calculation period. As a result, performance fees may be paid on unrealised gains which may subsequently never be realised by the Sub-Fund.

**RISK FACTORS (Continued)****General risks (Continued)***Performance fee risk (Continued)*

There is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis. A Unitholder redeeming units may still incur performance fee in respect of the units, even though a loss in investment capital has been suffered by the redeeming Unitholder.

*Legal and compliance risk*

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

*Suspension risk*

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

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

*Early termination risk*

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

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## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Cross class liability risk*

The Trust Deed allows the Trustee and the Manager to issue Units in separate classes. The Trust Deed provides for the manner in which liabilities are to be attributed across the various classes within a Sub-Fund under the Trust (liabilities are to be attributed to the specific class of a Sub-Fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant class (in the absence of the Trustee granting that person a security interest). However, the Trustee will have a right of reimbursement and indemnity out of the assets of the Trust which may result in Unitholders of one class of Units of a Sub-Fund being compelled to bear the liabilities incurred in respect of another class of the Sub-Fund which Units such Unitholders do not themselves own if there are insufficient assets attributable to that other class to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of one class of a Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of that Sub-Fund.

#### *Cross Sub-Fund liability risk*

The assets and liabilities of each Sub-Fund under the Trust will be tracked, for bookkeeping purposes, separately from the assets and liabilities of any other Sub-Funds, and the Trust Deed provides that the assets of each Sub-Fund should be segregated from each other. There is no guarantee that the courts of any jurisdiction will respect the limitations on liability and that the assets of any particular Sub-Fund will not be used to satisfy the liabilities of any other Sub-Fund.

#### *Valuation and accounting risk*

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes, establishment costs are to be amortised over a period of five years, which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of Net Asset Value of the Sub-Funds materially. To the extent that the valuation or accounting basis adopted by any Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS.

**RISK FACTORS (Continued)****General risks (Continued)***Dividends and distributions*

Whether the Manager will pay dividends on Units of a Sub-Fund is subject to the Sub-Fund's distribution policy. There is no guarantee that any dividends will be distributed nor will there be a target level of dividend payout. A high distribution yield does not imply a positive or high return.

*Distributions payable out of capital or effectively out of capital risk*

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of a Sub-Fund; or (ii) pay dividend out of gross income of a Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of such Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of a Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. Please refer to "Distribution policy" in the relevant Appendix.

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## **RISK FACTORS (Continued)**

### **General risks (Continued)**

#### *Foreign Account Tax Compliance Act risk*

Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as “FATCA”) of the U.S. Internal Revenue Code of 1986, as amended (“IRS Code”) impose rules with respect to certain payments to non-U.S. persons, such as each Sub-Fund, including interest and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities. All such payments (referred to as “withholdable payments”) may be subject to withholding at a 30% rate (beginning on or after 1 July 2014 with respect to U.S. source dividends and interest, and beginning on or after 1 January 2019 with respect to gross proceeds), unless the recipient of the payment satisfies certain requirements intended to enable the Internal Revenue Service (the “IRS”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an “FFI”), such as each Sub-Fund (and, generally, other investment funds organised outside the U.S.), generally will be required to enter into an agreement (an “FFI Agreement”) with the IRS under which it will agree to identify its direct or indirect U.S. owners and report certain information concerning such U.S. owners to the IRS. The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30% on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

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

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

**RISK FACTORS (Continued)****General risks (Continued)*****Foreign Account Tax Compliance Act risk (Continued)***

Each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any withholding tax. In particular, each Sub-Fund has been registered as a participating FFI (including a reporting Model 2 FFI). Value Partners China A-Share Select Fund, Value Partners Asian Income Fund and Value Partners Asian Total Return Bond Fund have been registered with the US IRS as a reporting Model 2 FFI with Global Intermediary Identification Numbers 9856NC.99999.SL.344, 4Q8MPR.99999.SL.344 and QGPT4V.99999.SL.344 respectively. In the event that a Sub-Fund is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of such Sub-Fund may be adversely affected and such Sub-Fund may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which each Sub-Fund invests may be required to satisfy their own FATCA compliance obligations, and failure by any underlying collective investment scheme to fully comply with its FATCA obligations may have an adverse impact on the net asset value of each Sub-Fund.

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

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



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## **RISK FACTORS (Continued)**

### **RMB currency risk**

#### *RMB is not freely convertible and subject to exchange controls and restrictions*

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

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of SAFE. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

**RISK FACTORS (Continued)****RMB currency risk (Continued)**

*Investors may be adversely affected by movements of exchange rates between the RMB and other currencies*

For investors investing in Units which are denominated in RMB or investing in Sub-Funds whose investments are primarily denominated in RMB, if their assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB, they should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB. There is no guarantee that the RMB will appreciate in value against the HKD or any other currency, or that the strength of the RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into HKD (or any other currency).

Where a Sub-Fund invests in RMB-denominated assets, currency risk also arises where an investor subscribes to Units of a Class denominated in a currency other than RMB and the subscription monies in the relevant Class Currency are converted into the RMB in order to make RMB-denominated portfolio investments, and where RMB-denominated portfolio investments are liquidated and RMB funds are converted back into the relevant Class Currency to pay redemption proceeds. For a Sub-Fund with RMB as the Base Currency, the exchange rate used in calculating the Subscription Price and Redemption Price of classes of Units with Class Currency other than RMB will be the offshore RMB (“CNH”), not the onshore RMB (“CNY”). The calculation of the Net Asset Value per Units of any Class not denominated in RMB will also be impacted by movements in the exchange rate between the RMB and the relevant Class Currency.

**Risks associated with the PRC***Economic, political and social risks*

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

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Economic, political and social risks (Continued)*

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

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

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the fixed income instruments in the Sub-Fund's portfolio.

#### *Risks associated with the Stock Connect*

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

## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with the Stock Connect (Continued)*

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

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

*Differences in trading day:* The Stock Connect only operates on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as a Sub-Fund) cannot carry out any A Shares trading. Due to the differences in trading days, a Sub-Fund may be subject to a risk of price fluctuations in A Shares on a day that the PRC stock markets are open for trading but the Hong Kong stock market is closed.

*Operational risk:* The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the China stock market directly. The Stock Connects are premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

Market participants generally have configured and adapted their operational and technical systems for the purpose of trading A Shares through the Stock Connect. However, it should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the programme to operate, market participants may need to address issues arising from the differences on an on-going basis.

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with the Stock Connect (Continued)*

Further, the “connectivity” in the Stock Connect requires routing of orders across the border. SEHK has set up an order routing system to capture, consolidate and route the cross-boundary orders input by exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

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

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

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

**RISK FACTORS (Continued)****Risks associated with the PRC (Continued)*****Risks associated with the Stock Connect (Continued)***

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

***PRC laws and regulations risk***

The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. PRC laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

***Accounting and reporting standards risk***

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

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation*

By investing in securities (including A-shares, B-Shares, H-Shares and debt instruments) issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore or offshore (the “PRC Securities”), a Sub-Fund may be subject to PRC taxes.

The income (including interest income and capital gains) derived from a Sub-Fund’s investments in debt securities issued by non-PRC issuers outside China should not be subject to PRC taxes.

The PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies.

#### *Corporate Income Tax (“CIT”)*

If the Trust or a Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to CIT at 25% on its worldwide taxable income. If the Trust or a Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business (“E&P”) in the PRC, the profits and gains attributable to that E&P would be subject to PRC CIT at 25%.

If the Trust or a Sub-Fund is considered as a non-tax resident enterprise without an E&P in the PRC, it will be subject to CIT on a withholding basis (“WIT”), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income, unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties.

The Manager intends to manage and operate the Trust or a Sub-Fund in such a manner that the Trust or a Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with PE in the PRC for CIT purposes, although this cannot be guaranteed. As such, it is expected that the Trust or a Sub-Fund should not be subject to CIT on an assessment basis and would only be subject to WIT to the extent that the Trust or a Sub-Fund directly derives PRC sourced income in respect of its investments in PRC Securities.

**RISK FACTORS (Continued)****Risks associated with the PRC (Continued)*****Risks associated with PRC taxation (Continued)****Interest/dividend*

Having consulted professional and independent tax adviser, the Manager understands that unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-tax resident enterprises without PE in the PRC are subject to PRC WIT, generally at a rate of 10%, to the extent it directly derives PRC sourced passive income. In that respect, a Sub-Fund's income from interests, dividends and profit distributions from PRC tax enterprise received by a Sub-Fund is generally subject to PRC WIT at a rate of 10%, unless such WIT is subject to reduction or exemption in accordance with PRC tax laws and regulations or an applicable tax treaty signed with the PRC.

Pursuant to the "Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect" (Caishui [2014] No. 81) ("Notice No. 81") and "Notice about the tax policies related to the Shenzhen-Hong Kong Stock Connect" (Caishui [2016] No. 127) ("Notice No. 127") promulgated by the MOF, the SAT and the CSRC, dividends received by Hong Kong and overseas investors (including a Sub-Fund) from A-Share investment via the Stock Connect will be subject to 10% withholding income tax and the company distributing the dividend has the withholding obligation. If the recipient of the dividend is entitled to a lower treaty rate, it can apply to the tax bureau in-charge of the payer for a refund.

In respect of interests, under the PRC CIT Law and regulations, interest derived from government bonds issued by the State Council's finance departments and/or local government bonds approved by the State Council is exempt from PRC income tax.

Further, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (the "China-HK Arrangement"), if a Hong Kong tax resident receives interest income from PRC tax resident enterprises, the WIT rate can be reduced to 7% provided that the Hong Kong tax resident is the beneficial owner of the interest income under the China-HK Arrangement and other relevant conditions are satisfied, subject to the agreement from the PRC tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest income received, such investment fund is generally not entitled to the reduced WIT rate of 7%. In general, the prevailing rate of 10% should be applicable to a Sub-Fund.



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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation (Continued)*

##### *Interest/dividend (Continued)*

In respect of dividends, under the China-HK Arrangement, dividends distributed by a PRC tax resident to a Hong Kong tax resident would be subject to a reduced PRC WIT rate of 5% provided (i) the Hong Kong tax resident is the beneficial owner of the dividend; (ii) the Hong Kong tax resident holds at least 25% of the equity of the PRC tax resident; and (iii) the relevant treaty conditions are satisfied. Due to a Sub-Fund's investment restriction, a Sub-Fund would not hold more than 10% of the ordinary shares issued by any single PRC issuer. In this connection, a Sub-Fund would not be able to enjoy the reduced WIT rate of 5% provided under the China-HK Arrangement.

##### *Capital gains*

(i) Capital gains realised from trading of B-Shares and H-Shares

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of these securities by foreign investors. Hence, the tax treatment for investment in B-Shares and H-Shares is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, a Sub-Fund could be technically subject to 10% WIT on the PRC sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Having said that, Circular Guoshuihan [2009] No. 698 ("Circular 698") excludes gains derived by a non-PRC tax resident enterprise (such as a Sub-Fund) from the buying and selling of shares of PRC tax resident enterprise through public stock exchanges from the reporting requirements. In addition, for B-Shares and H-Shares invested by a Sub-Fund directly, there may be practical difficulty for the PRC tax authorities to impose and collect WIT on such capital gains. In practice, the 10% WIT has not been strictly enforced by the PRC tax authorities on capital gains derived by non-PRC tax resident enterprises from the trading of these securities with sales and purchase effected through stock exchanges.

Having consulted professional and independent tax adviser, the Manager has not made and currently has no intention to make provision in respect of WIT on gross realised and unrealised capital gains on trading of B-Shares and H-Shares. The Manager will monitor the situation and if, in the opinion of the Manager, a provision is warranted, the change will be implemented by the Manager and Unitholders will be notified of the change.

## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### ***Risks associated with PRC taxation (Continued)***

##### *Capital gains (Continued)*

- (ii) Capital gains realised from trading of A-Shares through Stock Connect

PRC tax circulars Caishui [2014] No. 81 (“Notice No. 81”) and Caishui [2016] No. 127 (“Notice No. 127”) provide that PRC CIT will be temporarily exempted on capital gains realised by Hong Kong and overseas investors (including a Sub-Fund) on the trading of A-Shares through the Stock Connect. Based on Notice No. 81 and Notice No. 127, and having consulted professional and independent tax adviser, no WIT provision for gross realised or unrealised capital gains derived from trading of A Shares via the Stock Connect is made by the Manager on behalf of a Sub-Fund.

It should be noted that the corporate income tax exemption under Notice No. 81 and Notice No. 127 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, a Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

- (iii) Capital gains realised through trading of A-Shares through QFII/RQFII and Access Products with exposure to A-Shares

A Sub-Fund may from time to time obtain exposure to A-Shares via the Manager’s QFII/RQFII quota or by investing in Access Products.

Pursuant to the “Notice on the temporary exemption of Corporate Income Tax on capital gains realised from the transfer of PRC equity investment assets such as PRC stocks by QFII and RQFII” (Caishui [2014] No. 79) (“Notice No. 79”) promulgated by the MOF, the SAT and the CSRC on 14 November 2014 states that (i) PRC CIT will be imposed on capital gains realised by QFIIs and RQFIIs from the transfer of PRC equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws; and (ii) QFIIs and RQFIIs (without an E&P in the PRC or having an establishment in the PRC but the income so derived in China is not effectively connected with such establishment) will be temporarily exempt from PRC CIT on gains realised from the transfer of PRC equity investment assets (including A-Shares) effective from 17 November 2014.

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation (Continued)*

##### *Capital gains (Continued)*

- (iii) Capital gains realised through trading of A-Shares through QFII/RQFII and Access Products with exposure to A-Shares (Continued)

The issuer of the Access Products may implement hedge arrangements on the Access Products through QFII/RQFII which would acquire or dispose of the underlying A-Shares to which the Access Products are linked. As the QFIIs/RQFIIs are the legal owners of the A-Shares under PRC law with respect to such Access Products, any PRC taxes arising from the QFIIs'/RQFIIs' investments in such securities would be legally borne by the QFII/RQFII directly. Given that any PRC tax liabilities accruing to the QFII/RQFII in respect of the securities to which the Access Products are linked arise because of the trading activities of the relevant Sub-Fund, such tax liabilities (if any) may ultimately be recharged to and borne by such Sub-Fund and would likely have an economic effect on the value of the relevant Sub-Fund. On the basis of Notice No. 79, it is not expected that the issuers of any Access Product would make any provision for potential tax liabilities from 17 November 2014 onwards.

Pursuant to Notice No. 79 and having consulted professional and independent tax advisor, with effect from 17 November 2014, in respect of each Sub-Fund, the Manager will not make WIT provision for gross realised or unrealised capital gains derived from trading of A-Shares via RQFII quota and/or through Access Products with exposure to A-Shares.

Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, a Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

**RISK FACTORS (Continued)****Risks associated with the PRC (Continued)*****Risks associated with PRC taxation (Continued)******Capital gains (Continued)***

- (iv) Capital gains realised from the trading of PRC debt securities issued or listed offshore by PRC issuers

There are currently no specific tax rules or regulations governing the taxation of capital gains realised by foreign investors on the disposal of these securities. In the absence of specific rules, the general tax provisions under PRC CIT Law should apply and such general tax provisions stipulate that a non-resident enterprise with no place of effective management, establishment or place of business in the PRC would generally be subject to WIT at the rate of 10% on its PRC-sourced income, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties. Based on the current interpretation of the SAT and the local PRC tax authorities, capital gains derived by foreign investors from investment in PRC debt securities should not be treated as PRC sourced income and thus should not be subject to PRC WIT. There are no written tax regulations issued by the PRC tax authorities to confirm that interpretation. However, as a matter of practice, such 10% PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of PRC debt securities has not been strictly enforced by the PRC tax authorities.

Having consulted professional and independent tax adviser, the Manager will not make WIT provisions for a Sub-Fund on the gross realised and unrealised capital gains derived from PRC debt securities issued or listed offshore by PRC issuers. The implication of this is that if a Sub-Fund is liable to pay such withholding and other taxes, this may result in an unfavourable impact on the Net Asset Value of a Sub-Fund.

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation (Continued)*

##### *Capital gains (Continued)*

- (v) Capital gains derived from funds that invest in PRC Securities

A Sub-Fund may invest in funds that invest in PRC Securities. Such funds may or may not withhold WIT equal to 10% of any potential capital gains which may be payable on a sale of such PRC Securities. Any such withholding by a fund would be reflected in the net asset value of the relevant fund and, therefore, in the Net Asset Value of a Sub-Fund on any Valuation Day. Where a fund has no such withholding or insufficient withholding, any retrospective enforcement and/or changes in PRC tax law relating to WIT on capital gains on the sale of PRC Securities may adversely affect the net asset value of the relevant fund and, therefore, the Net Asset Value of a Sub-Fund.

In this regard, any PRC tax liability may, if it arises, be payable by the funds that invest in PRC Securities. However, under the terms of the arrangement between a Sub-Fund and the funds that invest in PRC Securities, the funds may pass on any tax liability to a Sub-Fund. Such tax charges would likely be recharged to, and borne by, a Sub-Fund under contractual agreement with the funds. As such, a Sub-Fund is the ultimate party which bears the risks relating to any PRC taxes what are so levied by the relevant PRC tax authority.

- (vi) Capital gains realised from trading in PRC inter-bank bond market via Bond Connect

There is no specific regulation issued by the mainland China tax authorities on the tax treatment in respect of trading in PRC inter-bank bond market by eligible foreign institutional investors via Bond Connect. In the absence of specific taxation rules on Bond Connect, a Sub-Fund's tax treatment for trading in PRC inter-bank bond market via Bond Connect should make reference to applicable tax treatments under the existing mainland China domestic tax regulations.

**RISK FACTORS (Continued)****Risks associated with the PRC (Continued)*****Risks associated with PRC taxation (Continued)******Capital gains (Continued)***

## (vii) Tax Provision

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet any potential tax liability for capital gains or income, the Manager reserves the right to provide for WIT on such gains or income and withhold the tax for the account of a Sub-Fund.

As such, if it transpires that a Sub-Fund is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of a Sub-Fund may be lowered, as a Sub-Fund will ultimately have to bear the full amount of tax liabilities. It should also be noted that the level of provision (if any) may be inadequate or excessive to meet actual PRC tax liabilities on investments made by the relevant Sub-Fund. Consequently, Unitholders may be disadvantaged or advantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), investors should note that the Net Asset Value of the relevant Sub-Fund may be adversely affected, as the relevant Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the relevant Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the relevant Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation (Continued)*

##### *Value Added Tax (“VAT”) and other surtaxes*

The MOF and SAT issued the “Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program (“B2V Pilot Program”)” (Caishui [2016] No. 36) (“Notice No. 36”) on 23 March 2016. The Notice No. 36 sets out that the B2V Pilot Program covers all the remaining industries of the program, including financial services. The Notice No. 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

The Notice No. 36 provides that VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. A-Shares and RMB denominated debt securities issued by PRC issuers.

Based on the prevailing VAT regulations, capital gains derived by (i) QFIIs/RQFIIs on trading of marketable securities and (ii) foreign investors via the Stock Connect are exempted from VAT. Therefore, to the extent that a Sub-Fund’s key investment (such as A-Shares through the Stock Connect, Access Products) are conducted through these channels, either by a Sub-Fund directly or via Access Products issuers, the capital gains should be exempted from VAT. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT.

The current VAT regulations do not provide VAT exemption on capital gains derived from trading of B-Shares. Having said that, the PRC tax authorities have not actively collected VAT from non-PRC tax resident enterprises on gains realized from B-Shares in practice. Where capital gains are derived from trading of H-Shares, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside PRC.

The prevailing VAT regulations do not specifically exempt VAT on interest received by foreign investors (including QFIIs and RQFIIs). Interest income on non-government bonds (including corporate bonds) should technically be subject to 6% VAT.

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

**RISK FACTORS (Continued)****Risks associated with the PRC (Continued)*****Risks associated with PRC taxation (Continued)****Value Added Tax (“VAT”) and other surtaxes (Continued)*

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities. The applicable levies depend on the location where VAT filing (if required) is done.

*Stamp Duty*

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

It is unclear whether PRC Stamp Duty that is imposed on the transfer of shares of PRC companies under the PRC Stamp Duty Regulations would similarly apply to the acquisition and disposal of H-Shares by non-PRC investors outside the PRC. That said, PRC Stamp Duty is generally not imposed for trading of H-Shares in practice.

No PRC Stamp Duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

Further, no PRC Stamp Duty is expected to be imposed on non-tax resident holders of fund units, either upon subscription or upon a subsequent redemption of such fund units.



# VALUE PARTNERS FUND SERIES

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## **RISK FACTORS (Continued)**

### **Risks associated with the PRC (Continued)**

#### *Risks associated with PRC taxation (Continued)*

##### *General*

It should also be noted that the actual applicable tax rates imposed by the SAT may change from time to time. It should also be noted that the prevailing PRC tax regulations specified that the tax exemption on capital gains derived from the trading of A-Shares from 17 November 2014 onwards is temporary. There is a possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of a Sub-Fund may suffer more than the tax provision amount as a Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of a Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in a Sub-Fund before the return of any overprovision to the account of a Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated.

## **RISK FACTORS (Continued)**

### **Investment risks**

#### ***Risk of investing in equity securities***

Sub-Funds which invest directly or indirectly in equity securities are exposed to the risk that the market value of such equity securities may go down as well as up. Equity markets may fluctuate significantly with prices rising and falling sharply, and this will have a direct impact on such sub-funds. When equity markets are extremely volatile, such sub-fund's Net Asset Value may fluctuate substantially and investors may suffer substantial loss.

#### ***Risk of investing in fixed income instruments***

*Interest rate risk:* Sub-Funds which invest in fixed income instruments are subject to interest rate risk. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, market value of fixed income instruments tends to fall. Long-term fixed income instruments in general are subject to higher interest rate risk than short-term fixed income instruments.

*Credit risk:* Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by a Sub-Fund, that Sub-Fund's Net Asset Value will be adversely affected and investors may suffer a substantial loss as a result.

Fixed income instruments are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. Each Sub-Fund holding such investments is therefore fully exposed to the credit risk of its counterparties as an unsecured creditor.

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## **RISK FACTORS (Continued)**

### **Investment risks (Continued)**

#### *Risk of investing in fixed income instruments (Continued)*

*Risks of investing in below minimum credit rating, below investment grade and unrated fixed income instruments:* A Sub-Fund may invest in fixed income instruments which are rated below the minimum credit rating or below investment grade, or which are unrated. As mentioned above, such instruments are generally more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these instruments may also be more difficult and thus the relevant Sub-Fund's prices may be more volatile.

*Risks of credit rating downgrades:* Credit rating of issuers of fixed income instruments may be downgraded, thus adversely affecting the value and performance of a Sub-Fund holding such investments.

*Risks of PRC fixed income instruments:* Certain Sub-Funds may invest in fixed income instruments issued or distributed within the PRC. The financial market of the PRC is at an early stage of development, and many of such PRC fixed income instruments may be unrated, which exposes such Sub-Funds to greater risks because of generally reduced liquidity, greater price volatility and greater credit risk. Such a Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in the PRC and therefore not subject to the laws of Hong Kong.

*Limited availability of offshore RMB fixed income instruments:* Certain Sub-Funds may invest in RMB fixed income instruments issued or distributed outside the PRC. However, the quantity of RMB fixed income instruments issued or distributed outside the PRC that are available is currently limited, and the remaining duration of such instruments may be short. In the absence of available fixed income instruments, or when such instruments held are at maturity, a Sub-Fund holding such investments may have to allocate a significant portion of its portfolio in RMB negotiated term deposits with authorised financial institutions until suitable fixed income instruments are available in the market. This may adversely affect the relevant Sub-Fund's return and performance.

**RISK FACTORS (Continued)****Investment risks (Continued)*****Risk of investing in financial derivative instruments***

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

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of a sub-fund which uses financial derivative instruments.

***Over-the-counter markets risk***

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

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## **RISK FACTORS (Continued)**

### **Investment risks (Continued)**

#### *Over-the-counter markets risk (Continued)*

In addition, certain instruments traded on the OTC markets can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

#### *Hedging risk*

The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result.

#### *Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions risk*

The Trustee may, at the request of the Manager, enter into securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of a Sub-Fund, which is subject to risks including:

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

## **RISK FACTORS (Continued)**

### **Investment risks (Continued)**

#### ***Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions risk (Continued)***

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

# VALUE PARTNERS FUND SERIES

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## TAXATION

*The following summary of Hong Kong and PRC taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the tax implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong and the PRC as at the date of this Explanatory Memorandum. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Explanatory Memorandum. Furthermore, tax laws can be subject to different interpretations and no assurance can be given that relevant tax authorities will not take a contrary position to the tax treatments described below. Please also refer to the relevant Appendix for further information relating to taxation considerations specific to a particular Sub-Fund.*

### Hong Kong

During such period as the Trust and a Sub-Fund is authorised by the SFC pursuant to Section 104 of the SFO, under present law and practice in Hong Kong:

- (a) profits of the Trust and the Sub-Fund are exempt from Hong Kong profits tax;
- (b) no tax should be payable by Unitholders of that Sub-Fund in Hong Kong (whether by way of withholding or otherwise) in respect of income distributions from the relevant Sub-Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong, and where the profits, not being regarded as capital in nature, arising in or derived from such trade, profession or business and being sourced in Hong Kong; and
- (c) no Hong Kong stamp duty should be payable where the sale or transfer of Units in that Sub-Fund is effected by selling the relevant Units back to the Manager, who then either extinguish the Units or re-sells the Units to another person within two months thereof.

## **TAXATION (Continued)**

### **Hong Kong (Continued)**

Other types of sales or purchases or transfers of Units by the Unitholders should be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and the seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HKD5 is currently payable on any instrument of transfer of Units.

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

### **PRC**

By investing in the PRC Securities, a Sub-Fund may be subject to PRC taxes.

The income (including interest income and capital gains) derived from a Sub-Fund's investments in debt securities issued by non-PRC issuers outside China should not be subject to PRC taxes.

The PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies.

#### ***Corporate Income Tax ("CIT")***

If the Trust or a Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to CIT at 25% on its worldwide taxable income. If the Trust or a Sub-Fund is considered a non-tax resident enterprise with an E&P in the PRC, the profits and gains attributable to that E&P would be subject to PRC CIT at 25%.

If the Trust or a Sub-Fund is considered as a non-tax resident enterprises without an E&P in the PRC, it will be subject to WIT, generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income, unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties.



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## **TAXATION (Continued)**

### **PRC (Continued)**

#### *Corporate Income Tax (“CIT”) (Continued)*

The Manager intends to manage and operate the Trust or a Sub-Fund in such a manner that the Trust or a Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with PE in the PRC for CIT purposes, although this cannot be guaranteed. As such, it is expected that the Trust or a Sub-Fund should not be subject to CIT on an assessment basis and would only be subject to WIT to the extent that the Trust or a Sub-Fund directly derives PRC sourced income in respect of its investments in PRC Securities.

#### *Interest/dividend*

A Sub-Fund’s income from interests, dividends and profit distributions from PRC tax enterprise received by a Sub-Fund is generally subject to PRC WIT at a rate of 10%, unless such WIT is subject to reduction or exemption in accordance with PRC tax laws and regulations or an applicable tax treaty signed with the PRC.

In respect of interests, under the PRC CIT Law and regulations, interest derived from government bonds issued by the State Council’s finance departments and/or local government bonds approved by the State Council is exempt from PRC income tax.

Further, under the China-HK Arrangement, if a Hong Kong tax resident receives interest income from PRC tax resident enterprises, the WIT rate can be reduced to 7% provided that the Hong Kong tax resident is the beneficial owner under the China-HK Arrangement and other relevant conditions are satisfied, subject to the agreement from the PRC tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest income received, such investment fund is generally not entitled to the reduced WIT rate of 7%. In general, the prevailing rate of 10% should be applicable to a Sub-Fund.

**TAXATION (Continued)****PRC (Continued)***Interest/dividend (Continued)*

In respect of dividends, under the China-HK Arrangement, dividends distributed by a PRC tax resident to a Hong Kong tax resident would be subject to a reduced PRC WIT rate of 5% provided (i) the Hong Kong tax resident is the beneficial owner of the dividend; (ii) the Hong Kong tax resident holds at least 25% of the equity of the PRC tax resident; and (iii) the relevant treaty conditions are satisfied. Due to the Sub-Fund's investment restriction, the Sub-Fund would not hold more than 10% of the ordinary shares issued by any single PRC issuer. In this connection, the Sub-Fund would not be able to enjoy the reduced WIT rate of 5% provided under the China-HK Arrangement.

*Capital gains**(i) Capital gains realised from trading of B-Shares and H-Shares*

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of these securities by foreign investors. Hence, the tax treatment for investment in B-Shares and H-Shares is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, a Sub-Fund could be technically subject to 10% WIT on the PRC sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Having said that, Circular 698 excludes gains derived by a non-PRC tax resident enterprise (such as the Sub-Fund) from the buying and selling of shares of PRC tax resident enterprise through public stock exchanges from the reporting requirements. In addition, for B-Shares and H-Shares invested by a Sub-Fund directly, there may be practical difficulty for the PRC tax authorities to impose and collect WIT on such capital gains. In practice, the 10% WIT has not been strictly enforced by the PRC tax authorities on capital gains derived by non-PRC tax resident enterprises from the trading of these securities with sales and purchase effected through stock exchanges.

Having consulted professional and independent tax adviser, the Manager has not made and currently has no intention to make provision in respect of WIT on gross realised and unrealised capital gains on trading of B-Shares and H-Shares. The Manager will monitor the situation and if, in the opinion of the Manager, a provision is warranted, the change will be implemented by the Manager and Unitholders will be notified of the change.

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## TAXATION (Continued)

### PRC (Continued)

#### *Capital gains (Continued)*

(ii) *Capital gains realised from trading of A-Shares through Stock Connect*

Notice No. 81 and Notice No. 127 provide that PRC CIT will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including a Sub-Fund) on the trading of A-Shares through the Stock Connect. Based on Notice No. 81 and Notice No. 127, and having consulted professional and independent tax adviser, no WIT provision for gross realised or unrealised capital gains derived from trading of A Shares via the Stock Connect is made by the Manager on behalf of a Sub-Fund.

It should be noted that the corporate income tax exemption under Notice No. 81 and Notice No. 127 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, a Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

(iii) *Capital gains realised through trading of A-Shares through QFII/RQFII and Access Products with exposure to A-Shares*

A Sub-Fund may from time to time obtain exposure to A-Shares via the Manager's QFII/RQFII quota or by investing in Access Products.

Notice No. 79 states that (i) PRC CIT will be imposed on capital gains realised by QFIIs and RQFIIs from the transfer of PRC equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws; and (ii) QFIIs and RQFIIs (without an E&P in the PRC or having an establishment in the PRC but the income so derived in China is not effectively connected with such establishment) will be temporarily exempt from PRC CIT on gains realised from the transfer of PRC equity investment assets (including A-Shares) effective from 17 November 2014.

**TAXATION (Continued)****PRC (Continued)***Capital gains (Continued)*

- (iii) *Capital gains realised through trading of A-Shares through QFII/RQFII and Access Products with exposure to A-Shares (Continued)*

The issuer of the Access Products may implement hedge arrangements on the Access Products through QFII/RQFII which would acquire or dispose of the underlying A-Shares to which the Access Products are linked. As the QFIIs/RQFIIs are the legal owners of the A-Shares under PRC law with respect to such Access Products, any PRC taxes arising from the QFIIs'/RQFIIs' investments in such securities would be legally borne by the QFII/RQFII directly. Given that any PRC tax liabilities accruing to the QFII/RQFII in respect of the securities to which the Access Products are linked arise because of the trading activities of the relevant Sub-Fund, such tax liabilities (if any) may ultimately be recharged to and borne by such Sub-Fund and would likely have an economic effect on the value of the relevant Sub-Fund. On the basis of Notice No. 79, it is not expected that the issuers of any Access Product would make any provision for potential tax liabilities from 17 November 2014 onwards.

Pursuant to Notice No. 79 and having consulted professional and independent tax advisor, with effect from 17 November 2014, in respect of each Sub-Fund, the Manager will not make WIT provision for gross realised or unrealised capital gains derived from trading of A-Shares via RQFII quota and/or through Access Products with exposure to A-Shares.

Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, a Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

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## **TAXATION (Continued)**

### **PRC (Continued)**

#### *Capital gains (Continued)*

- (iv) *Capital gains realised from the trading of PRC debt securities issued or listed offshore by PRC issuers*

There are currently no specific tax rules or regulations governing the taxation of capital gains realised by foreign investors on the disposal of these securities. In the absence of specific rules, the general tax provisions under PRC CIT Law should apply and such general tax provisions stipulate that a non-resident enterprise with no place of effective management, establishment or place of business in the PRC would generally be subject to WIT at the rate of 10% on its PRC-sourced income, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties. Based on the current interpretation of the SAT and the local PRC tax authorities, capital gains derived by foreign investors from investment in PRC debt securities should not be treated as PRC sourced income and thus should not be subject to PRC WIT. There are no written tax regulations issued by the PRC tax authorities to confirm that interpretation. However, as a matter of practice, such 10% PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of PRC debt securities has not been strictly enforced by the PRC tax authorities.

Having consulted professional and independent tax adviser, the Manager will not make WIT provisions for a Sub-Fund on the gross realised and unrealised capital gains derived from PRC debt securities issued or listed offshore by PRC issuers. The implication of this is that if a Sub-Fund is liable to pay such withholding and other taxes, this may result in an unfavourable impact on the Net Asset Value of a Sub-Fund.

**TAXATION (Continued)****PRC (Continued)***Capital gains (Continued)**(v) Capital gains derived from funds that invest in PRC Securities*

A Sub-Fund may invest in funds that invest in PRC Securities. Such funds may or may not withhold WIT equal to 10% of any potential capital gains which may be payable on a sale of such PRC Securities. Any such withholding by a fund would be reflected in the net asset value of the relevant fund and, therefore, in the Net Asset Value of a Sub-Fund on any Valuation Day. Where a fund has no such withholding or insufficient withholding, any retrospective enforcement and/or changes in PRC tax law relating to WIT on capital gains on the sale of PRC Securities may adversely affect the net asset value of the relevant fund and, therefore, the Net Asset Value of a Sub-Fund.

In this regard, any PRC tax liability may, if it arises, be payable by the funds that invest in PRC Securities. However, under the terms of the arrangement between a Sub-Fund and the funds that invest in PRC Securities, the funds may pass on any tax liability to a Sub-Fund. Such tax charges would likely be recharged to, and borne by, a Sub-Fund under contractual agreement with the funds. As such, a Sub-Fund is the ultimate party which bears the risks relating to any PRC taxes what are so levied by the relevant PRC tax authority.

*(vi) Capital gains realised from trading in PRC inter-bank bond market via Bond Connect*

There is no specific regulation issued by the mainland China tax authorities on the tax treatment in respect of trading in PRC inter-bank bond market by eligible foreign institutional investors via Bond Connect. In the absence of specific taxation rules on Bond Connect, a Sub-Fund's tax treatment for trading in PRC inter-bank bond market via Bond Connect should make reference to applicable tax treatments under the existing mainland China domestic tax regulations. For further details on PRC taxes and associated risks, please refer to the risk factor headed "Risks associated with PRC taxation" section.

# VALUE PARTNERS FUND SERIES

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## TAXATION (Continued)

### PRC (Continued)

#### *Capital gains (Continued)*

##### (vii) *Tax Provision*

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet any potential tax liability for capital gains or income, the Manager reserves the right to provide for WIT on such gains or income and withhold the tax for the account of a Sub-Fund.

As such, if it transpires that a Sub-Fund is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of a Sub-Fund may be lowered, as a Sub-Fund will ultimately have to bear the full amount of tax liabilities. It should also be noted that the level of provision (if any) may be inadequate or excessive to meet actual PRC tax liabilities on investments made by the relevant Sub-Fund. Consequently, Unitholders may be disadvantaged or advantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), investors should note that the Net Asset Value of the relevant Sub-Fund may be adversely affected, as the relevant Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the relevant Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the relevant Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

**TAXATION (Continued)****PRC (Continued)***Value Added Tax (“VAT”) and other surtaxes*

The MOF and SAT issued Notice No. 36 on 23 March 2016. The Notice No. 36 sets out that the B2V Pilot Program covers all the remaining industries of the program, including financial services. The Notice No. 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

The Notice No. 36 provides that VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. A-Shares and RMB denominated debt securities issued by PRC issuers.

Based on the prevailing VAT regulations, capital gains derived by (i) QFIIs/RQFIIs on trading of marketable securities and (ii) foreign investors via the Stock Connect are exempted from VAT. Therefore, to the extent that a Sub-Fund’s key investment (such as A-Shares through the Stock Connect, Access Products) are conducted through these channels, either by a Sub-Fund directly or via Access Products issuers, the capital gains should be exempted from VAT. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT.

The current VAT regulations do not provide VAT exemption on capital gains derived from trading of B-Shares. Having said that, the PRC tax authorities have not actively collected VAT from non-PRC tax resident enterprises on gains realized from B-Shares in practice. Where capital gains are derived from trading of H-Shares, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside PRC.

The prevailing VAT regulations do not specifically exempt VAT on interest received by foreign investors (including QFIIs and RQFIIs). Interest income on non-government bonds (including corporate bonds) should technically be subject to 6% VAT.

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



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## **TAXATION (Continued)**

### **PRC (Continued)**

#### *Value Added Tax (“VAT”) and other surtaxes (Continued)*

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities. The applicable levies depend on the location where VAT filing (if required) is done.

#### *Stamp Duty*

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

It is unclear whether PRC Stamp Duty that is imposed on the transfer of shares of PRC companies under the PRC Stamp Duty Regulations would similarly apply to the acquisition and disposal of H-Shares by non-PRC investors outside the PRC. That said, PRC Stamp Duty is generally not imposed for trading of H-Shares in practice.

No PRC Stamp Duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

Further, no PRC Stamp Duty is expected to be imposed on non-tax resident holders of fund units, either upon subscription or upon a subsequent redemption of such fund units.

**TAXATION (Continued)****PRC (Continued)***General*

It should also be noted that the actual applicable tax rates imposed by the SAT may change from time to time. It should also be noted that the prevailing PRC tax regulations specified that the tax exemption on capital gains derived from the trading of A-Shares from 17 November 2014 onwards is temporary. There is a possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of a Sub-Fund may suffer more than the tax provision amount as a Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of a Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in a Sub-Fund before the return of any overprovision to the account of a Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated.

# VALUE PARTNERS FUND SERIES

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

## GENERAL

### Reports and accounts

The Trust's and each Sub-Fund's financial year end is on 31 December in each year. Audited annual financial reports drawn up in accordance with IFRS and unaudited interim financial reports will be prepared for each financial year. Financial reports will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of audited annual financial reports, and within two months after 30 June in each year in the case of unaudited interim financial reports. Once issued the financial reports will be available in softcopy from the website [www.valuepartners-group.com](http://www.valuepartners-group.com)\* and in hardcopy for inspection at the Manager's office free of charge during normal working hours (hardcopies are also available for Unitholders to take away free of charge upon request).

At least one month's prior notice will be provided to Unitholders if there will be any change to the mode of distribution of financial reports described above.

\* This website has not been reviewed by the SFC.

### Side letters

The policy of the Trust is not to enter into side letter arrangements with any investors.

### Distribution policy

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends in respect of any Sub-Fund, details of which are set out in the relevant Appendix.

Unless otherwise provided in the relevant Appendix, dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

**GENERAL (Continued)****Distribution policy (Continued)**

Unitholders may specify on subscription that they wish to receive a cash distribution if a distribution is declared by the Manager, provided, however, that distributions will not be paid in cash if the amount of the distribution for the relevant Unitholder amounts to less than USD100 (or its equivalent currency as the case may be). If Unitholders do not request cash distributions or if the amount of the distribution payable to the relevant Unitholder is less than the minimum amount specified as aforesaid, the distribution to which the Unitholder is entitled will be automatically reinvested in further Units to be issued at the prevailing Issue Price of the relevant Class applicable on the distribution payment date.

In circumstances where the net distributable income of a Class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant Class.

Where payment of dividends is being made out of capital or effectively out of capital, the compositions of the dividends (i.e. the relative amounts paid from net distributable income and capital) for the last 12 months (a rolling 12-month period starting from the date on which payment of dividends is being made out of capital or effectively out of capital) will be available from the Manager on request and on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*. The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC's prior approval and by giving not less than one month's advance notice to Unitholders.

\* This website has not been reviewed by the SFC.

# VALUE PARTNERS FUND SERIES

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

## **GENERAL (Continued)**

### **Distribution policy (Continued)**

The cash distribution will be paid to Unitholders at their own risk and expense by telegraphic transfer normally within one calendar month after the declaration of such distribution by the Manager.

### **Trust Deed**

The Trust was established as an umbrella unit trust under the laws of Hong Kong by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust or the relevant Sub-Fund(s) and their relief from liability in certain circumstances, subject to the proviso that nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### **Modification of Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant Sub-Fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases, modifications, alterations and additions require the sanction of an extraordinary resolution of the Unitholders affected. Any amendments to the Trust Deed will require prior approval from the SFC (where such approval is required). Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Trustee (or the Trustee will procure that notice be given by the Manager) unless such amendment or modification is not in the opinion of the Trustee of material significance.

## **GENERAL (Continued)**

### **Meetings of Unitholders**

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

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the Unitholder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

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

### **Transfer of Units**

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units. The Trustee is entitled to require from the transferor and/or the transferee the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any expenses incurred by the Trustee in connection therewith.

Transfers of Units are subject to prior consent of the Manager and the Manager may instruct the Trustee not to enter the name of a transferee in the Register or recognise a transfer of any Units if either the Manager or the Trustee believes that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

# VALUE PARTNERS FUND SERIES

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## GENERAL (Continued)

### Termination of the Trust or any Sub-Fund

The Trust shall continue (and each Sub-Fund, except in the case of (a), (d) or (e) in the next paragraph in respect of one or more Sub-Funds, shall continue) until it is terminated in one of the ways set out below.

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

The Trust may be terminated by the Trustee giving prior written notice to the Manager and the Unitholders if any of the following events shall occur: (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; (b) the Trustee shall form the opinion for good and sufficient reason and shall so state in writing to the Manager that the Manager is incapable of performing its duties under the Trust Deed satisfactorily; (c) the Manager shall fail to perform its duties under the Trust Deed satisfactorily or the Manager shall do any other thing which in the opinion of the Trustee is calculated to bring the Trust into disrepute or to be harmful to the interests of the Unitholders; (d) any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust; (e) either the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal of the Manager for the time being pursuant to the provisions of the Trust Deed or the person nominated by the Trustee shall fail to be approved by an extraordinary resolution; or (f) the Trustee shall have decided to retire but within 60 days of the Trustee giving notice to the Manager of its desire to retire the Manager shall be unable to find a suitable person who is willing to act as trustee.

**GENERAL (Continued)****Termination of the Trust or any Sub-Fund (Continued)**

The Trust (or in the case of (a), (b), (d) or (e) in this paragraph, one or more Sub-Funds) may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in all Sub-Funds, or the Net Asset Value of any Sub-Fund, outstanding shall be less than RMB100 million; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Trust or any Sub-Fund and which renders the Trust or such Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust or such Sub-Fund; (c) if within a reasonable time and using commercially reasonable endeavours, the Manager shall be unable to find a person acceptable to the Manager to act as the new Trustee after deciding to remove the Trustee for the time being pursuant to the provisions of the Trust Deed; (d) if the Manager is unable to implement its investment strategy in respect of all Sub-Funds or any Sub-Fund; or (e) if the Manager, in its good faith opinion, considers it in the best interest of the relevant Unitholders to terminate the Trust and/or any Sub-Fund.

If the Trust or a Sub-Fund is to be terminated, prior notice in writing will be provided to affected Unitholders. The period of such prior notice will be determined in accordance with the Code.

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



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## GENERAL (Continued)

### Documents available for inspection

Copies of the following documents are available for inspection free of charge at the offices of the Manager and copies thereof (other than (d) which will be free of charge) may be obtained from the Manager at a cost of HKD150 (or equivalent in other currency) per set of copy documents:

- (a) Trust Deed;
- (b) PRC Participation Agreement (where applicable to the relevant Sub-Fund);
- (c) PRC Custodian Agreement (where applicable to the relevant Sub-Fund); and
- (d) The most recent annual report and accounts of the Trust and the Sub-Fund (if any) and the most recent interim report of the Trust and the Sub-Fund (if any).

### Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the “Ordinance”) came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (“AEOI”). The AEOI requires financial institutions (“FIs”) in Hong Kong to collect certain required information relating to non-Hong Kong tax residents holding financial accounts with the FIs, and report such information to the Hong Kong Inland Revenue Department (“IRD”) for the purpose of AEOI exchange. Generally, the information will be reported and automatically exchanged in respect of account holders that are tax resident in an AEOI partner jurisdiction(s) with which Hong Kong has a Competent Authority Agreement (“CAA”) in force; however, the relevant Sub-Fund and/or its agents may further collect information relating to residents of other jurisdictions.

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

## **GENERAL (Continued)**

### **Automatic Exchange of Financial Account Information (Continued)**

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

By investing in a Sub-Fund and/or continuing to invest in a Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the relevant Sub-Fund, the Manager and/or the Sub-Fund’s agents in order for the Sub-Fund to comply with the Ordinance. The Unitholder’s information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are passive non-financial entities), may be transmitted by the IRD to authorities in other jurisdictions.

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

# VALUE PARTNERS FUND SERIES

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## **GENERAL (Continued)**

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

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the relevant Sub-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 relevant Sub-Fund receives payments and/or (b) to satisfy reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including any law, rule and requirement relating to AEOI) and reporting obligations that may be imposed by future legislation.

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

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

## **GENERAL (Continued)**

### **Personal Data**

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

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

As part of the Trustee’s and the Manager’s responsibility to prevent money laundering, they and/or their respective delegates or agents may require detailed verification of a prospective investor’s identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification may not be required where: (a) the prospective investor makes payment from an account in the prospective investor’s name at a recognised financial institution; (b) the prospective investor is regulated by a recognised regulatory authority; or (c) the application is made through a recognised financial intermediary. The exceptions will only apply if the financial institution, regulatory authority or intermediary referred to above is within a country recognised by Hong Kong as having sufficient anti-money laundering regulations.

The Trustee, the Manager and their respective delegates and agents each reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee, the Manager or any of their respective delegates or agents may refuse to accept the application and return the application monies relating to such application.

The Trustee, the Manager and their respective delegates and agents each also reserves the right to refuse to make any redemption payment to a Unitholder if the Trustee, the Manager and/or any of their respective delegates and agents suspect or are advised that the payment of redemption proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Trust or the relevant Sub-Fund(s) or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

# VALUE PARTNERS FUND SERIES

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## **GENERAL (Continued)**

### **Anti-Money Laundering Regulations (Continued)**

None of the Trustee, the Manager or their respective delegates or agents shall be liable to the prospective investor or Unitholder for any loss suffered by such party as a result of the rejection or delay of any subscription application or payment of redemption proceeds.

### **Liquidity Risk Management**

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

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

The liquidity management policy involves monitoring the profile of investments held by each Sub-Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "REDEMPTION OF UNITS", and will facilitate compliance with each Sub-Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Sub-Funds under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may limit the number of Units of all classes of a Sub-Fund redeemed on any Dealing Day to Units representing 10% (or such higher percentage as the Manager may determine in any particular case) of the total number of Units of all classes of such Sub-Fund in issue (subject to the conditions under the heading entitled "Restrictions on redemption" in the section headed "REDEMPTION OF UNITS").

## **GENERAL (Continued)**

### **Conflicts of Interest**

The Manager and the Trustee (and any of their affiliates) (each a “relevant party”) may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any relevant party may, in the course of business, have potential conflicts of interest with the Trust or any Sub-Fund. Each relevant party will, at all times, have regard in such event to its obligations to the Trust and the relevant Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly. Each relevant party shall be entitled to retain for its own use and benefit all fees and other monies payable thereby and shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Sub-Fund, any Unitholder or any other relevant party any fact or thing which comes to the notice of the relevant party in the course of its rendering services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients’ interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each Sub-Fund, are treated fairly.

# VALUE PARTNERS FUND SERIES

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## **GENERAL (Continued)**

### **Conflicts of Interest (Continued)**

It is expected that transactions for any Sub-Fund may be carried out with or through Connected Persons of the Manager. The Manager will ensure that all transactions carried out by or on behalf of each Sub-Fund will be in compliance with all applicable laws and regulations. The Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on arm's length terms and are consistent with applicable best execution standards. The fee or commission payable to any such Connected Persons in respect of a transaction will not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature. The Manager will monitor all such transactions to ensure compliance with its obligations. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the relevant Sub-Fund's annual report.

### **Websites**

The offer of the Units is made solely on the basis of information contained in this Explanatory Memorandum. This Explanatory Memorandum may refer to information and materials included in websites, which may be updated or changed from time to time without any notice. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC. Investors should exercise an appropriate degree of caution when assessing the value of such information and materials.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the Value Partners China A-Share Select Fund (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to Value Partners China A-Share Select Fund. Unless otherwise defined in this Appendix, terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix. For Singapore offering purposes, the Sub-Fund is a Restricted Sub-Fund (see Explanatory Memorandum – IMPORTANT INFORMATION FOR INVESTORS).*

- “Business Day”** means, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong and the PRC are open for normal banking business or such other day or days as the Manager and the Trustee may determine from time to time, provided that where, as a result of a typhoon signal number 8, black rainstorm warning or other similar event, the period during which banks in Hong Kong or the PRC are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise.
- “Custodian”** means The Hongkong and Shanghai Banking Corporation Limited.
- “PRC Custodian”** means HSBC Bank (China) Company Limited.
- “PRC Custodian Agreement”** means the custody agreement entered into between the Trustee, the PRC Custodian, the Custodian and the Manager, as amended from time to time.
- “PRC Participation Agreement”** means the participation agreement between the PRC Custodian, the Manager, the Trustee and the Custodian, as amended from time to time.



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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### Investment Objective

The investment objective of the Sub-Fund is to achieve long-term capital growth and income appreciation by predominately investing in RMB denominated equities in the PRC by virtue of the Manager's status and quota under the RQFII framework and/or through Stock Connect. There can be no assurance that the Sub-Fund will achieve its investment objective.

#### Investment Strategy

The Sub-Fund seeks to achieve its investment objective by investing at least 70% of its Net Asset Value in RMB-denominated equities issued in the PRC – this will predominantly be investments in A-Shares listed or being offered in an initial public offering to be listed on the SSE or SZSE, with not more than 10% of the Sub-Fund's Net Asset Value in public equity funds authorised by the CSRC. The Sub-Fund may also, for hedging purposes only, invest in warrants listed on the SSE or SZSE, and stock index futures listed on the China Financial Futures Exchange.

The Sub-Fund may also make investments to a limited extent (not more than 30% of its Net Asset Value) in bonds and other fixed income instruments issued within or outside of the PRC, including urban investment bonds (not more than 10% of the Sub-Fund's Net Asset Value) and fixed income instruments which are unrated or rated below the minimum credit rating (not more than 30% of the Sub-Fund's Net Asset Value). If certain fixed income instruments in the Sub-Fund's portfolio are subsequently downgraded such that this threshold of 30% is exceeded, the Manager will as soon as reasonably practicable make adjustments to the Sub-Fund's portfolio so as to adhere to such threshold.

For the purposes of the Sub-Fund:

- (i) urban investment bonds are fixed income instruments issued by PRC local government financial vehicles ("LGFVs") and traded on the exchange-traded bond markets and the inter-bank bond market in the PRC. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for local development, public welfare investments or infrastructure projects; and

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**Investment Strategy (Continued)**

- (ii) “Minimum credit rating” is defined as (a) within the PRC, a credit rating of BBB- or above as rated by a local PRC credit rating agency; and (b) outside of the PRC, a credit rating of BBB-/Baa3 or above as rated by an international credit rating agency. The credit rating refers to the credit rating of the fixed income instrument, but where the relevant fixed income instrument does not have a credit rating, the Manager may refer to the credit rating of the issuer thereof. If neither the fixed income instrument nor the issuer is rated, the fixed income instrument will be classified as unrated. In constructing the Sub-Fund’s portfolio, the Manager may refer to local PRC credit ratings for reference, but will primarily rely on its own analysis to evaluate each fixed income instrument independently.

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country) with a credit rating below investment grade, or which is non-rated.

The Sub-Fund’s investments will primarily be made within the PRC, although the Sub-Fund may invest not more than 30% of its Net Asset Value in assets outside of the PRC including: (a) for investment purposes, equities and equity funds listed outside of the PRC and fixed income instruments issued outside of the PRC, and (b) for hedging purposes only, warrants and futures listed outside of the PRC, index and currency swaps and currency forwards. Such investments outside of the PRC will primarily be denominated in RMB, HKD or USD, but may be denominated in any other currency.

Other than the aforesaid instruments, the Sub-Fund will not invest in asset backed securities (including asset backed commercial paper), structured deposits, structured products, financial derivative instruments or leverage for hedging or non-hedging purposes, and the Manager will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund. If this changes in the future, prior approval of the SFC will be sought and not less than one month’s notice (or such other period of notice as may be approved under the Code) will be provided to Unitholders before the Sub-Fund enters into any such transaction.

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

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### Investment Strategy (Continued)

The Sub-Fund may invest directly in the PRC's domestic securities markets through the Manager's status as a RQFII or via Stock Connect. Investments through Stock Connect may be up to 100% of the Sub-Fund's investment in A-Shares and may exceed 30% of the Sub-Fund's Net Asset Value. Please refer to the section "RQFII regime" below for further information on the RQFII system and the section "Stock Connect" in the main body of this Explanatory Memorandum for further information on Stock Connect.

### *Asset allocation and portfolio construction*

The Manager intends to invest primarily in equity securities of companies in different industry sectors with any range of market capitalisation, including companies with small- or mid-sized capitalisations, which have substantial exposure to the PRC. The Manager will use value investing strategies and a bottom-up research approach in stock selection.

Selection of debt securities for investment by the Sub-Fund will be based on the creditworthiness of the issuer by forecasting the issuer's credit profile for at least two years with a primary focus on the issuer's corporate profile, corporate strategy, forecasted cash flow and financial profile. Investment analysis will also take into account the leverage, liquidity, management and business of the issuer.

The Sub-Fund's portfolio will be allocated, according to asset class, as follows:

| <b>Asset class</b>        | <b>Indicative percentage of Net Asset Value</b> |
|---------------------------|---|
| Equities                  | 70%-100%  |
| Fixed income instruments  | 0-30%   |
| Cash and cash equivalents | 0-30%   |

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Investment Strategy (Continued)

#### *RQFII regime*

Under current regulations in the PRC, foreign investors can invest in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC and have been granted quota(s) by SAFE to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC's domestic securities markets.

The RQFII regime is currently governed by (i) the “Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC, the PBOC and the SAFE and effective from 1 March 2013 (人民幣合格境外機構投資者境內證券投資試點辦法); (ii) the “Implementation Rules for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC and effective from 6 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定); (iii) the “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors”, Huifa 2013 No. 42 (國家外匯管理局關於人民幣合格境外機構投資者境內證券投資試點有關問題的通知，匯發[2013]42號) issued by SAFE and effective from 21 March 2013; (iv) the “Notice of the People’s Bank of China on the Relevant Matters concerning the Implementation of the Pilot Measures for Domestic Securities Investment Made by the RMB Qualified Foreign Institutional Investors”, issued by the PBOC and effective from 2 May 2013 (中國人民銀行關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》有關事項的通知); and (v) any other applicable regulations promulgated by the relevant authorities (collectively, the “RQFII Regulations”).

All of the Sub-Fund’s assets in the PRC (including onshore PRC cash deposits and its onshore portfolio of equities, equity-related instruments and fixed income instruments, if any) will be held by the Custodian (through the PRC Custodian) in accordance with the terms of the PRC Custodian Agreement and PRC Participation Agreement. A securities account shall be opened with each of CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. One or more RMB special deposit account(s) shall also be established and maintained with the PRC Custodian in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. The PRC Custodian shall, in turn, have a cash clearing account with each of CSDCC, CCDCC, Shanghai Clearing House or such other relevant depositories for trade settlement according to applicable regulations.

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### Investment Strategy (Continued)

##### *RQFII regime (Continued)*

The Manager has obtained a legal opinion confirming that, as a matter of PRC law:

- (a) Securities account(s) with CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories and maintained by the PRC Custodian and RMB special deposit account(s) with the PRC Custodian (respectively, the “Securities Account(s)” and the “Cash Account(s)”) have been opened in the joint names of the Manager (as RQFII holder) and the Sub-Fund, for the sole benefit of and use by the Sub-Fund, in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (b) the assets held/credited in the Securities Account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder), the Custodian, the PRC Custodian and any broker appointed by the Manager to execute transactions for the Sub-Fund in the PRC (a “PRC Broker”), and from the assets of other clients of the Manager (as RQFII holder), the Custodian, the PRC Custodian, and any PRC Broker;
- (c) the assets held/credited in the Cash Account(s) (i) become an unsecured debt owing from the PRC Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder) and any PRC Broker, and from the assets of other clients of the Manager (as RQFII holder) and any PRC Broker;
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the Securities Account(s) and the debt in the amount deposited in the Cash Account(s) of the Sub-Fund;
- (e) if the Manager (as RQFII holder) or any PRC Broker is liquidated, the assets contained in the Securities Account(s) and Cash Account(s) of the Sub-Fund will not form part of the liquidation assets of the Manager (as RQFII holder) or such PRC Broker in liquidation in the PRC; and

## **APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)**

### **Investment Strategy (Continued)**

#### *RQFII regime (Continued)*

- (f) if the PRC Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Custodian in liquidation in the PRC, and (ii) the assets contained in the Cash Account(s) of the Sub-Fund will form part of the liquidation assets of the PRC Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Account(s).

Repatriations in RMB conducted by the Manager as RQFII on behalf of the Sub-Fund are permitted daily and are not subject to any lock-up periods or prior approval.

There are specific risks associated with the RQFII regime and investors' attention is drawn to the risk factors under "Risks associated with the RQFII Regime" in the section on "Additional risk factors" in this Appendix.

### **The Offshore RMB Market**

#### *What led to RMB Internationalisation?*

RMB is the lawful currency of the PRC. RMB is not a freely convertible currency and it is subject to foreign exchange control policies of and repatriation restrictions imposed by the PRC government. Since July 2005, the PRC government began to implement a controlled floating exchange rate system based on the supply and demand in the market and adjusted with reference to a portfolio of currencies. The exchange rate of RMB is no longer pegged to US dollars, resulting in a more flexible RMB exchange rate system.

Over the past two decades, the PRC's economy grew rapidly at an average annual rate of 9.2% in real terms. This enables it to overtake Japan to become the second largest economy and trading country in the world. As the PRC's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

# VALUE PARTNERS FUND SERIES

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

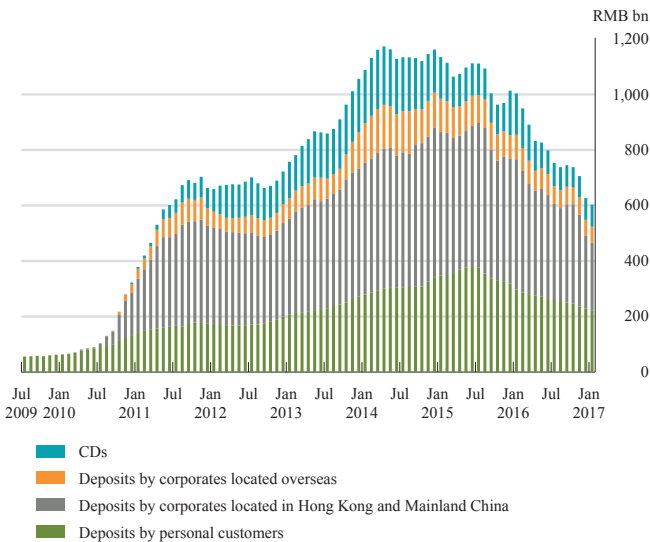
## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### The Offshore RMB Market (Continued)

#### *Accelerating the Pace of RMB Internationalisation*

The PRC has been taking gradual steps to increase the use of RMB outside its borders by setting up various pilot programmes in Hong Kong and neighbouring areas in recent years. For instance, banks in Hong Kong were the first permitted to provide RMB deposits, exchange, remittance and credit card services to personal customers in 2004. Further relaxation occurred in 2007 when the authorities allowed PRC financial institutions to issue RMB bonds in Hong Kong. As at 31 December 2016, there are 210 banks in Hong Kong engaging in RMB business, with RMB deposits & certificates of deposit (CDs) amounting to about RMB625.1 billion, as compared to about RMB1010.4 billion in December 2015. At the end of December 2016, the value of offshore RMB debt securities outstanding stood at RMB294.8 billion.

Chart 1: RMB deposits & certificates of deposit (CDs) in Hong Kong



Source: Hong Kong Monetary Authority. Data as at 31 March 2017.

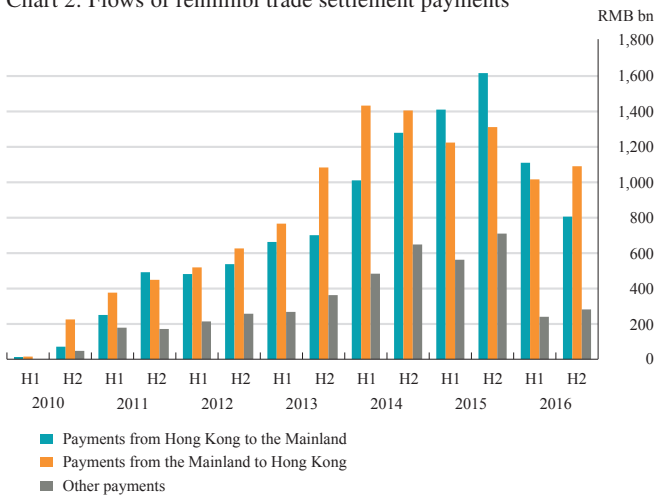
**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**The Offshore RMB Market (Continued)**

*Accelerating the Pace of RMB Internationalisation (Continued)*

The pace of RMB internationalisation has accelerated since 2009 when the PRC authorities permitted cross-border trade between Hong Kong/Macau and Shanghai/four Guangdong cities, and between Association of Southeast Asian Nations (ASEAN) and Yunnan/Guangxi, to be settled in RMB. In June 2010, the arrangement was expanded to 20 provinces/municipalities on the PRC and to all countries/regions overseas. In December 2016, nearly RMB602.4 billion worth of cross-border trade was settled in Hong Kong with RMB.

Chart 2: Flows of renminbi trade settlement payments



Source: Hong Kong Monetary Authority. Data as at 31 March 2017.



# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### The Offshore RMB Market (Continued)

#### *Onshore versus Offshore RMB Market*

Following a series of policies introduced by the PRC authorities, a RMB market outside the PRC has gradually developed and started to expand rapidly since 2009. RMB traded outside the PRC is often referred as “offshore RMB” with the denotation “CNH”, which distinguishes it from the “onshore RMB” or “CNY”.

Both onshore and offshore RMB are the same currency but are traded in different markets. Since the two RMB markets operate independently where the flow between them is highly restricted, onshore and offshore RMB are traded at different rates and their movement may not be in the same direction. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The relative strength of onshore and offshore RMB may change significantly, and such change may occur within a very short period of time.

Notwithstanding that the offshore RMB market showed a meaningful growth during the past two (2) years, it is still at an early stage of the development and is relatively sensitive to negative factors or market uncertainties. For instance, the value of offshore RMB had once dropped by 2% against the US dollars in the last week of September 2011 amidst the heavy sell off of the equities market. In general, the offshore RMB market is more volatile than the onshore one due to its relatively thin liquidity.

It is widely expected that the onshore and offshore RMB markets would remain 2 segregated, but highly related, markets for the next few years.

#### *Recent Measures*

More measures to relax the conduct of offshore RMB business were announced in 2010 with respect to the lifting of restrictions on interbank transfer of RMB funds as well as granting permission for companies in Hong Kong to exchange foreign currencies for RMB without limit. One month later, the PRC authorities announced the partial opening up of PRC’s interbank bond market for foreign central banks, RMB clearing banks in Hong Kong and Macau and other foreign banks participating in the RMB offshore settlement programme.

## **APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)**

### **The Offshore RMB Market (Continued)**

#### *Recent Measures (Continued)*

The National Twelfth Five-Year Plan adopted in March 2011 explicitly supports the development of Hong Kong as an offshore RMB business centre. In August 2011, PRC Vice-Premier Li Keqiang has announced more new initiatives during his visit, such as allowing investments on the PRC equity market through the RMB Qualified Foreign Institutional Investor scheme and the launch of an exchange-traded fund with Hong Kong stocks as the underlying constituents in the PRC. Also the PRC Government has given approval for the first non-financial PRC firm to issue RMB-denominated bonds in Hong Kong.

The Shanghai-Hong Kong Stock Connect was launched in November 2014. It is a mutual market access programme that allows investment in eligible Shanghai-listed shares through the SEHK and eligible Hong Kong-listed shares through the SSE. The Shenzhen-Hong Kong Stock Connect (which was launched in December 2016) is also a mutual market access programme that allows investment in eligible Shenzhen-listed shares through the SEHK and eligible Hong Kong-listed shares through the SZSE.

#### *RMB Internationalisation is a Long-term Goal*

Given the PRC's economic size and growing influence, RMB has the potential to become an international currency in the same ranks as US dollars and euro. But the PRC has to first accelerate the development of its financial markets and gradually make RMB fully convertible on the capital account. Although the internationalisation of RMB will bring benefits such as increasing political influence and reduced exchange rate risks, it also entails risks including rising volatility of RMB exchange rate.

The process of RMB internationalisation is a long and gradual one. It took US dollars many decades to replace the British pound to become a dominant reserve currency. It will also take time for RMB to gain importance in coming years. RMB will not be in a position to challenge the US dollar's main reserve currency status for some time to come.

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### The A-Share Market

##### *Introduction*

China's A-Share market commenced in 1990 with 2 exchanges, the SSE and SZSE. The SSE was established on 26 November 1990 and stocks are further divided into class A-Shares and class B-Shares, with access to A-Shares limited to domestic investors as well as QFIIs and RQFIIs or through Stock Connect only, while B Shares are available to both domestic and foreign investors. As at 31 December 2016, there are 1,175 A-Share listed companies in the SSE with total market capitalisation of RMB28.5 trillion. The SSE's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified derivative financial products (including warrants and repurchases).

The SZSE was founded on 1 December 1990 and stocks are further divided into class A-Shares and class B-Shares, with A-Shares limited to domestic investors as well as QFIIs and RQFIIs or through Stock Connect only, while B Shares are available to both domestic and foreign investors. As at 31 December 2016, there were 1,858 A-Share listed companies in SZSE with total market capitalisation of RMB7.3 trillion. SZSE's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified derivative financial products (including warrants and repurchases).

The A-Share market has grown significantly in the past 20 years, with the latest total market capitalisation reaching RMB35.7 trillion comprising 3,033 A-Share listed companies by 31 December 2016.

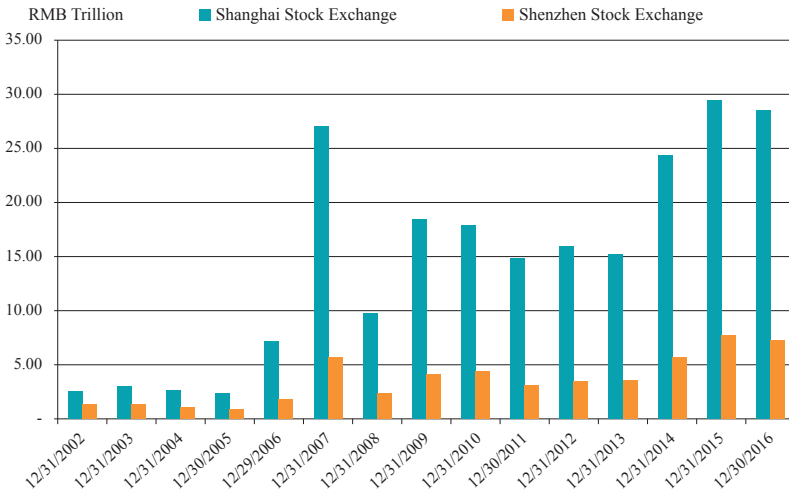
In terms of investor breakdown, there is an increasing number of institutional investors participating in the A-Shares market since the inception, which include securities investment funds, social pension funds, qualified foreign institutional investors, insurance companies and ordinary investment institutions. However, on a daily basis, retail investors still make up for the majority of the trading volume.

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**The A-Share Market (Continued)**

*Introduction (Continued)*

Chart 1: A-Share total market capitalisation of both the SSE and SZSE



Data source: Bloomberg; as at 31 December 2016

# VALUE PARTNERS FUND SERIES

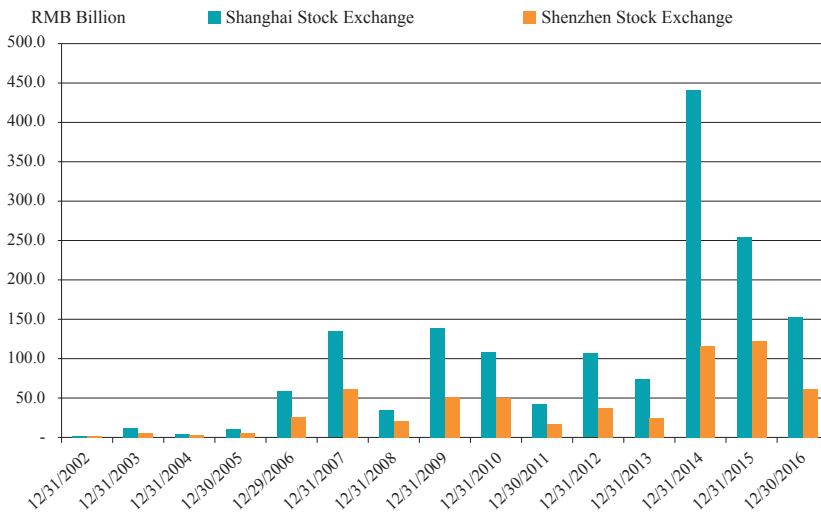
(a Hong Kong umbrella unit trust authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong)

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### The A-Share Market (Continued)

#### Introduction (Continued)

Chart 2: A-Share annual trading volumes (turnover) of both the SSE and SZSE



Data source: Bloomberg; as at 31 December 2016

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**The A-Share Market (Continued)**

*Introduction (Continued)*

Chart 3: Number of A-Share companies listed on both the SSE and SZSE



Data source: Bloomberg; as at 31 December 2016

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### The A-Share Market (Continued)

#### *Differences with Hong Kong's Stock Market*

The following table summarises the differences between the Hong Kong and A-Share markets:

|                            | <b>PRC</b>   | <b>Hong Kong</b>   |
|----------------------------|--|--|
| <b>Key indexes</b>         | SHCOMP/SZCOMP  | HSI/HSCEI  |
| <b>Trading band limits</b> | 10% (5% for ST/S stocks*)  | No Limit   |
| <b>Trading lots</b>        | 100 shares for BUY/1 share for SELL**  | Each stock has its own individual board lot size (an online broker will usually display this along with the stock price when you get a quote); purchases in amounts which are not multiples of the board lot size are done in a separate "odd lot market". |
| <b>Trading hours</b>       | pre-open: 0915-0925<br>morning session: 0930-1130<br>afternoon session: 1300-1500<br>(1457-1500 is closing auction for the SZSE) | pre-open order input: 0900-0915<br>pre-order matching: 0915-0920<br>order matching: 0920-0928<br>morning session: 0930-1200<br>afternoon session: 1300-1600  |
| <b>Settlement</b>          | T+1  | T+2  |

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**The A-Share Market (Continued)**

*Differences with Hong Kong’s Stock Market (Continued)*

|  | <b>PRC</b>   | <b>Hong Kong</b>  |
|--|--|---|
| <b>Earnings reporting requirements</b> | <p>Annual report:</p> <ul style="list-style-type: none"> <li>• Full annual report must be disclosed within 4 months after the reporting period.</li> </ul> <p>Interim report:</p> <ul style="list-style-type: none"> <li>• Full report must be disclosed within 2 months after the reporting period.</li> </ul> <p>Quarterly report:</p> <ul style="list-style-type: none"> <li>• Full report must be disclosed within 1 month after the reporting period. The first quarterly report cannot be disclosed before last year’s annual report.</li> </ul> | <p>Annual report:</p> <ul style="list-style-type: none"> <li>• Earnings must be disclosed within 3 months after the reporting period;</li> <li>• Full annual report must be disclosed within 4 months after the reporting period.</li> </ul> <p>Interim report:</p> <ul style="list-style-type: none"> <li>• Earnings must be disclosed within 2 months after the reporting period;</li> <li>• Full report must be disclosed within 3 months after the reporting period.</li> </ul> |

Note:

- \* 1) ST stocks refer to special treatment stocks, which means special treatment for companies with financial problems (consecutive 2 fiscal years loss or audited net assets per share less than par value in the most recent fiscal year), effective from 22 April 1998. Stocks with ST usually mean they have delisting risk.
- 2) S stocks refer to those stocks which have not yet performed the “split share structure reform”.
- \*\* Purchasing in an odd lot is not allowed while selling in an odd lot is allowed in the A-Share market, with no price difference between odd lot and round lot trading.



# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### Investment Restrictions

No waivers from the investment restrictions set out in the main body of the Explanatory Memorandum have been sought or granted by the SFC.

### Available Classes

The Sub-Fund currently has the following classes of Units which are available to investors:

| <b>Class</b>         | <b>Class Currency</b> |
|----------------------|-----------------------|
| Class A AUD Hedged   | AUD                   |
| Class A AUD Unhedged | AUD                   |
| Class A CAD Hedged   | CAD                   |
| Class A CAD Unhedged | CAD                   |
| Class A EUR Hedged   | EUR                   |
| Class A EUR Unhedged | EUR                   |
| Class A GBP Hedged   | GBP                   |
| Class A GBP Unhedged | GBP                   |
| Class A HKD Hedged   | HKD                   |
| Class A HKD Unhedged | HKD                   |
| Class A NZD Hedged   | NZD                   |
| Class A NZD Unhedged | NZD                   |
| Class A RMB (CNH)    | RMB                   |
| Class A SGD Hedged   | SGD                   |
| Class A SGD Unhedged | SGD                   |
| Class A USD Hedged   | USD                   |
| Class A USD Unhedged | USD                   |
| Class X RMB          | RMB                   |
| Class Z USD          | USD                   |

Class A AUD Hedged, Class A AUD Unhedged, Class A CAD Hedged, Class A CAD Unhedged, Class A EUR Hedged, Class A EUR Unhedged, Class A GBP Hedged, Class A GBP Unhedged, Class A HKD Hedged, Class A HKD Unhedged, Class A NZD Hedged, Class A NZD Unhedged, Class A RMB, Class A SGD Hedged, Class A SGD Unhedged, Class A USD Hedged, Class A USD Unhedged Units are collectively referred to as “**Class A Units**”.

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**Available Classes (Continued)**

Class X RMB is referred to as “**Class X Units**”.

Class Z USD is referred to as “**Class Z Units**”.

Each Class A Units are available for subscription by investors in Hong Kong who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

Class X Units are only available for subscription by funds and managed accounts managed by the Manager or Connected Persons of the Manager who are “professional investors” as defined in the SFO or offered on a private placement basis.

Class Z Units are only available for subscription by institutional investors and/or professional investors who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

**Base Currency**

The Base Currency of the Sub-Fund is RMB.

**Dealing Procedures**

For details of dealing procedures, please refer to the sections headed “Subscription of Units”, “Redemption of Units” and “Switching” in the main body of this Explanatory Memorandum. The following apply to the Sub-Fund:

|                         |  |
|-------------------------|--|
| <i>Dealing Day</i>      | each Business Day.                                   |
| <i>Dealing Deadline</i> | 5:00 pm (Hong Kong time) on the relevant Dealing Day |

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless legal or regulatory requirements in the PRC (such as foreign currency controls) to which the Sub-Fund is subject render the payment of the redemption proceeds within the aforesaid time period not practicable, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the PRC.

### Investment Minima

The following investment minima apply to the Sub-Fund:

|                                      | <b>Class A Units</b>    | <b>Class Z Units</b>        | <b>Class X Units</b> |
|--------------------------------------|-------------------------|-----------------------------|----------------------|
| <i>Minimum initial investment</i>    | RMB60,000 or equivalent | USD10,000,000 or equivalent | Nil                  |
| <i>Minimum subsequent investment</i> | RMB30,000 or equivalent | USD100,000 or equivalent    | Nil                  |
| <i>Minimum holding</i>               | RMB60,000 or equivalent | USD5,000,000 or equivalent  | Nil                  |
| <i>Minimum redemption amount</i>     | Nil                     | Nil                         | Nil                  |

The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case).

### Publication of Net Asset Value

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

\* This website has not been reviewed by the SFC.

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**Expenses and Charges**

The following are the actual fees and charges payable in respect of each class of the Sub-Fund. Maximum fees permitted to be charged on one month's notice to Unitholders are set out under the section entitled "Expenses and Charges" in the main body of this Explanatory Memorandum.

*Fees payable by Unitholders*

|                                  | <b>Class A Units</b>                | <b>Class Z Units</b>                | <b>Class X Units</b> |
|----------------------------------|-------------------------------------|-------------------------------------|----------------------|
| <i>Subscription fee</i>          | Up to 5% of the subscription monies | Up to 5% of the subscription monies | Nil                  |
| <i>Redemption fee</i>            | Nil                                 | Nil                                 | Nil                  |
| <i>Switching fee<sup>^</sup></i> | Nil                                 | Nil                                 | Nil                  |

<sup>^</sup> Certain distributors may impose a charge for each switching of Units in a class of the Sub-Fund acquired through them for Units in another class of the Sub-Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their Units in one class to Units in another class should check with their respective distributors for the charge on switching.

*Fees payable by the Sub-Fund*

|                        | <b>Class A Units</b>   | <b>Class Z Units</b>  | <b>Class X Units</b> |
|------------------------|--|---|----------------------|
| <i>Management fee</i>  | 1.50% per annum of the Net Asset Value of the class of Units   | 0.75% per annum of the Net Asset Value of each class of Units | Nil                  |
| <i>Performance fee</i> | In respect of each class of Units, 15% of the increase in Net Asset Value per Unit in the relevant performance period calculated annually on a high-on-high basis. Please refer to the sub-section headed "Performance Fee" below for further information.   |   | Nil                  |
| <i>Trustee fee</i>     | In respect of each class of Units, 0.16% per annum of the Net Asset Value for the first RMB1 billion in Net Asset Value of such class; and for the portion over and above the first RMB1 billion, 0.14% per annum of the Net Asset Value of such class (inclusive of fees payable to the Custodian and the PRC Custodian). |   |                      |

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### Expenses and Charges (Continued)

##### *Performance Fee*

Performance fee will be calculated on a high-on-high basis. Performance fee will be accrued on each Valuation Day throughout the relevant performance period and the performance fee shall become payable if the Net Asset Value per Unit of the relevant class of Units (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of that performance period) as at the last Valuation Day of the relevant financial year (the “Performance Fee Valuation Day”) exceeds the High Water Mark (as defined below), except where Units are redeemed or switched part way through a performance period, in which case any accrued performance fee will become payable in the manner described in further detail below.

The “High Water Mark” means the higher of (a) the initial Subscription Price of the relevant class; and (b) the Net Asset Value per Unit of the relevant class as at the Performance Fee Valuation Day of the preceding performance period in respect of which a performance fee was last paid to the Manager (after deduction of all fees including any performance fee and any distribution declared or paid in respect of that preceding performance period). The High Water Mark for a particular class remains the same throughout the relevant performance period, irrespective of the time of subscription, or the Subscription Price paid, by a particular Unitholder.

The rate of performance fee payable in respect of any class of Units is set out in the relevant Appendix. The amount of performance fee payable is calculated by multiplying this fee rate by the product of such excess of the Net Asset Value per Unit over and above the High Water Mark and the average of the number of Units of the relevant class of Units in issue on each Valuation Day in the relevant performance period.

The first performance period shall be the period from the first Business Day following the close of the relevant Initial Offer Period to (a) the Performance Fee Valuation Day in the same year, if the first performance period would therefore be 6 calendar months or longer; failing which (b) the Performance Fee Valuation Day in the following year. Thereafter, the relevant performance period shall be the period commencing on the date immediately following each Performance Fee Valuation Day and ending on the next following Performance Fee Valuation Day.

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)****Expenses and Charges (Continued)***Performance Fee (Continued)*

Any performance fee payable shall be paid as soon as practicable after the end of the relevant performance period. The performance fee shall be accrued on each Valuation Day throughout the relevant performance period. The accrual is made based on the Net Asset Value per Unit on each Valuation Day and solely for the purposes of calculation of such accrual, each Valuation Day will be a Performance Fee Valuation Day. If the Net Asset Value per Unit exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. On each Valuation Day, the accrual made on the previous Valuation Day will be reversed and a new performance fee accrual will be calculated and made in accordance with the above.

If any Units are redeemed or switched into the units of other SFC authorised unit trusts or mutual funds managed by the Manager and/or its fellow subsidiaries on a Dealing Day part way through a performance period, the performance fee accrued in respect of those Units as at the Valuation Day relating to such redemption or switching shall be crystallised, set aside and payable to the Manager as soon as practicable after the end of the relevant performance period, irrespective of whether the Net Asset Value per Unit of the relevant Class exceeds the High Water Mark on the Performance Fee Valuation Day of the relevant performance period.

The price of Units subscribed for or redeemed during the relevant performance period will be based on the Net Asset Value per Unit (after accrual of performance fee as calculated in accordance with the above). Depending upon the performance of the relevant Sub-Fund during the year, the price at which Unitholders subscribe for or redeem Units at different times will be affected by performance of such Sub-Fund and this could have a positive or negative effect on the performance fee borne by them.

There is no equalisation arrangement in respect of the calculation of the performance fees. That means, there is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis based on the timing the relevant Unitholder subscribes or redeems the relevant Units during the course of a performance period. The Unitholder may be advantaged or disadvantaged as a result of this method of calculating the performance fee.

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Expenses and Charges (Continued)

#### *Performance Fee (Continued)*

A charge of performance fee may have been borne by a Unitholder notwithstanding the Unitholder concerned may have suffered a loss in investment in the Units. On the other hand, a Unitholder may not be subject to any performance fee notwithstanding the Unitholder concerned may have realised a gain in investment in the Units.

The Manager may, in its absolute discretion, share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee received by the Manager to any person including intermediaries introducing investors.

#### *Performance fee examples*

The examples below are shown for illustration purposes only and may contain simplifications.

Assumptions:

- The initial Subscription Price for the relevant class of Units is \$100.
- The performance fee payable is 15% of the appreciation in the Net Asset Value per Unit during a performance period above the High Water Mark.

#### *First performance period:*

- Investor A subscribes for one Unit during the Initial Offer Period at the initial Subscription Price.
- Investor B subscribes for one Unit during the first half of the first performance period, when the Sub-Fund is performing relatively well, at a Subscription Price of \$120.
- High Water Mark is the initial Subscription Price, which is \$100.

**APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND  
(Continued)**

**Expenses and Charges (Continued)**

*Performance fee examples (Continued)*

By the end of the first performance period, the Net Asset Value per Unit is \$110. The appreciation in the Net Asset Value per Unit over the High Water Mark is thus \$10.

Average number of Units of the relevant class of Units in issue is 2 Units.

The total performance fee payable by the relevant class would be calculated as:

$$15\% \times \$10 \times 2 \text{ Units} = \$3.$$

At the end of the first performance period, the Net Asset Value per Unit will be reduced by \$1.50. In effect, each of Investors A and B will have borne the \$1.50 performance fee in respect of the first performance period, regardless of the Subscription Price at which they invested.

*Second performance period:*

- At the start of the second performance period, the High Water Mark is \$108.5 (being the Net Asset Value per Unit at the end of the last performance period in respect of which performance fee was payable (after deduction of performance fee)).
- Mid-way through the second performance period, the Sub-Fund is performing relatively poorly with the NAV per Unit being \$98.5. Investor A redeems his Unit. Investor C subscribes for one Unit.

On this Valuation Day, the Net Asset Value per Unit is below the High Water Mark. Therefore, no performance fee is accrued in respect of the Unit redeemed by Investor A.

At the end of the second performance period, the Net Asset Value per Unit becomes \$105. There has been no appreciation in the Net Asset Value per Unit over the High Water Mark. No performance fee is therefore payable in the second performance period.



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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Expenses and Charges (Continued)

#### *Performance fee examples (Continued)*

##### *Third performance period:*

- At the start of the third performance period, the High Water Mark is still \$108.5 (being the Net Asset Value per Unit at the end of the last performance period in respect of which performance fee was payable (after deduction of performance fee)).
- Mid-way through the third performance period, the performance of the Sub-Fund recovers with the NAV per Unit being \$116.5. Both Investors B and C redeem their Units.

On this Valuation Day, the appreciation in the Net Asset Value per Unit over the High Water Mark is thus \$8.

Average number of Units of the relevant class of Units in issue on this Valuation Day (before taking into account the redemptions) is 2 Units.

The performance fee accrual for the relevant class on this Valuation Day would be calculated as:

$$15\% \times \$8 \times 2 \text{ Units} = \$2.40.$$

In respect of the Units redeemed by Investors B and C, the Net Asset Value per Unit will be reduced by \$1.20. In effect, on redemption, each of Investors B and C will have borne the \$1.20 performance fee in respect of the third performance period (up to the day of redemption), regardless of the Subscription Price at which they invested.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### **Additional Risk Factors**

Investors should note the following risk factors set out in the section entitled “Risk Factors” in the main body of this Explanatory Memorandum, which are applicable to the Sub-Fund: “Investment risk”, “Market risk”, “Concentration risk”, “Emerging market risk”, “Counterparty risk”, “Liquidity risk”, “Exchange rate risk”, “Restricted markets risk”, “Performance fee risk”, “Legal and compliance risk”, “Suspension risk”, “Early termination risk”, “Cross class liability risk”, “Cross Sub-Fund liability risk”, “Valuation and accounting risk”, “Dividends and distributions”, “Distributions payable out of capital or effectively out of capital risk”, “Foreign Account Tax Compliance Act risk”, “RMB currency risk”, “Risks associated with the PRC”, “Risks associated with PRC taxation”, “Risk of investing in equity securities”, “Risk of investing in fixed income instruments” and “Hedging risk”.

In addition, the following risk factors are specific to the Sub-Fund:

#### ***Investment risk***

You should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the Sub-Fund’s assets. There is no guarantee of repayment of principal. Accordingly, there is a risk that you may not recoup the original amount you invested in the Sub-Fund or may lose a substantial part or all of your investment.

#### ***Concentration risk/single country risk***

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Sub-Fund, the Sub-Fund’s exposure to a single country (i.e. the PRC) subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global or regional investment fund as it is more susceptible to fluctuation in value resulting from adverse conditions in a single country.

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### Additional Risk Factors (Continued)

##### *Risks of investing in equities*

There are risks involved in the Sub-Fund's investments in equities.

Please refer to "Investment risks – Risks of investing in equity securities" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

*Risk of investing in equity securities:* The Sub-Fund will invest directly or indirectly in equity securities and is exposed to the risk that the market value of such equity securities (and hence the Net Asset Value of the Sub-Fund) may go down as well as up. Equity markets may fluctuate significantly due to factors including investment sentiment; political, economic or environmental issues; regional or global economic instability; and currency and interest rate fluctuations. Prices may rise and fall sharply, and this will have a direct impact on the Sub-Fund. When equity markets are extremely volatile, the Sub-Fund's Net Asset Value may fluctuate substantially and investors may suffer substantial losses.

*Small- and mid-cap companies risk:* The Sub-Fund's equity portfolio may include small- and mid-cap companies, which generally have greater earnings and capital growth potential than larger capitalised companies. However, such investments in small- or mid-cap companies may involve greater risks, such as limited product lines, markets and financial or managerial resources. In addition, securities of smaller companies may trade less frequently, in lower volumes and with less liquidity than more widely held securities, and the securities of such companies generally are subject to more abrupt or erratic price movements than more widely held or larger, more established companies. This, in turn, may undermine the value of the Sub-Fund's assets.

##### *Risks of investing in A-Shares*

The Sub-Fund's investments predominantly in A-Shares listed on the PRC stock exchanges.

Please refer to "Risks associated with the PRC" and "Investment risks – Risks of investing in equity securities" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in A-Shares (Continued)*

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

*Government intervention and restrictions risk:* The liquidity and price volatility associated with A-Share markets are subject to greater risks of government intervention (for example, to suspend trading in particular stocks) and imposition of trading band restrictions for all or certain stocks from time to time. In addition, A-Shares traded in the PRC are still subject to trading band limits that restrict maximum gain or loss in stock prices, which means the prices of stocks may not necessarily reflect their underlying value. Such factors may affect the performance of the Sub-Fund, and the subscription and redemption of Units may also be disrupted.

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

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in other funds*

The Sub-Fund may from time to time invest in public equity funds issued in the PRC and authorised by the CSRC for retail investment. Investing in other funds may expose the Sub-Fund to the following risks:

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

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

#### *Risks of investing in fixed income instruments*

Although the Sub-Fund will predominantly be invested in equity, it may invest up to 30% in PRC fixed income instruments – there are risks involved in such investments. Please refer to “Risks of investing in fixed income instruments” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in fixed income instruments (Continued)*

As the Sub-Fund invests in fixed income instruments issued in the PRC, the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies in the PRC (including monetary policy and fiscal policy) may have an influence over the PRC's capital markets and affect the pricing of the fixed income instruments in the Sub-Fund's portfolio, which may in turn adversely affect the return of the Sub-Fund.

*Credit risk:* The value of the Sub-Fund is affected by the credit worthiness of its underlying investments. A deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spread) of an underlying investment will adversely impact the value of such investment. There is no assurance that the fixed income instruments invested in by the Sub-Fund will maintain their credit ratings in the future.

Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult as the value of fixed income instruments may decline rapidly, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in the PRC and therefore not subject to the laws of Hong Kong.

Fixed income instruments are typically offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in fixed income instruments (Continued)*

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all, which would have an adverse impact on the value and performance of the Sub-Fund.

#### *Risks of investing in below minimum credit rating, below investment grade and unrated bonds:*

Up to 30% of the Sub-Fund's Net Asset Value may be invested in fixed income instruments which (or the issuers of which) are rated below the minimum credit rating or below investment grade, or which may not be rated by any rating agency of an international standard. Such instruments are generally subject to a higher degree of credit risk and a lower degree of liquidity, which may result in greater fluctuations in value and, consequently, the Net Asset Value of the Sub-Fund. The value of these instruments may also be more difficult to ascertain. In constructing the Sub-Fund's portfolio, the Manager may refer to local PRC credit ratings for reference, but will primarily rely on its own analysis to evaluate each fixed income instrument independently. Nevertheless, as the Sub-Fund may invest up to 30% of its Net Asset Value in fixed income instruments which are unrated or below the minimum credit rating, the Net Asset Value of the Sub-Fund may be more volatile.

*Investing in convertible bonds risks:* The Sub-Fund may invest in convertible bonds which are subject to risks of both fixed income instruments and equities. Convertible bonds can fluctuate in value with the price changes of the issuers' underlying stocks. If interest rates rise, the value of the corresponding convertible bond will fall. The valuation of convertible bonds may be more difficult due to the greater price fluctuations.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in fixed income instruments (Continued)*

*PRC credit ratings risks:* Some PRC fixed income instruments (or their issuers) may have been assigned a credit rating by a local credit rating agency in the PRC. However, at present, the PRC's domestic credit rating industry lacks a strong reputation and authority amongst market participants in comparison to its counterparts in more developed markets. This is in part due to the highly-regulated nature of the PRC bond markets, which may result in credit ratings being perceived as superfluous. In addition, the rating process may lack transparency and the rating standards may be significantly different from that adopted by internationally recognised credit rating agencies. Consequently, there is little assurance that credit ratings are independent, objective and of adequate quality. In some cases, local credit agencies have been suspected of engaging in "ratings inflation" in order to generate more income from the ratings business. As a result, credit ratings given by local credit rating agencies are often disregarded by market participants when making investment and financing decisions. It will also increase valuation risk as a result of the lack of transparency and independence credit ratings. In selecting fixed income instruments for inclusion in the Sub-Fund's portfolio, the Manager will, in addition to referring to local credit ratings, conduct its own fundamental research and analysis on credit quality. Investors should also exercise caution before relying on any local credit ratings.

*Sovereign debt risk:* The Sub-Fund may invest in sovereign debt securities and such investments involve special risks. The repayment of debts by a government is subject to various including the economic and political factors. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Since the Sub-Fund's recourse against a defaulting sovereign is limited, the Sub-Fund may incur substantial loss if the sovereign defaults.

*Risks of investing in urban investment bonds:* The Sub-Fund may invest up to 10% of its Net Asset Value in urban investment bonds. Although urban investment bonds, which are issued by LGFVs, may appear to be connected with local government bodies, they are typically not guaranteed by such local government bodies or the central government of the PRC. As such, local government bodies or the central government of the PRC are not obligated to support any LGFVs in default. In the event that the LGFVs default on payment of principal or interest on any urban investment bonds within the Sub-Fund's portfolio, the Sub-Fund may suffer loss and the Net Asset Value of the Sub-Fund may be adversely affected.



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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks associated with the RQFII regime*

The Sub-Fund may invest directly in the PRC's domestic markets through the Manager's status as a RQFII pursuant to the RQFII Regulations. There are specific risks associated with the RQFII regime.

*RQFII systems risk:* The current RQFII Regulations include rules on investment restrictions applicable to the Sub-Fund. Transaction sizes for RQFIIs are relatively large (with the corresponding heightened risk of exposure to decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities).

Onshore PRC securities acquired by a RQFII for the account of the Sub-Fund are registered in the name of "Value Partners Hong Kong Limited – Value Partners China A-Share Select Fund" in accordance with the relevant rules and regulations, and maintained in electronic form via securities account(s) with CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories. Each account is required to bear the name of "Value Partners Hong Kong Limited" as this is the name under which the RQFII is approved by the relevant regulator. The RQFII selects PRC brokers (each a "PRC Broker") to act on its behalf in the onshore PRC securities markets as well as the PRC Custodian to maintain its assets in custody in accordance with the terms of the PRC Custodian Agreement.

In the event of any default of either a PRC Broker or the PRC Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC, the Sub-Fund may encounter delays in recovering its assets which may in turn impact the net asset value of the Sub-Fund.

The regulations which regulate investments by RQFIIs in the PRC and the repatriation of capital from RQFII investments are relatively new. The application and interpretation of such investment regulations are therefore relatively untested and there is no certainty as to how they will be applied as the PRC authorities and regulators have been given wide discretion in such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks associated with the RQFII regime (Continued)*

*PRC Custodian and PRC Brokers risk:* Onshore PRC assets acquired by the Sub-Fund through the Manager's RQFII quota will be maintained by the PRC Custodian in electronic form via securities account(s) with CSDCC, CCDCC, Shanghai Clearing House and/or such other relevant depositories and cash account(s) with the PRC Custodian.

The RQFII also selects one or more PRC Brokers to execute transactions for the Sub-Fund in the PRC markets. The Sub-Fund may incur losses due to the acts or omissions or insolvency of the PRC Brokers, the PRC Custodian or the relevant depository in the execution or settlement of any transaction or in the transfer of any funds or securities. Subject to the applicable laws and regulations in the PRC, the Manager will make arrangements to ensure that the PRC Brokers and PRC Custodian have appropriate procedures to properly safe-keep the Sub-Fund's assets.

According to the RQFII Regulations and market practice, the securities and cash accounts for the Sub-Fund in the PRC are to be maintained in the joint names of the Manager as the RQFII and the Sub-Fund. Although the Manager has obtained a legal opinion that the assets in such securities accounts belong to that Sub-Fund, such opinion cannot be relied on as being conclusive, as the RQFII Regulations are subject to the interpretation of the relevant authorities in the PRC.

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

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

### (Continued)

#### Additional Risk Factors (Continued)

##### *Risks associated with the RQFII regime (Continued)*

*Repatriation risk:* Repatriations by RQFIIs conducted in RMB for the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from Unitholders.

*RQFII quota risk:* The Sub-Fund will utilise the Manager's RQFII quota granted under the RQFII Regulations. This RQFII quota is limited and may be reached. Furthermore, the Manager has the flexibility to allocate its RQFII quota granted by SAFE across different public fund products under its management from time to time or, subject to SAFE's approval, to products and/or accounts that are not public fund products but under the Manager's management. As such, the Sub-Fund will not have exclusive use of a specified amount of RQFII investment quota granted by SAFE to the Manager and will rely on the Manager's management and allocation of such quota. There can be no assurance that the Manager can obtain or allocate sufficient RQFII quota to the Sub-Fund or invest in A-Shares through Stock Connect to meet all application for subscriptions. In such event, it may be necessary for the Manager to suspend further subscriptions of Units.

*RQFII status risk:* There can be no assurance that the RQFII status of the Manager will not be suspended or revoked. Such event may adversely affect the Sub-Fund's performance as it may not be possible to implement the investment strategy of the Sub-Fund at all, which in the worst case scenario may lead to termination of the Sub-Fund.

##### *Risks associated with the PRC*

There are risks involved in the Sub-Fund's investments in the PRC, including risks associated with PRC taxation. Please refer to "General risks – Emerging market risk" and "Risks associated with the PRC" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND (Continued)

### Additional Risk Factors (Continued)

#### *RMB currency risk*

The Sub-Fund's investments are primarily denominated in the RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. There is no guarantee that RMB will not depreciate. Investors whose assets and liabilities are predominantly in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. Please also refer to "RMB currency risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### *Dividends risk/Distributions payable out of capital or effectively out of capital risk*

There is no guarantee that any dividends will be distributed and thus investors may not receive any distributions. Where there is a distribution, there will not be a target level of dividend payout.

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC's prior approval and by giving not less than one month's advance notice to Unitholders.

Where any distribution involves payment of dividends out of capital and/or effectively out of capital of the Sub-Fund, investors should note that a high distribution yield does not imply a positive or high return on the total investment.

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## APPENDIX 1: VALUE PARTNERS CHINA A-SHARE SELECT FUND

(Continued)

### Additional Risk Factors (Continued)

#### *Risk of investing in financial derivative instruments*

Although the use of derivatives will not substantially form part of the investment strategy of the Sub-Fund, the Manager may, for hedging purposes only, invest in listed warrants and futures, index and currency swaps and currency forwards subject to the investment restrictions applicable to the Sub-Fund including Chapter 7 of the Code. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to “Investment risks – Risk of investing in financial derivative instruments” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

#### *Hedging risk*

The Manager may from time to time use hedging techniques, including investments in listed warrants and futures, index and currency swaps and currency forwards, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to “Investment risks – Hedging risk” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

### Reports and accounts

The first accounts for the Sub-Fund covered the period to 31 December 2015.

### Distribution policy

The Manager may in its discretion make distributions to Unitholders out of the Sub-Fund at such times as the Manager considers appropriate. However, there is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND**

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the Value Partners Asian Income Fund (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to Value Partners Asian Income Fund. Unless otherwise defined in this Appendix, terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix. For Singapore offering purposes, the Sub-Fund is a Restricted Sub-Fund (see Explanatory Memorandum – IMPORTANT INFORMATION FOR INVESTORS).*

**Investment Objective**

The investment objective of the Sub-Fund is primarily to maximize return and income by investing in Asian equities, Asian fixed income securities and other assets relating to Asian companies that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia. The Sub-Fund aims to deliver lower portfolio volatility by actively screening and selecting a combination of lower volatility equities and fixed income securities. There can be no assurance that the Sub-Fund will achieve its investment objective.

**Investment Strategy**

The Sub-Fund seeks to achieve its investment objective by primarily investing in Asian equity and/or fixed income securities and to deliver lower portfolio volatility. The Sub-Fund will be actively managed and will invest in the Asian region which includes emerging market countries as well as developed countries.

Investments will be selected by the Manager by identifying high-yielding investments through bottom-up research and a screening process followed by a preliminary evaluation and a detailed qualitative and quantitative analysis in companies or issuers that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia. Companies or issuers selected following the screening process are subjected to evaluation and ongoing review by sector analysts, and the Manager will focus on the selection of companies which offer potential long term value and consider quantitative factors including sustainable business models, robust balance sheets, market capitalisation, liquidity and dividend yield, as well as qualitative factors, such as quality of management and industry analysis.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Investment Strategy (Continued)

#### *Equity investments*

The Sub-Fund may invest 30% to 70% of its Net Asset Value in Asian equity securities (including but not limited to American Depositary Receipts (“ADRs”), A-Shares, B-Shares and H-Shares). The Sub-Fund’s investment in A-Shares may be made indirectly via China access products (such as participatory notes) (the “Access Products”) and/or directly via the Stock Connect. The Sub-Fund will not in aggregate invest more than 20% of its Net Asset Value in A-Shares and B-Shares, and not more than 10% of the Sub-Fund’s Net Asset Value may be invested in Access Products issued by any single Access Products issuer. There is no restriction on market capitalizations or industries in relation to the equity securities in which the Sub-Fund may invest, and the Sub-Fund may invest substantially in securities issued by small and mid-cap companies.

#### *Fixed income securities investments*

The Sub-Fund may also invest 30% to 70% of its Net Asset Value in Asian fixed income securities, such as PRC offshore bonds and other fixed income securities (including but not limited to convertible bonds and contingent convertible bonds (each up to 30% of its Net Asset Value), which are mainly denominated and settled in USD, HKD or RMB. The Sub-Fund will have no restrictions on the credit ratings of the fixed income securities it holds, and may invest up to 40% of its Net Asset Value in fixed income securities which are rated below investment grade (i.e. BBB-/Baa3 or below) by internationally recognised credit rating agencies (such as Standard & Poor’s, Moody’s and/or Fitch), or which are unrated. For the purpose of the Sub-Fund, an “unrated” fixed income security is defined as a fixed income security which neither the security itself nor its issuer has a credit rating.

#### *Other investments*

The Sub-Fund may also invest up to 30% of its Net Asset Value in aggregate in the following categories: “Dim Sum” bonds and collateralised and/or securitised products (such as asset backed securities/mortgage backed securities/asset backed commercial papers). The Sub-Fund will not invest in urban investment bonds, which are debt instruments issued by local government financing vehicles in the PRC exchange-traded bond markets and inter-bank bond market.

## **APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)**

### **Investment Strategy (Continued)**

#### *Other investments (Continued)*

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country).

The Sub-Fund may invest up to 10% of its Net Asset Value in one or more underlying scheme(s) which are non-recognised jurisdiction schemes and not authorised by the SFC and up to 30% of its Net Asset Value in one or more underlying scheme(s) which are recognised jurisdiction schemes and authorised by the SFC, including those which are managed by the Manager or its Connected Persons or other third parties.

If the Manager considers fit, the Sub-Fund may, to a limited extent (up to 20% of its Net Asset Value), seek exposure to other asset classes including but not limited to non-Asian securities and commodities indirectly through exchange traded funds and/or similar instruments (such as other underlying scheme(s) as permitted under Chapter 7 of the Code).

The Sub-Fund's portfolio may also temporarily include cash and cash equivalents, up to 100% of its Net Asset Value, under exceptional circumstances (such as in the event of market crashes, major crisis or to mitigate the risk of potential sharp reversals and fall in the equity or bond markets) for cash flow management.

The Sub-Fund may invest in financial derivative instruments for hedging purposes only. The Manager will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund.



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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Investment Strategy (Continued)

#### *Asset allocation table*

The Sub-Fund's portfolio will be allocated, according to asset class, as follows:

| <b>Asset class</b>  | <b>Indicative percentage of Net Asset Value</b> |
|---|---|
| Equities<br>(Equities of Asian companies that are listed, or have their registered offices in Asia or that generate a predominant share of their sales and/or their profits in Asia)  | 30% to 70%                                      |
| Fixed income securities<br>(Asian fixed income securities including PRC offshore bonds and other fixed income securities (including but not limited to convertible bonds and contingent convertible bonds) which are mainly denominated and settled in USD, HKD or RMB) | 30% to 70%                                      |
| Other asset classes<br>(Including but not limited to non-Asian securities and commodities indirectly through exchange traded funds and/or similar instruments)  | 0% to 20%                                       |
| Cash and cash equivalents   | 0% to 100%                                      |

The asset allocation of the Sub-Fund will change according to the Manager's views of fundamental economic and market conditions and investment trends, taking into consideration factors such as liquidity, costs, timing of execution, relative attractiveness of individual securities and issuers available in the market.

### Investment Restrictions

No waivers from the investment restrictions set out in the main body of the Explanatory Memorandum have been sought or granted by the SFC.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)**

**Available Classes**

The Sub-Fund currently has the following classes of Units which are available to investors:

| <b>Class</b>                    | <b>Class Currency</b> |
|---------------------------------|-----------------------|
| Class A AUD Hedged MDis Units   | AUD                   |
| Class A CAD Hedged MDis Units   | CAD                   |
| Class A EUR Hedged MDis Units   | EUR                   |
| Class A HKD Unhedged Acc Units  | HKD                   |
| Class A HKD Unhedged MDis Units | HKD                   |
| Class A NZD Hedged MDis Units   | NZD                   |
| Class A RMB Hedged MDis Units   | RMB                   |
| Class A RMB Unhedged MDis Units | RMB                   |
| Class A SGD Hedged Acc Units    | SGD                   |
| Class A SGD Hedged MDis Units   | SGD                   |
| Class A SGD Unhedged Acc Units  | SGD                   |
| Class A SGD Unhedged MDis Units | SGD                   |
| Class A USD Unhedged Acc Units  | USD                   |
| Class A USD Unhedged MDis Units | USD                   |
| Class X USD Unhedged Acc Units  | USD                   |
| Class X USD Unhedged MDis Units | USD                   |
| Class Z USD Unhedged Acc Units  | USD                   |
| Class Z USD Unhedged MDis Units | USD                   |

Class A AUD Hedged MDis Units, Class A CAD Hedged MDis Units, Class A EUR Hedged MDis Units, Class A HKD Unhedged Acc Units, Class A HKD Unhedged MDis Units, Class A NZD Hedged MDis Units, Class A RMB Hedged MDis Units, Class A RMB Unhedged MDis Units, Class A SGD Hedged Acc Units, Class A SGD Hedged MDis Units, Class A SGD Unhedged Acc Units, Class A SGD Unhedged MDis Units, Class A USD Unhedged Acc Units and Class A USD Unhedged MDis Units are collectively referred to as “**Class A Units**”.

Class X USD Unhedged Acc Units and Class X USD Unhedged MDis Units are collectively referred to as “**Class X Units**”.

Class Z USD Unhedged Acc Units and Class Z USD Unhedged MDis Units are collectively referred to as “**Class Z Units**”.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Available Classes (Continued)

Each Class A Units are available for subscription by investors in Hong Kong who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

Class X Units are only available for subscription by funds and managed accounts managed by the Manager or Connected Persons of the Manager who are “professional investors” as defined in the SFO or offered on a private placement basis.

Class Z Units are only available for subscription by institutional investors and/or professional investors who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

### Base Currency

The Base Currency of the Sub-Fund is US dollars.

### Initial Offer Period

The Initial Offer Period of the Sub-Fund will be such dates or times as the Manager may determine.

The initial Subscription Price in respect of each class of Units is as follows:

| <b>Class</b>                    | <b>Initial Subscription Price</b> |
|---------------------------------|-----------------------------------|
| Class A AUD Hedged MDis Units   | AUD 10                            |
| Class A CAD Hedged MDis Units   | CAD 10                            |
| Class A EUR Hedged MDis Units   | EUR 10                            |
| Class A HKD Unhedged Acc Units  | HKD10                             |
| Class A HKD Unhedged MDis Units | HKD10                             |
| Class A NZD Hedged MDis Units   | NZD 10                            |
| Class A RMB Hedged MDis Units   | RMB10                             |

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)**

**Initial Offer Period (Continued)**

| <b>Class</b>                    | <b>Initial Subscription Price</b> |
|---------------------------------|-----------------------------------|
| Class A RMB Unhedged MDis Units | RMB10                             |
| Class A SGD Hedged Acc Units    | SGD 10                            |
| Class A SGD Hedged MDis Units   | SGD 10                            |
| Class A SGD Unhedged Acc Units  | SGD 10                            |
| Class A SGD Unhedged MDis Units | SGD 10                            |
| Class A USD Unhedged Acc Units  | USD10                             |
| Class A USD Unhedged MDis Units | USD10                             |
| Class X USD Unhedged Acc Units  | USD10                             |
| Class X USD Unhedged MDis Units | USD10                             |
| Class Z USD Unhedged Acc Units  | USD10                             |
| Class Z USD Unhedged MDis Units | USD10                             |

**Dealing Procedures**

For details of dealing procedures, please refer to the sections headed “Subscription of Units”, “Redemption of Units” and “Switching” in the main body of this Explanatory Memorandum. The following apply to the Sub-Fund:

|                         |  |
|-------------------------|--|
| <i>Dealing Day</i>      | each Business Day.                                   |
| <i>Dealing Deadline</i> | 5:00 pm (Hong Kong time) on the relevant Dealing Day |

**Payment of redemption proceeds**

Save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless legal or regulatory requirements (such as foreign currency controls) to which the Sub-Fund is subject render the payment of the redemption proceeds within the aforesaid time period not practicable, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the relevant market.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Investment Minima

The following investment minima apply to the Sub-Fund:

|                                      | Class A Units           | Class X Units | Class Z Units               |
|--------------------------------------|-------------------------|---------------|-----------------------------|
| <i>Minimum initial investment</i>    | USD10,000 or equivalent | Nil           | USD10,000,000 or equivalent |
| <i>Minimum subsequent investment</i> | USD5,000 or equivalent  | Nil           | USD100,000 or equivalent    |
| <i>Minimum holding</i>               | USD10,000 or equivalent | Nil           | USD5,000,000 or equivalent  |
| <i>Minimum redemption amount</i>     | Nil                     | Nil           | Nil                         |

The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case).

### Publication of Net Asset Value

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on each Dealing Day on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

\* This website has not been reviewed by the SFC.

### Expenses and Charges

The following are the actual fees and charges payable in respect of each class of the Sub-Fund. Maximum fees permitted to be charged on one month's notice to Unitholders are set out under the section entitled "Expenses and Charges" in the main body of this Explanatory Memorandum.

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### APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

#### Expenses and Charges (Continued)

##### *Fees payable by Unitholders*

|                                   | <b>Class A Units</b>                | <b>Class X Units</b> | <b>Class Z Units</b>                |
|-----------------------------------|-------------------------------------|----------------------|-------------------------------------|
| <i>Subscription fee</i>           | Up to 5% of the subscription monies | Nil                  | Up to 5% of the subscription monies |
| <i>Redemption fee</i>             | Nil                                 | Nil                  | Nil                                 |
| <i>Switching fee</i> <sup>^</sup> | Nil                                 | Nil                  | Nil                                 |

<sup>^</sup> Certain distributors may impose a charge for each switching of Units in a class of the Sub-Fund acquired through them for Units in another class of the Sub-Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their Units in one class to Units in another class should check with their respective distributors for the charge on switching.

##### *Fees payable by the Sub-Fund*

|                        | <b>Class A Units</b>  | <b>Class X Units</b> | <b>Class Z Units</b>  |
|------------------------|---|----------------------|---|
| <i>Management fee</i>  | 1.50% per annum of the Net Asset Value of each class of Units   | Nil                  | 1.00% per annum of the Net Asset Value of each class of Units |
| <i>Performance fee</i> | N/A   | N/A                  | N/A   |
| <i>Trustee fee</i>     | <p>In respect of each class of Units, 0.16% per annum for the first USD150 million in Net Asset Value, 0.14% per annum for the portion over and above the first USD150 million in the Net Asset Value.</p> <p>The Trustee fees are subject to a monthly minimum of USD4,500</p> |                      |   |

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Expenses and Charges (Continued)

#### *Performance Fee*

No performance fee will be charged for the Sub-Fund.

#### *Establishment costs*

The costs of establishing the Sub-Fund are estimated to be approximately HKD1,150,000. These costs will be charged to the Sub-Fund and will be amortised over a period of 5 years from the inception of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors).

### Additional Risk Factors

Investors should note the following risk factors set out in the section entitled “Risk Factors” in the main body of this Explanatory Memorandum, which are applicable to the Sub-Fund: “Investment risk”, “Market risk”, “Concentration risk”, “Emerging market risk”, “Counterparty risk”, “Liquidity risk”, “Exchange rate risk”, “Restricted markets risk”, “Legal and compliance risk”, “Suspension risk”, “Early termination risk”, “Cross class liability risk”, “Cross Sub-Fund liability risk”, “Valuation and accounting risk”, “Dividends and distributions”, “Distributions payable out of capital or effectively out of capital risk”, “Foreign Account Tax Compliance Act risk”, “RMB currency risk”, “Risks associated with the PRC”, “Risks associated with PRC taxation”, “Risk of investing in equity securities”, “Risk of investing in fixed income instruments” and “Hedging risk”.

In addition, the following risk factors are specific to the Sub-Fund:

#### *Investment risk*

Investors should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the Sub-Fund’s assets. There is no guarantee of repayment of principal. Accordingly, there is a risk that an investor may not recoup the original amount he invested in the Sub-Fund or may lose a substantial part or all of his investment.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)***Concentration risk*

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Sub-Fund, the concentration of the Sub-Fund's exposure to a single region (i.e. Asia) subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global investment fund as it is more susceptible to fluctuation in value resulting from adverse conditions in the Asian markets.

*Risk relating to dynamic asset allocation strategy*

The investments of the Sub-Fund may be periodically rebalanced and therefore the Sub-Fund may incur greater transaction costs than a fund with static allocation strategy. The dynamic asset allocation strategy may not achieve the desired results under all circumstances and market conditions.

*Risks of investing in equities*

There are risks involved in the Sub-Fund's investments in equities.

Please refer to "Investment risks – Risk of investing in equity securities" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

*Risk of investing in equity securities:* The Sub-Fund will invest directly or indirectly in equity securities and is exposed to the risk that the market value of such equity securities (and hence the Net Asset Value of the Sub-Fund) may go down as well as up. Equity markets may fluctuate significantly due to factors including investment sentiment; political, economic or environmental issues; regional or global economic instability; and currency and interest rate fluctuations. Prices may rise and fall sharply, and this will have a direct impact on the Sub-Fund. When equity markets are extremely volatile, the Sub-Fund's Net Asset Value may fluctuate substantially and investors may suffer substantial losses.



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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in equities (Continued)*

*Small- and mid-cap companies risk:* The Sub-Fund's equity portfolio may include small- and mid-cap companies, which generally have greater earnings and capital growth potential than larger capitalised companies. However, such investments in small- or mid-cap companies may involve greater risks, such as limited product lines, markets and financial or managerial resources. In addition, securities of smaller companies may trade less frequently, in lower volumes and with less liquidity than more widely held securities, and the securities of such companies generally are subject to more abrupt, erratic and volatile price movements to adverse economic developments than more widely held or larger, more established companies. This, in turn, may undermine the value of the Sub-Fund's assets.

#### *Access products risk*

The Sub-Fund may from time to time obtain exposure to restricted markets by investing into Access Products. An Access Product represents only an obligation of the counterparty issuing the Access Product to provide to the Sub-Fund the economic performance equivalent to holding the underlying securities. An Access Product does not provide any beneficial or equitable entitlement or interest in the securities to which the Access Product is linked. An Access Product constitutes an unsecured contractual obligation of the relevant issuer. Accordingly, the Sub-Fund is subject to credit risk of the issuer of any Access Product invested in by the Sub-Fund. The Sub-Fund may suffer a loss, potentially equal to the full value of the Access Product, if the issuer becomes bankrupt or otherwise fails to perform its obligations under the Access Product due to financial difficulties.

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

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)***Access products risk (Continued)*

Under the relevant laws and regulations, the ability of Access Product issuers to acquire securities in certain companies may be limited from time to time due to the imposition of certain investment restrictions. These restrictions may restrict the ability of an issuer to issue, and therefore the ability of the Sub-Fund to purchase, Access Products linked to certain securities. In certain circumstances, the Manager may not be able to fully implement or pursue the investment strategy of the Sub-Fund due to such restrictions.

*Risks of investing in A-Shares*

Please refer to “Risks associated with the PRC” and “Investment risks – Risk of investing in equity securities” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

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

*Government intervention and restrictions risk:* The liquidity and price volatility associated with A-Share markets are subject to greater risks of government intervention (for example, to suspend trading in particular stocks) and imposition of trading band restrictions for all or certain stocks from time to time. In addition, A-Shares traded in the PRC are still subject to trading band limits that restrict maximum gain or loss in stock prices, which means the prices of stocks may not necessarily reflect their underlying value. Such factors may affect the performance of the Sub-Fund, and the subscription and redemption of Units may also be disrupted.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risks of investing in A-Shares (Continued)*

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

#### *Risks of investing in ADRs*

Although ADRs have risks similar to the securities that they represent, they may also involve higher expenses and may trade at a discount (or premium) to the underlying security. In addition, depositary receipts may not pass through voting and other shareholder rights, and may be less liquid than the underlying securities listed on an exchange.

#### *Risks of investing in other funds*

The Sub-Fund may from time to time invest in other funds. Investing in other funds may expose the Sub-Fund to the following risks:

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

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****Risks of investing in other funds (Continued)***

*Investment objective risk:* Although the Manager will use due diligence procedures to select and monitor underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved. The underlying funds in which the Sub-Fund may invest may also not be regulated by the SFC.

*Conflicts of interest risk:* The Sub-Fund may from time to time invest in other funds managed by the Manager or Connected Persons of the Manager. In such circumstances, in accordance with the Sub-Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Sub-Fund and the Manager may not obtain a rebate on any fees or charges levied by the underlying fund or its manager. In addition, where an underlying fund is managed by the Manager, all management and performance fees charged by the underlying fund will be waived for the Sub-Fund. However, despite such measures, conflicts of interest may nevertheless arise out of such investments, and in such event the Manager will use its best endeavours to avoid and resolve such conflicts fairly.

***Risk of investing in fixed income instruments***

Please refer to "Risk of investing in fixed income instruments" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

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

As the Sub-Fund may invest in fixed income instruments issued in the Asian markets, the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies in the Asian markets (including monetary policy and fiscal policy) may have an influence over the Asian capital markets and affect the pricing of the fixed income instruments in the Sub-Fund's portfolio, which may in turn adversely affect the return of the Sub-Fund.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risk of investing in fixed income instruments (Continued)*

*Volatility and liquidity risk:* The fixed income securities in certain Asian markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may incur significant trading costs.

*Credit risk:* The value of the Sub-Fund is affected by the credit worthiness of its underlying investments. A deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spread) of an underlying investment will adversely impact the value of such investment. There is no assurance that the fixed income instruments invested in by the Sub-Fund will maintain their credit ratings in the future.

Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult as the value of fixed income instruments may decline rapidly, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who are incorporated outside of Hong Kong and therefore not subject to the laws of Hong Kong.

Fixed income instruments are typically offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

*Credit ratings risk:* Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****Risk of investing in fixed income instruments (Continued)***

*Downgrade risk:* Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all, which would have an adverse impact on the value and performance of the Sub-Fund.

*Valuation risk:* Valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations. If such valuations are incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.

*Risks of investing in below investment grade and unrated bonds:* The Sub-Fund may invest in fixed income instruments which (or the issuers of which) are rated below investment grade or which may not be rated by any rating agency of an international standard. Such instruments are generally subject to a higher degree of volatility and credit risk, a lower degree of liquidity and greater risk of loss of principal and interest than high-rated debt securities, which may result in greater fluctuations in value and, consequently, the Net Asset Value of the Sub-Fund. The value of these instruments may also be more difficult to ascertain. Nevertheless, as the Sub-Fund may invest in fixed income instruments which are unrated or below investment grade, the Net Asset Value of the Sub-Fund may be more volatile.

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risk of investing in fixed income instruments (Continued)*

*Investing in convertible bonds risks:* The Sub-Fund may invest in convertible bonds, which are a hybrid between debt and equity securities. Convertible bonds allow holders to convert into shares in the company issuing the bond at a specified future date, and are subject to risks of both fixed income instruments and equities. Convertible bonds can fluctuate in value with the price changes of the issuers' underlying stocks. If interest rates rise, the value of the corresponding convertible bond will fall. The valuation of convertible bonds may be more difficult due to the greater price fluctuations. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

*Sovereign debt risk:* The Sub-Fund may invest in sovereign debt securities and such investments involve special risks. The repayment of debts by a government is subject to various including the economic and political factors. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Since the Sub-Fund's recourse against a defaulting sovereign is limited, the Sub-Fund may incur substantial loss if the sovereign defaults.

#### *Risk associated with investment in instruments with non-viability/loss absorption convertible features*

The Sub-Fund may invest up to 30% of its Net Asset Value in contingent convertible bonds.

Contingent convertible bonds are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible bonds will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. Contingent convertible bonds are risky and highly complex instruments. Coupon payments on contingent convertible bonds are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****Risk associated with investment in instruments with non-viability/loss absorption convertible features (Continued)***

Contingent convertible bonds are also subject to additional risks specific to their structure including:

*Trigger level risk:* Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

*Coupon cancellation risk:* Coupon payments on some contingent convertible bonds are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible bonds may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

*Capital structure inversion risk:* Contrary to the classic capital hierarchy, investors in contingent convertible bonds may suffer a loss of capital when equity holders will not, for example when the loss absorption mechanism of a high trigger/write down of a contingent convertible bond is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.



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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risk associated with investment in instruments with non-viability/loss absorption convertible features (Continued)*

*Call extension risk:* Some contingent convertible bonds are issued as perpetual instruments and only callable at predetermined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible bonds will be called on a call date. Contingent convertible bonds are a form of permanent capital. The investor may not receive return of principal as expected on call date or indeed at any date.

*Conversion risk:* Trigger levels differ between specific contingent convertible bonds and determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the contingent convertible bonds will behave upon conversion. In case of conversion into equity, the Manager might be forced to sell these new equity shares subject to the investment policy of the Sub-Fund. As a trigger event is likely to be an event which decreases the value of the issuer's common equity, a forced sale may result in the Sub-Fund experiencing loss.

*Valuation and write-down risk:* Contingent convertible bonds often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible bonds may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

*Market value fluctuations due to unpredictable factors:* The value of contingent convertible bonds is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible bonds; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

*Liquidity risk:* In certain circumstances finding a buyer ready to invest in contingent convertible bonds may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****Risk associated with investment in instruments with non-viability/loss absorption convertible features (Continued)***

*Sector concentration risk:* Contingent convertible bonds are issued by banking and insurance institutions. Investment in contingent convertible bonds may lead to an increased sector concentration risk. The performance of the Sub-Fund which invests in contingent convertible bonds will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

*Subordinated instruments:* Contingent convertible bonds will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible bonds, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the contingent convertible bonds shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

*Novelty and untested nature:* The structure of contingent convertible bonds is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

***“Dim Sum” bond market risks***

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

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## APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

### Additional Risk Factors (Continued)

#### *Risk of investing in collateralised and/or securitised products (such as asset backed securities/mortgage backed securities/asset backed commercial papers)*

The Sub-Fund may from time to time invest in collateralised and/or securitised products, such as asset backed securities/mortgage backed securities/asset backed commercial papers (collectively, “structured debt instruments”). Such structured debt instruments provide exposure to underlying assets and the risk/return profile is determined by the cash flows derived from such assets. Some of such instruments involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of such an investment could be contingent on, or highly sensitive to, changes in the underlying components of the structured debt instrument. Issuers of such securities may also have limited ability to enforce the security interest in the underlying assets in the event of default. The underlying assets can take many forms including, but not limited to, credit card receivables, residential mortgages, corporate loans, manufactured housing loans or any type of receivables from a company or structured vehicle that has regular cash flows from its customers. Some structured debt securities have embedded call options exercisable by the issuer which creates prepayment risk (the risk of unexpected early return of principal on the security), while other features may create extension risk (the risk that the security’s tenure is unexpectedly extended due to lower repayment levels). Some structured debt instruments may employ leverage which can cause the price of the instruments to be more volatile than if they had not employed leverage. In addition, investments in structured debt instruments may be less liquid than other securities. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets’ value and consequently the Sub-Fund may be more susceptible to liquidity risk. The liquidity of a structured debt instrument can be less than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

#### *Risks associated with the PRC*

There are risks involved in the Sub-Fund’s investments in the PRC. Please refer to “General risks – Emerging market risk” and “Risks associated with the PRC” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****RMB currency risk***

The Sub-Fund may have exposure to investments which are denominated in RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. Investors whose assets and liabilities are predominantly in currencies other than RMB are exposed to foreign exchange risk and should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. There is no guarantee that RMB will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

In calculating the Net Asset Value per Unit of a Class denominated in RMB and in effecting any currency conversions involving RMB, the Manager may apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). Whilst the RMB (CNH) and RMB (CNY) represent the same currency, they are traded in different rates and separate markets which operate independently. As such, RMB (CNH) may trade at a premium or discount to RMB (CNY) and they may even move in different directions. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

Please also refer to "RMB currency risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

***Dividends risk/Distributions payable out of capital or effectively out of capital risk***

There is no guarantee that any dividends will be distributed and thus investors may not receive any distributions. Where there is a distribution, there will not be a target level of dividend payout.

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### APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)

#### Additional Risk Factors (Continued)

##### *Dividends risk/Distributions payable out of capital or effectively out of capital risk (Continued)*

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC's prior approval and by giving not less than one month's advance notice to Unitholders.

Where any distribution involves payment of dividends out of capital and/or effectively out of capital of the Sub-Fund, investors should note that a high distribution yield does not imply a positive or high return on the total investment.

##### *Risk of investing in financial derivative instruments*

Although the use of derivatives will not substantially form part of the investment strategy of the Sub-Fund, the Manager may, for hedging purposes only, invest in listed warrants and futures, options, interest rate, index and currency swaps and forwards subject to the investment restrictions applicable to the Sub-Fund including Chapter 7 of the Code. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

**APPENDIX 2: VALUE PARTNERS ASIAN INCOME FUND (Continued)****Additional Risk Factors (Continued)*****Hedging risk***

The Manager may from time to time use hedging techniques, including investments in listed warrants and futures, options, interest rate, index and currency swaps and forwards, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to “Investment risks – Hedging risk” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

**Reports and accounts**

The first accounts for the Sub-Fund cover the period to 31 December 2018.

**Distribution policy**

The Manager currently intends to make monthly dividend distributions for the following Classes of Units at its discretion:

- Class A Units: AUD Hedged MDis, CAD Hedged MDis, EUR Hedged MDis, HKD Unhedged MDis, NZD Hedged MDis, RMB Hedged MDis, RMB Unhedged MDis, SGD Hedged MDis, SGD Unhedged MDis and USD Unhedged MDis
- Class X: USD Unhedged MDis
- Class Z: USD Unhedged MDis

Dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

# VALUE PARTNERS FUND SERIES

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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the Value Partners Asian Total Return Bond Fund (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to Value Partners Asian Total Return Bond Fund. Unless otherwise defined in this Appendix, terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix. For Singapore offering purposes, the Sub-Fund is a Restricted Sub-Fund (see Explanatory Memorandum – IMPORTANT INFORMATION FOR INVESTORS).*

### **Investment Objective**

The investment objective of the Sub-Fund is to provide a competitive total return, consisting of income and capital growth over the medium to longer term, by investing primarily in fixed income securities issued by any Asia Pacific governments, government agencies, supra-nationals, banks or companies which derive substantial revenue from or have significant business or economic activities in Asia Pacific or are denominated in any Asia Pacific currency. There can be no assurance that the Sub-Fund will achieve its investment objective.

### **Investment Strategy**

In order to achieve the investment objective, the Manager will adopt a dynamic approach in asset allocation primarily among a wide range of debt securities based on the anticipated changes in market conditions. The Sub-Fund is not subject to any limitation on the portion of its Net Asset Value that may be invested in any specific industries or sectors.

#### ***Fixed income securities investments***

The Sub-Fund seeks to achieve its investment objective by investing at least 70% of its Net Asset Value) in fixed income securities issued by any Asia Pacific governments, government agencies, supra-nationals, banks or companies which derive substantial revenue from or have significant business or economic activities in Asia Pacific or are denominated in any Asia Pacific currency.

The Manager may invest not more than 30% of the Sub-Fund’s Net Asset Value outside the Sub-Fund’s principal geographical areas or asset classes. For the purpose of this Sub-Fund, “Asia Pacific” includes but is not limited to Australia and New Zealand, and includes emerging market countries as well as developed countries.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Investment Strategy (Continued)**

*Fixed income securities investments (Continued)*

The Sub-Fund may invest up to 45% of its Net Asset Value in bonds and other debt securities which are unrated or with ratings below investment grade (i.e. BBB-/Baa3 or below) by an internationally recognised credit rating agency (such as Standard & Poor's, Moody's and/or Fitch) ("Investment Grade"). For the purpose of the Sub-Fund, an "unrated" fixed income security is defined as a fixed income security which neither the security itself nor its issuer has a credit rating.

The Sub-Fund may also invest up to 20% of its Net Asset Value in debt securities denominated in RMB and issued in mainland China ("Onshore Debt Securities") through direct investment in the China interbank bond markets via Bond Connect (as defined below). Onshore Debt Securities in which the Sub-Fund may invest will not be subject to any duration or minimum credit rating requirements, but will, for the avoidance of doubt, be subject to the investment limit for unrated and/or below investment grade debt securities.

The Sub-Fund may also invest up to 20% of its Net Asset Value in debt securities denominated in RMB and issued outside of mainland China ("Dim Sum" bonds). The Sub-Fund's exposure to investments denominated in RMB including Onshore Debt Securities and "Dim Sum" bonds shall not exceed 20% of its Net Asset Value.

The Sub-Fund will not invest more than 10% of its Net Asset Value in debt securities issued by and/or guaranteed by any single sovereign issuer (including its government, public or local authority) which is below Investment Grade.

The Sub-Fund may invest up to 20% of its Net Asset Value in convertible bonds and/or contingent convertible securities.

The Sub-Fund may also invest up to 30% of its Net Asset Value in fixed income securities issued by governments, government agencies, supra-nationals, banks or companies outside the Asia Pacific region (including but not limited to bonds, convertible bonds, notes and other fixed or floating rate securities issued by such issuers outside the Asia Pacific region).



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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Investment Strategy (Continued)**

#### *Other investments*

The Sub-Fund may invest up to 30% of its Net Asset Value in (i) collective investment schemes (including funds that are authorised by the SFC and eligible to directly invest in mainland China through RQFII (“RQFII funds”) and exchange traded funds (“ETFs”)); and/or (ii) equity securities including but not limited to shares (including China A-Shares and China B-Shares), American Depositary Receipts (“ADRs”) and real estate investment trusts (“REITs”).

The Sub-Fund may invest up to 10% of its Net Asset Value in collective investment schemes which are non-recognised jurisdiction schemes and not authorised by the SFC.

The Sub-Fund’s portfolio may also temporarily include cash and cash equivalents, up to 100% of the Sub-Fund’s Net Asset Value, under exceptional circumstances (such as in the event of market crashes, major crisis or to mitigate the risk of potential sharp reversals and fall in the equity or bond markets) for cash flow management.

The Sub-Fund may invest in financial derivative instruments for hedging purposes only. The Manager will not enter into any securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund.

#### *Investments in China onshore securities*

The Sub-Fund’s aggregate exposure to investments (whether direct or indirect) in securities issued in mainland China (including A-Shares, B-Shares and Onshore Debt Securities) shall not exceed 20% of its Net Asset Value.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Investment Strategy (Continued)**

*Asset allocation table*

The Sub-Fund’s portfolio will be allocated, according to asset class, as follows:

| <b>Asset class</b>   | <b>Indicative percentage of Net Asset Value</b> |
|--|---|
| Fixed income securities<br>(Asia Pacific fixed income securities including Onshore Debt Securities, “Dim Sum” bonds and other fixed income securities (including but not limited to convertible bonds and contingent convertible bonds))                   | 70% to 100%                                     |
| Non-Asia Pacific securities and other asset classes<br>(Including but not limited to non-Asia Pacific fixed income securities, collective investment schemes (including RQFII funds and ETFs) and equities (including A-Shares, B-Shares, ADRs and REITs)) | 0% to 30%                                       |
| Cash and cash equivalents  | 0% to 100%                                      |

The asset allocation of the Sub-Fund will change according to the Manager’s views of fundamental economic and market conditions and investment trends, taking into consideration factors such as liquidity, costs, timing of execution, relative attractiveness of individual securities and issuers available in the market.

**The Chinese Onshore Bond Market**

The PRC bond market consists of three markets: (i) the interbank bond market regulated by the PBOC and functions as a wholesale market for institutional investors; (ii) the exchange bond market regulated by the CSRC and targets non-bank institutions and individual investors; and (iii) the bank over-the-counter market regulated by the PBOC and targets non-financial institutions and individual investors. However, the current size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange bond market.

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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

### The Chinese Onshore Bond Market (Continued)

With its dominant market position, the interbank bond market accounts for more than 90% of the total bonds outstanding as at the end of December 2016. At the same time, the interbank bond market had a diversified investor base of which most have direct access to the centralised trading system, which covers all types of financial institutions such as commercial banks, securities firms, fund houses, insurance companies and various kinds of investment products like mutual funds and pension funds. The remaining which include small financial institutions, non-financial enterprises and foreign entities as well, gain access to the market through settlement agencies.

The CCDCC acts as the central custodian of all marketable RMB bonds. For the exchange bond market, it adopts a two-level custody system, with the CCDCC acting as the primary custodian and the CSDCC acting as the secondary custodian.

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

|                                | <b>Interbank bond market</b>   | <b>Exchange-traded bond market</b>  |
|--------------------------------|--|---|
| Market size                    | Approximately RMB52 trillion outstanding, as of end of 2016 (source: CCDCC)  | Approximately RMB4.4 trillion, as of end of 2016  |
| Major types of products traded | Central government bond, local government bonds, central bank bills, financial bonds, enterprise bonds, short-term financing bills, medium term notes, asset-backed securities, panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within the boundaries of China) | Central government bond, local government bonds, enterprise bonds, corporate bonds, financial bonds, convertible bonds, asset back securities |
| Key market participants        | Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), QFIIs, RQFIIs  | Individuals and non-bank institutions (such as insurance companies and funds), QFIIs, RQFIIs  |

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(CONTINUED)**

**The Chinese Onshore Bond Market (Continued)**

|   | <b>Interbank bond market</b>   | <b>Exchange-traded bond market</b>  |
|---|--|---|
| Trading and settlement mechanism            | Trading mechanism: a quote-driven OTC market between institutional investors<br><br>Settlement mechanism: primarily delivery versus payment (DVP), on either a T+0 or T+1 settlement cycle | Trading an electronic automatic matching system where Securities are traded on the SSE or SZSE<br><br>Settlement mechanism: clearing and settlement are through the CSDCC on T+1 settlement cycle |
| Regulator                                   | PBOC   | CSRC  |
| Counterparty with whom investors will trade | The trading counterparty (i.e. the other market participants)  | CSDCC, which acts as the central counterparty to all Securities transactions on the SSE and the SZSE  |
| Central clearing                            | CCDCC; short-term financing bills issued on or after 1 September 2011 are cleared through the Shanghai Clearing House (上海清算所)  | CSDCC   |
| Liquidity                                   | High   | Medium to low   |
| Associated risks                            | Interest rate risk, credit risk, counterparty risk   | Interest rate risk, credit risk, liquidity risk   |

# VALUE PARTNERS FUND SERIES

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

## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (CONTINUED)

### The Chinese Onshore Bond Market (Continued)

|   | <b>Interbank bond market</b>  | <b>Exchange-traded bond market</b>  |
|---|---|---|
| Minimum rating requirements                             | <p>No requirement</p> <p>However, market participants typically require a rating of at least “BBB” given by a local credit rating agency.</p>   | <p>No requirement</p> <p>However, if upon listing a corporate bond or enterprise bond does not have a credit rating of at least “AA” given by a local credit rating agency, then such bond can only be traded on the fixed income electronic platform of the relevant exchange (固定收益證券綜合電子平臺), which is open only to institutional investors. Bonds that do not satisfy this minimum requirement cannot be traded via the quote-driven platform (競價交易系統), which is open to all investors, including retail investors.</p> |
| Types of debt instruments commonly seen and the issuers | <p>Government bonds, treasury bonds: issued by the MOF</p> <p>Central bank bills: issued by PBOC</p> <p>Financial bonds: issued by policy banks (China Development Bank, Agricultural Development Bank of China and Export-Import Bank of China), commercial banks and other financial institutions</p> <p>Enterprise bonds: issued by government-related, state-owned or state-held entities</p> | <p>Government bonds, treasury bonds: issued by the MOF</p> <p>Enterprise bonds: issued by government-related, state-owned or state-held entities</p> <p>Corporate bonds: issued by listed companies</p> <p>Convertible bonds: issued by listed companies</p>  |

### **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

#### **The Chinese Onshore Bond Market (Continued)**

The major types of bonds available in the PRC interbank bond market can be grouped into 6 broad categories: (i) Central bank bills issued by the PBOC; (ii) Treasury Bonds issued by the MOF; (iii) Policy bank bonds issued by policy banks, including China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China; (iv) Financial bonds, including commercial bank bonds and non-bank financial institution bonds; (v) Non-financial credit bonds issued by non-financial institution corporates, including enterprise bonds, commercial papers (“CP”), medium-term notes (“MTN”) and corporate bonds; (vi) other types of bonds or instruments such as local government bonds issued by provincial or city governments, foreign bonds issued by foreign entities, asset-backed securities and mortgage-backed securities, etc.

The PRC central government (through the MOF) issues the Chinese government bonds, so called “Treasury Bonds” in the PRC bonds markets. It is generally considered by market participants that Treasury Bonds have a solid financial foundation and therefore they have received the widest market acceptance. The outstanding amount of Treasury Bonds in the interbank bond market is over RMB10,000 billion, comprising approximate 25% of the whole market. It offers the most diverse tenors and the best liquidity in secondary market amongst all types of bonds.

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

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

#### ***Investment in the PRC Interbank Bond Market via Northbound Trading Link under Bond Connect***

Bond Connect is a new initiative launched in July 2017 for mutual bond market access between Hong Kong and mainland China (“Bond Connect”) established by China Foreign Exchange Trade System & National Interbank Funding Centre (“CFETS”), CCDCC, Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

# VALUE PARTNERS FUND SERIES

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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

### The Chinese Onshore Bond Market (Continued)

#### *Investment in the PRC Interbank Bond Market via Northbound Trading Link under Bond Connect (Continued)*

Under the prevailing regulations in mainland China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC interbank bond market through the northbound trading of Bond Connect (“Northbound Trading Link”). There will be no investment quota for Northbound Trading Link.

Under the Northbound Trading Link, eligible foreign investors are required to appoint the CFETS or other institutions recognised by the PBOC as registration agents to apply for registration with the PBOC.

Pursuant to the prevailing regulations in mainland China, an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit) shall open omnibus nominee accounts with the onshore custody agent recognised by the PBOC (currently, the CSDCC and Interbank Clearing Company Limited). All bonds traded by eligible foreign investors will be registered in the name of Central Moneymarkets Unit, which will hold such bonds as a nominee owner.

### Investment Restrictions

No waivers from the investment restrictions set out in the main body of the Explanatory Memorandum have been sought or granted by the SFC.

### Available Classes

The Sub-Fund currently has the following classes of Units which are available to investors:

| <b>Class</b>                   | <b>Class Currency</b> |
|--------------------------------|-----------------------|
| Class A AUD Hedged Acc Units   | AUD                   |
| Class A AUD Hedged MDis Units  | AUD                   |
| Class A CAD Hedged Acc Units   | CAD                   |
| Class A CAD Hedged MDis Units  | CAD                   |
| Class A HKD Unhedged Acc Units | HKD                   |

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(CONTINUED)**

**Available Classes (Continued)**

| <b>Class</b>                    | <b>Class Currency</b> |
|---------------------------------|-----------------------|
| Class A HKD Unhedged MDis Units | HKD                   |
| Class A NZD Hedged Acc Units    | NZD                   |
| Class A NZD Hedged MDis Units   | NZD                   |
| Class A RMB Hedged Acc Units    | RMB                   |
| Class A RMB Hedged MDis Units   | RMB                   |
| Class A RMB Unhedged Acc Units  | RMB                   |
| Class A RMB Unhedged MDis Units | RMB                   |
| Class A SGD Hedged Acc Units    | SGD                   |
| Class A SGD Hedged MDis Units   | SGD                   |
| Class A USD Unhedged Acc Units  | USD                   |
| Class A USD Unhedged MDis Units | USD                   |
| Class V HKD Unhedged Acc Units  | HKD                   |
| Class V HKD Unhedged MDis Units | HKD                   |
| Class V SGD Hedged Acc Units    | SGD                   |
| Class V SGD Hedged MDis Units   | SGD                   |
| Class V USD Unhedged Acc Units  | USD                   |
| Class V USD Unhedged MDis Units | USD                   |
| Class X USD Unhedged Acc Units  | USD                   |
| Class Z AUD Hedged Acc Units    | AUD                   |
| Class Z AUD Hedged MDis Units   | AUD                   |
| Class Z CAD Hedged Acc Units    | CAD                   |
| Class Z CAD Hedged MDis Units   | CAD                   |
| Class Z HKD Unhedged Acc Units  | HKD                   |
| Class Z HKD Unhedged MDis Units | HKD                   |
| Class Z NZD Hedged Acc Units    | NZD                   |
| Class Z NZD Hedged MDis Units   | NZD                   |
| Class Z RMB Hedged Acc Units    | RMB                   |
| Class Z RMB Hedged MDis Units   | RMB                   |
| Class Z SGD Hedged Acc Units    | SGD                   |
| Class Z SGD Hedged MDis Units   | SGD                   |
| Class Z USD Unhedged Acc Units  | USD                   |
| Class Z USD Unhedged MDis Units | USD                   |



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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

### Available Classes (Continued)

Class A AUD Hedged Acc Units, Class A AUD Hedged MDis Units, Class A CAD Hedged Acc Units, Class A CAD Hedged MDis Units, Class A HKD Unhedged Acc Units, Class A HKD Unhedged MDis Units, Class A NZD Hedged Acc Units, Class A NZD Hedged MDis Units, Class A RMB Hedged Acc Units, Class A RMB Hedged MDis Units, Class A RMB Unhedged Acc Units, Class A RMB Unhedged MDis Units, Class A SGD Hedged Acc Units, Class A SGD Hedged MDis Units, Class A USD Unhedged Acc Units and Class A USD Unhedged MDis Units are collectively referred to as “**Class A Units**”.

Class V HKD Unhedged Acc Units, Class V HKD Unhedged MDis Units, Class V SGD Hedged Acc Units, Class V SGD Hedged MDis Units, Class V USD Unhedged Acc Units, Class V USD Unhedged MDis Units are collectively referred to as “**Class V Units**”.

Class X USD Unhedged Acc Units are referred to as “**Class X Units**”.

Class Z AUD Hedged Acc Units, Class Z AUD Hedged MDis Units, Class Z CAD Hedged Acc Units, Class Z CAD Hedged MDis Units, Class Z HKD Unhedged Acc Units, Class Z HKD Unhedged MDis Units, Class Z NZD Hedged Acc Units, Class Z NZD Hedged MDis Units, Class Z RMB Hedged Acc Units, Class Z RMB Hedged MDis Units, Class Z SGD Hedged Acc Units, Class Z SGD Hedged MDis Units, Class Z USD Unhedged Acc Units and Class Z USD Unhedged MDis Units are collectively referred to as “**Class Z Units**”.

Class A Units are available for subscription by investors in Hong Kong who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

Class V Units are only available for subscription by such persons who have subscribed to the Sub-Fund during the first twelve (12) calendar months (or such other period as determined by the Manager) counting from the date when the Sub-Fund is first launched.

Class X Units are only available for subscription by funds and managed accounts managed by the Manager or Connected Persons of the Manager who are “professional investors” as defined in the SFO or offered on a private placement basis.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Available Classes (Continued)**

Class Z Units are only available for subscription by institutional investors and/or professional investors who make an investment of not less than the minimum initial investment amount or the minimum subsequent investment amount for the respective Classes as set out under the section headed “Investment Minima” below.

**Base Currency**

The Base Currency of the Sub-Fund is US dollars.

**Initial Offer Period**

The Initial Offer Period of the Sub-Fund will be such dates or times as the Manager may determine.

The initial Subscription Price in respect of each class of Units is as follows:

| <b>Class</b>                    | <b>Initial Subscription Price</b> |
|---------------------------------|-----------------------------------|
| Class A AUD Hedged Acc Units    | AUD10                             |
| Class A AUD Hedged MDis Units   | AUD10                             |
| Class A CAD Hedged Acc Units    | CAD10                             |
| Class A CAD Hedged MDis Units   | CAD10                             |
| Class A HKD Unhedged Acc Units  | HKD10                             |
| Class A HKD Unhedged MDis Units | HKD10                             |
| Class A NZD Hedged Acc Units    | NZD10                             |
| Class A NZD Hedged MDis Units   | NZD10                             |
| Class A RMB Hedged Acc Units    | RMB10                             |
| Class A RMB Hedged MDis Units   | RMB10                             |
| Class A RMB Unhedged Acc Units  | RMB10                             |
| Class A RMB Unhedged MDis Units | RMB10                             |
| Class A SGD Hedged Acc Units    | SGD10                             |
| Class A SGD Hedged MDis Units   | SGD10                             |
| Class A USD Unhedged Acc Units  | USD10                             |
| Class A USD Unhedged MDis Units | USD10                             |

# VALUE PARTNERS FUND SERIES

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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (CONTINUED)

### Initial Offer Period (Continued)

| <b>Class</b>                    | <b>Initial Subscription Price</b> |
|---------------------------------|-----------------------------------|
| Class V HKD Unhedged Acc Units  | HKD10                             |
| Class V HKD Unhedged MDis Units | HKD10                             |
| Class V SGD Hedged Acc Units    | SGD10                             |
| Class V SGD Hedged MDis Units   | SGD10                             |
| Class V USD Unhedged Acc Units  | USD10                             |
| Class V USD Unhedged MDis Units | USD10                             |
| Class X USD Unhedged Acc Units  | USD10                             |
| Class Z AUD Hedged Acc Units    | AUD10                             |
| Class Z AUD Hedged MDis Units   | AUD10                             |
| Class Z CAD Hedged Acc Units    | CAD10                             |
| Class Z CAD Hedged MDis Units   | CAD10                             |
| Class Z HKD Unhedged Acc Units  | HKD10                             |
| Class Z HKD Unhedged MDis Units | HKD10                             |
| Class Z NZD Hedged Acc Units    | NZD10                             |
| Class Z NZD Hedged MDis Units   | NZD10                             |
| Class Z RMB Hedged Acc Units    | RMB10                             |
| Class Z RMB Hedged MDis Units   | RMB10                             |
| Class Z SGD Hedged Acc Units    | SGD10                             |
| Class Z SGD Hedged MDis Units   | SGD10                             |
| Class Z USD Unhedged Acc Units  | USD10                             |
| Class Z USD Unhedged MDis Units | USD10                             |

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Dealing Procedures**

For details of dealing procedures, please refer to the sections headed “Subscription of Units”, “Redemption of Units” and “Switching” in the main body of this Explanatory Memorandum.

The following apply to the Sub-Fund:

|                         |  |
|-------------------------|--|
| <i>Dealing Day</i>      | each Business Day.                                   |
| <i>Dealing Deadline</i> | 5:00 pm (Hong Kong time) on the relevant Dealing Day |

**Payment of Redemption Proceeds**

Save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless legal or regulatory requirements (such as foreign currency controls) to which the Sub-Fund is subject render the payment of the redemption proceeds within the aforesaid time period not practicable, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the relevant market.

**Investment Minima**

The following investment minima apply to the Sub-Fund:

|                                      | <b>Class A Units</b>    | <b>Class V Units</b>       | <b>Class X Units</b> | <b>Class Z Units</b>        |
|--------------------------------------|-------------------------|----------------------------|----------------------|-----------------------------|
| <i>Minimum initial investment</i>    | USD10,000 or equivalent | USD1,000,000 or equivalent | Nil                  | USD10,000,000 or equivalent |
| <i>Minimum subsequent investment</i> | USD5,000 or equivalent  | USD100,000 or equivalent   | Nil                  | USD100,000 or equivalent    |
| <i>Minimum holding</i>               | USD10,000 or equivalent | USD1,000,000 or equivalent | Nil                  | USD5,000,000 or equivalent  |
| <i>Minimum redemption amount</i>     | Nil                     | Nil                        | Nil                  | Nil                         |

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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Investment Minima (Continued)**

The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case).

### **Subscription of Units**

Save for the procedure in determining the Subscription Price as set out in the sub-section entitled “Subsequent issue of Units” under the section entitled “SUBSCRIPTION OF UNITS”, the procedure for the subsequent issue of Units in the main body of this Explanatory Memorandum shall apply to the Sub-Fund.

The following procedure shall apply in determining the Subscription Price of the Sub-Fund:

In determining the Subscription Price, the Manager is entitled to add an amount (not exceeding 3% of the Net Asset Value per Unit of the relevant class under normal circumstances) it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the Sub-Fund, (b) fiscal and purchase charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred in investing a sum equal to the application monies and issuing the relevant Units or the remittance of money to the Trustee. Under extreme market conditions (such as market crash or global financial crisis), the Manager may increase such amount to protect interests of the Unitholders. Any such additional amount will be paid to the Trust and will form part of the assets of the Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Subscription Price under exceptional circumstances and if it considers it in the best interest of the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net subscriptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)****Redemption of Units**

Save for the procedure in determining the Redemption Price as set out in the sub-section entitled “Payment of redemption proceeds” under the section entitled “REDEMPTION OF UNITS”, the procedure for the payment for redemption proceeds in the main body of this Explanatory Memorandum shall apply to the Sub-Fund.

The following procedure shall apply in determining the Redemption Price of the Sub-Fund:

In determining the Redemption Price, the Manager is entitled to deduct an amount (not exceeding 3% of the Net Asset Value per Unit of the relevant class under normal circumstances) which it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the Sub-Fund, (b) fiscal and sale charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred by the Sub-Fund in realising assets to provide funds to meet any redemption request. Under extreme market conditions (such as market crash or global financial crisis), the Manager may increase such amount to protect interests of the Unitholders. Any such deducted amount will be retained by and form part of the assets of the Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Redemption Price under exceptional circumstances and if it considers it in the best interest of the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net redemptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

**Publication of Net Asset Value**

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on each Dealing Day on the Manager’s website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

\* This website has not been reviewed by the SFC.

# VALUE PARTNERS FUND SERIES

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## APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

### Expenses and Charges

The following are the actual fees and charges payable in respect of each class of the Sub-Fund. Maximum fees permitted to be charged on one month's notice to Unitholders are set out under the section entitled "Expenses and Charges" in the main body of this Explanatory Memorandum.

#### *Fees payable by Unitholders*

|                                   | <b>Class A Units</b>                | <b>Class V Units</b>                | <b>Class X Units</b> | <b>Class Z Units</b>                |
|-----------------------------------|-------------------------------------|-------------------------------------|----------------------|-------------------------------------|
| <i>Subscription fee</i>           | Up to 5% of the subscription monies | Up to 5% of the subscription monies | Nil                  | Up to 5% of the subscription monies |
| <i>Redemption fee</i>             | Nil                                 | Nil                                 | Nil                  | Nil                                 |
| <i>Switching fee</i> <sup>^</sup> | Up to 1% of the subscription monies | Up to 1% of the subscription monies | Nil                  | Up to 1% of the subscription monies |

<sup>^</sup> Certain distributors may impose a charge for each switching of Units in a class of the Sub-Fund acquired through them for Units in another class of the Sub-Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their Units in one class to Units in another class should check with their respective distributors for the charge on switching.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Expenses and Charges (Continued)**

*Fees payable by the Sub-Fund*

|                        | <b>Class A Units</b>   | <b>Class V Units</b>  | <b>Class X Units</b> | <b>Class Z Units</b>  |
|------------------------|--|---|----------------------|---|
| <i>Management fee</i>  | 1.25% per annum of the Net Asset Value of each class of Units  | 0.50% per annum of the Net Asset Value of each class of Units | Nil                  | 0.75% per annum of the Net Asset Value of each class of Units |
| <i>Performance fee</i> | N/A  | N/A   | N/A                  | N/A   |
| <i>Trustee fee</i>     | In respect of each class of Units, 0.14% per annum for the first USD150 million in Net Asset Value, 0.12% per annum for the portion over and above the first USD150 million in the Net Asset Value.<br><br>The Trustee fees are subject to a monthly minimum of USD4,500 |   |                      |   |

***Performance Fee***

No performance fee will be charged for the Sub-Fund.

***Establishment costs***

The costs of establishing the Sub-Fund are estimated to be approximately USD201,000. These costs will be charged to the Sub-Fund and will be amortised over a period of 5 years from the inception of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors).



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### **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

#### **Additional Risk Factors**

Investors should note the following risk factors set out in the section entitled “Risk Factors” in the main body of this Explanatory Memorandum, which are applicable to the Sub-Fund: “Investment risk”, “Market risk”, “Concentration risk”, “Emerging market risk”, “Counterparty risk”, “Liquidity risk”, “Exchange rate risk”, “Restricted markets risk”, “Legal and compliance risk”, “Suspension risk”, “Early termination risk”, “Cross class liability risk”, “Cross Sub-Fund liability risk”, “Valuation and accounting risk”, “Dividends and distributions”, “Distributions payable out of capital or effectively out of capital risk”, “Foreign Account Tax Compliance Act risk”, “RMB currency risk”, “Risks associated with the PRC”, “Risks associated with PRC taxation”, “Risk of investing in equity securities”, “Risk of investing in fixed income instruments” and “Hedging risk”.

The following risk factors are specific to the Sub-Fund:

#### ***Investment risk***

Investors should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the Sub-Fund’s assets. There is no guarantee of repayment of principal. Accordingly, there is a risk that an investor may not recoup the original amount he invested in the Sub-Fund or may lose a substantial part or all of his investment.

#### ***Concentration risk***

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Sub-Fund, the concentration of the Sub-Fund’s exposure to a single region (i.e. Asia Pacific) subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global investment fund as it is more susceptible to fluctuation in value resulting from adverse conditions in the Asia Pacific markets.

### **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

#### **Additional Risk Factors (Continued)**

##### *Risk relating to dynamic asset allocation strategy*

The investments of the Sub-Fund may be periodically rebalanced and therefore the Sub-Fund may incur greater transaction costs than a fund with static allocation strategy. The dynamic asset allocation strategy may not achieve the desired results under all circumstances and market conditions.

##### *Risks associated with PRC Interbank Bond Market*

*Volatility and liquidity risk:* Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the PRC interbank bond market may result in prices of certain debt securities traded on such market fluctuating significantly. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

*Risks associated with settlement procedures and default of counterparties:* The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

*Risks of default or errors on the part of third parties:* For investments via Bond Connect, the relevant filings, registration with the PBOC and account opening have to be carried out via an onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.

*Regulatory risks:* Investing in the PRC interbank bond market via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant mainland Chinese authorities suspend account opening or trading on the PRC interbank bond market, the Sub-Fund's ability to invest in the PRC interbank bond market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

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### **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

#### **Additional Risk Factors (Continued)**

##### *Risk of investing in fixed income instruments*

Please refer to “Risk of investing in fixed income instruments” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

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

As the Sub-Fund may invest in fixed income instruments issued in the Asia Pacific markets, the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies in the Asia Pacific markets (including monetary policy and fiscal policy) may have an influence over the Asia Pacific capital markets and affect the pricing of the fixed income instruments in the Sub-Fund’s portfolio, which may in turn adversely affect the return of the Sub-Fund.

*Volatility and liquidity risk:* The fixed income securities in certain Asia Pacific markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may incur significant trading costs.

*Credit risk:* The value of the Sub-Fund is affected by the creditworthiness of its underlying investments. A deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spread) of an underlying investment will adversely impact the value of such investment. There is no assurance that the fixed income instruments invested in by the Sub-Fund will maintain their credit ratings in the future.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)****Additional Risk Factors (Continued)***Risk of investing in fixed income instruments (Continued)*

Investment in fixed income instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In the event of a default or credit rating downgrading of the issuers of the fixed income instruments held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult as the value of fixed income instruments may decline rapidly, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who are incorporated outside of Hong Kong and therefore not subject to the laws of Hong Kong.

Fixed income instruments are typically offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

*Credit ratings risk:* Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

*Downgrade risk:* Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all, which would have an adverse impact on the value and performance of the Sub-Fund.

## VALUE PARTNERS FUND SERIES

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

### APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

#### Additional Risk Factors (Continued)

##### *Risk of investing in fixed income instruments (Continued)*

*Valuation risk:* Valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations. If such valuations are incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.

*Risks of investing in below Investment Grade and unrated bonds:* The Sub-Fund may invest in fixed income instruments which (or the issuers of which) are rated below Investment Grade or which may not be rated by any rating agency of an international standard. Such instruments are generally subject to a higher degree of volatility and credit risk, a lower degree of liquidity and greater risk of loss of principal and interest than high-rated debt securities, which may result in greater fluctuations in value and, consequently, the Net Asset Value of the Sub-Fund. The value of these instruments may also be more difficult to ascertain. Nevertheless, as the Sub-Fund may invest in fixed income instruments which are unrated or below Investment Grade, the Net Asset Value of the Sub-Fund may be more volatile.

*Investing in convertible bonds risks:* The Sub-Fund may invest in convertible bonds, which are a hybrid between debt and equity securities. Convertible bonds allow holders to convert into shares in the company issuing the bond at a specified future date, and are subject to risks of both fixed income instruments and equities. Convertible bonds can fluctuate in value with the price changes of the issuers' underlying stocks. If interest rates rise, the value of the corresponding convertible bond will fall. The valuation of convertible bonds may be more difficult due to the greater price fluctuations. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

*Sovereign debt risk:* The Sub-Fund may invest in sovereign debt securities and such investments involve special risks. The repayment of debts by a government is subject to various factors including economic and political factors. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Since the Sub-Fund's recourse against a defaulting sovereign is limited, the Sub-Fund may incur substantial loss if the sovereign defaults.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)****Additional Risk Factors (Continued)*****Risk associated with investment in instruments with non-viability/loss absorption convertible features***

The Sub-Fund may invest up to 20% of its Net Asset Value in contingent convertible bonds.

Contingent convertible bonds are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible bonds will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. Contingent convertible bonds are risky and highly complex instruments. Coupon payments on contingent convertible bonds are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

Contingent convertible bonds are also subject to additional risks specific to their structure including:

*Trigger level risk:* Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *Risk associated with investment in instruments with non-viability/loss absorption convertible features (Continued)*

*Coupon cancellation risk:* Coupon payments on some contingent convertible bonds are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible bonds may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

*Capital structure inversion risk:* Contrary to the classic capital hierarchy, investors in contingent convertible bonds may suffer a loss of capital when equity holders will not, for example when the loss absorption mechanism of a high trigger/write down of a contingent convertible bond is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

*Call extension risk:* Some contingent convertible bonds are issued as perpetual instruments and only callable at predetermined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible bonds will be called on a call date. Contingent convertible bonds are a form of permanent capital. The investor may not receive return of principal as expected on call date or indeed at any date.

*Conversion risk:* Trigger levels differ between specific contingent convertible bonds and determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the contingent convertible bonds will behave upon conversion. In case of conversion into equity, the Manager might be forced to sell these new equity shares subject to the investment policy of the Sub-Fund. As a trigger event is likely to be an event which decreases the value of the issuer's common equity, a forced sale may result in the Sub-Fund experiencing loss.

*Valuation and write-down risk:* Contingent convertible bonds often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible bonds may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

### APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)

#### Additional Risk Factors (Continued)

##### *Risk associated with investment in instruments with non-viability/loss absorption convertible features (Continued)*

*Market value fluctuations due to unpredictable factors:* The value of contingent convertible bonds is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible bonds; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

*Liquidity risk:* In certain circumstances finding a buyer ready to invest in contingent convertible bonds may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

*Sector concentration risk:* Contingent convertible bonds are issued by banking and insurance institutions. Investment in contingent convertible bonds may lead to an increased sector concentration risk. The performance of the Sub-Fund which invests in contingent convertible bonds will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

*Subordinated instruments:* Contingent convertible bonds will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible bonds, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the contingent convertible bonds shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

*Novelty and untested nature:* The structure of contingent convertible bonds is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.



# VALUE PARTNERS FUND SERIES

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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *“Dim Sum” bond market risks*

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

#### *Risks of investing in equities*

There are risks involved in the Sub-Fund’s investments in equities.

Please refer to “Investment risks – Risk of investing in equity securities” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

*Risk of investing in equity securities:* The Sub-Fund will invest directly or indirectly in equity securities and is exposed to the risk that the market value of such equity securities (and hence the Net Asset Value of the Sub-Fund) may go down as well as up. Equity markets may fluctuate significantly due to factors including investment sentiment; political, economic or environmental issues; regional or global economic instability; and currency and interest rate fluctuations. Prices may rise and fall sharply, and this will have a direct impact on the Sub-Fund. When equity markets are extremely volatile, the Sub-Fund’s Net Asset Value may fluctuate substantially and investors may suffer substantial losses.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)****Additional Risk Factors (Continued)***Risks of investing in equities (Continued)*

*Small- and mid-cap companies risk:* The Sub-Fund's equity portfolio may include small- and mid-cap companies, which generally have greater earnings and capital growth potential than larger capitalised companies. However, such investments in small- or mid-cap companies may involve greater risks, such as limited product lines, markets and financial or managerial resources. In addition, securities of smaller companies may trade less frequently, in lower volumes and with less liquidity than more widely held securities, and the securities of such companies generally are subject to more abrupt, erratic and volatile price movements to adverse economic developments than more widely held or larger, more established companies. This, in turn, may undermine the value of the Sub-Fund's assets.

*Risks of investing in A-Shares*

Please refer to "Risks associated with the PRC" and "Investment risks – Risk of investing in equity securities" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

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

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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *Risks of investing in A-Shares (Continued)*

*Government intervention and restrictions risk:* The liquidity and price volatility associated with A-Share markets are subject to greater risks of government intervention (for example, to suspend trading in particular stocks) and imposition of trading band restrictions for all or certain stocks from time to time. In addition, A-Shares traded in the PRC are still subject to trading band limits that restrict maximum gain or loss in stock prices, which means the prices of stocks may not necessarily reflect their underlying value. Such factors may affect the performance of the Sub-Fund, and the subscription and redemption of Units may also be disrupted.

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

#### *Risks of investing in ADRs*

Although ADRs have risks similar to the securities that they represent, they may also involve higher expenses and may trade at a discount (or premium) to the underlying security. In addition, depositary receipts may not pass through voting and other shareholder rights, and may be less liquid than the underlying securities listed on an exchange.

#### *Risks of investing in other funds*

The Sub-Fund may from time to time invest in other funds. Investing in other funds may expose the Sub-Fund to the following risks:

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)****Additional Risk Factors (Continued)***Risks of investing in other funds (Continued)*

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

*Investment objective risk:* Although the Manager will use due diligence procedures to select and monitor underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved. The underlying funds in which the Sub-Fund may invest may also not be regulated by the SFC.

*Conflicts of interest risk:* The Sub-Fund may from time to time invest in other funds managed by the Manager or Connected Persons of the Manager. In such circumstances, in accordance with the Sub-Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Sub-Fund and the Manager may not obtain a rebate on any fees or charges levied by the underlying fund or its Manager. In addition, where an underlying fund is managed by the Manager, all management and performance fees charged by the underlying fund will be waived for the Sub-Fund. However, despite such measures, conflicts of interest may nevertheless arise out of such investments, and in such event the Manager will use its best endeavours to avoid and resolve such conflicts fairly.

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## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *Risk of investing in REITs*

REITs may have limited diversification and may be subject to risks inherent in financing a limited number of properties. Investments in REITs and other issuers that invest, deal or otherwise engage in transactions in or hold real estate or interests therein are subject to risks similar to investing directly in real estate. For example, real estate values may fluctuate as a result of general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, changes in zoning laws, casualty or condemnation losses, regulatory limitations on rents, changes in neighbourhood values, changes in how appealing properties are to tenants, increases in interest rates and unexpected interruptions such as natural disasters, terrorist attacks or other unforeseeable events.

#### *Risks associated with the PRC*

There are risks involved in the Sub-Fund's investments in the PRC. Please refer to "General risks – Emerging market risk" and "Risks associated with the PRC" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### *RMB currency risk*

The Sub-Fund may have exposure to investments which are denominated in RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. Investors whose assets and liabilities are predominantly in currencies other than RMB are exposed to foreign exchange risk and should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. There is no guarantee that RMB will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

**APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND  
(Continued)**

**Additional Risk Factors (Continued)**

*RMB currency risk (Continued)*

In calculating the Net Asset Value per Unit of a Class denominated in RMB and in effecting any currency conversions involving RMB, the Manager may apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). Whilst the RMB (CNH) and RMB (CNY) represent the same currency, they are traded in different rates and separate markets which operate independently. As such, RMB (CNH) may trade at a premium or discount to RMB (CNY) and they may even move in different directions. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

Please also refer to “RMB currency risk” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

*Dividends risk/Distributions payable out of capital or effectively out of capital risk*

There is no guarantee that any dividends will be distributed and thus investors may not receive any distributions. Where there is a distribution, there will not be a target level of dividend payout.

# VALUE PARTNERS FUND SERIES

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

## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *Dividends risk/Distributions payable out of capital or effectively out of capital risk (Continued)*

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC's prior approval and by giving not less than one month's advance notice to Unitholders.

Where any distribution involves payment of dividends out of capital and/or effectively out of capital of the Sub-Fund, investors should note that a high distribution yield does not imply a positive or high return on the total investment.

#### *Risk of investing in financial derivative instruments*

Although the use of derivatives will not substantially form part of the investment strategy of the Sub-Fund, the Manager may, for hedging purposes only, invest in listed warrants and futures, options, interest rate, index and currency swaps and forwards subject to the investment restrictions applicable to the Sub-Fund including Chapter 7 of the Code. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

## **APPENDIX 3: VALUE PARTNERS ASIAN TOTAL RETURN BOND FUND (Continued)**

### **Additional Risk Factors (Continued)**

#### *Hedging risk*

The Manager may from time to time use hedging techniques, including investments in listed warrants and futures, options, interest rate, index and currency swaps and forwards, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to “Investment risks – Hedging risk” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

### **Reports and accounts**

The first accounts for the Sub-Fund cover the period to 31 December 2018.

### **Distribution policy**

The Manager currently intends to make monthly dividend distributions for the following Classes of Units at its discretion:

- Class A Units: AUD Hedged MDis, CAD Hedged MDis, HKD Unhedged MDis, NZD Hedged MDis, RMB Hedged MDis, RMB Unhedged MDis, SGD Hedged MDis and USD Unhedged MDis
- Class V Units: HKD Unhedged MDis, SGD Hedged MDis and USD Unhedged MDis
- Class Z Units: AUD Hedged MDis, CAD Hedged MDis, HKD Unhedged MDis, NZD Hedged MDis, RMB Hedged MDis, SGD Hedged MDis and USD Unhedged MDis

Dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.



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## Value Partners Fund Series

(a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong)  
(the “Trust”)

### Addendum to the Explanatory Memorandum

This Addendum forms an integral part of, and should be read in conjunction with, the Explanatory Memorandum of the Trust dated March 2018 (the “Explanatory Memorandum”). All capitalised terms used in this Addendum have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. If you are in any doubt about the contents of this Addendum, you should seek independent professional advice.

The Manager accepts responsibility for the information contained in this Addendum as being accurate at the date hereof.

The Explanatory Memorandum is hereby amended as follows:

1. In the section entitled “Investment Strategy”, the second sentence under the sub-section entitled “Fixed income securities investments” on page 158 of Appendix 2 of the Explanatory Memorandum is deleted in its entirety and replaced by the following:

“The Sub-Fund will have no restrictions on the credit ratings of the fixed income securities it holds, and may invest up to 40% of its Net Asset Value in fixed income securities which are rated below investment grade (i.e. below BBB-/Baa3) by internationally recognised credit rating agencies (such as Standard & Poor’s, Moody’s and/or Fitch), or which are unrated.”

2. In the section entitled “Expenses and Charges”, the Trustee’s fees in the table under the sub-section entitled “Fees payable by the Sub-Fund” on page 165 of Appendix 2 of the Explanatory Memorandum is deleted in its entirety and replaced by the following:

|                    |  |
|--------------------|--|
| <i>Trustee fee</i> | <p>In respect of each class of Units, 0.14% per annum for the first USD150 million in Net Asset Value, 0.12% per annum for the portion over and above the first USD150 million in the Net Asset Value.</p> <p>The Trustee fees are subject to a monthly minimum of USD4,500.</p> |
|--------------------|--|

3. In the section entitled “Investment Strategy”, the first sentence in the third paragraph under the sub-section entitled “Fixed income securities investments” on page 183 of Appendix 3 of the Explanatory Memorandum is deleted in its entirety and replaced by the following:

“The Sub-Fund may invest up to 45% of its Net Asset Value in bonds and other debt securities which are unrated or with ratings below investment grade (i.e. below BBB-/Baa3) by an internationally recognised credit rating agency (such as Standard & Poor’s, Moody’s and/or Fitch) (“Below Investment Grade”).”

4. Throughout Appendix 3 of the Explanatory Memorandum, references to “below Investment Grade” are deleted in their entirety and replaced with “Below Investment Grade”.

**Value Partners Hong Kong Limited**

4 June 2018