

IMPORTANT:

This Addendum is supplemental to and forms part of the Explanatory Memorandum of the GFIIIM RMB Series dated November 2013. Unless otherwise defined herein, words and expressions defined in the Explanatory Memorandum shall have the same meaning when used in this Addendum.

If you are in doubt about the contents of the Explanatory Memorandum and this Addendum, you should consult your financial planner, bank manager, solicitor or accountant or other financial adviser.

GFIIIM RMB Series (the “Fund”) GFIIIM China RQFII Bond Fund (the “Sub-Fund”)

Third Addendum to the Explanatory Memorandum

The Explanatory Memorandum and its Addendums are amended to reflect the following updates:-

1. Under the section “The Manager” of Chapter “MANAGEMENT OF THE TRUST” on P.12 of the Explanatory Memorandum, the following is inserted after the biography of Mr. LIN Yongsen as the last paragraph of this section:

“Ms. ZHANG Jinghan

Ms. Zhang is currently the Vice Chairperson of the Board of the Manager. She served in the CSRC for more than 16 years before joining the Manager in January 2015. She held various senior positions in the CSRC, including Director of the Private Equity Supervision Division, Vice Director and Director of the Fund Supervision Division. Ms. Zhang was awarded a Master degree in Management by the Accounting Faculty of Renmin University of China in 2001 and later graduated from Sciences Po in France with a Master’s degree in Public Administration.”

2. The 1st section of the First Addendum to the Explanatory Memorandum is replaced in its entirety with the following:

“Under the sub-section “Other Charges and expenses” of “Fee payable by the Trust” in section “EXPENSES AND CHARGES” on P.30 of the Explanatory Memorandum, the following is inserted as second paragraph:

‘The Manager has appointed Quality Risk Management & Operations (QRMO) Limited (“QRMO”), a Hong Kong limited liability company, to perform independent risk monitoring, middle-office and back-office services in respect of the Sub-Funds. Notwithstanding such appointment, the Manager remains responsible for monitoring the risk of the Sub-Funds. The Manager pays QRMO a fee for providing services in respect of the Sub-Fund of not more than 0.04% per annum of the Gross Asset Value (which is equal to the Net Asset Value plus any fees payable by the Sub-fund for the relevant period) of the Sub-Fund, subject to a minimum monthly fee of RMB 20,000 per month. QRMO was paid an inception fee of RMB 20,000 and is also paid certain transaction and processing fees. The Manager seeks reimbursement of these fees from the Sub-Fund.’ ”

The directors of the Manager accept responsibility of the accuracy of the information contained in this Addendum as at the date of publication.

The Explanatory Memorandum may only be distributed if accompanied by this Addendum.

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**GFIIM RMB Series (the “Fund”)
GFIIM China RQFII Bond Fund (the “Sub-Fund”)**

Second Addendum to the Explanatory Memorandum

The Explanatory Memorandum is amended to reflect the following updates:-

1. Under the sub-section “RQFII regime” in section “Investment Strategy” in Appendix 1 on P.49 of the Explanatory Memorandum, the following is inserted in the third paragraph as sub-paragraph (v):

“the ‘RQFII Quota Administration Guideline’ issued by SAFE and effective from 30 May 2014 (RQFII 額度管理操作指引);”

The original sub-paragraph (v) as the new sub-paragraph (vi) follows the new sub-paragraph (v).

2. The 4th paragraph of sub-section “RQFII regime” in section “Investment Strategy” in Appendix 1 on P.49 of the Explanatory Memorandum is replaced in its entirety with the following:

“The Manager has obtained RQFII status and has been granted certain amount of RQFII quota for public fund. The Manager will allocate quota to the Sub-Fund at its own discretion and the Sub-Fund will invest directly in the PRC’s domestic securities markets through the Manager’s RQFII quota. To the extent that the RQFII quota granted to the Manager by SAFE has been utilized, the Manager may, subject to any applicable regulations, apply for an increase of the RQFII quota.”

3. Under the sub-section “Risks associated with the RQFII regime” in section “Additional Risk Factors” in Appendix 1 on P.62 of the Explanatory Memorandum, the 4th paragraph of the 1st risk factor headed “RQFII systems risk” is replaced in its entirety with the following:

“There can be no assurance that sufficient RQFII quota will be allocated to the Sub-Fund or that additional RQFII quota can be obtained from SAFE and allocated to the Sub-Fund to fully satisfy subscription requests. This may result in a need for the Manager to close the Sub-Fund to further subscriptions. In extreme circumstances, the Sub-Fund may incur significant loss due to limited investment capabilities, or may not be able to fully implement or pursue its investment objectives or strategies, due to RQFII investment restrictions, illiquidity of the PRC’s securities markets, and delay or disruption in execution of trades or in settlement of trades.”

4. The 1st paragraph under the section “Taxation” on P.37 of the Explanatory Memorandum is replaced in its entirety with the following:

“The following summary of taxation and related tax regulations in Hong Kong, PRC and the United States of America is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong and the laws and practice of their respective jurisdictions. The information below is based on the law

and practice in force in Hong Kong, PRC and United States of America 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."

5. Under the section "Taxation" on P.41 of the Explanatory Memorandum, the following is inserted after the sub-section "PRC" as a new sub-section headed "United States of America":

"United States of America

Foreign Account Tax Compliance Act

Foreign Account Tax Compliance Act ("FATCA"), under Sections 1471 through 1474 of the U.S. Internal Revenue Code, imposes a 30% withholding tax on certain withholdable payments to a foreign financial institution ("FFI") if that FFI is not compliant with FATCA. In addition, certain passive non-U.S. entities, which are Non-Financial Foreign Entities ("NFFEs"), are required to either certify they have no substantial U.S. owners or no controlling persons that are specified U.S. persons or report certain information with respect to their substantial U.S. owners or controlling persons that are specified U.S. persons. Non-compliance will result in the same 30% U.S. withholding tax as described above beginning from July 1, 2014.

The impact of FATCA on Financial Institutions ("FI") in a specific jurisdiction may be modified by an Intergovernmental Agreement ("IGA") between the U.S. and that jurisdiction. A Model 2 IGA between the U.S. and Hong Kong has been agreed in substance effective May 9, 2014 ("Hong Kong IGA")

Under FATCA, the Sub-Fund is likely to be treated as an "Investment Entity" and therefore a "FI". The Manager and/or Trustee may, at their discretion, take any necessary measures that may be required to avoid the 30% withholding tax, including but not limited to:

- a) Apply prescribed due diligence procedures, and report "U.S. Accounts", "Non-consenting accounts" and account information with respect to "Nonparticipating Financial Institutions" to the IRS;
- b) Obtain from its investors self-certification or other information or documentation in order to establish their tax residence or to comply with any reporting obligations imposed by U.S., Hong Kong or any other jurisdiction;
- c) If there is any change in circumstances that would affect the investors tax residence, or there is any reason for the Manager/ Trustee to know that the self-certification is incorrect or unreliable, obtain a new self- certification and/or additional documentation may be required from the investors.

The Trustee/ Manager may need to obtain consent from investors authorizing the Trustee/ Manager to report their information to the appropriate tax authority. If consent is not obtained from investors, the Trustee/ Manager may, at its own discretion, decide not to open account for such investors and reject any subscription submitted by them.

Subsequent to the opening of an account, if there is a change in circumstances (with respect to the FATCA status) in the initial documentation and/or information provided by an investor or an intermediary through which the investor holds its interest in the Sub-Fund and the investor or intermediary fails to provide the Sub-Fund with any new information and/or documentation that the Manager/ Trustee may reasonably request, such account may be subject to reporting and potentially subject to the 30% withholding tax. Under such circumstance, the Trustee/ Manager on behalf of the Sub-Fund reserves the right to take any action and/or pursue all remedies at its discretion, including, without limitation, (i) reporting all relevant information of such investor to the Internal Revenue Service of the United States; (ii) withholding, deducting from such Investor's account, or otherwise collecting any such tax liability from such investor to the extent permitted by applicable laws and regulations; (iii) deeming such investor to have given notice to sell all units in the Sub-Fund. The Manager/ Trustee, on behalf of the Sub-Fund, will act in good faith, on reasonable grounds and in compliance with applicable laws in taking any such actions and exercising its discretion to withhold amounts otherwise distributable to the investor.

The Manager has registered with the IRS as a sponsoring entity with Global Intermediary Identification Number (GIIN) “80WN0J.00000.SP.344”. The Manager intends to register the Sub-Fund as its sponsored entity in due course and may at its discretion enter into any agreement on behalf of the Sub-Fund without the consent of investors to provide for any measures that the Manager deems appropriate or necessary to avoid the imposition of the FATCA withholding tax.

Other jurisdictions are in the process of adopting tax legislation concerning the reporting of information. The Sub-Fund may need to comply with such other similar tax legislation that may apply to the Sub-Fund, although the exact parameters of such requirements are not yet fully known. As a result, the Sub-Fund may need to seek information about the tax status of investors under such other jurisdiction’s law for disclosure to the relevant governmental authority.

Although the Manager/Trustee will take all reasonable steps to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Sub-Fund will be able to satisfy all FATCA obligations. If the Sub-Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

Unitholders should consult their own tax advisors regarding the FATCA requirements with respect to their own situation. In particular, Unitholders who hold their shares through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they would not be subject to FATCA withholding tax on their investment returns.”

The directors of the Manager accept responsibility of the accuracy of the information contained in this Addendum as at the date of publication.

The Explanatory Memorandum may only be distributed if accompanied by this Addendum.

GF International Investment Management Limited
July 2014

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If you are in doubt about the contents of the Explanatory Memorandum and this Addendum, you should consult your financial planner, bank manager, solicitor or accountant or other financial adviser.

**GFIIIM RMB Series (the “Fund”)
GFIIIM China RQFII Bond Fund (the “Sub-Fund”)**

First Addendum to the Explanatory Memorandum

The Explanatory Memorandum is amended to reflect the following updates:-

1. Under the sub-section “Other Charges and expenses” of “Fee payable by the Trust” in section “EXPENSES AND CHARGES” on P.30 of the Explanatory Memorandum, the following is inserted as second paragraph:

“The Manager has appointed Quality Risk Management & Operations (QRMO) Limited (“QRMO”), a Hong Kong limited liability company, to perform independent risk monitoring, middle-office and back-office services in respect of the Sub-Funds. Notwithstanding such appointment, the Manager remains responsible for monitoring the risk of the Sub-Funds. The Manager pays QRMO a fee for providing services in respect of the Sub-Fund of not more than 0.04% per annum of the Gross Asset Value (which is equal to the Net Asset Value plus any fees payable by the Sub-fund for the relevant period) of the Sub-Fund, subject to a minimum monthly fee of HKD 20,000 per month. QRMO was paid an inception fee of HKD 20,000 and is also paid certain transaction and processing fees. The Manager seeks reimbursement of these fees from the Sub-Fund.”

2. The 4th paragraph under the sub-section “Investment risks” in section “RISK FACTORS” on P.35 of the Explanatory Memorandum is replaced in its entirety with the following:

“*Risks of investing in lower rated and unrated fixed income instruments:* A Sub-Fund may invest in fixed income instruments which are lower rated or which are non-rated. 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.”

3. The 5th paragraph under the sub-section “Investment risks” in section “RISK FACTORS” on P.35 of the Explanatory Memorandum is replaced in its entirety with the following:

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

4. Under the sub-section “General” in section “Investment Strategy” in Appendix 1 on P.47 of the Explanatory Memorandum, sub-paragraph (b) of the first paragraph is replaced in its entirety with the following:

“RMB-denominated money market instruments or certificates of deposit traded on the interbank bond market, cash and cash equivalents; and”

5. Under the sub-section "Strategies" in section "Investment Strategy" in Appendix 1 on P.48 of the Explanatory Memorandum, sub-paragraph (b) of the first paragraph is replaced in its entirety with the following:

"Not more than 30% of the Net Asset Value of the Sub-Fund will be invested in RMB-denominated money market instruments or certificates of deposit traded on the interbank bond market, cash and cash equivalents."

6. Under the sub-section "Strategies" in section "Investment Strategy" in Appendix 1 on P.48 of the Explanatory Memorandum, the following is inserted as sub-paragraph (e):

"The Sub-fund will not invest in debt securities that are rated BB+ or below by major local credit rating agencies or unrated."

7. Under the sub-section "Strategies" in section "Investment Strategy" in Appendix 1 on P.48 of the Explanatory Memorandum, the following is inserted after the 1st paragraph:

"The rating of each bond should be the credit rating of the bond itself. If the bond itself does not have a credit rating, the manager may look at the credit rating of the issuer. If both the bond and the bond issuer are not rated, the bond is classified as unrated."

8. Under the sub-section "Risk of investing in fixed income instruments:" in section "Additional Risk Factors" in Appendix 1 on P.59 of the Explanatory Memorandum, the 3rd risk factor headed "*Risks of investing in PRC bond markets and of unrated or below investment grade bonds*" is replaced in its entirety with the following:

"Risks of investing in PRC bond markets and of unrated or lower rated bonds

The Sub-Fund invests in onshore PRC bonds. The financial market of the PRC is at an early stage of development, and some of such PRC bonds may be lower rated or 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. The value of these instruments may also be more difficult to ascertain and thus the Net Asset Value of the Sub-Fund may be more volatile. .

Investors should therefore be aware that an investment in the Sub-Fund is subject to higher volatility, price fluctuations and risks than an investment in bond products in more developed markets."

9. Under the sub-section "Risk of investing in fixed income instruments:" in section "Additional Risk Factors" in Appendix 1 on P.59 of the Explanatory Memorandum, the 4th risk factor headed "*Risk of credit rating not the only selection criterion*" is replaced in its entirety with the following:

"Risk of credit rating not the only selection criterion

The credit rating of a bond is not the only selection criterion for investment by the Sub-Fund. Investors should therefore note that even if all the bonds the Sub-Fund invests in a higher rating as of the date of this Explanatory Memorandum, there is no assurance that (a) such bonds will continue to have such rating, (b) the Sub-Fund will not invest in bonds that do not have such rating in future; (c) such bonds will continue to be rated, and/or (d) the Sub-Fund will not invest in non-rated bonds in future. Moreover, the Manager may or may not, in its sole discretion, dispose of debt instruments that fall below a minimum credit rating of AA. The Manager will take into account factors including liquidity and maturity date of the relevant debt instrument and market sentiment towards the debt instrument at the relevant time to determine whether (and when) disposing of a debt instrument that falls below a minimum credit rating of AA is in the financial interest of the Sub-Fund. Please also refer to 'Risks associated with local PRC credit ratings' below."

10. Under the sub-section "Risk of investing in fixed income instruments:" in section "Additional Risk Factors" in Appendix 1 on P.59 of the Explanatory Memorandum, the first sentence of the 5th risk factor headed "*Risks associated with local PRC credit ratings*" is replaced with the following:

“Some PRC bonds may have been assigned a rating of BBB (including BBB+ and BBB-) by a local credit rating agency in the PRC.”

The directors of the Manager accept responsibility of the accuracy of the information contained in this Addendum as at the date of publication.

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GF International Investment Management Limited
February 2014

GFIIM China RQFII Bond Fund

a sub-fund of

GFIIM RMB Series

EXPLANATORY MEMORANDUM

November 2013

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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 advice.

GFIIM RMB Series (the “Trust”) is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between GF International Investment Management Limited as manager (the “Manager”) and ICBC (Asia) Trustee Company 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 of 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.gffunds.com.hk (this website has not been reviewed by the SFC) 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.

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.

In particular:

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a U.S. Person (“U.S. Person” being defined as (i) an individual who is a United States citizen, a U.S. green card holder, or a resident of the United States for U.S. federal income tax purposes, (ii) a corporation or partnership organised under the laws of the United States or any political subdivision thereof, or (iii) an estate or trust, the income of which is subject to U.S. federal income taxation regardless of its source); and

- (b) the Trust has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

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

Any investor enquiries or complaints should be submitted in writing to the Manager's office (Unit 3503-3505, Two International Finance Centre, 8 Finance Street, Central, Hong Kong) and the Manager will respond in writing within 14 Business Days.

DIRECTORY

Manager	GF International Investment Management Limited Unit 3503-3505 Two International Finance Centre 8 Finance Street Central Hong Kong
Trustee	ICBC (Asia) Trustee Company Limited 33/F., ICBC Tower 3 Garden Road Central Hong Kong
Custodian	Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road Central Hong Kong
Registrar and Transfer Agent	Citi Fund Services (Asia) Limited 50/F, Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong
PRC Custodian	Industrial and Commercial Bank of China Limited 55 Fuxingmennei Street, Xicheng District Beijing China P.C:100140
Legal Counsel to the Manager	Simmons & Simmons 13 th Floor One Pacific Place 88 Queensway Hong Kong
Auditors	Deloitte Touche Tohmatsu 35 th Floor One Pacific Place 88 Queensway Hong Kong

DEFINITIONS

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

“A-Shares”	means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in RMB and available for investment by domestic investors, QFIIs and RQFIIs.
“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 Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by domestic PRC investors and foreign investors.
“Base Currency”	means, in respect of a Sub-Fund unless otherwise specified in the relevant Appendix, the RMB.
“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 Trustee and the Manager may agree from time to time, provided that where, as a result of a typhoon number 8 signal, 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 Trustee and the Manager determine otherwise.
“Code”	means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended from time to time).
“Connected Person”	<p>has the meaning as set out in the Code which at the date of the Explanatory Memorandum means, in relation to a company:</p> <ul style="list-style-type: none">(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company;(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 Co., Ltd.
“CSRC”	means the China Securities Regulatory Commission.
“Custodian”	means Industrial and Commercial Bank of China (Asia) Limited.

“Dealing Day”	means, in respect of 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 relation to the subscription and redemption of Units, as specified in the relevant Appendix.
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China.
“Hong Kong Dollars” or “HKD”	means the currency of Hong Kong.
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited.
“IFRS”	means International Financial Reporting Standards issued by the International Accounting Standards Board.
“Initial Offer Period”	means, in respect of a Sub-Fund, the period during which Units in that Sub-Fund will be offered for subscription at a fixed price, as specified in the relevant Appendix.
“Local Credit Rating Agency”	means Pengyuan Credit Rating Co., Ltd. (鵬元資信評估有限公司), Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司), China LianHe Credit Rating Co., Ltd. (聯合信用評級有限公司), China Chengxin Security Rating Co. Ltd. (中誠信國際信用評級有限責任公司) or Dagong Global Credit Rating Co., Ltd. (大公國際資信評估有限公司) or one of their respective successors (if any).
“Manager”	means GF International Investment Management Limited.
“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.
“Participation Agreement”	means the participation agreement between the PRC Custodian, the Manager, the Trustee and the Custodian, as amended from time to time.
“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.
“PRC Custodian”	means Industrial and Commercial Bank of China Limited.
“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 and Transfer Agent”	means Citi Fund Services (Asia) Limited, as the registrar and transfer agent of each Sub-Fund.
“RMB” or “¥”	means Renminbi Yuan, 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).
“RQFII Custody Agreement”	means the custody agreement entered into between the PRC Custodian, [the Custodian] and the Manager, as amended from time to time.
“SAFE”	means the State Administration of Foreign Exchange of the PRC.
“SFC”	means the Securities and Futures Commission of Hong Kong.
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.
“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.
“Trust”	means GFIIM RMB Series.
“Trust Deed”	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 10 October 2013, and as amended and/or supplemented from time to time.
“Trustee”	means ICBC (Asia) Trustee Company Limited.
“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.
“Urban Investment Bonds”	(城投債), means debt instruments issued by local government financing vehicles (“LGFVs”) in the PRC listed bond markets and inter-bank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investments or infrastructure projects.
“US dollars” or “USD”	means the 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.

“Valuation Point”

means such time on the relevant Valuation Day as the Manager may from time to time determine to calculate the Net Asset Value.

INTRODUCTION

GFIIM RMB 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.gffunds.com.hk (this website has not been reviewed by the SFC).

MANAGEMENT OF THE TRUST

The Manager

The Manager of the Trust is GF International Investment Management Limited.

The Manager, which has a paid-up capital of HKD 120 million as of 31 December 2012, is a wholly owned subsidiary of GF Fund Management Co., Ltd. (“GF Fund Management”). Established in 2003, GF Fund Management has a registered capital of RMB 120 million as of 31 December 2012, and is one of the largest independent management institutions in China. As of 31 December 2012, GF Fund Management manages 30 public retail funds, various enterprise annuities, customised asset management plans and social security fund portfolios in the PRC. In terms of public retail funds in the PRC, GF Fund Management manages assets worth over RMB 118.2 billion, ranking sixth in the domestic market. GF Fund Management’s total assets under management has ranked in the top ten in China since 2006.

The Manager is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO with CE number AXL121.

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.

The directors of the Manager are as follows:

Mr. LIN Chuanhui

Mr. Lin is the Chairman of the Board of the Manager and is also the General Manager of GF Fund Management. He held various senior positions in GF Securities Co. Ltd. (“GF Securities”), the single largest shareholder of GF Fund Management, including General Manager of Investment Banking in Beijing Region, Deputy General Manager of Investment Banking and Deputy General Manager of Investment Banking in Shanghai Region, and the Executive Vice General Manager of Investment Banking. Mr. Lin graduated from Jilin University, China in 1985 with a Bachelor degree majoring in Economics.

Dr. YU Liping

Dr. Yu is currently the Chairwoman of the Supervisory Committee of GF Fund Management. She acted as the General Manager of the Sales Department in Chengdu Region and Deputy General Manager of Investment Funds of GF Securities. Before joining GF Securities, Dr. Yu was the Deputy General Manager and Chairwoman of the Board of Harvest Fund Management Co. Ltd. She was awarded a PhD degree in Economics by Renmin University of China in 1989.

Mr. YI Yangfang

Mr. Yi is currently the Deputy General Manager cum Chief Investment Officer of GF Fund Management. He is also the fund manager of GF JuFeng Stock Fund and GF Manufacture Selected Stock Fund. He was a committee member of the Securities Offering Supervision Committee of the CSRC. Mr. Yi also acted as an Assistant Manager in the Proprietary Trading Department of GF Securities. He was awarded a Master degree in Economics by Shanghai University of Finance and Economics, China in 1997.

Mr. LIN Yongsan, CFA

Nathan has gained over 19 years of experience in the financial industry in mainland China and Hong Kong. He joined E Fund Management Company Limited ("E Fund") in 2005 after working at GF Securities as deputy head of International Business Department and Proprietary Investment Department from 1993 to 2005. Nathan led E Fund's expansion to HK in 2008 and grew E Fund Management (Hong Kong) Company Limited's assets under management to US\$2 billion within four years. He joined GFIM in March 2013 as General Manager. Nathan graduated from Jinan University with a Master's degree in economics and is a Chartered Financial Analyst charterholder. He was a visiting scholar at the University of Southern California (Mar-Aug 1999).

The Trustee

The Trustee of the Trust is ICBC (Asia) Trustee Company Limited, which is a registered trust company in Hong Kong. The principal activity of the Trustee is the provision of trustee services.

The Trustee is a wholly-owned subsidiary of Industrial and Commercial Bank of China (Asia) Limited, which is a company incorporated in Hong Kong and a bank licensed under section 16 of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust and each Sub-Fund, and such assets will be dealt with pursuant to the terms of the Trust Deed.

Subject to applicable regulatory requirements, the Trustee may appoint any person or persons (including a Connected Person of the Trustee) as custodian or co-custodian of the whole or any part of the assets of any Sub-Fund ("Custodian") and may empower any such Custodian to, with the prior consent in writing of the Trustee, appoint sub-custodians. The Trustee shall (a) exercise reasonable care and diligence in the selection, appointment and monitoring of such persons and, (b) be satisfied that such persons retained remain suitably qualified and competent to provide the relevant custodial services to the Trust or any Sub-Fund. Provided that the Trustee has discharged its obligations set out in (a) and (b) in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Custodian (save for a Custodian that is a Connected Person of the Trustee). Subject to the foregoing, the Trustee shall be liable for the acts and omissions of any Custodian that is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee. For the purpose of the foregoing, the Custodian includes the PRC Custodian.

The Trustee shall not be liable for: (A) any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised depository or clearing system which may from time to time be approved by the Trustee and the Manager; or (B) the custody or control of any investments, assets or other property which is under the custody or held by or on behalf of a lender in respect of any borrowing made by the Trustee at the request of the Manager for the purposes of the Trust or any Sub-Fund.

In no circumstances shall the Trustee be liable for losses in respect of investments and other property or assets forming part of the assets of the Trust or any Sub-Fund not registered in the name of or not deposited with or not held to the order of the Trustee or its delegate or nominee.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or the relevant Sub-Fund from and against any and all actions, proceedings,

liabilities, costs, claims, damages, expenses, including all reasonable legal, professional and other similar expenses (other than those breaches of trust through the fraud, negligence or wilful default 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 the Trust or any Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of fraud, 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, any Sub-Fund or any Unitholder.

The Manager is solely responsible for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee (including its delegates) is not responsible and has no liability for any investment decision made by the Manager. The Trustee does not act as guarantor or offeror of the Units or any underlying investments of a Sub-Fund. The Trustee is not responsible for the preparation or issue of this Explanatory Memorandum. The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

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 out below under the section headed “Fees payable by the Trust” and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed. The fees and expenses of the Custodian and any sub-custodians shall, if approved by the Manager, be paid out of the relevant Sub-Fund. The Trustee will take reasonable care to ensure that such fees and expenses are reasonable and comparable to prevailing market rates as and when such appointment is necessary.

In respect of a Sub-Fund which 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 acquired by the Sub-Fund through the Manager’s RQFII Quota which will be maintained by the PRC Custodian in electronic form via a securities account(s) with relevant depositories and RMB special deposit account(s) with the PRC Custodian (“Onshore PRC Assets”), and holds the same in trust for the relevant Unitholders;
- (b) cash and registrable assets of the Sub-Fund, including Onshore PRC Assets, are registered by or to the order of the Trustee; and
- (c) the PRC Custodian will look to the Trustee (through the Custodian) for instructions and solely act in accordance with the Trustee’s instructions as provided under the Participation Agreement.

The Custodian

The Trustee has appointed Industrial and Commercial Bank of China (Asia) Limited (“ICBC (Asia)”) as the Custodian of the Trust and the Sub-Funds.

ICBC (Asia) is a wholly-owned subsidiary of Industrial and Commercial Bank of China Limited which is the largest commercial bank in the world by market capitalisation as at 31 December 2012. The Industrial and Commercial Bank of China Limited group (“ICBC Group”) has reached RMB3,955.3 billion assets under custody as at 31 December 2012. ICBC (Asia), being the flagship of ICBC Group outside China, provides global custodian services to institutional clients and is a regional centre covering Asia-Pacific.

Pursuant to the custodial services agreement entered into between the Trustee and the Custodian, the Custodian will act as the custodian of the Trust’s assets, which may be held

directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custodial services agreement.

The Registrar and the Transfer Agent

The Trustee has appointed Citi Fund Services (Asia) Limited to act as Registrar of the Trust. Citi Fund Services (Asia) Limited will be responsible for keeping and maintaining the register of Unitholders. Citi Fund Services (Asia) Limited is a wholly-owned subsidiary of Citibank Inc.

Citi Fund Services (Asia) Limited will also act as Transfer Agent of the Trust and the Sub-Funds. Pursuant to the transfer agency services agreement between the Transfer Agent and the Trustee (the "Transfer Agency Agreement"), the Transfer Agent will be responsible for providing transfer agency services to the Trust and the Sub-Funds, including but not limited to, processing applications for the subscription, switching and redemption of the Units, including verifying the identity of applicants in accordance with applicable anti-money laundering legislation and maintaining the register of Unitholders.

The Transfer Agent is the service provider appointed by the Trustee and it does not provide any investment advisory or management services to the Trust or the Sub-Funds. It is also not responsible for, inter alia, the preparation of this document or any of the Trust's or the Sub-Funds' marketing or other materials, the Trust's or the Sub-Funds' investment returns or losses or for monitoring compliance with any investment restrictions (and as such is not liable for any breach thereof).

Pursuant to the Transfer Agency Agreement, the Registrar will be responsible for keeping and maintaining the register of Unitholders.

The Trustee may change the arrangements described above by agreement with the Registrar and Transfer Agent, or appoint an alternative registrar and/or transfer agent.

The PRC Custodian

Industrial and Commercial Bank of China Limited ("ICBC"), formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, ICBC was wholly restructured to a joint-stock limited company. On 27 October 2006, ICBC was successfully listed on both Shanghai Stock Exchange and The Hong Kong Stock Exchange. Through its continuous endeavor and stable development, ICBC has developed into the top large listed bank in the world in terms of market capitalisation, customers' deposits and profitability, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. ICBC has its presence in six continents, and its overseas network has expanded to 39 countries and regions. ICBC provides comprehensive financial products and services to 4.38 million corporate customers and 393 million personal customers by virtue of the distribution network consisting of 17,125 domestic institutions, 383 overseas institutions and over 1,771 correspondent banks worldwide, as well as through its E-banking network comprising a range of internet and telephone banking services and self-service banking centres, forming an internationalized trans-market operating structure focusing on commercial banking business and maintaining a leading position in the domestic market in commercial banking areas.

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;
- (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 (as defined under the Code) nor authorised by the SFC, held for the account of the Sub-Fund, may not exceed 10% of the 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,

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 other 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,

save to the extent that any approval, permission or waiver in respect of any of the above restrictions has been obtained from the SFC and as set out in the relevant Appendix.

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.

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)(1) above, where applicable);
- (3) make short sales if as a consequence the Sub-Fund's liability to deliver securities would exceed 10% of its 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 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
- (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. Up to 50% of 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.

Securities Lending

The Trustee may, at the request of the Manager, enter into securities lending arrangements in respect of a Sub-Fund. Please refer to the "Strategies" sub-section under "Investment Strategy" in each relevant Appendix for the policy regarding securities lending of each Sub-Fund.

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 arrangements are as follows:-

- (a) the income received from such securities lending 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 borrower 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 borrower

will be acceptable where the relevant Sub-Fund is indemnified against losses caused by the borrower, by an entity which has a minimum credit rating of A2;

- (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, 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) up to 100% of the assets of the relevant Sub-Fund may be lent to one or more borrowers; and
- (e) where any securities lending 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 (the securities lending fee 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;
- 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 at any time during an Initial Offer Period, the total amount received by the Trustee from the subscription of the Units reaches a maximum amount for aggregate subscriptions (as specified in the relevant Appendix), the Manager is entitled (but not obliged) to close the Sub-Fund to further subscriptions before the end of the relevant Initial Offer Period.

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 after consulting the Trustee. Any rounding adjustment will be retained by the relevant Sub-Fund. The Subscription Price will be calculated and quoted in the Base Currency of the Sub-Fund.

In determining the Subscription Price, the Manager is entitled to add an amount it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are 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 Trustee and will form part of the assets of the relevant Sub-Fund.

The Manager is entitled to impose a subscription fee on the Subscription Price of each Unit. 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.

Application procedure

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

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by no later than 4:00 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 relevant Dealing Deadline.

Unless otherwise agreed by the Manager and the Transfer Agent, application forms that are faxed to the Transfer Agent must always be followed by their original. Applicants who choose to send an application form by fax bear the risk of the form not being received by the Transfer Agent. Applicants should therefore, for their own benefit, confirm with the Transfer Agent safe receipt of an application form. Neither the Manager, the Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

Unless the Manager otherwise determines, payment for Units shall be due in cleared funds in the relevant currency within 3 Business Days following the relevant Dealing Day on which an application was received by the Dealing Deadline. If payment in cleared funds is not received prior to such time as aforesaid, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager may require the applicant to pay to the Trustee, for the account of the 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 the Trustee shall be entitled to charge the applicant a cancellation fee for the administrative costs involved in processing the application and subsequent cancellation.

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).

Payment procedure

Subscription monies should be paid in the currency in which the relevant Sub-Fund is denominated. Payment details are set out in the application form.

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

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 2 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.

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 Transfer Agent.

Any redemption request must be received by the Transfer Agent 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 must be given in writing or by fax (with its original following promptly) and must specify the name of the Sub-Fund, the class (if applicable) and the value or number of Units to be redeemed, the name(s) of the registered Unitholder(s) and give payment instructions for the redemption proceeds.

Unless otherwise agreed by the Manager and the Transfer Agent, the original of any redemption request given by fax should be forwarded to the Transfer Agent. A Unitholder who chooses to send an application form by fax bears the risk of the form not being received by the Transfer Agent. Unitholders should therefore, for their own benefit, confirm with the Transfer Agent safe receipt of a redemption request. Neither the Manager, the Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

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.

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 after consulting the Trustee. Any rounding adjustment will be retained by the relevant Sub-Fund. The Redemption Price will be calculated and quoted in the Base Currency of the relevant Sub-Fund.

In determining the Redemption Price, the Manager is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are customarily incurred by the relevant Sub-Fund. Any such deducted amount will be retained by and form part of the assets of the relevant Sub-Fund.

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.

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.

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

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the Base Currency of the relevant Sub-Fund 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 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 charges associated with the payment of such redemption proceeds will be borne by the redeeming Unitholder.

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.

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% 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”).

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; (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; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the 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 Units of any other Sub-Fund which has been authorised by the SFC (the “New Sub-Fund”). Unitholders may request such switching by giving notice in writing or by fax to the Transfer Agent. Neither the Manager, the Trustee nor the Transfer Agent (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt or illegibility of a request for switching transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the 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 Sub-Fund (if any).

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 3% 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 Sub-Fund and will be paid to the Manager.

Where a request for switching is received by the Transfer Agent 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 Sub-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 Sub-Fund; and
- the resulting amount will be used to subscribe for Units of the New Sub-Fund at the relevant Subscription Price on the Dealing Day on which the Trustee receives cleared funds in the relevant currency by the Dealing Deadline of the New Sub-Fund (the “Switching Subscription Day”).

Subject to the time required to remit redemption proceeds in respect of the Units of the Existing Sub-Fund, the Switching Subscription Day may be later than the Switching Redemption Day.

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).

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 in accordance with the terms of the Trust Deed.

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies or a commodity, and subject as provided in paragraph (f) below, all calculations based on the value of investments quoted, listed or normally dealt in on any stock exchange, over-the-counter market or securities market ("Securities Market") shall be made by reference to the last traded price or closing price as calculated and published by the Securities Market (which, in the opinion of the Manager, provides the principal Securities Market for such investments) in accordance with its local rules and customs, at or immediately preceding the Valuation Point, provided that (i) if an investment is quoted, listed or normally dealt in on more than one such Securities Market, the price adopted shall be the last traded price or closing price as published by the Securities Market which, in the opinion of the Manager, provides the principal Securities Market for such investment; (ii) if prices on such Securities 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 as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) there shall be taken into account interest accrued on interest-bearing investments up to (and including) the date as at which valuation is made, unless such interest is included in the quoted or listed price; and/or (iv) if the Manager in its discretion considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may adopt such prices after consultation with the Trustee. In determining such prices the Manager and the Trustee shall be entitled to use and rely on without verification electronically transmitted information from such source or sources as they may from time to time determine notwithstanding the prices used are not the last traded prices or closing prices;
- (b) subject as provided in paragraphs (c) and (g) below, the value of each interest in any collective investment scheme shall be the net asset value per unit or share as at the same day the Net Asset Value of the relevant Sub-Fund is calculated, or if such collective investment scheme is not valued as at the same day the Net Asset Value of the relevant Sub-Fund is calculated, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (d) the value of any investment which is not quoted, listed or normally dealt in on a market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made on a regular basis by a professional person approved by the Trustee as qualified to value such investment;

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

Suspension of calculation of Net Asset Value

The Manager may, 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 a Sub-Fund in exceptional circumstances, being the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any securities market or commodities market or futures exchange on which a substantial part of the investments of the 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 Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in the systems and/or means of communication 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 any investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the relevant Sub-Fund or the issue or redemption of Units in the 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 investment manager or investment advisor in respect 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.

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

Whenever the Manager declares such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in the South China Morning Post and the Hong Kong Economic Times.

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

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 the Manager's website www.gffunds.com.hk (this website has not been reviewed by the SFC) and will be published once a month (unless otherwise provided in the relevant Appendix) in the South China Morning Post and the Hong Kong Economic Times.

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 3% of the Subscription Price.

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 price 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 3% 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.

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. Any increase in the management fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. 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 Manager may also charge a performance fee in respect of any Sub-Fund. Details of any performance fee 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 rate of 1% per annum of the Net Asset Value of the relevant Sub-Fund. Any increase in the trustee fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders; and (ii) beyond this maximum level, is subject to approval by extraordinary resolution of the affected Unitholders. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears. The trustee fee is inclusive of fees payable to the Custodian, the Registrar and Transfer Agent and the PRC Custodian.

The Trustee is also entitled to a fee of RMB40,000 for the establishment of the Trust and a further RMB40,000 for the establishment of each Sub-Fund.

The Trustee and the Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

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.

Establishment costs

The costs of establishing the Trust and the first Sub-Fund (i.e. the GFIIIM China RQFII Bond Fund) are estimated to be approximately RMB1 million. These costs will be charged to the first Sub-Fund and amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the 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.

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 (the “Agent”) 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. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

RISK FACTORS

The nature of 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.

Emerging market risk

Certain Sub-Funds may invest in emerging markets (including the PRC), which subjects 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 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.

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. 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.

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.

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.

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.

Investment risks

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, which are typically unsecured debt obligations and not supported by collateral, 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.

Risks of investing in below investment grade and unrated fixed income instruments: A Sub-Fund may invest in fixed income instruments which are below investment grade or which are non-rated. 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 and credit rating of investment grade securities 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 of investing in structured debt instruments (including mortgage-backed securities)

Certain Sub-Funds may invest in securitised or structured debt instruments (collectively, "structured debt instruments"). Such structured debt instruments include asset-backed securities, mortgage-backed securities, collateralised debt instruments and collateralised loan obligations. provide exposure, synthetically or otherwise, 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. 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 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 Sub-Funds investing in structured debt instruments 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.]

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.

In addition, certain instruments traded on the OTC markets (such as certain customised financial derivative instruments and structured products) 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.

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 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.

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) the relevant Sub-Fund is not expected to be subject to Hong Kong tax in respect of its authorised investment activities;
- (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.

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.

PRC

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

Taxation of the Trust and Sub-Fund

Corporate Income Tax ("CIT"):

Dividend income or interest income – If the Trust or the relevant 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 the relevant Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business in the PRC, the profits and gains attributable to that establishment or place of business would be subject to CIT at 25%.

The Manager and the Trustee intend to manage and operate the Trust and each Sub-Fund in such a manner that the Trust and each Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with an establishment or place of business in the PRC for CIT purposes, although this cannot be guaranteed.

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-tax resident enterprises without an establishment or place of business in the PRC are subject to CIT on a withholding basis, generally at a rate of 10%, to the extent it directly derives PRC sourced passive income. PRC sourced passive income (such as dividend income or interest income) may arise from investments in the PRC Securities. Accordingly, the Trust or a Sub-Fund may be subject to withholding tax ("WIT") on any cash dividends, distributions and interest it receives from its investment in PRC Securities at the rate of 10%, subject to an applicable double tax treaty or arrangement, if any. For example, under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" (the "PRC-HK Arrangement"), the WIT charged on interest received by non-resident enterprise holders of debt instruments will be 7% of the gross amount of the interests, if the holders are Hong Kong residents and are the beneficial owners of the interests under the PRC-HK Arrangement. Pre-approval from the PRC tax authorities is required before the reduced 7% rate can apply.

Under the PRC Corporate Income Tax Law ("PRC CIT Law"), interest derived from government bonds issued by the State Council's finance departments is exempt from PRC WIT. Interest income derived from bonds issued by local governments from 2009 to 2011 is specifically exempt from CIT under Caishui [2011] No. 76. In the absence of further clarification on the interest income CIT treatment on local government bonds issued after 2011, there may be a risk that CIT on interest income may be imposed at 10%, unless reduced under an applicable double tax treaty.

Under current regulations in the PRC, foreign investors (such as the Trust and each Sub-Fund) may invest in onshore PRC securities, generally, only through a QFII or a RQFII (in this section referred to as the "relevant QFII"). Since only the relevant QFII's interests in onshore PRC securities are recognised under PRC laws, any tax liability would, if it arises, be payable by the relevant QFII, subject to further interpretations and rules that may be issued in the future. However under the terms of the arrangement between the relevant QFII and the Trust, the relevant QFII will pass on any tax liability to the Trust for the account of the relevant Sub-Fund. As such, the Trust is the ultimate party which bears the risks relating to any PRC taxes which are so levied by the relevant PRC tax authority. Under current PRC tax laws and regulations, a relevant QFII is subject to a WIT of 10% on cash dividends, distributions and interest from the PRC securities unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

Capital gains – Specific rules governing taxes on capital gains derived by QFIIs or RQFIIs from the trading of PRC Securities have yet to be announced. It is possible that the relevant tax authorities may in the future clarify the tax position on capital gains realised by a Sub-Fund dealing in PRC Securities or by a relevant QFII from dealing in onshore PRC securities. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the PRC CIT Law. If the foreign investor is a non-tax resident enterprise without an establishment or place of business in the PRC, a 10% WIT would be imposed on the PRC-sourced capital gains, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

In light of the uncertainty on the income tax treatment on capital gains and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for the WIT on such gains or income and withhold the tax for the account of a Sub-Fund and will notify the Unitholders should the Manager decide to exercise such right. Where any provision is made, the level of the provisioning will be set out in the relevant Appendix and amount of actual provision will be disclosed in the accounts of the relevant Sub-Fund. Upon any future resolution of the

above-mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. Investors should note that if provision for taxation is made, in view of the uncertainties under the applicable PRC tax laws and the possibilities of such laws being changed and taxes being applied retrospectively, such provision may be excessive or inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final outcome of how such gains will be taxed, the level of provision and when they subscribed and/or redeemed their Units in/from the relevant Sub-Fund. If no provision for potential withholding tax is made and in the event that the PRC tax authorities enforce the imposition of such withholding tax in respect of the Sub-Fund's investment, the Net Asset Value of the Sub-Fund may be adversely affected. As a result, redemption proceeds or distributions may be paid to the relevant Unitholders without taking full account of tax that may be suffered by the Sub-Fund, which tax will subsequently be borne by the Sub-Fund and affect the Net Asset Value of the Sub-Fund and the remaining Units in the Sub-Fund.

Business Tax ("BT") and other surtaxes:

The revised PRC Provisional Regulations of Business Tax ("BT Regulations"), which came into effect on 1 January 2009, stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%. However, no specific tax administration and collection rules governing the imposition and collection of such BT in relation to foreign enterprises have been issued, to date.

Caishui [2005] 155 states that gains derived by QFIs from the trading of Chinese securities are exempt from BT. The new PRC BT Regulations which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Explanatory Memorandum. However, it is not clear whether a similar exemption would be extended to RQFIs. Securities trading gains derived through RQFIs may therefore be subject to BT at the rate of 5%.

However, for marketable securities other than those trading under QFIs, the new BT Regulations shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities. Where capital gains are derived from trading of offshore PRC securities (e.g. H-shares), BT in general is not imposed as the purchase and disposal are concluded and completed outside China.

The new BT Regulations does not specifically exempt BT on interest earned by non-financial institutions. It is not entirely clear whether BT will apply to interest on government and corporate bonds. However, in practice, some local tax authorities have provided exemption from BT on interest from certain government and/or corporate bonds.

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

If BT is applicable, other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) would also be charged at an amount as high as 12% on the 5% BT payable (or an additional 0.6%).

Stamp Duty:

Stamp duty under the PRC laws is generally levied on certain taxable documents executed or used in China, such as documentation effecting the transfer of equity interests in Chinese companies, including the contracts for the purchase and sale of A-and B- Shares traded on the PRC stock exchanges and other documents that are listed in the PRC's Provisional Rules on Stamp Duty. Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A-Shares and B-Shares traded on the PRC stock

exchanges. In the case of contracts for sale of China 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%.

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.

It should also be noted that the actual applicable tax rates imposed by State Administration of Taxation ("SAT") may be different and may change from time to time. There is a possibility of the rules 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 the relevant Sub-Fund may be adversely impacted as the 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 the Sub-Fund as assets thereof.

Taxation of Unitholders

Individual income tax ("IIT"):

Non-PRC national individual Unitholders should generally not be subject to IIT on investment distributions they receive from the Trust. To the extent that the Trust is not regarded as a PRC tax resident enterprise, there should be no PRC WIT applicable to investment distributions from or gains realized on disposal of Units in the Trust on the basis that such distributions and gains should not be considered to be PRC-sourced income.

If an individual Unitholder is regarded as being domiciled in China, the Unitholder is subject to PRC IIT on its worldwide income. The investment distributions from the Trust, or gains realized on disposal of Units in the Trust received by the Unitholder should be subject to the standard tax rate of 20% provided that the income is considered as investment income or income from transfer of assets for purposes of the PRC IIT. Besides, if the Unitholder is a non-PRC domiciled individual but resides in China continuously for more than 5 full years (temporary absence of less than 30 days on a single trip or an aggregate period of less than 90 days in a calendar year will not count), this individual would be taxed on worldwide income basis in PRC beginning from the sixth year of residence or onwards if this individual resides in China for one full year in any year after the fifth year. The investment distributions from or gains realized on disposal of Units in the Trust this individual receives should be subject to the standard tax rate of 20% provided that the income is considered as investment income or income from transfer of assets for purposes of the PRC IIT.

CIT:

Corporate Unitholders who are considered to be non-PRC tax resident enterprises without an establishment or place of business in the PRC should not be subject to CIT as a result of their investment in the Trust. To the extent that the Trust is not regarded as a PRC tax resident

enterprise, there should be no PRC WIT applicable to investment distributions from or gains realized on disposal of Units in the Trust on the basis that such distributions and gains should not be considered to be PRC-sourced income.

Corporate Unitholders who are considered to be PRC tax resident enterprise or non-PRC tax resident enterprise with an establishment or place of business in the PRC (and where such establishment holds the Units in the Trust as part of its business) should be subject to CIT on investment distributions from and gains realized on disposal of Units in the Trust.

Notwithstanding the above, Unitholders should seek their own tax advice on their tax position with regard to their investment in any 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.

GENERAL

Reports and accounts

The Trust's and each Sub-Fund's financial year end is on 31 December in each year. The first financial year end of the Trust is 31 December 2014.

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.gffunds.com.hk (this website has not been reviewed by the SFC) 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 at a cost of HKD100 per report 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.

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.

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 or indemnify them against any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence. 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 or the SFC's approval. Any amendments to the Trust Deed will require prior approval from the SFC. 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.

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.

Termination of the Trust or any Sub-Fund

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

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

Any Sub-Fund may also 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 Sub-Fund; (b) if the Trustee and the Manager agree that it is undesirable to continue the Sub-Fund and the affected Unitholders sanction the termination by way of extraordinary resolution; or (c) the affected Unitholders of the Sub-Fund determine, by extraordinary resolution, that the Sub-Fund should be terminated (in which case, such termination shall take effect from the date on which such extraordinary resolution is passed or such later date (if any) as the extraordinary resolution may provide).

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 30 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.

The Trust 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 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 and which renders the Trust illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust; (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; or (d) if the Manager is unable to implement its investment strategy in respect of all Sub-Funds.

Any Sub-Fund may also 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 the 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 Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; or (c) if the Manager is unable to implement its investment strategy in respect of the Sub-Fund.

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

Documents available for inspection

Copies of the Trust Deed, this Explanatory Memorandum, the Participation Agreement and the latest annual and interim reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

Anti-Money Laundering Regulations

As part of the Trustee's and the Manager's responsibility 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.

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.

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.

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 an arm's length basis and are consistent with best execution standards. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the 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: GFII CHINA RQFII BOND FUND

This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the GFII China RQFII Bond Fund (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to GFII China RQFII Bond Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.

Investment Objective

The investment objective of the Sub-Fund is to achieve a steady rate of return through investing principally in onshore fixed income securities available in the PRC by virtue of the Manager’s quota and capacity under the RQFII framework. There can be no assurance that the Sub-Fund will achieve its investment objective.

All investments of the Sub-Fund will be denominated and settled in RMB. Subscription moneys and redemption proceeds must be paid in RMB. Accordingly, no currency conversions are involved when investing subscription proceeds into the Sub-Fund’s portfolio assets.

Investment Strategy

General

The Sub-Fund seeks to achieve its investment objective by investing in:

- (a) RMB-denominated and settled debt instruments within the PRC that are traded on the interbank bond market or the listed bond markets issued by governments, quasi-government organisations, multinational organisations, financial institutions and other corporations, including fixed rate or floating rate debt securities, commercial papers, short term bills and notes;
- (b) RMB-denominated money market instruments or certificates of deposit traded on the interbank bond market, deposits, cash and cash equivalents; and
- (c) RMB-denominated fixed income funds or money market funds authorised by the CSRC for offer to the retail public in the PRC.

These investments will be onshore investments in the PRC.

Further information relating to the PRC’s domestic bond market is set out below.

Under current regulations in the PRC, foreign investors (such as the Sub-Fund) may invest in certain eligible onshore PRC investments, in general, only through entities that have obtained status as a QFII or RQFII from the CSRC. The Sub-Fund invests in onshore PRC securities through the Manager’s status as a RQFII, using an investment quota granted to the Manager by SAFE. Further information relating to the RQFII regime is set out below.

Strategies

The Manager will adopt a pure fixed income strategy. The Sub-Fund will not seek to have any exposure to equity or convertible securities.

- (a) At least 60% of the Net Asset Value of the Sub-Fund will be invested in RMB-denominated and settled debt instruments within the PRC that are traded on the interbank bond market or the listed bond markets issued by governments, quasi-government organisations, multinational organisations, financial institutions and other corporations.

At least 70% of the debt instruments invested by the Sub-Fund will (i) be issued by governments or quasi-government organisations, or (ii) have a minimum credit rating of AA as rated by a Local Credit Rating Agency at the time when the relevant investment is made. Debt instruments issued by the PRC government or quasi-government organisations in the PRC do not currently have credit ratings. Please also refer to “Risks associated with local PRC credit ratings” in the section “Additional Risk Factors” below.

- (b) Not more than 30% of the Net Asset Value of the Sub-Fund will be invested in RMB-denominated money market instruments or certificates of deposit traded on the interbank bond market, deposits, cash and cash equivalents.
- (c) Not more than 10% of the Net Asset Value of the Sub-Fund will be invested in RMB-denominated fixed income funds or money market funds authorised by the CSRC for offer to the retail public in the PRC. For the avoidance of doubt, the Sub-Fund will not invest in any investment funds managed by GF Fund Management, the parent company of the Manager, in the PRC.
- (d) Up to 60% of the Net Asset Value of the Sub-Fund will be invested in Urban Investment Bonds (城投債).

Currently the Sub-Fund has no intention to invest in structured deposits, structured products, financial derivative instruments, short positions or leverage for hedging or non-hedging purposes, or asset-backed securities (including mortgage-backed securities) or asset-backed commercial papers, and the Manager will not enter into any securities lending, repurchase or reverse-repurchase 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 will be provided to Unitholders before the Sub-Fund enters into any such transaction.

Selection of Debt Instruments

The Sub-Fund will seek to rely on the professional judgement of the Manager in making decisions about the portfolio investments. The Manager’s process for selecting debt instruments relies on management of the duration and term of debt instruments, sector allocation, fundamental and credit analysis, etc., where one or more of the following strategies may be adopted:

Duration Strategy

The Sub-Fund will adjust the duration risk of the investment portfolio based on expectations of global and the PRC’s macroeconomic cycle and monetary policy. If RMB interest rate is expected to fall, the Sub-Fund will increase the average duration of the investment portfolio to benefit from the capital gains from lower yield, and vice versa.

Term Structure Strategy

The Sub-Fund will adjust the allocation of short-term, medium-term and long-term securities based on the expected changes in the shape of the RMB yield curve term structure. Based on the expected changes in the shape of the RMB yield curve term structure, the Sub-Fund may adopt bullet-type, barbell-type or ladder-type strategy and adjust the choice of strategy dynamically.

Sector Allocation Strategy

The Sub-Fund will adjust the allocation of investment among government debts, quasi-government debts and debts that bear higher credit risk to seek better tax-adjusted and risk-adjusted returns among various investment instruments.

Product Selection Strategy

Through extensive research on the fundamentals of different issuers, the Sub-Fund seeks to invest in issues that offer excess return with regard to credit ratings and fundamentals.

RQFII regime

Under current regulations in the PRC, foreign investors can invest only 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 was introduced on 16 December 2011 by the "Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies" (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) issued by the CSRC, the PBOC and the SAFE, which was repealed effective 1 March 2013.

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").

The Manager has obtained RQFII status and has been granted, on behalf of the Sub-Fund, a RQFII quota of RMB 800 million. To the extent that the Manager has, on behalf of the Sub-Fund, utilised its entire RQFII quota, the Manager may, subject to any applicable regulations, apply for an increase of the RQFII quota and will make an announcement on its website of its application for additional quota and upon receiving additional quota.

All of the Sub-Fund's assets in the PRC (including onshore PRC cash deposits and its onshore bond portfolio) will be held by the PRC Custodian in accordance with the terms of the RQFII Custody Agreement. A securities account shall be opened with CSDCC in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. An RMB cash account shall 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 CSDCC for trade settlement according to applicable regulations.

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

- (a) securities account(s) with the relevant depositaries and RMB special deposit account(s) with the PRC Custodian (respectively, the "securities account(s)" and the "cash account(s)") shall be opened in the joint names of the Manager and the Sub-Fund and for the sole benefit and use of 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) and the PRC Custodian and any broker appointed to execute transactions for the Sub-Fund in the PRC markets (a "PRC Broker"), and from the assets of other clients of the Manager (as RQFII holder), the PRC Custodian and any PRC Broker(s);
- (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(s);
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the securities account and the debt in the amount deposited in the cash account(s) of the Sub-Fund;
- (e) if the Manager 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 or such PRC Broker(s) in liquidation in the PRC; and
- (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 as an open-ended fund are currently not subject to any restrictions, 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 related to the RQFII regime" in the section entitled "Additional Risk Factors" below.

Overview of PRC bond market

The PRC's domestic bond market primarily consists of two markets: the inter-bank bond market and the exchange-traded bond market. Despite some interconnections amongst them, these markets are differentiated by investor segmentation, product segmentation and regulatory separation.

Currently, the inter-bank bond market is much larger in terms of trading volume and is relatively more liquid than the exchange-traded bond market. Some key information on the two markets is set out below.

Key information on these markets

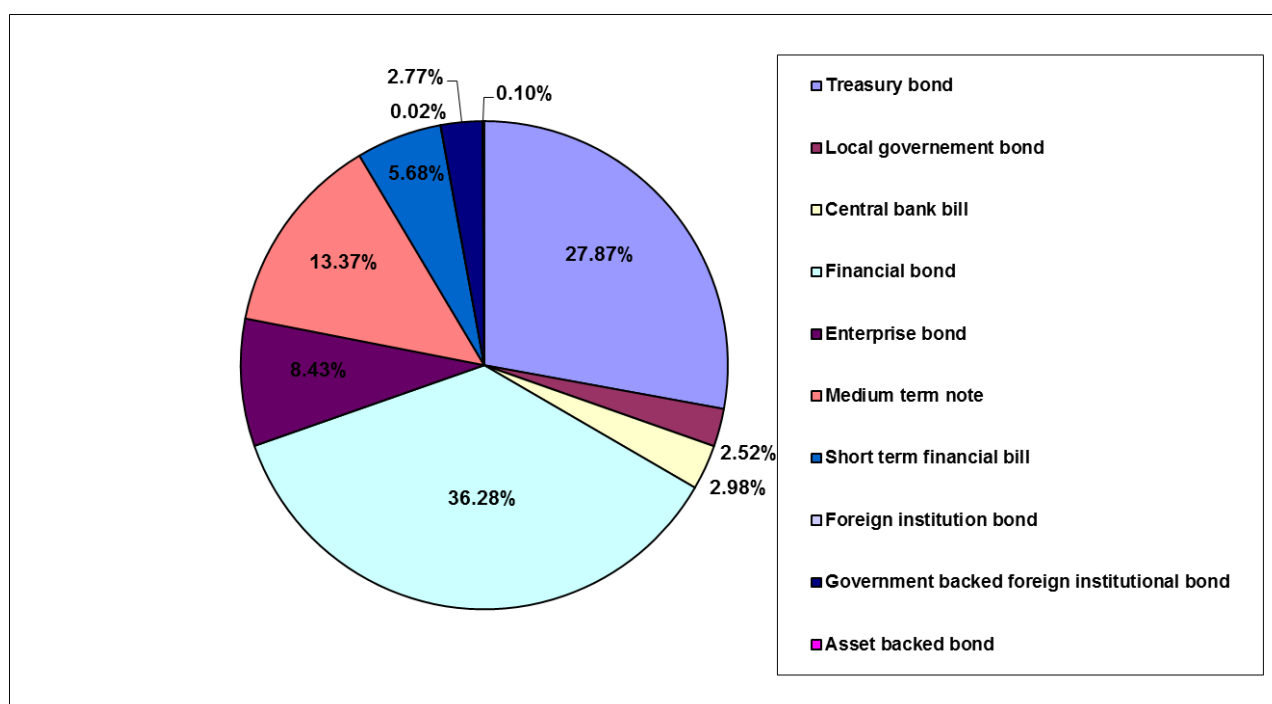
	Inter-bank bond market	Exchange-traded bond market
Market size	Approximately RMB 24.6 trillion, as at 31 December 2012 (source: Wind)	Approximately RMB 13.1 trillion, as at 31 December 2012 (source: Wind)
Major types of products traded	Treasury bonds, local government bonds, central bank bills, financial bonds, enterprise bonds, short-term financing bills, medium term notes, asset-backed securities	Treasury bonds, local government bonds, enterprise bonds, corporate bonds, financial bonds, convertible bonds

Key market participants	Commercial banks, insurance companies, mutual funds, security companies, foreign investors with RQFII status	Commercial banks, insurance companies, mutual funds, security companies, foreign investors with QFII or RQFII status, corporations and individual investors
Trading & settlement mechanism	<p>Trading mechanism: a quote-driven over-the-counter market between institutional investors</p> <p>Settlement mechanism: primarily delivery versus payment (DVP), on either a T+0 or T+1 settlement cycle</p>	<p>Trading an electronic automatic matching system where securities are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange</p> <p>Settlement mechanism: clearing and settlement are through the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限責任公司) (the “CSDCC”)</p>
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 Shanghai and Shenzhen stock exchanges
Central clearing	China Central Depository & Clearing Co., Ltd (中央國債登記結算公司) ; 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	Total trading volume in the 12 months to 31 December 2012 was approximately RMB 70.8 trillion (source: ChinaBond)	Total trading volume in the 12 months to 31 December 2012 was approximately RMB 0.6 trillion (source: ChinaBond)
Associated risks	Interest rate risk, credit risk, counterparty risk	Interest rate risk, credit risk, liquidity risk
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</p>

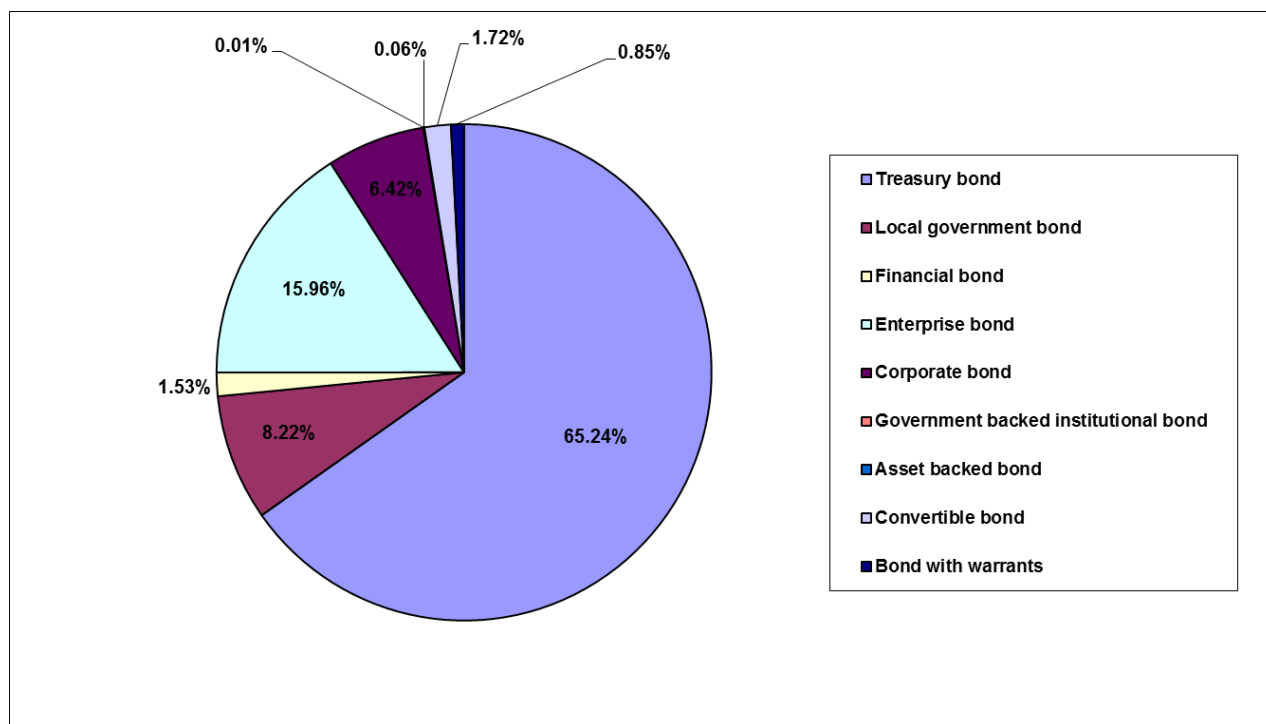
		the quote-driven platform (競價交易系統), which is open to all investors, including retail investors.
Types of debt instruments commonly seen and the issuers	<p>Treasury bonds: issued by Ministry of Finance</p> <p>Central bank bills: issued by PBOC</p> <p>Financial bonds: issued by policy banks (China Development 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>Treasury bonds: issued by Ministry of Finance</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>

The below graphs illustrate the breakdown of various types of instruments on the different markets (source: China Bond, Wind as of 30 June 2013):

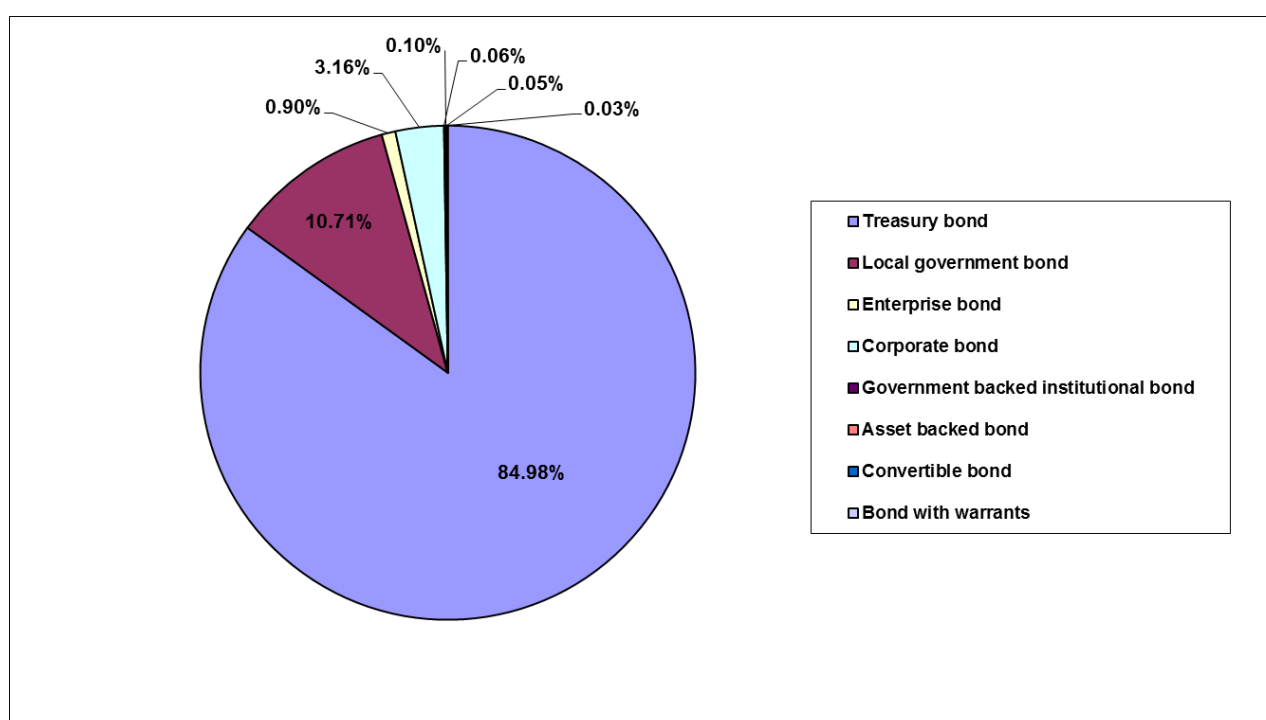
(a) inter-bank bond market



(b) exchange-traded bond market (Shanghai exchange)



(c) exchange-traded bond market (Shenzhen exchange)



The yields of major debt instruments are as follows (the below yields are general averages for reference only as at 30 June 2013) (source: Bloomberg):

(a) Inter-bank bond market

Years to Maturity	Treasury bonds	Central bank bills	Policy bank bonds
1/2	3.77	3.87	4.36
1	3.48	3.60	4.10
2	3.22	3.36	4.12
3	3.20	3.35	4.11
4	3.30		4.08
5	3.29		4.05
7	3.39		4.14
10	3.51		4.19
15	3.75		4.55
20	3.99		4.78
30	4.13		4.91

Years to Maturity	Financial bonds			Corporate bonds		
	AAA	AA+	AA	AAA	AA+	AA
1/2	5.16	5.28	5.42	5.16	5.52	5.63
1	5.03	5.15	5.28	5.03	5.39	5.60
2	4.55	4.67	4.97	4.55	4.94	5.24
3	4.65	4.74	5.08	4.65	5.04	5.38
4	4.69	4.80	5.17	4.69	5.10	5.46
5	4.75	4.93	5.30	4.75	5.23	5.61
7	4.86	5.10	5.59	4.86	5.42	5.94
10	5.12	5.47	5.94	5.12	5.79	6.39
15	5.43	5.79	6.27	5.43	6.11	6.70
20	5.64	6.02	6.49	5.64	6.33	7.55
30	5.78	6.17	6.63	5.78	6.47	7.05

(b) Exchange-traded bond market

Years to Maturity	Treasury bonds	Corporate bonds (AAA)
1/2	3.81	5.22
1	3.51	5.08
2	3.25	4.60
3	3.24	4.70
4	3.33	4.74
5	3.32	4.80
7	3.42	4.91
10	3.55	5.18
15	3.79	5.48
20	4.03	5.70
30	4.17	5.84

Local credit ratings of bonds in the PRC

PRC bonds, whether they are traded on the inter-bank market or the exchange-traded market, are generally rated by local credit rating agencies. There are five major credit rating agencies in China: Pengyuan Credit Rating Co., Ltd. (鵬元資信評估有限公司), Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司), China LianHe Credit Rating Co., Ltd. (聯合信用評級有限公司), China Chengxin Security Rating Co. Ltd. (中誠信國際信用評級有限責任公司) and Dagong Global Credit Rating Co., Ltd. (大公國際資信評估有限公司). Local credit rating agencies must be approved by the relevant PRC authorities to conduct ratings business and are also subject to industry self-regulation. Bond issuers will release their credit rating reports and investors may obtain rating information on a specific issuer's website, through public sources such as www.chinabond.cn and announcements on the Shanghai and Shenzhen stock exchanges.

Investors may obtain more information on rating methodologies from the websites of the above credit agencies. Investors should, however, exercise caution when referring to PRC local credit ratings of bonds, as the ratings industry in the PRC is still in an early development stage. Due to the lack of historical data and slow response to credit events, the rating methodologies used by PRC local credit agencies, whilst they may in general be similar to those adopted by international credit rating agencies, may be driven by domestic factors rather than more quantitative methods.

In selecting the Sub-Fund's bond portfolio, the Manager may refer to credit ratings given by Local Credit Rating Agencies for reference but will primarily rely on its own internal analysis to evaluate each bond independently.

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

Class A and Class I Units are currently available for issue to investors.

Initial Offer Period

The Initial Offer Period of the Sub-Fund will commence at 9:00 a.m. (Hong Kong time) on 18 November 2013 and end at 4:00 p.m. (Hong Kong time) on 6 December 2013 (or such other dates or times as the Manager may determine).

The initial Subscription Price is RMB100 per Unit.

The Manager may decide to close the Sub-Fund to further subscriptions before the end of the Initial Offer Period without any prior or further notice if the total subscription amount reaches RMB720 million. In this case, investors may invest in the Sub-Fund after the Initial Offer Period on each dealing day, up to the RQFII quota available to the Sub-Fund.

The Manager may decide not to issue any Units in the event that less than RMB100 million is raised during the 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 by such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) within 14 Business Days after the expiry of the Initial Offer Period.

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:

Dealing Day each Business Day.

Dealing Deadline 4:00 pm (Hong Kong time) on the relevant Dealing Day

Investors should note that subscription monies in respect of the Sub-Fund must be paid in RMB. Redemption proceeds will be paid to redeeming Unitholders in RMB.

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 in RMB 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, but in such a case the SFC's prior approval will be sought before extending the time frame for payment, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the PRC.

Investment Minima

The following investment minima apply to the respective class of the Sub-Fund:

	Class A Units	Class I Units
<i>Minimum initial investment</i>	RMB10,000	RMB10,000,000
<i>Minimum subsequent investment</i>	RMB5,000	RMB1,000,000
<i>Minimum holding</i>	RMB10,000	RMB10,000,000
<i>Minimum redemption amount</i>	RMB10,000	RMB1,000,000

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.gffunds.com.hk (this website has not been reviewed by the SFC) and will be published daily in the South China Morning Post and the Hong Kong Economic Times.

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 months' 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

	Class A Units	Class I Units
<i>Subscription fee</i>	Up to 3% of the Subscription Price	Up to 3% of the Subscription Price
<i>Redemption fee</i>	nil	nil
<i>Switching fee</i>	nil	nil

Fees payable by the Sub-Fund

	Class A Units	Class I Units
<i>Management fee</i>	1.25% per annum of the Net Asset Value of the Sub-Fund	0.75% per annum of the Net Asset Value of the Sub-Fund
<i>Performance fee</i>	nil	nil
<i>Trustee fee</i>	0.18% per annum of the Net Asset Value of the Sub-Fund Subject to a minimum monthly fee of RMB36,000	0.18% per annum of the Net Asset Value of the Sub-Fund Subject to a minimum monthly fee of RMB36,000

(inclusive of fees payable to the Custodian, the Registrar and Transfer Agent and the PRC Custodian) (inclusive of fees payable to the Custodian, the Registrar and Transfer Agent and the PRC Custodian)

Additional Risk Factors

The following risk factors are specific to the Sub-Fund. Investors should also note the risk factors applicable to all Sub-Funds, including the Sub-Fund, which are set out in the section entitled “Risk Factors” in the main body of this Explanatory Memorandum.

Investment risk

Investors should be aware that investment in the 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 guarantee of repayment of principal.

Whilst it is the intention of the Manager to implement strategies which are designed to achieve the investment objective, there can be no assurance that these strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques. Accordingly, there is a risk that investors may not recoup the original amount invested in the Sub-Fund or may lose a substantial part or all of their initial 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 investments in the PRC may subject the Sub-Fund’s investments to greater volatility than portfolios which comprise broad-based global investments.

Risk of investing in fixed income instruments:

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’s invests in domestic PRC bonds, 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 bonds in the Sub-Fund’s portfolio, which may in turn adversely affect the return of the Sub-Fund.

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 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, 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 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.

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.

Risks of investing in PRC bond markets and of unrated or below investment grade bonds

The Sub-Fund invests in onshore PRC bonds. The financial market of the PRC is at an early stage of development, and some of such PRC bonds may be rated below investment grade or 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. The value of these instruments may also be more difficult to ascertain and thus the Net Asset Value of the Sub-Fund may be more volatile. "Investment grade" is defined as a credit rating of AA or above as rated by any one of the Local Credit Rating Agencies.

Investors should therefore be aware that an investment in the Sub-Fund is subject to higher volatility, price fluctuations and risks than an investment in bond products in more developed markets.

Risk of credit rating not the only selection criterion

The credit rating of a bond is not the only selection criterion for investment by the Sub-Fund. Investors should therefore note that even if all the bonds the Sub-Fund invests in have an investment grade rating as of the date of this Explanatory Memorandum, there is no assurance that (a) such bonds will continue to have an investment grade rating, (b) the Sub-Fund will not invest in bonds that do not have an investment-grade rating in future; (c) such bonds will continue to be rated, and/or (d) the Sub-Fund will not invest in non-rated bonds in future. Moreover, the Manager may or may not, in its sole discretion, dispose of debt instruments that fall below a credit rating of AA. The Manager will take into account factors including liquidity and maturity date of the relevant debt instrument and market sentiment towards the debt instrument at the relevant time to determine whether (and when) disposing of a debt instrument that falls below a credit rating of AA is in the financial interest of the Sub-Fund. Please also refer to "Risks associated with local PRC credit ratings" below.

Risks associated with local PRC credit ratings

Some PRC bonds may have been assigned an investment grade rating by a local credit rating agency in the PRC. Local credit rating agencies must be approved by the relevant PRC authorities to conduct ratings business and are also subject to industry self-regulation. 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. In selecting the Sub-Fund’s bond portfolio, the Manager may refer to credit ratings given by Local Credit Rating Agencies for reference but will primarily rely on its own internal analysis to evaluate each bond independently. Investors should also exercise caution before relying on any local credit ratings.

Risks associated with Urban Investment Bonds (城投債)

The Sub-Fund may invest up to 60% of its Net Asset Value in Urban Investment Bonds (城投債). Although these 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 the Urban Investment Bonds, the Sub-Fund could suffer very significant loss and the Net Asset Value of the Sub-Fund could be adversely affected.

Liquidity risk

The 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 the 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 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 Sub-Fund’s value or prevent the Sub-Fund from being able to take advantage of other investment opportunities.

Liquidity risk also includes the risk that the 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, the Sub-Fund may be forced to sell investments, at an unfavourable time and/or conditions.

Investment in fixed income securities will be especially subject to the risk that during certain periods, the liquidity of particular issuers or industries, or all securities within a particular investment category, will shrink or disappear suddenly and without warning as a result of adverse economic, market or political events, or adverse investor perceptions whether or not accurate.

Currently, the inter-bank bond market in China is larger and has larger trading volume than the exchange-trade bond market. Nevertheless, China’s bond market is still in a stage of development and the bid and offer spread of RMB bonds, whether traded on the inter-bank or listed bond market, may be high and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. In the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund’s bond portfolio by a series of internal management measures in order to meet Unitholders’ redemption requests.

Operational and settlement risks

The Sub-Fund is subject to operational risks that may arise from any breaches by the Manager's investment management staff of the Manager's operational policies or technical failures of communication and trading systems. Whilst the Manager has in place internal control systems, operational guidelines and contingency procedures to reduce the chances of such operational risks, there is no guarantee events beyond the control of the Manager (such as unauthorised trading, trading errors or system errors) will not occur. The occurrence of any such events may adversely affect the value of the Sub-Fund.

To the extent that Sub-Fund transacts in the inter-bank bond market in China, the Sub-Fund may also be exposed to risks associated with settlement procedures. Any significant delays in the settlement of transactions or the registration of a transfer may affect the ability to ascertain the value of the Sub-Fund's portfolio and adversely affect the Sub-Fund.

Risk of investing in other funds

The Sub-Fund may from time to time invest in other public bond funds issued in China 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.

Conflicts of interest: 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. 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 resolve such conflicts fairly.

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 "GF International Investment Management Limited – GFIIIM China RQFII Bond Fund" in accordance with the relevant rules and regulations, and maintained in electronic form via a securities account with the CSDCC. The account is required to bear the name of "GF International Investment Management 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 RQFII Custody 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.

There can be no assurance that additional RQFII Quota can be obtained to fully satisfy subscription requests. This may result in a need for the Manager to close the Sub-Fund to further subscriptions. In extreme circumstances, the Sub-Fund may incur significant loss due to limited investment capabilities, or may not be able fully to implement or pursue its investment objectives or strategies, due to RQFII investment restrictions, illiquidity of the PRC's securities markets, and delay or disruption in execution of trades or in settlement of trades.

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.

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 a securities account with the CSDCC and a cash account 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 or the PRC Custodian 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 account would belong to the 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 belong 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.

Repatriation risk

Repatriations by RQFIIs conducted in RMB for a fund such as 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.

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.

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

Investors whose assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB (being the currency in which the Units are denominated) should take into account the potential risk of loss arising from fluctuations in value between the 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).

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.

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.

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.

Changes in PRC taxation risk

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. In particular, please refer to "Risk associated with PRC taxation" below.

Risk associated with PRC taxation

By investing in RMB-denominated debt instruments issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore ("onshore PRC securities") or offshore ("offshore PRC securities", and together with onshore PRC securities, the "PRC Securities"), the Sub-Fund may be subject to PRC taxes.

Corporate Income Tax

Dividend income and interest income – If the Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to PRC Corporate Income Tax ("CIT") at 25% on its worldwide taxable income. If the Sub-Fund is considered a non-tax resident enterprise with an

establishment or place of business (“PE”) in the PRC, the profits and gains attributable to that PE would be subject to PRC CIT at 25%.

The Manager and the Trustee intend to manage and operate the Sub-Fund in such a manner that the Sub-Fund should not be treated as a tax resident enterprise of the PRC or a non-tax resident enterprise with an establishment or place of business in the PRC for CIT purposes, although this cannot be guaranteed.

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 CIT on a withholding basis (“WIT”), generally at a rate of 10%, to the extent it directly derives PRC sourced passive income. PRC sourced passive income (such as interest income from the investment in PRC Securities). Accordingly, the Sub-Fund may be subject to WIT on any interest it receives from a Sub-Fund’s investment in PRC Securities. Under the PRC CIT Law, interests derived from government bonds are exempt from PRC WIT.

Under current regulations in the PRC, foreign investors (such as the Sub-Fund) may invest in onshore PRC securities, generally, only through a QFII or a RQFII (in this section referred to as the “relevant QFII”). Since only the relevant QFII’s interests in onshore PRC securities are recognised under PRC laws, any tax liability would, if it arises, be payable by the relevant QFII. However under the terms of the arrangement between the relevant QFII and the Trust, the relevant QFII will pass on any tax liability to the Trust for the account of the relevant Sub-Fund. As such, the Trust is the ultimate party which bears the risks relating to any PRC taxes which are so levied by the relevant PRC tax authority. Under current PRC tax laws and regulations, a relevant QFII is subject to a WIT of 10% on interest from the PRC securities unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

Capital gains – Specific rules governing taxes on capital gains derived by QFIIs or RQFIIs from the trading of PRC Securities have yet to be announced. It is possible that the relevant tax authorities may in the future clarify the tax position on capital gains realised by the Sub-Fund dealing in PRC Securities or by a relevant QFII from dealing in onshore PRC securities. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the PRC CIT Law. If the foreign investor is a non-tax resident enterprise without PE in the PRC, a 10% WIT would be imposed on the PRC-sourced capital gains, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

In light of the uncertainty on the income tax treatment on capital gains and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for the WIT on such gains or income and withhold the tax for the account of the Sub-Fund. The Manager will at present make a provision of 10% for the account of the Sub-Fund in respect of any potential WIT on capital gains, whether realised or unrealised. The amount of actual provision will be disclosed in the accounts of the relevant Sub-Fund. Investors should note that such provision may be excessive or inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant PRC tax authorities. Upon any future resolution of the above-mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

Business Tax (“BT”) and other surtaxes:

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

Caishui [2005] 155 states that gains derived by QFIIs from the trading of Chinese securities are exempt from BT. The new PRC BT law which came into effect on 1 January 2009 has not

changed this exemption treatment at the time of this Memorandum. However, it is not clear whether a similar exemption would be extended to RQFIIIs.

However, for marketable securities other than those trading under QFIIs, the new BT law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities. Where capital gains are derived from trading of offshore PRC securities (e.g. H-shares) BT in general is not imposed as the purchase and disposal are often concluded and completed outside China.

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

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

If BT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of BT payable.

It should also be noted that the actual applicable tax rates imposed by SAT may be different and may change from time to time. There is a possibility of the rules 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 the relevant Sub-Fund may suffer more than the tax provision amount as the 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 the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the 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 any 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.

Dividends risk

There is no assurance that the Sub-Fund will declare to pay dividends or distributions. The ability of the Sub-Fund to pay distributions also depends on interest payments made by issuers of onshore PRC fixed income instruments net of any PRC dividend withholding tax or provision for withholding tax and the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the PRC issuers of the PRC fixed income instruments within the Sub-Fund's portfolio.

The ability of the issuers of onshore PRC fixed income instruments to make interest payments is based on numerous factors, including their current financial condition and general economic conditions. There can be no assurance that such companies will be able to honour payment obligations.

Investors may not therefore receive any distributions.

Distributions payable effectively out of capital risk

The Manager may at its discretion pay dividend effectively out of capital of the Sub-Fund. Please refer to “Distribution policy” below. Payment of dividends effectively out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment. Payment of dividends effectively out of capital may result in an immediate decrease of the Net Asset Value per Unit.

Reports and accounts

The first accounts for the Sub-Fund cover the period to 31 December 2014.

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. Currently, the Manager intends to make distribution on a semi-annual basis (i.e. June and December in each year) and to distribute not less than 50% of the coupon duly received by the Sub-Fund in the relevant period at its own discretion. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed.

The Manager may at its discretion pay dividend out of gross income while charging/paying all or part of the Sub-Fund’s fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital.

The compositions of the dividends (i.e. the relative amounts paid from 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 effectively out of capital) will be available from the Manager on request and on the Manager’s website. The Manager may amend the policy regarding paying dividends effectively out of capital subject to the SFC’s prior approval and by giving not less than one month’s advance notice to Unitholders.

All distributions declared (if any) on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly.

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