IMPORTANT

If you are in any doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), Hong Kong Securities Clearing Company Limited ("**Hongkong Clearing**") and the Hong Kong Securities and Futures Commission (the "**SFC**") take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

ABF HONG KONG BOND INDEX FUND

a Hong Kong unit trust authorized under
section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong

Prospectus

This Prospectus describes and offers for sale units in the ABF Hong Kong Bond Index Fund (the "**Trust**").

Potential investors in the Trust should be aware of certain risks relating to an investment in the Trust. See the section entitled "Principal Risk Factors" on pages 13 to 21.

The Trust seeks investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index* (the "**Underlying Index**") compiled by Markit Indices Limited (the "**Index Provider**"), before fees and expenses. HSBC Investment Funds (Hong Kong) Limited, based in Hong Kong (the "**Manager**"), is the manager of the Trust.

Units of the Trust, called "**Units**" throughout this Prospectus are currently listed and dealt only on the Stock Exchange at market prices throughout the trading day. Market prices for Units may, however, be different from their net asset value ("**NAV**").

The Trust issues and redeems Units at NAV on each day on which (i) the Stock Exchange is open for normal trading; and (ii) the Underlying Index is compiled and published. However, Units are generally only issued and redeemed in blocks of 50,000 Units (each a "**Creation Unit**") or in multiples thereof. An issue and redemption of Creation Units may be effected in exchange (i) for a specified basket of HK$ denominated Government or Other Public Securities and a specified amount of cash, or (ii) for cash only. **Government or Other Public Securities** means HK$ denominated debt obligations issued or guaranteed by the government of Hong Kong ("**HKSAR Government**") (or any other of the following Asian governments; the governments of China, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand ("**Asian Governments**" and "**Asian Government**" being any one of them)), by an agency or instrumentality of the HKSAR Government (or any other Asian Government), by a HKSAR Government (or any other Asian Government) sponsored entity or a quasi HKSAR Government (or any other Asian Government) entity and HK$ denominated debt

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* Markit iBoxx is a registered trade mark of Markit Indices Limited.

obligations issued by supranational financial institutions in each case as determined by the Index Provider and which are for the time being constituent securities of the Markit iBoxx ABF Hong Kong Index and certain other securities issued by the same issuer of any such constituent securities. As a practical matter, only securities dealers or other large investors purchase or redeem Creation Units. Most smaller investors will buy and sell Units on the Stock Exchange. Except when aggregated in Creation Unit sizes, Units are not redeemable securities.

An investment in the Trust is not a bank deposit nor is it insured or guaranteed by the HKSAR Government or any other Hong Kong government agency.

The Trust has been authorized by the SFC under the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"). SFC authorization is not a recommendation or endorsement of the Trust nor does it guarantee the commercial merits of the Trust or its performance. It does not mean the Trust is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Units have been accepted as eligible securities by Hongkong Clearing for deposit, clearing and settlement in the Central Clearing and Settlement System ("**CCASS**"). All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Personal Data or Confidential Information

(1) Information (including personal data, confidential information and information necessary to assess tax status) provided by a unitholder and details of transactions of such unitholder will be used, shared, stored, processed, transferred and disclosed (in and outside Hong Kong) so that the Manager or any HSBC entity (the “HSBC Group”) can carry out its obligations in respect of the Trust or for other purposes including but not limited to (a) providing services to the unitholder, (b) fulfilling or complying with any applicable statute, law, regulation, ordinance, rule, judgment, decree, voluntary code, directive, sanctions regime, court order, agreement with authorities ("**Laws**"); any demands from authorities or obligations under Laws; and Laws requiring any member of the HSBC Group to verify the identity of the unitholder ("**Compliance Obligations**"), (c) detecting, investigating and preventing fraud, money laundering, corruption, tax evasion and any other crime or attempts to violate Laws and fulfilling related Compliance Obligations, (d) enforcing or defending HSBC Group's, or a member of the HSBC Group's rights, (e) fulfilling internal operational requirements of the HSBC Group, (f) maintaining HSBC Group's overall relationship with the unitholder.

(2) Failure to provide information may result in the Manager being unable to provide services to the unitholder or taking appropriate action or reporting to tax authorities. Information may be shared with other parties including but not limited to entities within the HSBC Group (provided that such information will be protected by HSBC Group's data protection policy).

(3) A unitholder has the right to request access to and correction of any personal data or to request the personal data not to be used for direct marketing purposes.

(4) Collection and use of personal data will be subject to the requirements under the Personal Data (Privacy) Ordinance of Hong Kong.

Enquiries and Complaints

Enquiries and complaints concerning the Trust (including information concerning creation and redemption procedures and the current net asset value) should be directed to the Manager at (852) 2284 1118 or at Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong. The Manager will respond to any enquiry or complaint as soon as practicable.

19 October 2022

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Overview

<u>Introduction</u>

This Prospectus

This Prospectus provides certain information you need in order to make an informed decision about investing in the Trust. It contains important facts about the Trust. This Prospectus includes particulars given in compliance with the Code on Unit Trusts and Mutual Funds issued by the SFC (the "**SFC Code**") and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the purpose of providing information to the public with regard to the Trust.

The Manager of the Trust accepts full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

This Prospectus is published in connection with the offer of Units in Hong Kong. No person is authorized in connection with the issue of Units to give any information, or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by either the Manager or any of its directors or any other persons involved in the issue of Units pursuant to the offer contained in this Prospectus.

The Trust Authorization

The Trust is a unit trust authorized under section 104 of the SFO and is established under the terms of a trust deed dated 10th June 2005 (the "**Trust Deed**") made between HSBC Investment Funds (Hong Kong) Limited (as the "**Manager**") and HSBC Institutional Trust Services (Asia) Limited (as the "**Trustee**"). The Trust Deed is governed by Hong Kong law.

The Trust

The Trust is an "index fund" which seeks investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index, before fees and expenses. The Markit iBoxx ABF Hong Kong Index is an indicator of investment returns of HK$ denominated debt obligations issued or guaranteed by the HKSAR Government (or any other Asian Government), by an agency or instrumentality of the HKSAR Government (or any other Asian Government), by a HKSAR Government (or any other Asian Government) sponsored entity or a quasi HKSAR Government (or any other Asian Government) entity and HK$ denominated debt obligations issued by supranational financial institutions in each case as determined by the Index Provider and which are for the time being constituent securities of the Underlying Index ("**Index Securities**"). The Index Provider determines the composition of the Underlying Index in accordance with its rules and procedures for the Underlying Index (which may change from time to time), and publishes information regarding the composition, investment characteristics and return of the Underlying Index. The Underlying Index is discussed more fully under the section entitled "Description of the Trust" and Appendix 1.

The Trust is designed for investors who seek an "index-based" approach to investing in a portfolio of HK$ denominated government and quasi-government bond securities. Units may also be used as an asset allocation component or as a trading instrument. Whilst the Trust mainly invests in a portfolio of bonds issued by the HKSAR Government and other Index Securities, the Trust itself is not guaranteed by the HKSAR Government or any Hong Kong government agency.

Unlike many conventional unit trusts and mutual funds, which are only bought and sold at closing net asset values, the Units have been designed to be tradable in the secondary market on the Stock Exchange on an intra-day basis, and to be created and redeemed in cash or in-kind in a Creation Unit size of 50,000 Units or multiples thereof at the NAV calculated with respect to each Dealing Day (as defined in the section entitled "Creation and Redemption of Units").

The Manager of the Trust, HSBC Investment Funds (Hong Kong) Limited, is an indirectly wholly-owned subsidiary of HSBC Holdings plc ("**HSBC**"). The Manager is a licensed corporation under the SFO for Types 1 (dealing in securities), 4 (advising on securities), 5 (advising on futures contracts) and 9 (asset management) regulated activities. In addition, as the appointed manager of the Trust the Manager is subject to, and required to comply with, the SFC Code.

The Trustee of the Trust, HSBC Institutional Trust Services (Asia) Limited, is an indirectly wholly-owned subsidiary of HSBC. HSBC Institutional Trust Services (Asia) Limited is a registered trust company under the Trustee Ordinance (Cap. 29) of Hong Kong.

Under the terms of the Trust Deed, a supervisory committee (the "**Supervisory Committee**") has been constituted to direct and oversee the Trustee and the Manager on certain matters relating to the management and administration of the Trust. The Supervisory Committee currently comprises four members. See the section entitled "Management and Operations".

The "Investment Objective and Policies of the Trust" and "Principal Risk Factors" sections of this Prospectus discuss the principal strategies and risks applicable to the Trust, while the "Description of the Trust" section provides other important information about the Trust, including a brief description of the Underlying Index.

The base currency of the Trust is Hong Kong dollars ("**HK$**" or "**HK dollars**").

The Offer of Units

No action has been taken to permit the public offer of the Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Prospectus and the offering of Units in certain jurisdictions may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions.

No offer of Units is made in any jurisdiction in which such offer is illegal. No public offer of Units is intended in any jurisdiction (other than Hong Kong) which distinguishes between public offers and private placings of securities.

Listing and Dealing

Units are currently listed and dealt only on the Stock Exchange in board lots of 100 Units. The Units are traded in HK dollars.

Units have been accepted by Hongkong Clearing as eligible securities of CCASS. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after any effected trade. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Certificates will not be issued in respect of the Units. Units are registered in the name of HKSCC Nominees Limited ("**HKSCC Nominees**") by the Registrar. The register of unitholders of the Trust is the evidence of ownership. Any beneficial interest in the Units will be established through an account with CCASS.

Description of the Trust

The Trust is a unit trust authorized under section 104 of the SFO and is established under the terms of the Trust Deed made between HSBC Investment Funds (Hong Kong) Limited as the Manager and HSBC Institutional Trust Services (Asia) Limited as the Trustee. Authorization of the Trust does not imply official approval or recommendation of the Trust by the SFC. The Trust Deed is governed by Hong Kong law.

The Supervisory Committee has been constituted to direct and oversee the Trustee and the Manager on certain matters relating to the management and administration of the Trust including the power to direct the Trustee and the Manager on matters relating to the overall structure of the Trust and strategic issues relating to its management and administration and the power to recommend that the Manager or the Trustee should be removed. Refer to the section entitled "Management and Operations - The Supervisory Committee" for details on the powers of the Supervisory Committee.

Units are currently listed and dealt only on the Stock Exchange. Units have been accepted by Hongkong Clearing as eligible securities of CCASS. Investors will not therefore receive any Unit certificates. The Trust is an "index fund" which seeks investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index, before fees and expenses.

Stock Exchange Trading Symbol: 2819

Underlying Index: Markit iBoxx ABF Hong Kong Index

The Markit iBoxx ABF Hong Kong Index (i.e. the Underlying Index) is determined and composed by Markit Indices Limited ("**Markit**" or the "**Index Provider**").

The Markit iBoxx ABF Hong Kong Index is an indicator of investment returns of HK$ denominated debt obligations issued or guaranteed by the HKSAR Government (or any other Asian Government), by an agency or instrumentality of the HKSAR Government (or any other Asian Government), by a HKSAR Government (or any other Asian Government) sponsored entity or a quasi HKSAR Government (or any other Asian Government) entity and HK$ denominated debt obligations issued by supranational financial institutions in each case as determined by the Index Provider and which are for the time being constituent securities of the Underlying Index.

The SFC reserves the right to withdraw the authorization of the Trust if the Underlying Index is no longer considered by the SFC to be acceptable.

Additional information in respect of the Underlying Index is set out in Appendix 1.

Investment Objective and Policies of the Trust

Investment Objective

The investment objective of the Trust is to seek to provide investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index, before fees and expenses.

Investment Policies and Strategies

The Manager will seek to achieve the Trust's investment objective by investing the Trust's assets primarily in Index Securities and adopting a representative sampling strategy or similar strategy. Representative sampling is a strategy investing in a representative sample of securities in the Underlying Index which, on aggregate, have a similar investment profile as that of the Underlying Index (such as yield and duration). The Trust generally will not hold all the securities that are included in the Underlying Index and the Trust may hold Index Securities in excess of their corresponding weighting in the Underlying Index provided that the total exposure to an Index Security will not exceed such Index Security's weighting in the Underlying Index by an amount which is more than 5% of the Trust's total NAV.

In addition, in order to minimize the Trust's tracking error relative to the performance of the Underlying Index, the Manager may also invest up to 20% of the Trust's NAV in investments other than Index Securities comprising:

(a) securities which are not Index Securities ("non-Index Securities") as long as they are issued by an issuer of any Index Security and HK$ denominated with a minimum issue size of HK$250 million (or such other amount as determined by the Manager from time to time with the prior approval of the Trustee and the Supervisory Committee).

(b) securities which qualified under the provisions of (a) at the point of investment but which no longer qualify but the Manager considers that retaining them is beneficial to meeting the investment objective. These investments may include government and quasi-government bonds as well as corporate bonds which may carry a greater degree of credit risk.

The Manager will rebalance the Trust's portfolio of investments from time to time to reflect any changes to the composition of, or the weighting of, securities in the Markit iBoxx ABF Hong Kong Index with a view to minimizing tracking error of the Trust's overall returns relative to the performance of the Underlying Index. Such rebalancing may include making investments in non-Index Securities.

In accordance with the SFC Code, the Manager will ensure that the Trust will invest in at least six different issues of securities with no more than 30% of the Trust's total NAV invested in any security (which is a Government or Other Public Security, including without limitation an Index Security) of the same issue. For this purpose, Government or 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.

Derivatives may be used to manage interest rate risk and otherwise for efficient portfolio management. The Manager will use these derivatives in the Trust's portfolio to help achieve the investment objective of the Trust by closely matching the Trust's portfolio with the Underlying Index as well as with other characteristics important to tracking the Underlying Index.

The Trust may invest up to 10% (other than for hedging purposes) of its total NAV (as calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time) in Sale and Repurchase Transactions/Reverse Repurchase Transactions (as defined on page 6), futures contracts, options on futures contracts, options, warrants and other derivative instruments related to the Underlying Index or related to positions in Index Securities or non-Index Securities held by the Trust, in seeking performance that corresponds closely with the Underlying Index consistent with achieving the investment objective of the Trust and in managing cash flows. A separate 10% limit will be applicable to any similar investments made for hedging purposes. This shall also apply to any derivative instrument that is embedded in an Investment or a financial instrument.

The Trust may invest in instruments with loss-absorption features (e.g. contingent convertible securities). The actual exposure of such instruments will depend on the composition of the Index Securities, and in any event, should be less than 30% of the NAV of the Trust.

The Trust may also invest, as needed, in cash equivalent investments. However, the Manager intends to minimize the Trust's holdings of cash and cash equivalents at any time.

Unlike "actively managed" unit trusts and mutual funds, the Trust does not try to "beat" the market it tracks and does not seek temporary defensive positions when markets decline or appear overvalued by some standards. Accordingly, a fall in the Underlying Index will result in a corresponding fall in the NAV of the Trust.

Correlation. "**Correlation**" measures the degree to which the periodically measured total return of one investment resembles that of another investment. An index is a theoretical financial calculation while the Trust is an actual investment portfolio. The performance of the Trust and the Underlying Index will vary somewhat due to fees and expenses, transaction costs, variations in their constituent securities, market impact and timing variances.

The Manager expects that, over the long term, the correlation between the Trust's total return and that of the Underlying Index, before fees and expenses, will be 95% or better. A figure of 100% would indicate perfect correlation. It is expected that the tracking error between pre-expense total returns of the Trust and its related Underlying Index will be less than 50 basis points on an annual basis. The tracking error is a measure of the variation between the Trust's total return and the total return of the Underlying Index; the Trust's pre-expense total returns measured on an annual basis should differ from the total return of the Underlying Index by less than this tracking error amount most of the time on average over the long term. While the Manager expects to achieve the above correlation, neither the Manager nor the Trustee shall be liable if the actual correlation of the Trust's total returns, before fees and expenses, and that of the Underlying Index is less than the anticipated correlation.

Strategies to minimize tracking error. In order to minimize the tracking error, it is the intention of the Manager that the Trust will be passively managed with its portfolio's duration, yield curve and credit risk matched closely to that of the Underlying Index at all times.

The Trust's portfolio securities will be chosen in a way that the Trust's average portfolio duration, sector, maturity bucket distribution, yield curve risk and credit risk is similar to that of the Underlying Index, subject always to availability of the relevant Index Securities in the market at the time of investment or purchase.

Index Securities are always preferred to non-Index Securities (or securities which qualified as non-Index Securities at the point of investment and the Manager has retained) as portfolio holdings in order to match the Underlying Index. It is therefore the intention of the Manager to invest in non-Index Securities as a substitute for Index Securities when the required Index Securities are unavailable at a reasonable price in the market at the time of investment or purchase.

On each Business Day, the portfolio's performance and risk position will be monitored closely against that of the Underlying Index. In addition, it is the Manager's intention that its risk management function will monitor performance on a weekly basis and should the difference between the performance of the portfolio and the benchmark (without any distortion caused by cash inflows or outflows) be larger than a pre-determined amount, currently 15bp (although this may be subject to change to a different amount reasonably determined by the Manager without notice to investors), the Manager intends to reassess the portfolio's risk position by reference to average portfolio duration, sector and maturity bucket distribution against the benchmark. During the process of Unit creation and redemption, the Manager will aim to complete all the required security purchases and sales prior to the day's end and thereby minimize the Trust's cash holdings.

The securities portfolio holding of the Trust as of each Friday (or if not a Business Day (as defined on page 24) the previous Business Day) will be published on the Trust's designated web-page by no later than 9:30 a.m. on the following Business Day.

Securities financing transactions. The Manager may, with the approval of the Trustee, arrange for the Trust to: (a) lend its Index Securities and/or non-Index Securities to a security borrowing counterparty for an agreed fee ("**Securities Lending**"); (b) sell its Index Securities and/or non-Index Securities to a counterparty of Reverse Repurchase Transactions (as defined in this paragraph) and agree to buy such securities back at an agreed price with a financing cost in the future ("**Sale and Repurchase Transactions**"); and (c) purchase Index Securities and non-Index Securities and other high quality cash equivalent investments approved by the Trustee and with a remaining term of not more than 366 days from a counterparty of Sale and Repurchase Transactions and agree to sell such securities back at an agreed price in the future ("**Reverse Repurchase Transactions**"). Securities Lending, Sale and Repurchase Transactions and Reverse Repurchase Transactions are collectively known as "**Securities Financing Transactions**".

Securities Lending loans may not, however, exceed 10% of the Trust's total assets, including assets derived from such lending activities. In addition, no more than 50% of any security of the same entity may be lent at any one time.

All the revenues arising from Securities Financing Transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the Securities Financing Transactions, should be returned to the Trust. Where any Securities Financing Transaction has been arranged through the Manager, the Trustee or their respective Connected Persons (as defined on page 24), the relevant entity shall be entitled to retain for its own account any fee or commission it receives on a commercial arm's length basis in connection with such lending arrangement. The Trust will receive not less than 50% of any Securities Lending fees derived from its Securities Lending activities to help offset the Trust's costs and expenses. The balance of any Securities Lending fees will be for the account of the securities lending agent, Custodian and/or Administrator.

Securities Lending transactions will be entered into through the agency of a recognized clearing system or a financial institution which engages in this type of transaction.

The Trust shall have at least 100% collateralization in respect of the securities financing transactions into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions. Further details on collateral policy are given on page 10.

Securities Financing Transactions shall be in the best interests of the unitholders and the associated risks have been properly mitigated and addressed.

The Manager should ensure that the Trust is able to at any time recall the securities or the full amount of cash (as the case may be) subject to the Securities Financing Transactions or terminate the Securities Financing Transactions into which the Trust has entered.

Investment Restrictions. Under the terms of the Trust Deed, the Trust is restricted from holding investments which would result in the aggregate value of the Trust's investments in, or exposure to, securities (which are not Government or Other Public Securities) of the same entity exceeding 10% of the Trust's total NAV, through the following:

(a) investments in securities issued by that entity;

(b) exposure to that entity through underlying assets of financial derivative instruments, including without limitation futures contracts, options on futures contracts, options and warrants, traded on recognized futures exchanges or over-the-counter ("**OTC**") ("financial derivative instruments"); and

(c) net counterparty exposure to that entity arising from transactions of OTC financial derivative instruments.

The Trust's value of collateral and cash collateral to be reinvested and net single counterparty exposure to the guarantor should be taken into account in compliance with the investment restriction on single entity under this section.

As indicated above, the Trust is also restricted from holding investments which would result in the aggregate value of the Trust's investments in Index Securities and non-Index Securities (which are Government or Other Public Securities) of the same issue exceeding 30% of the Trust's total NAV.

If any of the applicable restrictions referred to in the SFC Code (for which a waiver has not been obtained) are breached (as a result of price fluctuations or otherwise), the Manager will make it a priority objective to take all steps necessary to remedy the situation within a reasonable period of time, taking into account the interests of unitholders.

The Trust is subject to a number of additional investment limitations (in addition to those set out above). The Trust may not:

- hold investments which would result in the aggregate value of the Trust's investments in, or exposure to, entities within the same group exceeding 20% of the Trust's total NAV, through the following:

  (a) investments in securities issued by those entities;

  (b) exposure to those entities through underlying assets of financial derivative instruments; and

  (c) net counterparty exposure to those entities arising from transactions of OTC financial derivative instruments;

  The Trust's value of collateral and cash collateral to be reinvested and net single counterparty exposure to the guarantor should be taken into account in compliance with the investment restriction on entities within the same group under this section;

- hold investments which would result in the value of the Trust's cash deposits made with the same entity or entities within the same group exceeding 20% of the Trust's total NAV, except for:

  - cash proceeds from liquidation of Investments prior to the merger or termination of the Trust, whereby the placing of cash deposits with various financial institutions would not be in the best interests of the unitholders; or

  - cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise the unitholders' interests;

For the purposes of the above restriction, "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Trust and not referable to provision of property or services;

- hold more than 10% of any ordinary shares issued by any single entity;
- hold any securities and other financial products or instruments that are neither listed, quoted nor dealt in on a market exceeding 15% of the Trust's total NAV;
- generally hold cash or cash equivalents (including short term deposits and certificates of deposits) exceeding 10% of the NAV of the Trust (except upon receipt of cash subscriptions or in order to fund cash payments on redemptions);
- deposit cash with, or invest in certificates of deposit or other banking instruments issued by, any single institution in excess of 5% of the NAV of the Trust;
- hold any interest in a collective investment scheme;
- hold any type of real estate;
- invest in physical commodities (including gold, silver, platinum or other bullion);
- effect any short sale; or
- acquire any asset or engage in any transaction which involves the assumption of any liability which is unlimited.

Full details of the investment restrictions are set out in the Trust Deed.

Contingency Plans if the Underlying Index ceases to be available. In the event that the Markit iBoxx ABF Hong Kong Index ceases to be available, the Manager will seek to procure the immediate use of an alternative index (if necessary customized by the Index Provider or the Manager) that, in the opinion of the Manager, is substantially similar to the Underlying Index and will manage the Trust's portfolio using this index, taking into account the interests of unitholders. The use of this index will be subject to prior approval by the Trustee, the Supervisory Committee and the SFC.

If no such index is immediately available, then the Manager shall consider the possibility of seeking an index provider to create an index that is substantially similar to the Underlying Index or, if necessary, to consider whether liquidating the Trust would be in the overall best interests of unitholders. The consent of the Trustee and the Supervisory Committee is required before the Manager is permitted to proceed.

During the period of transition when a benchmark index is not available, the Manager will continue to manage the portfolio in a manner consistent with the passive style of an index-tracking fund and in accordance with the methodology of the Markit iBoxx ABF Hong Kong Index to the extent that the Manager is able to determine such methodology.

Borrowing. The Manager may exercise from time to time certain borrowing powers in relation to the Trust, but all borrowings by the Trust may not exceed an amount equal to 10% of the Trust's total NAV. Borrowings must be made in Hong Kong dollars and may only be made on a temporary basis (not exceeding 90 days) and for the following specific purposes:

- to effect payments under the Trust Deed on a creation or redemption of Creation Units;

- to settle the purchase or sale of Index Securities or non-Index Securities, and to make other investments or enter into other transactions, in accordance with the terms of the Trust Deed and as permitted by the SFC Code;
- to meet any fees, expenses and liabilities of the Trust permitted under the Trust Deed; or
- to effect payments of income distributions in accordance with the Trust Deed.

If the aggregate principal amount of borrowings exceeds the permitted amount then the Manager will make it a priority objective to take all steps necessary to remedy the situation within a reasonable time taking into account the interests of investors. Any interest and/or expenses incurred in connection with any borrowing arrangements will be paid by the Trust.

Notwithstanding the preceding paragraphs under the sub-section "Borrowing", the Trust may engage in Securities Lending and Sale and Repurchase Transactions provided that they are in the best interests of the unitholders to do so and the associated risks have been properly mitigated and addressed. The counterparties to Securities Lending and Sale and Repurchase Transactions should be financial institutions which are subject to ongoing prudential regulation and supervision. The Trust should have at least 100% collateralization in respect of the Securities Lending and Sale and Repurchase Transactions into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions. All the revenues arising from the Securities Lending and Sale and Repurchase Transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the Securities Lending and Sale and Repurchase Transactions, should be returned to the Trust. The Trust should ensure that it is able at any time to recall the securities or the full amount of cash (as the case may be) subject to the Securities Lending and Sale and Repurchase Transactions or terminate the Securities Lending and Sale and Repurchase Transactions into which it has entered.

The Manager may use the Trust's assets as security (excluding assets comprising income receipts) for any borrowing.

The Trustee is not liable for any loss arising from depletion in the value of the Deposited Property resulting from any permitted borrowing arrangements entered into in accordance with the Trust Deed.

<u>Benchmark and Performance</u>

The performance of the Trust, before fees and expenses, will be measured against the Underlying Index.

<u>Prohibited securities</u>

In accordance with the Manager’s policy, the Trust will not invest in the securities of corporations that are involved directly and indirectly in the use, development, manufacturing, stockpiling, transfer or trade of cluster munitions and/or anti-personnel mines. As this policy aims to prohibit investment in certain types of securities, investors should be aware that this reduces the investment universe and prevents the Trust benefitting from any potential tracking error reduction from investing in these corporations.

<u>Counterparty policy and collateral policy</u>

Counterparty policy

When transacting in OTC financial derivative instruments (or Securities Financing Transactions), the Manager has counterparty selection policies and control measures to manage the credit risks of counterparties which shall include amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty.

The counterparties will be entities with legal personality typically located in OECD jurisdictions (but may also be located outside such jurisdictions). The counterparties to OTC financial derivative instruments will be substantial financial institutions (as defined in the SFC Code). Whereas the counterparties to Securities Financing Transactions will be financial institutions which are subject to ongoing prudential regulation and supervision.

The counterparties must have a minimum credit rating of Baa1 or BBB+ or equivalent, or must be deemed by the Manager to have an implied rating of Baa1 or BBB+ or equivalent assigned by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's). Alternatively an unrated counterparty will be acceptable where the Manager is indemnified or guaranteed against losses suffered as a result of a failure by the counterparty, by an entity which has and maintains a rating of Baa1 or BBB+ or equivalent assigned by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's).

Transactions in OTC derivative transactions (or Securities Financing Transactions) will at all times be governed by approved HSBC Group standard documentation such as a legally enforceable bilateral International Swaps and Derivatives Association (and an accompanying Credit Support Annex where it has been agreed that collateral will form part of the transaction).

Collateral policy

Under the investment advisory agreements, the Investment Adviser has the authority to manage the investment and reinvestment of the assets of the Trust, including but not limited to agree the terms for collateral arrangements, duly advising the Manager of what arrangements have been made, for purposes of managing counterparty risk where transactions in OTC financial derivative instruments (or Securities Financing Transactions) have been executed. The Manager, Investment Adviser and discretionary Sub-Investment Adviser (if any) have appropriate systems, operational capabilities and legal expertise for proper collateral management.

As of the date of this Prospectus, the Trust may receive both non-cash collateral or cash collateral but cash collateral will not be reinvested. However, the criteria set out below applies to all assets received by the Trust as collateral including the reinvestment of cash collateral in the event that the Trust reinvests such cash collateral in the future:

(a) **Nature:** Collateral may include both cash and non-cash collateral. Cash collateral may include cash, cash equivalents and money market instruments. Non-cash collateral may comprise of government or corporate bonds whether long/short term bonds, listed or traded in any regulated markets.

    Collateral does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

(b) **Credit quality:** the collateral is of high credit quality (i.e. at least rated A3 or A- or equivalent by an internationally recognised credit agency (e.g. Standard & Poor's or Moody's)). In the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that the Manager reasonably believes would undermine the effectiveness of the collateral, the Manager will take all practical steps to require the counterparty to replace such collateral as soon as practicable.

(c) **Liquidity:** any collateral received other than cash should be highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a robust price that is close to pre-sale valuation.

(d) **Valuation:** collateral is valued daily by an entity that is independent from the counterparty on a mark-to-market basis.

(e) **Haircut policy:** the collateral is subject to a prudent haircut policy. Haircuts will take into account the characteristics of the assets such as the credit standing or the price volatility. Assets that exhibit high price volatility will not be accepted by the Trust as collateral unless suitably conservative haircuts are in place. Haircuts are reviewed by the Manager on an ongoing basis to ensure that they remain appropriate for eligible collateral taking into account collateral quality, liquidity and price volatility.

(f) **Correlation:** collateral received by the Trust is issued by an entity that is independent from the counterparty and is one that is expected not to display a high correlation with the performance of the counterparty such that the effectiveness of the collateral would be undermined.

(g) **Diversification:** collateral must be sufficiently diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. The exposures of the Trust to the collateral issuers are monitored in accordance with the relevant restrictions on exposure to a single entity and/or entities within the same group as set out in the sub-section "Investment restrictions".

(h) **Reinvestment of collateral:** Non-cash collateral will not be sold, reinvested or pledged. Cash collateral may be reinvested. Reinvested cash collateral will remain sufficiently diversified subject to the applicable restrictions in respect of collateral set out in this sub-section "Investment Restrictions" and shall comply with the requirements set out in 8.2(f) and 8.2(n) of the SFC Code.

Reinvested cash collateral may only be placed on short-term deposit, invested in high quality money market instruments and money market funds authorized under 8.2 of the SFC Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in this sub-section "Investment Restrictions". For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, the Manager will take into account the credit quality, the liquidity profile of the money market instruments and such other factors as the Manager considers relevant;

Cash collateral received is not allowed to be further engaged in any Securities Financing Transactions. Further, when the cash collateral received is reinvested into other investments, such investments are not allowed to be engaged in any Securities Financing Transactions.

(i) **Encumbrances and Enforceability:** the collateral is free of prior encumbrances and the collateral (subject to any net-off or set-off, if applicable) is capable of being fully enforced by the Manager/Trust at any time without further recourse to the counterparty.

(j) **Safe-keeping of collateral**: Any non-cash assets received by the Trust from a counterparty on a title transfer basis should be held by the Trustee or a Correspondent. This is not applicable in the event that there is no title transfer in which case the collateral will be held by a third party custodian which is unrelated to the provider of the collateral. A description of collateral holdings of the Trust will be disclosed in its semi-annual and annual reports as required under Appendix E of the SFC Code. Assets provided by the Trust on a title transfer basis shall no longer belong to the Trust. The counterparty may use those assets at its absolute discretion. Assets provided to a counterparty other than on a title transfer basis shall be held by the Trustee or a Correspondent.

Financial derivative instruments

The Trust shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes).

As part of the risk management process, the transactions in financial derivative instruments should be adequately covered on an ongoing basis.

Assets that are used to cover the Trust's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

A transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Trust should be covered as follows:

- in the case of financial derivative instruments transactions which will, or may at the Manager's discretion, be cash settled, the Manager should ensure that the Trust should at all times have sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

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

The requirements under this section "Financial derivative instruments" shall also apply to any derivative instrument that is embedded in an Investment or a financial instrument.

The Trust's net derivative exposure may be up to 10% of the Trust's Net Asset Value.

Principal Risk Factors

Investors can lose money by investing in Units. Applicants should carefully consider the risk factors described below together with all of the other information included in this Prospectus before deciding whether to invest in Units.

The market price of Units and the NAV per Unit may fall or rise. There can be no assurance that an investor will achieve a return on his investment in the Units or a return on capital invested. There is no guarantee of the repayment of principal.

The Trust is subject to the principal risks described below. Some or all of these risks may adversely affect the Trust's NAV, Unit price, trading price, yield, total return and/or its ability to meet its objectives.

Risk Factors Specific to the Trust

Market risk. The Trust's NAV and trading prices will react to securities markets movements. Investors may lose money over short periods due to fluctuation in the Trust's NAV and trading price in response to market movements, and over longer periods during market downturns.

Interest rate risk. Because the Trust invests in fixed-income securities, the Trust is subject to interest rate risk. Interest rate risk is the risk that the value of the Trust's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments.

Income risk. The risk that the income from the Trust's portfolio will decline because of falling market interest rates. This can result when, in a declining interest rate market, the Trust receives in-kind deposits of portfolio securities in connection with creations of new Units, or reinvests proceeds of securities sold out of the portfolio in longer-term securities as part of the Trust's attempt to match the maturity or duration of the Underlying Index, at market interest rates that are below the portfolio's then-current earnings rate.

Emerging Market Risk. The Trust may invest in securities issued by certain Asian Governments whose economies are considered to be emerging markets. These markets are subject to special risks associated with foreign investment in these emerging markets including, but not limited to: generally less liquid and less efficient securities markets; generally greater price volatility; exchange rate fluctuations and exchange controls; imposition of restrictions on the expatriation of funds or other assets; less publicly available information about issuers; the imposition of taxes; higher transaction and custody costs; settlement delays and risk of loss; difficulties in enforcing contracts; lesser regulation of securities markets; smaller market capitalisation; different accounting and disclosure standards; governmental interference; greater risk of market shutdown; the risk of expropriation of assets; higher inflation; social, economic and political uncertainties; and the risk of war.

Counterparty and settlement risk. Counterparty risk is the risk that the party trading with the Trust will be unable to meet its obligation to make payments or to settle a trade due to a deterioration of the counterparty's financial situation or some other failure by the counterparty. The Trust bears the risk of settlement failures. Any such failure may have a material adverse effect on the Trust and/or the value of the Units.

Credit risk. The value of the Trust is subject to risk resulting from changes in the credit worthiness of its underlying investments. For example, an issuer of a bond might not be able to meet its obligation to make interest and principal payments, or bond investors as a whole may downgrade their view of the issuer resulting in a deterioration of the price of the issuer's debt.

Credit rating risk. Credit rating agencies may assign credit ratings to indicate credit quality of such securities. These are subject to limitations and may not accurately reflect the creditworthiness of the security and/or issuer at all times. Conversely, some debt securities are unrated, meaning that assessment of credit quality will solely be down to the Investment Adviser. The credit rating and/or credit quality of a debt instrument or its issuer may decline. In the event of such decline, the value of the Trust may be adversely affected and the Manager may or may not be able to dispose of the relevant debt instruments.

Tracking error risk. Changes in the NAV of the Trust are unlikely to replicate exactly changes in the Underlying Index. Factors such as fees and expenses of the Trust, liquidity of the market, imperfect correlation of returns between the Trust's securities and those in the Underlying Index, changes to the Underlying Index and regulatory policies may affect the Manager's ability to achieve close correlation with the Underlying Index of the Trust. Imperfect correlation between the returns of portfolio securities and the Underlying Index is more likely to happen to the extent that the Trust invests in securities that are non-Index Securities (or securities which qualified as non-Index Securities at the point of investment and the Manager retained). The Trust's returns may therefore deviate from those of the Underlying Index and there is no guarantee or assurance of exact replication of the Underlying Index. However, a fall in the Underlying Index will result in a corresponding fall in the NAV of the Trust.

Absence of prior active market. Although Units have been listed for trading on the Stock Exchange, there can be no assurance that an active trading market will be maintained. There is no certain basis for predicting the actual price levels at, or sizes in, which Units may trade. Further, there can be no assurance that Units will experience trading or pricing patterns similar to those of market-traded shares which are issued by investment companies in other jurisdictions or which are based upon indices other than the Underlying Index.

Liquidity risk. The price at which portfolio securities may be purchased or sold by the Trust upon any rebalancing activities or otherwise and the value of the Units will be adversely affected if trading markets for the Trust's portfolio securities are limited or absent or if spreads are wide. The Trust may invest in securities issued by Asian Governments or quasi-Asian Government issuers, and in certain markets there may be low levels of liquidity. There is a risk, therefore, that creation or redemption orders (requiring the Manager to respectively buy or sell Asian bonds) may have a high cost of dealing, or take some time to be fully integrated into the portfolio holdings of the Trust and thereby cause disruption in the Trust's asset allocation. Also, the Trust is relatively large, with the potential effect of more costly periodic portfolio rebalancing.

Trading in Units on the Stock Exchange may be suspended. Investors will not be able to purchase or sell Units on the Stock Exchange during any period that the Stock Exchange suspends trading in the Units. The Stock Exchange may suspend the trading of Units whenever the Stock Exchange determines that it is appropriate in the interests of a fair and orderly market to protect investors. The creation and redemption of Creation Units may also be suspended in the event that the trading of Units on the Stock Exchange is suspended.

Units may be delisted from the Stock Exchange. The Stock Exchange imposes certain requirements for the continued listing of securities, including the Units, on the Stock Exchange. Investors cannot be assured that the Trust will continue to meet the requirements necessary to maintain the listing of Units on the Stock Exchange or that the Stock Exchange will not change the listing requirements. The Trust may be terminated if its Units are delisted from the Stock Exchange.

Units may trade at prices other than NAV. As with any exchange traded fund, the market price of Units will be subject to a "bid/ask" spread – being the difference between the prices being bid by potential purchasers and the prices being asked by potential sellers. Units may trade below, at or above their NAV. The NAV of Units will fluctuate with changes in the market value of the Trust's holdings. The trading prices of Units will fluctuate in accordance with changes in their NAVs as well as market supply and demand for Units on the Stock Exchange. In times of severe market disruption or when there is an insufficient number of buyers and sellers of Units, the bid/ask spread may increase significantly. When the market price of Units is falling rapidly, Units are most likely to be traded at a discount to the NAV per Unit, which may be the time when most investors want to sell their Units. However, given that Units can be created and redeemed in Creation Unit aggregations at NAV, the Manager believes that large discounts or premiums to the NAVs of Units should not be sustained.

Minimum creation and redemption size. Units will generally only be issued or redeemed in Creation Unit aggregations (currently 50,000 Units, and multiples thereof). Investors who do not hold Creation Unit aggregations may only be able to realise the value of their Units by selling their Units on the Stock Exchange at the prevailing trading price of the Units.

Lack of discretion of the Manager to adapt to market changes. Unlike many unit trusts and mutual funds, the Trust is not "actively managed". Therefore, the Trust will not adjust the composition of its portfolio except in order to seek to closely correspond to the duration and total return of the Underlying Index. The Trust does not try to "beat" the market it tracks and does not seek temporary defensive positions when markets decline or when the market is judged to be overvalued. Accordingly, a fall in the Underlying Index will result in a corresponding fall in the NAV of the Trust.

Reliance on Participating Dealers. The creation and redemption of Units may generally only be effected through Participating Dealers. The number of Participating Dealers at any given time will be limited. Participating Dealers are under no obligation to accept instructions to apply for or redeem Units on behalf of investors. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the Stock Exchange are restricted or suspended, settlement or clearing of securities in CCASS is disrupted or the Underlying Index is not compiled or published. In addition, Participating Dealers will not be able to create or redeem Units if some other event occurs which impedes the calculation of the NAV of the Trust or during which delivery of Deposit Securities or Redemption Securities or disposal of the Trust's portfolio securities cannot be effected.

Suspension of creations and redemptions. Dealings of Units on the Stock Exchange may not necessarily be suspended in the event that the creation and redemption of Creation Units is temporarily suspended by the Manager in accordance with the terms of the Trust Deed. If the creation and redemption of Creation Units is temporarily suspended, the trading price of the Units may be adversely affected and differ from the market value of the Trust's underlying assets.

Use of futures and options contracts involve certain risks. The Manager may use futures contracts and options to manage interest rate risk and otherwise for efficient portfolio management with a view to achieving the Trust's investment objective. In particular, the Manager may invest the Trust's assets in futures contracts and options in order to seek performance that corresponds to the Underlying Index and to manage cash flows. There is no guarantee that such techniques will achieve their desired result. There are certain investment risks in using futures contracts and options. Such risks may include: (i) the inability to close out a futures contract or option caused by the non-existence of a liquid secondary market; and (ii) an imperfect correlation between price movements of the futures contracts or options with price movements of the subject portfolio securities or the Underlying Index. Further, the risk of loss in trading futures contracts is potentially great, due to both the low margin deposits required and the extremely high degree of leverage involved in futures pricing. As a result, a relatively small price movement in a futures contact may result in immediate and substantial loss (or gain) to the Trust.

Use of Sale and Repurchase Transaction/Reverse Repurchase Transaction involves certain risks. For example, if the seller of securities under a Sale and Repurchase Transaction and Reverse Repurchase Transaction defaults on its obligation to repurchase the underlying securities, as a result of its insolvency or otherwise, the Trust will seek to dispose of such securities, which action could involve costs or delays. If the seller fails to repurchase the securities, the Trust may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Trust's ability to dispose of the underlying securities may be restricted. Finally, it is possible that the Trust may not be able to substantiate its interest in the underlying securities.

Risk of swap agreements. The risk of loss with respect to swaps generally is limited to the net amount of payments that the Trust is contractually obligated to make. Swap agreements are also subject to the risk that the swap counterparty will default on its obligations. If such a default were to occur, the Trust will have contractual remedies pursuant to the agreements related to the transaction. However, such remedies may be subject to bankruptcy and insolvency laws which could affect the Trust's rights as a creditor. For example the Trust may not receive the net amount of payments that it contractually is entitled to receive.

Risks associated with investments in debt instruments with loss-absorption features.

The Trust may invest in instruments with loss-absorption features which are subject to greater risks when compared to traditional debt instruments as such instruments typically include terms and conditions which may result in them being partly or wholly written off, written down, or converted to ordinary shares of the issuer upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer's capital ratio falls to a specified level).

Such trigger events are likely to be outside of the issuer's control and commonly include a reduction in the issuer's capital ratio below a specified level or upon specific government or regulatory action being taken as a result of the issuer's ongoing financial viability. Trigger events are complex and difficult to predict and can result in a significant or total reduction in the value of such instruments, giving rise to consequential loss of the Trust. In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

For example, the Trust may invest in contingent convertible securities, which are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible securities can be converted into shares of the issuing company, potentially at a discounted price, or the principal amount invested may be lost on a permanent or temporary basis. Contingent convertible securities are risky and highly complex instruments. Coupon payments on contingent convertible securities are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

Contingent convertible securities are also subject to additional risks specific to their structure including:

i. Trigger level risk

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Investment Adviser of the Trust invested in contingent convertible securities to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/ Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible securities into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national/regional authority deciding to inject capital.

ii. Coupon cancellation risk

Coupon payments on some contingent convertible securities are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible securities may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

iii. Capital structure inversion risk

Contrary to the classic capital hierarchy, investors in contingent convertible securities may suffer a loss of capital when equity holders do not, for example when the loss absorption mechanism of a high trigger/ write down of a contingent convertible security is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

iv. Call extension risk

Some contingent convertible securities are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible securities will be called on a call date. Contingent convertible securities are a form of permanent capital. The investor may not receive return of principal as expected on a call date or indeed at any date.

v. Conversion risk

Trigger levels differ between specific contingent convertible securities and determine exposure to conversion risk. It might be difficult at times for the Investment Adviser to assess how the contingent convertible securities will behave upon conversion. In case of conversion into equity, the Investment Adviser might be forced to sell these new equity shares since the investment policy of the Trust may not allow the holding of equity securities. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in the Trust experiencing some loss.

vi. Valuation and write-down risk

Contingent convertible securities often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible securities may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Trust may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

vii. Market value fluctuations due to unpredictable factors

The value of contingent convertible securities is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible securities; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

viii. Liquidity risk

Contingent convertible securities are relatively new instruments and the outstanding amount and trading volume of contingent convertible securities tend to be small. In certain circumstances finding a buyer ready to invest in contingent convertible securities may be difficult and the seller may have to accept a significant discount to the expected value of the bond in order to sell it.

ix. Sector concentration risk

Contingent convertible securities are issued by banking and insurance institutions. The performance of the Trust which invests significantly in contingent convertible securities will depend to a greater extent on the overall condition of the financial services industry than for a fund following a more diversified strategy.

x. Subordinated instruments

Contingent convertible securities will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible securities, such as the Trust, against the issuer in respect of or arising under the terms of the contingent convertible securities shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

xi. Unknown risk

The structure of contingent convertible securities is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

The Trust may cease to be authorized. The SFC reserves the right to withdraw the authorization of the Trust if the Underlying Index is no longer considered by the SFC to be acceptable. The Trust may be terminated if the SFC is to withdraw its authorization for the Trust.

Reliance on Market Makers. There may or may not be market makers for the Trust. Investors should note that liquidity in the secondary market for the Units may be adversely affected if there is no market maker for the Trust.

Concentration of the Underlying Index in certain issuers. The Underlying Index and the investments of the Trust may be concentrated in securities of a single or several issuers. Changes in the financial condition of an issuer, changes in specific economic or political conditions that affect a particular issuer, and changes in general economic or political conditions can affect the value of an issuer's securities. Such issuer-specific changes may have an impact on the securities held by the Trust.

Geographic concentration risk. The Trust's investments are concentrated in a certain geographical region(s). The value of the Trust may be more volatile than that of a fund having a more diverse portfolio of investments. Further, the value of the Trust may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting such geographical region(s).

Asset class risk. The returns generated from the securities in which the Trust invests may not provide returns equivalent to that of other classes of securities or different asset classes. The securities in which the Trust invests may be subject to cycles of underperformance relative to that of other classes of securities.

EMEAP's investment in the Trust. The Executives' Meeting of East Asia and Pacific Central Banks group ("**EMEAP**") member central banks and monetary authorities are like any other investors in the Trust and each of them is entitled to dispose of their respective interest in the Units they hold. There are no guarantees that the EMEAP member central banks and monetary authorities will continue to be investors in the Trust. Should the EMEAP member central banks and monetary authorities decide to sell or redeem all or a portion of their Units, it may have a materially adverse effect on the Trust and the price of the Units.

Minimum commercial size. The Trust is structured as an index fund with low management and trustee fees. Given that this is an index fund with low fees (based on a percentage of NAV of the Trust), the size of the Trust needs to be significantly larger than other typical unit trusts to remain commercially viable.

Lending of securities. The Trust may lend its portfolio securities. Although the Trust will receive collateral in connection with all loans of its securities, the Trust would be exposed to a risk of loss should a borrower default on its obligation to return the borrowed securities (e.g. the loaned securities may have appreciated beyond the value of the collateral held by the Trust). In addition, the Trust will bear the risk of loss of any cash collateral that it invests.

Withholding tax risk. Investors should note that (i) the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market including taxation levied by withholding at source and/or (ii) the Trust's investments may be subject to specific taxes or charges imposed by authorities in some markets. Regarding FATCA, although the Trust will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Trust will be able to satisfy these obligations. If the Trust 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. On the other hand, if an investor or an intermediary through which it holds its interest in the Trust fails to provide the Trust, its agents or authorised representatives with any correct, complete and accurate information that may be required for the Trust to comply with FATCA, the investor may be subject to withholding on amounts otherwise distributable to the investor, may be compelled to sell its interest in the Trust or, in certain situations, the investor's interest in the Trust may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). In particular, investors and potential investors should note the sub-section headed "AEOI: Foreign Account Tax Compliance Act" under the section headed "Taxation".

Risks associated with distribution out of capital. Investors should note that the payment of distributions out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Any distributions involving payment of dividends out of a capital will result in an immediate reduction in the NAV. The Manager may amend the dividend policy with respect to distribution out of capital subject to the SFC's prior approval and by giving not less than one month's prior notice to investors.

Underlying Index Risk Factors

Licence to use Underlying Index may be terminated. The Manager and the Trustee have been granted a licence by the Index Provider to use the Underlying Index in order to create the Trust based on the Underlying Index and to use certain trade marks and any copyright in the Underlying Index. The Trust may not be able to fulfil its objective and may be terminated if the licence agreement between the Manager, the Trustee and the Index Provider is terminated. The Trust may also be terminated if its Underlying Index ceases to be compiled or published and there is no replacement index using the same or substantially similar formula for the method of calculation as used in calculating the Underlying Index.

Compilation of the Underlying Index. The securities which comprise the Underlying Index are determined and composed by Markit without regard to the performance of the Trust. The Trust is not sponsored, endorsed, sold or promoted by Markit. Markit makes no representation or warranty, express or implied, to investors in the Trust or other persons regarding the advisability of investing in securities generally or in the Trust particularly. Markit has no obligation to take the needs of the Trustee, the Manager or investors in the Trust into consideration in determining, composing or calculating the Underlying Index and consequently there can be no guarantees that its actions will not prejudice the interests of the Trust, the Manager or investors. In addition, the accuracy and completeness of the calculation of the Underlying Index may be affected by, without limitation, the availability and accuracy of prices for its constituent securities, market factors and errors in its compilation.

Composition of the Underlying Index may change. The composition of the Underlying Index may change as Index Securities mature or are redeemed or as new securities are included in the Underlying Index. When this happens the weighting or composition of the securities owned by the Trust would be changed as considered appropriate by the Manager in order to achieve the investment objective of the Trust. Thus an investment in Units will generally reflect the Underlying Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. Appendix 1 - "The Underlying Index" describes how the Underlying Index is computed.

Other Risk Factors

Hong Kong Political, Economic and Social Risk. Any material changes in the political, economic or social conditions prevailing in Hong Kong could have a material adverse effect on the Hong Kong economy and/or the NAV of the constituent securities of the Underlying Index and consequently on the value of Units.

Asian Government Political, Economic and Social Risk. Any material changes in the political, economic or social conditions prevailing in any of the Asian Government countries could have a material adverse effect on that Asian Government country's economy and/or the NAV of the constituent securities of the Underlying Index and consequently on the value of Units.

Sovereign debt risk. The Trust's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Trust to participate in restructuring such debts. The Trust may suffer significant losses when there is a default of sovereign debt issuers.

Foreign exchange risk. The HKSAR Government has a policy of maintaining a stable Hong Kong dollar exchange rate against the US dollar and has consistently applied that policy since October 1983. Since the introduction of the linked exchange rate system in 1983, the HKSAR Government has repeatedly reaffirmed its commitment to this system. Accordingly, any depreciation in the US dollar against other currencies will cause the HK dollar value of the Units to depreciate against such other currencies. In the event that the HKSAR Government's policy were to be changed and in the event that there were to be a depreciation in the value of the Hong Kong dollar against the US dollar, the corresponding value of the Units in US dollar terms might be significantly reduced.

Valuation risk. Valuation of the Trust's investment in debt securities may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuation turns out to be incorrect, this may affect the NAV of the Trust.

Valuation rules. Investors should note that to the extent that any of the valuation principles used to determine the Trust's NAV per Unit at the Valuation Point with respect to each Dealing Day is or becomes inconsistent with generally accepted accounting principles of Hong Kong, the Trust's financial reports may not necessarily be in line with the published NAV per Unit. In this case, a reconciliation note may need to be included in the financial reports of the Trust to reconcile values arrived at by applying generally accepted accounting principles in Hong Kong and the NAV per Unit of the Trust by applying the Trust's valuation principles.

Risks associated with government or central banks' intervention. Changes in regulation or government policy leading to intervention in the currency and interest rate markets (e.g. restrictions on capital movements or changes to the way in which a national currency is supported such as currency de-pegging) may adversely affect some financial instruments and the performance of the Trust.

Liquidity Risk Management

The Manager has established a liquidity risk management policy with the aim to enable it to identify, monitor, manage and mitigate the liquidity risks of the Trust and to ensure that the liquidity profile of the investments of the Trust will facilitate compliance with the Trust's obligation to meet redemption requests. Such policy, combined with the governance framework in place and the liquidity management tools of the Manager, also seeks to achieve fair treatment of unitholders and safeguard the interests of remaining or existing unitholders in case of sizeable redemptions or subscriptions.

The Manager's liquidity risk management policy takes into account the investment strategy; the dealing frequency; the underlying assets' liquidity (and whether they are priced at fair value); and the ability to enforce redemption limitations of the Trust.

The liquidity risk management policy involves monitoring the profile of investments held by the Trust on an on-going basis with the aim to ensure that such investments are appropriate to the redemption policy as stated under the section entitled "Creation and Redemption of Units - Redemption of Units", and will facilitate compliance with the Trust's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Trust in times of exceptional market conditions.

The Manager's risk management function is independent from the investment portfolio management function and is responsible for performing monitoring of the Trust's liquidity risk in accordance with the Manager's liquidity risk management policy. Exceptions on liquidity risk related issues are escalated to the Manager's Risk Management Committee with appropriate actions properly documented.

The Manager may employ one or more tools to manage liquidity risks including, but not limited to:

- the Manager is entitled to limit the total number of Units redeemed on any Dealing Day to up to 10% of the total NAV of the Trust (or such higher or lower threshold as the Manager may reasonably determine in any particular case in accordance with the SFC Code and as accepted by the Commission) as explained more fully in the section entitled "Creation and Redemption of Units – Further Provisions Relating to Creations and Redemptions – Limitation on redemptions";

- the Manager has the discretion to charge a fee (such amount to be determined in the discretion of the Manager) to investors or Participating Dealers electing to create or redeem Units (i) in cash; or (ii) partially in cash and partially in-kind, as explained more fully in the section entitled "Fees payable by investors when creating or redeeming Units"; and/or

- the Manager may suspend, with the prior approval of the Trustee, the right of investors to apply for the redemption of Units and/or may delay the delivery of redemption proceeds in respect of a redemption request (for details see the section entitled "Creation and Redemption of Units – Further Provisions Relating to Creations and Redemptions - Suspension of Creations and Redemptions").

Fees and Expenses

Most investors will buy and sell Units in secondary market transactions through brokers.

Investors creating or redeeming Units and buying and selling Units in secondary market transactions will have to pay certain fees and expenses, including brokerage and Stock Exchange transaction levies.

The table set out below summarises the fees and expenses currently payable by Participating Dealers (on behalf of investors) when creating or redeeming Units or by brokers (on behalf of investors) when purchasing or selling Units on the Stock Exchange.

Creation of Units	
Transaction Fee[1]	Maximum HK$10,000 per transaction*
Stamp Duty	Nil
Other Duties & Charges[2]	a) Nil – for in-kind creation. b) For partial in-kind creation – Maximum 100 bp (under normal market conditions) of the cash payment in lieu of Deposit Securities. ***** c) cash creation – Maximum 100 bp (under normal market conditions) of the cash payment in respect of cash creations on a Dealing Day. *****
Corporate Action Fee	Nil

In addition to the fees and expenses set out above, Participating Dealers may charge investors brokerage or fees in respect of a creation of Units. Investors should consult a Participating Dealer to ascertain the level of any brokerage or fees charged by such Participating Dealer.

*****A lower level of transaction fee/ duties and charges may be charged at the discretion of the Manager.

Redemption of Units	
Transaction Fee[1]	Maximum HK$10,000 per transaction*
Stamp Duty	Nil
Other Duties & Charges[2]	Nil
Corporate Action Fee	Nil

In addition to the fees and expenses set out above, Participating Dealers may charge investors brokerage or fees in respect of a redemption of Units. Investors should consult a Participating Dealer to ascertain the level of any brokerage or fees charged by such Participating Dealer.

*****A lower level of transaction fee may be charged at the discretion of the Manager.

[1] A Transaction Fee is payable by a Participating Dealer to the Trust to offset transfer and other administrative expenses incurred in connection with the Unit creation and redemption process, and may be passed on in whole or in part to the investor. More information is included in the sub-section entitled "Fees Payable by Investors when creating or redeeming Units" under the section entitled "Management and Operations".

[2] Nil charge for creation of Units assumes in-kind creation. It is not envisaged that there will be any other duties and charges to be levied by the Manager in the ordinary course in respect of the in-kind creation and redemption of Units. Nevertheless, the Manager has discretion to charge such sum as it considers represents an appropriate provision for duties and charges to the extent any substitute Cash Component is payable on a creation of Units and on cash creation of Units. Currently there are no duties and charges payable in respect of a redemption of Units in cash or in-kind. To the extent such provision for duties and charges is greater than the actual duties and charges incurred then such excess shall be for the account of the Trust. To the extent such provision for duties and charges is less than the actual duties and charges incurred then the Trust will bear any such deficiency.

Dealing on Stock Exchange	
Brokerage	Charged at each broker's discretion
Stock Exchange Transaction Levy	0.005%
Stock Exchange Trading Tariff	Currently nil[3]
Stamp Duty[4]	Nil
SFC Transaction Levy	0.0027%
SFC Investor Compensation Levy	Currently nil[5]

The table below summarises the fees currently payable by the Trust.

Management Fee[6]	
First HK$1,560 million	0.15% per annum
Thereafter	0.12% per annum
Trustee Fee[7]	0.05% per annum of the Trust's NAV
Licence Fee[8]	currently up to 0.0175% per annum of the Trust's NAV (subject to a minimum charge of US$33,636 per annum)

For further information on fees and expenses refer to the section entitled "Management and Operations".

Soft dollars. Securities transactions effected for the account of the Trust may be effected on an in-kind basis with Participating Dealers in connection with creations and redemptions of Units. Portfolio transactions outside of the creation and redemption process are expected to represent only a portion of portfolio transactions. However, where the Manager effects any cash creations and redemptions the portion of portfolio transactions will increase as the Trust invests cash creation receipts or funds cash redemption amounts. The Manager expects that most portfolio transactions will be effected on a principal (as opposed to an agency) basis and, accordingly, it does not expect to have to pay significant brokerage commissions when placing orders. Purchases from broker/dealers will include the spread between the bid and offer price.

The primary objective of the Manager in placing orders for the purchase and sale of Index Securities and non-Index Securities (or securities which qualified as non-Index Securities at the point of investment and the Manager retained), when adjusting the Trust's portfolio to reflect changes in the Underlying Index or in respect of a cash creation or redemption, is to obtain the most favourable net results taking into account such factors as price, commission or spread and size of the order. Where it is consistent with this objective, it is the Manager's practice to place such orders with brokers/dealers who supply research, market information and quotations and statistical information to the Manager, which may be useful to the Manager in providing its services as manager of the Trust and may be useful to the Manager in providing services to other clients (including other funds managed by the Manager), other than as manager of the Trust.

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[3] Effective 31 May 2021, the trading tariff has been exempted in respect of any transaction in an exchange traded fund that is classified as a fixed income exchange traded fund or money market exchange traded fund as per a circular issued by the Stock Exchange on 29 April 2021.

[4] In accordance with a remission order issued by the Secretary for the Treasury on 28 September, 2001.

[5] Effective 19 December 2005, the payment of Investor Compensation Levy has been suspended by the SFC as per an exemption notice issued by the SFC.

[6] Expressed as a percentage of the average daily net assets of the Trust. This fee may be increased to a maximum of 1.0% per annum upon three months' notice in writing to unitholders and Participating Dealers and with the prior approval of the Supervisory Committee.

[7] Expressed as a percentage of the average daily net assets of the Trust. This fee may be increased to a maximum of 0.15% per annum upon three months' notice in writing to unitholders and Participating Dealers and with the prior approval of the Manager and the Supervisory Committee. Acting in its capacity as the Administrator, Custodian, Registrar and Receiving Agent, HSBC Institutional Trust Services (Asia) Limited will not be entitled to receive any remuneration, in addition to the Trustee Fee.

[8] The Licence Fee is payable to the Index Provider. For further details relating to the Licence Fee, please see the section entitled "Management and Operation - Index Provider".

Neither the Manager nor any of its Connected Persons[9] are entitled to retain any cash rebates received from any broker or dealer in consideration of directing transactions on behalf of the Trust to that broker or dealer. Any such cash rebates received by the Manager or any of its Connected Persons shall be held for the account of the Trust.

Units are currently listed and dealt only on the Stock Exchange.

Creation and Redemption of Units

The Manager will make available the most current Prospectus to Participating Dealers, but shall be under no obligation to deliver any updated Prospectus to any investor. The updated Prospectus will also be made available in accordance with the section entitled "Documents Available for Inspection" and will be posted on the Trust's designated web-page, www.assetmanagement.hsbc.com/hk-ABF[10]. The following information will also be provided on the Trust's web-page:

- real time or near-real time indicative NAV per Unit (updated at least every 15 seconds during trading hours);
- last NAV per Unit and last NAV of the Trust (updated on a daily basis); and
- full holdings of the Trust (updated on a monthly basis within one month of the end of each month).

Creation of Units

Units of the Trust are generally issued and sold in blocks of 50,000 Units (each a "**Creation Unit**") or multiples thereof on a continuous basis through HSBC Institutional Trust Services (Asia) Limited acting in its capacity as receiving agent (the "**Receiving Agent**") at their prevailing NAVs calculated by the day end prices at the time when the valuation of the Underlying Index is completed on a Dealing Day (the "**Valuation Point**") on which the Receiving Agent receives or is treated as having received an order in proper form. The Trust's latest available offer and redemption prices shall be calculated and made public free of charge on every Dealing Day on the Trust's designated web-page, www.assetmanagement.hsbc.com/hk-ABF[10].

A "**Dealing Day**" is each Business Day during the continuance of the Trust and/or such other day or days as the Manager may from time to time determine with the prior approval of the Trustee. "**Business Day**" is any day on which: (i) the Stock Exchange is open for normal trading other than a day on which trading on the Stock Exchange is scheduled to close prior to its regular weekday closing time; and (ii) the Underlying Index is compiled and published, but excluding any day on which a tropical cyclone warning signal number 8 or

[9] "**Connected Person**" means, in relation to any company (the "**relevant person**"):

(a) any person beneficially owning, directly or indirectly, twenty per cent or more of the ordinary share capital of the relevant person or able to exercise, directly or indirectly, twenty per cent or more of the total voting rights attributable to the voting share capital of the relevant person;

(b) any person or company controlled by any such person as is described in paragraph (a) above; for this purpose "control" of a company means:

  i. control (either direct or indirect) of the composition of the board of directors of that company; or

  ii. control (either direct or indirect) of more than half the voting rights attributable to the voting share capital of that company; or

  iii. the holding (either directly or indirectly) of more than half of the issued share capital (excluding any part of it which confers no right to participate beyond a specified amount in a distribution of either profits or capital),

provided always that if the Trustee and the Manager agree some other definition acceptable to the SFC of the expression "control" such definition shall be substituted for the above definition thereof;

(c) any company which is a holding company or subsidiary (in each case within the meaning of sections 13 and 15 respectively of the Companies Ordinance (Cap. 622) of the laws of Hong Kong) of the relevant person or a subsidiary of any such holding company; and

(d) any director or other officer of the relevant person or of any company which is a Connected Person of the relevant person pursuant to paragraph (a), (b) or (c) above.

[10] The Trust's website has not been reviewed / authorized by the SFC.

above or a "black" rainstorm warning signal (or any warning or signal considered by the Trustee to be similar in effect) is in force in Hong Kong at any time after the Stock Exchange officially opens for trading and before the Stock Exchange officially closes for trading on that day (or such other day or days as may from time to time be determined by the Manager and the Trustee).

Deposit of Securities and Deposit or Delivery of Cash

Units can be purchased in respect of the Trust on any Dealing Day in Creation Unit aggregations in exchange for the in-kind deposit by the purchaser of a basket of particular fixed income securities ("**Deposit Securities**"), together with the deposit of a specified cash payment ("**Cash Component**"; collectively with the Deposit Securities, a "**Portfolio Deposit**") and the payment of certain Transaction Fees, in the manner more fully described below. Alternatively, investors may request Participating Dealers to tender cash for the creation of Units on Dealing Days (see the section entitled "Creation of Units - Cash Creations").

The Deposit Securities will consist of a basket of fixed income securities determined by the Manager provided that the value of non-Index Securities (on the previous Dealing Day) shall not exceed 20% (or such other percentage as determined by the Manager from time to time with the approval of the Trustee and the Supervisory Committee) of the Subscription Value (as defined below) on the previous Dealing Day. The Cash Component per Creation Unit is an amount equal to the difference between (1) the NAV per Creation Unit of the Trust at the Valuation Point (the "**Subscription Value**") and (2) the total aggregate market value (per Creation Unit of the Trust) of the Deposit Securities delivered in kind, determined at the Valuation Point. The Cash Component serves the function of compensating for differences, if any, between the NAV per Creation Unit and the Deposit Securities' NAV at the Valuation Point in respect of each Creation Unit. If the Cash Component is a negative number (i.e., the NAV per Creation Unit is less than the Deposit Securities' NAV), the investor will receive the Cash Component. Any such negative Cash Component payable to investors will be paid within three Dealing Days of the relevant Transaction Date (T+3).

The Manager may also with the prior approval of the Trustee determine and designate more than one basket of Deposit Securities from which Participating Dealers may elect a basket, subject always to the consent of the Manager.

The Receiving Agent, through the Trust's web-page or such other methods as the Receiving Agent may determine from time to time, will make available on each Dealing Day, prior to the opening of trading on the Stock Exchange (currently 10:00 a.m. Hong Kong time), the list or basket of Deposit Securities for that Dealing Day, which will contain the names and the required number and maturity of the securities to be included in the current Portfolio Deposit for the Trust for creation orders submitted on that Dealing Day.

The identity and required number and maturity of the Deposit Securities required for a Portfolio Deposit for the Trust changes from day to day as rebalancing adjustments to the Trust's portfolio are reflected from time to time by the Manager with a view to achieving the investment objective of the Trust.

In addition, the Manager reserves the right to require the substitution of an amount of cash (i.e., a "cash in lieu" amount) to be added to, and comprise part of, the Cash Component to replace any Deposit Security that may be unavailable or may not be available in sufficient quantity for delivery to the Trust. Participating Dealers who are permitted market makers (or whose wholly-owned subsidiary, holding company which owns all its issued shares or other wholly-owned subsidiary of that holding company (each a "**100% Group Company**") is a permitted market maker) may with the approval of the Manager also elect to substitute cash for Deposit Securities (to be added to and comprise part of the Cash Component) upon a creation of Units on any Dealing Day. The aggregate value of all replaced Index Securities and non-Index Securities substituted by cash shall not exceed 40% (or such other percentage as determined by the Manager from time to time and approved by the Trustee and the Supervisory Committee) of the Subscription Value on the previous Dealing Day. In addition, on any Dealing Day the sum of (i) the aggregate value of non-Index Securities comprising a

Portfolio Deposit to be deposited with the Trust; and (ii) the amount of any cash in lieu of all substituted Index Securities and non-Index Securities shall not exceed 50% (or such other percentage as determined by the Manager from time to time and approved by the Trustee and the Supervisory Committee) of the Subscription Value on the previous Dealing Day.

Whenever a cash payment in lieu of Deposit Securities is made by an investor via a Participating Dealer or a Participating Dealer who (or whose 100% Group Company) is a permitted market maker, an additional provision for duties and charges as determined by the Manager may also be charged (for the account of the Trust) to the Participating Dealer (as described under "Fees Payable by Investors when creating or redeeming Units" under the section entitled "Management and Operations").

Cash Creations

On any Dealing Day, Units will be available for subscription in Creation Unit aggregations for cash at the Subscription Value (calculated on a per Unit basis if applicable). The full amount of the Subscription Value, and any duties and charges and Transaction Fees, in cleared funds, shall be paid in respect of such Creation Unit (or Unit) aggregations according to the procedures discussed in the section entitled "Creation of Units - Placement of Creation Orders in Cash".

Whenever a cash payment is made by an investor as a result of cash creations effected on a Dealing Day, an additional provision for duties and charges as determined by the Manager may be charged (for the account of the Trust) to that investor (as described under "Fees Payable by Investors when creating or redeeming Units" under the section entitled "Management and Operations").

The minimum amount for any order for cash creations on a Dealing Day is 50,000 Units.

The Manager aims to fully invest the cash proceeds received as a result of cash creations effected on a Dealing Day for the account of the Trust by the end of the Transaction Date (as defined below) to which such cash creations relate.

Procedures for Creation of Units

To be eligible to place orders with the Receiving Agent to create a Creation Unit of the Trust, an entity must be (i) a broker or custodian who is admitted for the time being by Hongkong Clearing as a participant of CCASS (a "**CCASS Participant**") or (ii) able to effect transactions through a CCASS Participant, and who has entered into an agreement with the Receiving Agent, the Manager and the Trustee with respect to creations and redemptions of Units ("**Participant Agreement**"). Such party is referred to as a "**Participating Dealer**". Investors may contact the Receiving Agent for the names of Participating Dealers that have entered into a Participant Agreement. In addition, a list of the current Participating Dealers is available on the Trust's designated web-page. All Units, however created, will be entered on the records of CCASS in the name of HKSCC Nominees for the account of a CCASS Participant.

All orders to create Units must be received by the Receiving Agent no later than 2:30 p.m., Hong Kong time (the "**Creation Dealing Deadline**"). If the order in proper form is received by the Receiving Agent after the Creation Dealing Deadline on any Dealing Day it will be deemed to have been received on the next Dealing Day. Whether or not a creation order has been received by the Receiving Agent by the Creation Dealing Deadline shall be determined by the Receiving Agent, whose determination shall be final and binding. The date on which an order to create Units (or an order to redeem Units, as discussed below) is received or treated as having been received by the Receiving Agent is referred to as the "**Transaction Date**". Orders must be transmitted to the Receiving Agent by a Participating Dealer in writing or other transmission method acceptable to the Receiving Agent pursuant to procedures set forth in the Participant Agreement. However, a Participating Dealer may telephone the Receiving Agent to confirm the Receiving Agent's receipt of a creation order. Severe economic or market disruptions or changes, or facsimile or other communication failure may impede the ability to reach the Receiving Agent or a Participating Dealer.

All investor orders to create Units must be placed with a Participating Dealer, in the form required by such Participating Dealer. In addition, the Participating Dealer may request the investor to make certain representations or enter into agreements with respect to the order, for example, to provide for payments of cash, when required. Investors should be aware that their particular broker or dealer may not have executed a Participant Agreement and that, therefore, orders to create Units have to be placed by the investor's broker or dealer through a Participating Dealer that has entered into a Participant Agreement. In such cases there may be additional charges to such investor. At any given time, there will be only a limited number of Participating Dealers.

Those placing orders for Units should afford sufficient time to permit proper submission of the order to the Receiving Agent prior to the Creation Dealing Deadline on the relevant Dealing Day.

Placement of Creation Orders in Kind

To initiate an order for a Creation Unit aggregation of the Trust in kind, the Participating Dealer must submit a completed order to the Receiving Agent no later than the Creation Dealing Deadline on the relevant Dealing Day. All creation orders in kind must be in a Creation Unit aggregation. In the case of a cash in lieu order, the Participating Dealer must also comply with the credit requirements of the Trustee. The Receiving Agent is required to inform the Manager, the Trustee and the Custodian of all such orders.

All questions as to the number and type of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Custodian on behalf of the Trustee, whose determination will be final and binding. The Deposit Securities must be delivered to the Custodian no later than 11:30 a.m., Hong Kong time on the second Dealing Day following the relevant Transaction Date (T+2). The amount of cash in respect of the Cash Component (plus the Transaction Fee and any other duties and charges) must be transferred directly to the Custodian in a timely manner so as to be received by the Custodian no later than 11:30 a.m., Hong Kong time on the second Dealing Day following the relevant Transaction Date (T+2). However, if the Custodian does not receive both the required Deposit Securities and Cash Component (plus the Transaction Fee and any other duties and charges) by 11:30 a.m. on the second Dealing Day following the relevant Transaction Date (T+2), the creation order will be cancelled. Upon written notice to the Receiving Agent, such cancelled order may be resubmitted by the Participating Dealer the following Dealing Day using a Portfolio Deposit as newly constituted for that following Dealing Day.

In addition to the Transaction Fee and any duties and charges applicable to a creation of Units, Participating Dealers will be charged a second Transaction Fee resulting from creation orders submitted by them that are cancelled by the Participating Dealer (otherwise than as permitted by the Trust Deed or the Participant Agreement) or that are cancelled as a result of the Participating Dealer failing to deliver or transmit the requisite cash. In addition, Participating Dealers may also be charged the amount of any losses and interest costs arising in respect of the Trust's sale and/or purchase of Index Securities, non-Index Securities and/or other investments permitted by the Trust Deed ("**Investments**") in connection with such cancellation and any difference between (i) the issue price of the Units the subject of the cancellation at the Transaction Date of the creation order and (ii) the redemption value of such Units as at the cancellation date. Default interest will also be payable on the above amounts.

The delivery of Creation Units properly applied for will occur no later than the Dealing Day which is two Dealing Days following the relevant Transaction Date (T+2).

Placement of Creation Orders in Cash

To initiate an order for a Creation Unit aggregation of the Trust in cash on any Dealing Day, the Participating Dealer must submit a completed order to the Receiving Agent no later than the Creation Dealing Deadline for the relevant Dealing Day. The Receiving Agent is required to inform the Manager and the Trustee of all such orders.

The amount of cash payments in respect of cash creations in Creation Unit aggregations (plus the Transaction Fee and any other duties and charges) must be transferred directly to the Custodian in a timely manner so as to be received by the Custodian no later than 11:30 a.m., Hong Kong time on the second Dealing Day following the relevant Transaction Date (T+2). However, if the Custodian does not receive the cash (plus the Transaction Fee and any other duties and charges) by 11:30 a.m. on the second Dealing Day following the relevant Transaction Date (T+2), the creation order will be cancelled. Upon written notice to the Receiving Agent, such cancelled order may be resubmitted by the Participating Dealer on the following Dealing Day.

In addition to the Transaction Fee and any duties and charges applicable to a creation of Units, Participating Dealers will be charged a second Transaction Fee resulting from creation orders submitted by them that are cancelled by the Participating Dealer (otherwise than as permitted by the Trust Deed or the Participant Agreement) or that are cancelled as a result of the Participating Dealer failing to deliver or transmit the requisite cash. In addition, Participating Dealers may also be charged the amount of any losses and interest costs arising in respect of the Trust's sale and/or purchase of Investments in connection with such cancellation and any difference between (i) the issue price of the Units the subject of the cancellation at the Transaction Date of the creation order and (ii) the redemption value of such Units as at the cancellation date. Default interest will also be payable on the above amounts.

The delivery of Creation Units properly applied for will occur no later than the Dealing Day which is two Dealing Days following the relevant Transaction Date (T+2).

Acceptance of Orders for Units

The Trustee and the Manager reserve the absolute right without giving any reason therefor to reject a creation order transmitted to the Receiving Agent in respect of the Trust. It is the current intention of the Manager that a creation order will be rejected if: (i) the order is not in proper form; (ii) under applicable law or regulation, the applicant is not eligible to subscribe for, purchase or hold Units, or in the discretion of the Trustee or the Manager the purchase or holding of Units by the applicant might result in the Trust, the Manager or the Trustee incurring any liability to tax or suffering any other financial disadvantage or becoming subject to any law or regulation which they might not otherwise have incurred or suffered or become subject to; (iii) the securities delivered as Deposit Securities do not comprise a basket of Deposit Securities as disseminated by the Receiving Agent for that Dealing Day, as described above; (iv) acceptance of the Deposit Securities would have certain adverse tax consequences to the Trust; (v) acceptance of the Portfolio Deposit would, in the opinion of the Trustee or the Manager, be unlawful; (vi) acceptance of the Portfolio Deposit would otherwise, in the discretion of the Trustee or the Manager, have an adverse effect on the Trust or the rights of beneficial owners; or (vii) in the event that circumstances outside the control of the Trustee, the Custodian, the Receiving Agent or the Manager make it for all practical purposes impossible to process creation orders (examples of such circumstances include acts of God; public service or utility problems such as fires, floods, extreme weather conditions and power outages resulting in telephone, facsimile and computer failures; market conditions or activities causing trading halts; systems failures involving computer or other information systems affecting the Trustee, the Manager, the Receiving Agent, the Custodian, CCASS, the Stock Exchange or any other participant in the creation process, and similar extraordinary events). The Receiving Agent will notify the Participating Dealer of any rejection of an order placed by that Participating Dealer.

The Trustee, the Manager, the Custodian and the Receiving Agent are under no duty to: (i) give notification of any defects or irregularities in the delivery of Portfolio Deposits nor will any of them incur any liability for the failure to give any such notification; or (ii) provide reasons for rejecting a creation order transmitted to the Receiving Agent in respect of the Trust.

Creation orders will be confirmed to Participating Dealers by the Receiving Agent before 5 p.m., Hong Kong time on the Transaction Date. Participating Dealers may, however, (and are strongly recommended to) telephone the Receiving Agent to confirm the Receiving Agent's receipt of any creation order it submits.

No Units will be issued and no creation orders will be accepted during any period when the creation and redemption of Units is suspended (see the section entitled "Suspension of Creations and Redemptions" below).

The Manager may, with the prior approval of the Trustee, at its discretion change the number of Units comprising a Creation Unit aggregation for the purpose of effecting creations of Units.

Creation orders not placed through Participating Dealers

Notwithstanding the above, the Manager may in exceptional circumstances, at its discretion and with the prior approval of the Trustee, accept a creation order from an investor that is not a Participating Dealer provided such person making the creation order has agreed to comply with equivalent terms governing creations made through a Participating Dealer in all material respects save to the extent otherwise agreed by the Manager and the Trustee. The Manager shall only exercise its discretion to accept a creation order from an investor that is not a Participating Dealer if it considers: (a) a more efficient creation mechanism can be established for such investor than the process in place for creation orders through a Participating Dealer; (b) there are exceptional circumstances which cause creations through a Participating Dealer to be less effective for such investor; and (c) it would not, in the opinion of the Trustee, materially prejudice the interests of the other unitholders.

Redemption of Units

Creation Units may be redeemed in kind and for cash. Units may only be redeemed in a Creation Unit aggregation.

Redemption of Units in Creation Unit aggregations in Kind

Units of the Trust may be redeemed only in Creation Unit aggregations through the Receiving Agent at their prevailing NAVs calculated at the Valuation Point with respect to the Dealing Day on which the Receiving Agent receives or is treated as having received a request in proper form (i.e. the Transaction Date). Units may not be redeemed in amounts less than Creation Unit aggregations. Payment for such redemptions will normally be in the form of an in-kind transfer of a basket of fixed income securities comprised in the Trust's portfolio, as determined for that Dealing Day by the Manager provided that the value of Non-Index Securities (on the previous Dealing Day) shall not exceed 20% (or such other percentage as determined by the Manager from time to time with the approval of the Trustee and Supervisory Committee) of the NAV of the Creation Unit aggregation being redeemed ("**Redemption Securities**"), as described below.

The Receiving Agent, through the Trust's web-page or such other methods as the Receiving Agent may determine from time to time, will make available on each Dealing Day, prior to the opening of trading on the Stock Exchange, the list of Redemption Securities that will be applicable to redemption requests received or deemed to be received for that Dealing Day. Redemption Securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Unit aggregations.

The redemption proceeds for a Creation Unit aggregation will generally consist of Redemption Securities, plus or minus cash (the "**Cash Redemption Amount**") in an amount equal to the difference between (1) the Subscription Value and (2) the total aggregate market value (per Creation Unit of the Trust) of the Redemption Securities transferred in kind, determined at the Valuation Point less the redemption Transaction Fee. The Cash Redemption Amount serves the function of compensating for differences, if any, between the NAV per Creation Unit and the Redemption Securities' NAV, determined at the Valuation Point in respect of each Creation Unit. If the Cash Redemption Amount is a negative number (i.e., the NAV per Creation Unit is less than the Redemption Securities' NAV), a compensating cash payment equal to the difference is required to be made to the Custodian by or through a Participating Dealer by the redeeming investor.

Cash Redemptions

On a Dealing Day, unitholders may submit a request for either cash redemption or in-kind transfer of Redemption Securities and the Cash Redemption Amount. If no election is made, the Manager shall treat the redemption request to be a request for an in-kind transfer of Redemption Securities and the Cash Redemption Amount but retains the absolute discretion to distribute cash in settlement of the redeemed Units. Units may be redeemed in Creation Unit aggregations at their prevailing NAVs calculated at the Valuation Point with respect to the Dealing Day on which the Receiving Agent receives or is treated as having received a request in proper form (i.e. the Transaction Date).

The minimum amount for any request for redemptions for cash on a Dealing Day is 50,000 Units, comprising a Creation Unit aggregation.

Placement of Redemption Orders in Kind

Generally, only Participating Dealers are able to place redemption requests with the Receiving Agent.

All requests to redeem Creation Unit aggregations in kind must be received by the Receiving Agent no later than 2:30 p.m., Hong Kong time (the "**Redemption Dealing Deadline**"). If the redemption request in proper form is received by the Receiving Agent after the Redemption Dealing Deadline on any Dealing Day it will be deemed to have been received on the next Dealing Day. Whether or not a redemption request has been received by the Receiving Agent by the Redemption Dealing Deadline shall be determined by the Receiving Agent, whose determination shall be final and binding. Redemption requests must be transmitted to the Receiving Agent by a Participating Dealer in writing or other transmission method acceptable to the Receiving Agent pursuant to procedures set forth in the Participant Agreement. However, a Participating Dealer may telephone the Receiving Agent to confirm the Receiving Agent's receipt of a redemption request. Severe economic or market disruptions or changes, or facsimile or other communication failure may impede the ability to reach the Receiving Agent or a Participating Dealer.

All requests to redeem Creation Unit aggregations in kind must be placed with a Participating Dealer, in the form required by such Participating Dealer. In addition, the Participating Dealer may request the investor to enter into agreements with respect to the request, for example, to provide for payments of cash, when required. Investors should be aware that their particular broker or dealer may not have entered into a Participant Agreement with the Manager and the Trustee and that, therefore, requests to redeem Creation Unit aggregations of the Trust must be placed by the investor's broker or dealer through a Participating Dealer that has entered into a Participant Agreement. In such cases there may be additional charges to such investor. At any given time, there will be only a limited number of Participating Dealers.

All the Units being redeemed must be delivered to the Trustee or its delegate no later than 11:30 a.m. (Hong Kong time) on the second Dealing Day following the Transaction Date (T+2). All questions as to the Units delivered, and their validity, form and eligibility (including time of receipt) will be determined by the Trustee, whose determination will be final and binding. If the Trustee or its delegate does not receive the required Units by 11:30 a.m., Hong Kong time on the second Dealing Day following the Transaction Date (T+2) and (if applicable) the Custodian does not receive any negative Cash Redemption Amount (plus the Transaction Fee and any other duties and charges) by 11:30 a.m., Hong Kong time on the second Dealing Day following the Transaction Date (T+2), the redemption request will, subject to the consent of the Manager, be cancelled. Upon written notice to the Receiving Agent such cancelled request may be resubmitted by the Participating Dealer the following Dealing Day, in respect of which payment for such redemption will comprise Redemption Securities as newly determined for that following Dealing Day.

In addition to the Transaction Fee, the Participating Dealers will be charged any duties and charges applicable to a creation of Units, as well as a second Transaction Fee resulting from redemption orders submitted by them that are cancelled by the Participating Dealer (otherwise than as permitted by the Trust Deed or the Participant Agreement) or that are cancelled as a result of the Participating Dealer failing to deliver or transmit the requisite Units and/or cash. In addition, Participating Dealers may also be charged the amount of any losses and interest costs arising in respect of the Trust's sale and/or purchase of Investments in connection with such failed redemption, and the difference between (i) the issue price of such Units as at the date of cancellation of the redemption request and (ii) the redemption value of Units the subject of the cancellation at the Transaction Date. Default interest will also be payable on the above amounts.

Those placing requests to redeem Creation Unit aggregations should afford sufficient time to permit proper submission of the request to the Receiving Agent prior to the Redemption Dealing Deadline on the relevant Dealing Day. The requisite Redemption Securities and the Cash Redemption Amount will be transferred to the Participating Dealer or on its order by the Dealing Day which is two Dealing Days following the Transaction Date (T+2).

If it is not possible to effect deliveries of the Redemption Securities, at the discretion of the Manager, the redemption request may be satisfied in cash to be added to, and comprise part of, the Cash Redemption Amount to replace any Redemption Security. In addition, a Participating Dealer who is (or whose 100% Group Company is) a permitted market maker may with the approval of the Manager also elect to substitute cash for Redemption Securities upon a redemption of Units on any Dealing Day. Any substitution of cash for Redemption Securities is subject to the following: (A) the aggregate value of all replaced Index Securities and non-Index Securities substituted by cash shall not exceed 40% (or such other percentage as determined by the Manager from time to time and approved by the Trustee and the Supervisory Committee) of the value per Creation Unit aggregation at which Units are to be redeemed, and the redeeming investor will be required to receive its redemption proceeds partially in cash; and (B) on any Dealing Day the sum of (i) the aggregate value of non-Index Securities comprising the Redemption Securities; and (ii) the amount of any cash in lieu of all substituted Index Securities and non-Index Securities shall not exceed 50% (or such other percentage as determined by the Manager from time to time and approved by the Trustee and the Supervisory Committee) of the value per Creation Unit aggregation at which Units are to be redeemed. In addition, an investor may request such a partial redemption in cash in lieu of Redemption Securities that the Manager may, in its sole discretion, permit. In either case, the investor will receive on the Dealing Day which is two Dealing Days following the Transaction Date (T+2) the Cash Redemption Amount, less the redemption Transaction Fee. The Manager may also, in its sole discretion, upon request of a redeeming investor, transfer to such investor a portfolio of securities that differs from the exact composition of the Redemption Securities (provided that the securities comprising such portfolio of securities will be confined to Index Securities and eligible non-Index Securities).

Redemption requests will be confirmed to Participating Dealers by the Receiving Agent before 5 p.m., Hong Kong Time on the Transaction Date. Participating Dealers may, however, (and are strongly recommended to) telephone the Receiving Agent to confirm the Receiving Agent's receipt of any redemption request they submit.

No Units will be redeemed and no redemption requests will be accepted during any period when the creation and redemption of Units is suspended (see the section entitled "Suspension of Creations and Redemptions" below).

The Manager may at its discretion and with the prior approval of the Trustee, change the number of Units comprising a Creation Unit for the purpose of effecting redemptions of Units.

Placement of Redemption Orders in Cash

Generally, only Participating Dealers are able to place redemption requests with the Receiving Agent.

All requests to redeem Creation Unit aggregations for cash on a Dealing Day must be received by the Receiving Agent no later than the Redemption Dealing Deadline for the relevant Dealing Day. If the redemption request in proper form is received by the Receiving Agent after the Redemption Dealing Deadline for any Dealing Day it will be deemed to have been received on the next Dealing Day. Whether or not a redemption request has been received by the Receiving Agent by the Redemption Dealing Deadline shall be determined by the Receiving Agent, whose determination shall be final and binding. Redemption requests must be transmitted to the Receiving Agent by a Participating Dealer in writing or by fax (original requests to follow promptly by hand) or other transmission method acceptable to the Receiving Agent pursuant to procedures set forth in the Participant Agreement, and as described below. However, a Participating Dealer may telephone the Receiving Agent to confirm the Receiving Agent's receipt of a redemption request. Severe economic or market disruptions or changes, or facsimile or other communication failure may impede the ability to reach the Receiving Agent or a Participating Dealer.

All requests to redeem Creation Unit aggregations for cash on a Dealing Day must be placed with a Participating Dealer, in the form required by such Participating Dealer. Investors should be aware that their particular broker or dealer may not have entered into a Participant Agreement with the Manager and the Trustee and that, therefore, requests to redeem Creation Unit aggregations of the Trust for cash must be placed by the investor's broker or dealer through a Participating Dealer that has entered into a Participant Agreement. In such cases there may be additional charges to such investor. At any given time, there will be only a limited number of Participating Dealers.

All the Units being redeemed must be delivered to the Trustee or its delegate no later than 11:30 a.m. (Hong Kong time) on the second Dealing Day following the Transaction Date (T+2). All questions as to the Units delivered, and their validity, form and eligibility (including time of receipt) will be determined by the Trustee, whose determination will be final and binding. If the Trustee or its delegate does not receive the required Units by 11:30 a.m., Hong Kong time on the second Dealing Day following the Transaction Date (T+2), the redemption request will, subject to the consent of the Manager, be cancelled. Upon written notice to the Receiving Agent such cancelled request may be resubmitted by the Participating Dealer the following Dealing Day.

In addition to the Transaction Fee, the Participating Dealers will be charged any duties and charges applicable to a creation of Units, as well as a second Transaction Fee resulting from redemption orders submitted by them that are cancelled by the Participating Dealer (otherwise than as permitted by the Trust Deed or the Participant Agreement) or that are cancelled as a result of the Participating Dealer failing to deliver or transmit the requisite Units. In addition, Participating Dealers may also be charged the amount of any losses and interest costs arising in respect of the Trust's sale and/or purchase of Investments and any interest costs incurred by the Trust in connection with such failed redemption, and the difference between (i) the issue price of such Units as at the date of cancellation of the redemption request and (ii) the redemption value of Units the subject of the cancellation at the Transaction Date. Default interest will also be payable on the above amounts.

Those placing requests to redeem Creation Unit aggregations for cash should afford sufficient time to permit proper submission of the request to the Receiving Agent prior to the Redemption Dealing Deadline for the relevant Dealing Day. The requisite redemption proceeds will be transferred to the Participating Dealer or on its order by the Dealing Day which is two Dealing Days following the Transaction Date (T+2).

The redemption proceeds will comprise a cash payment equal to the NAV of the Creation Unit aggregations of the Trust being redeemed, determined at the Valuation Point for the Transaction Date, less the redemption Transaction Fee.

Redemption requests will be confirmed to Participating Dealers by the Receiving Agent before 5 p.m., Hong Kong Time on the Transaction Date. Participating Dealers may, however, (and are strongly recommended to) telephone the Receiving Agent to confirm the Receiving Agent's receipt of any redemption request they submit.

No Units will be redeemed for cash and no cash redemption requests will be accepted during any period when the creation and redemption of Units is suspended (see the section entitled "Suspension of Creations and Redemptions" below).

The Manager may at its discretion and with the prior approval of the Trustee, change the number of Units comprising a Creation Unit for the purpose of effecting redemptions of Units.

Redemption requests not placed through Participating Dealers

Notwithstanding the above, the Manager may in exceptional circumstances, at its discretion and with the prior approval of the Trustee, accept a redemption request from an investor that is not a Participating Dealer provided such person making the redemption request has agreed to comply with equivalent terms governing redemptions made through a Participating Dealer in all material respects save to the extent otherwise agreed by the Manager and the Trustee. The Manager shall only exercise its discretion to accept a redemption request from an investor that is not a Participating Dealer if it considers: (a) a more efficient redemption mechanism can be established for such investor than the process in place for redemption requests through a Participating Dealer; (b) there are exceptional circumstances which cause redemptions through a Participating Dealer to be less effective for such investor; and (c) it would not, in the opinion of the Trustee, materially prejudice the interests of the other unitholders.

Further Provisions Relating to Creations and Redemptions

Determining NAV

HSBC Institutional Trust Services (Asia) Limited as the administrator of the Trust (the "**Administrator**") calculates the Trust's NAV per Unit at the Valuation Point with respect to each Dealing Day for the purpose of the creation and redemption of Creation Units (or Units in aggregations). The NAV of each Unit of the Trust is calculated by deducting all of the Trust's expenses and liabilities from the total market value of its assets (including its portfolio securities) and dividing the result by the number of Units outstanding. The NAV per Unit will be calculated to four decimal places. To calculate the NAV per Creation Unit, the Administrator will multiply the NAV per Unit (calculated to four decimal places) by 50,000. Valuations are subject to overall supervision by the Trustee and the Manager.

In determining the Trust's NAV, expenses are accrued and applied daily and securities and other assets for which market quotations are readily available are valued at market value using selected pricing services approved by the Manager and the Trustee. When these quotations are not readily available, the Trust's assets will be priced at their fair value, calculated according to procedures adopted by the Administrator in accordance with the Trust Deed and approved by the Manager and the Trustee.

The NAV per Unit on each Dealing Day will be published through the facilities of the Stock Exchange and on the Trust's designated web-page on the following Dealing Day.

Suspension of Creations and Redemptions

If the trading of Units on the Stock Exchange is restricted or suspended, the Manager may suspend the creation and redemption of Units.

The Manager may at any time, with the prior approval of the Trustee and having regard to the best interests of the investors, suspend the right of investors to apply (through Participating Dealers) for the creation or redemption of Units and/or may delay the delivery of redemption proceeds in respect of a redemption request (and/or income distributions) during any periods in which:

- the Stock Exchange, the Central Moneymarkets Units ("**CMU**"), the Euroclear system as operated by Euroclear Bank S.A./N.V. ("**Euroclear**") or any other securities system or depository in, with or through which any Index Securities (or non-Index Securities held by the Trust) are deposited, cleared or settled ("**Index Depository**") or CCASS is closed;
- dealings of the Units on the Stock Exchange are restricted or suspended, in which case the Manager shall immediately notify the SFC as soon as practicable;
- settlement or clearing of securities in CCASS, Euroclear, the CMU or any other Index Depository is disrupted;
- any state of affairs exists as a result of which delivery of Index Securities or non-Index Securities comprised in a basket of Deposit Securities or basket of Redemption Securities or disposal of Investments for the time being comprised in the Trust cannot, in the opinion of the Manager, be effected normally or without materially prejudicing the interests of unitholders;
- any period when, in the opinion of the Manager, funds cannot be normally remitted from the Trust's portfolio without prejudicing the interests of unitholders;
- the Underlying Index is not compiled or published;
- there is any breakdown in the means normally employed in determining the value of the Trust's portfolio or the liabilities of the Trust or when for any other reason the value of any of the assets for the time being comprised in the Trust or the liabilities of the Trust cannot be promptly and accurately ascertained;

The Manager will publish the fact that the calculation of the NAV of the Trust and of each Unit has been suspended immediately following such suspension and on each Dealing Day on the Trust's designated web-page.

Limitation on redemptions

The Manager is entitled to limit the total number of Units which unitholders are entitled to redeem on a Dealing Day to up to 10% of the total NAV of the Trust (or such higher or lower threshold as the Manager may reasonably determine in any particular case in accordance with the SFC Code and as accepted by the Commission). This limitation is to be applied *pro rata* to all Participating Dealers who have validly requested redemptions to be effected on such Dealing Day so that the proportion redeemed of each holding so requested to be redeemed is the same for all Participating Dealers. Any Units which are not redeemed in respect of a particular Dealing Day shall be carried forward for redemption (subject to any further application of the limitation on redemptions) on the next Dealing Day.

The Trustee will inform the Participating Dealers of Units the redemption of which has been deferred within one Business Day after the relevant Transaction Date (T+1). If redemption requests are carried forward then any other subsequent redemption requests received shall also be carried forward to, and be deemed to be a request for the redemption of the relevant Units on the relevant subsequent Dealing Day. The Manager may apply this 10% limitation on redemptions on each subsequent Dealing Day, carrying forward each outstanding redemption request in accordance with the foregoing.

Buying and Selling Units

Units of the Trust have been listed for trading on the secondary market on the Stock Exchange. Units can be bought and sold throughout the trading day like other publicly traded shares. There is no minimum investment. Although Units are generally purchased and sold in "board lots" of 100 Units, brokerage firms may permit investors to purchase or sell Units in smaller "odd-lots", although prices of Units traded in "odd-lots" may differ slightly from Units purchased and sold in "board lots". When buying or selling Units through a broker, investors will incur customary brokerage commissions and charges and stamp duty, and investors may pay some or all of the spread between the bid and the offered price in the secondary market on each leg of a round trip (purchase and sale) transaction. Unit prices are reported in Hong Kong dollars and cents per Unit.

Book Entry

Units have been admitted to, and will be deposited, cleared and settled in CCASS. Units are held in book-entry form, which means that no Unit certificates are issued. HKSCC Nominees will be the registered owner (i.e. the sole unitholder of record) of all outstanding Units of the Trust and will therefore be recognized as the legal owner of all Units for all purposes.

Investors owning Units are beneficial owners as shown on the records of CCASS or its participants. CCASS serves as the securities depository for all Units. Participants in CCASS include securities brokers and dealers, banks and other institutions that have been admitted as such by Hongkong Clearing. Investors are not entitled to receive Unit certificates or to have Units registered in their name, and accordingly investors are not considered a registered owner of Units. Therefore, to exercise any right as a beneficial owner of Units, such investors must rely upon the procedures of CCASS and its participants. These procedures are the same as those that apply to any other Hong Kong listed shares.

Trust Unit Trading Prices

The trading prices of Units on the Stock Exchange may differ in varying degrees from their daily NAVs and can be affected by market forces such as supply and demand, economic conditions and other factors.

The NAV per Unit on each Dealing Day will be published through the facilities of the Stock Exchange and on the Trust's designated web-page by no later than 9:30 a.m. on the following Dealing Day. The Manager will also publish a real time or near real time indicative NAV per Unit (updated at least every 15 seconds during trading hours). The indicative NAV per Unit of the Trust and the actual NAV per Unit of the Trust calculated in accordance with the terms of the Trust Deed and published on the following Dealing Day (see the section entitled "Creation and Redemption of Units - Further Provisions Relating to Creations and Redemptions - Determining NAV") may differ.

Market Makers (if any)

A market maker is a broker or dealer permitted by the Stock Exchange to act as such by making a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the Stock Exchange. Market makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market making requirements of the Stock Exchange. Subject to applicable regulatory requirements, the Manager intends to ensure that there is at least one market maker for the Trust. If the Stock Exchange withdraws its permit to the existing market maker(s), the Manager will endeavour to ensure that there is at least one other market maker to facilitate the efficient trading of Units. The latest list of market makers is available at www.hkex.com.hk.

In the event the Manager exercises its discretion to limit the number of Units which may be created or which unitholders are entitled to redeem on a Dealing Day (see the section entitled "Creation and Redemption of Units – Further Provisions Relating to Creations and Redemptions – Limitation on redemptions"), a market maker may not be able to readily create Units or redeem its Units on a timely basis which may have an impact on the liquidity provided by any such market maker in the secondary market and consequently impact the bid/offer prices for Units traded on the Stock Exchange.

In maintaining a market for Units, the market maker may realise profits or sustain losses in the amount of any differences between the prices at which it buys Units and the prices at which it sells Units. Any profit made by the market marker may be retained by it for its absolute benefit and it shall not be liable to account to the Trust in respect of such profits. Participating Dealers who are (or whose 100% Group Company are) permitted market makers may with the approval of the Manager elect to create or redeem Units partially in cash and partially in-kind on any Dealing Day. Participating Dealers who are (and whose 100% Group Company are) not market makers will not be entitled to make such election.

Management and Operations

Manager

HSBC Investment Funds (Hong Kong) Limited

Address: HSBC Investment Funds (Hong Kong) Limited, HSBC Main Building, 1 Queen's Road Central, Hong Kong

The Manager of the Trust is incorporated under the laws of Hong Kong. The directors comprise:

- HO, Wai Fun
- TAM, Chun Pong Stephen
- LAU, Ka Yin Joanne
- CHAN, Po Chi Cecilia
  Address: all of HSBC Main Building, 1 Queen's Road Central, Hong Kong

The Manager is registered with SFC to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities (CE Number: AAL518). The Manager is a member of the HSBC Group.

The Manager may be subject to removal (a) if the Manager goes into liquidation, (b) if for good and sufficient reason the Trustee is of the opinion that a change of Manager is desirable in the interests of the unitholders, (c) following a material breach of the Manager's obligations under the Trust Deed which, if the breach is capable of remedy, the Manager fails to remedy within 30 days of being specifically required in writing so to do by the Trustee, and the Trustee is of the opinion and so states in writing to the Manager and the Supervisory Committee that a change of Manager is desirable and in the best interests of unitholders as a whole; (d) in accordance with the terms under the Trust Deed, if the Supervisory Committee delivers to the Trustee in writing a request that the Manager should retire; and (e) on notice in writing given by the Trustee following a resolution of unitholders passed to remove the Manager.

In the event that the Manager is removed under the circumstances above, the Trustee shall as soon as reasonably practicable appoint a successor manager to replace the Manager.

The Trust will pay the Manager a management fee, monthly in arrears and accrued daily, determined on the average daily net assets of the Trust at the rate of 0.15% per annum (in respect of the first HK$1,560 million) and 0.12% per annum (thereafter).

Under the terms of the Trust Deed, the Manager is entitled to receive a maximum management fee of up to 1% per annum of the average daily net assets of the Trust. At least three months' prior notice will be given to unitholders and Participating Dealers in respect of any increase in the management fee from its current stated level. Any such increase will also require prior notice to the Trustee and the prior approval of the Supervisory Committee.

Investment Adviser

The Manager has delegated its investment management duties to an Investment Adviser.

The Investment Adviser is a member of the HSBC Group:

HSBC Global Asset Management (Hong Kong) Limited

Address: HSBC Global Asset Management (Hong Kong) Limited, HSBC Main Building, 1 Queen's Road Central, Hong Kong

The fee of the Investment Adviser will be borne by the Manager.

The Manager may appoint a replacement Investment Adviser or discretionary Sub-Investment Adviser at its discretion subject to necessary prior approval by the SFC and giving at least one month's prior notice to affected unitholders in normal circumstances.

Trustee, Registrar, Administrator and Custodian

HSBC Institutional Trust Services (Asia) Limited

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

The Trustee of the Trust is incorporated with limited liability in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance (Cap. 29 of the Laws of Hong Kong) and approved by the Mandatory Provident Fund Schemes Authority as trustee of registered mandatory provident fund schemes under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong). The Trustee is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

HSBC Institutional Trust Services (Asia) Limited also acts as the custodian (the "**Custodian**") and shall be responsible for the safe-keeping of the investments, assets and other property forming part of the Trust in accordance with the provisions of the Trust Deed and, to the extent permitted by law, such investments, assets and other property shall be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereof, subject to the provisions of the Trust Deed.

The Trustee may (i) appoint such person or persons (including, without limitation, any of its Connected Persons) or have such person(s) appointed, to hold, as agent, nominee, custodian, joint custodian, co-custodian or sub-custodian, all or any investments, assets, collateral or other property comprised in the Trust and may empower any such person to appoint, with the prior consent in writing of the Trustee, additional co-custodians and/or sub-custodians (each such agent, nominee, custodian, joint custodian, co-custodian or sub-custodian a "**Correspondent**"), or (ii) delegate to a person or persons (including, without limitation, any of its Connected Persons) the performance of its duties, powers or discretion under the Trust Deed. The Trustee confirms that the Trustee shall (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of any such persons and, (b) be satisfied that such persons retained remain suitably qualified and competent to provide the relevant services to the Trust. The Trustee shall remain liable for any act or omission of any such person as described in the aforesaid (i) and (ii) that is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee. Provided however that if the Trustee has discharged its obligations set out in the aforesaid (a) and (b), the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any such person(s) not being the Trustee's Connected Person appointed as Correspondent and/or delegates of the Trust.

HSBC Institutional Trust Services (Asia) Limited also acts as the Administrator, responsible for calculating the Trust's NAV, and Registrar, responsible for maintaining the Trust's register.

Subject as provided in the Trust Deed, the Trustee (and its directors, officers and employees) is entitled to be indemnified from the assets of the Trust from and against any action, costs, claims, damages, expenses or liabilities (other than any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed) to which it (or they) may be put or which it (or they) may incur by virtue of the Trustee acting as trustee of the Trust, executing the trusts of the Trust Deed or in the exercise of any powers, authorities or discretion vested in the Trustee under the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and the Trustee (including its delegate) is not responsible or has no liability for any investment decision made by the Manager.

The Trustee and its delegate will not participate in transactions or activities or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to the United States Office of Foreign Assets Control (OFAC) sanctions.

Neither the Trustee nor its delegate is involved directly or indirectly with the sponsorship or investment management of the Trust. In addition, neither the Trustee nor its delegate is responsible for the preparation or issue of this Prospectus and therefore they accept no responsibility for any information contained in this Prospectus other than information relating to themselves and the HSBC Group under this section.

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

The Trustee may not be entitled to retire voluntarily except upon the appointment of a new Trustee. Such new trustee shall be a company eligible, in accordance with the provisions of the Trust Deed and the SFC Code, to be the trustee of the Trust that is acceptable to the Manager, the Supervisory Committee and the SFC and shall agree to enter into each such deed as is referred to below to secure the due performance of its duties as Trustee.

The Trust will pay the Trustee a trustee fee, monthly in arrears and accrued daily, of 0.05% per annum of the average daily net assets of the Trust. In addition, the Trustee will receive customary transaction fees based on the transaction activity of the investment portfolio of the Trust (such fees are currently estimated to be HK$389 per transaction).

The trustee fee may be increased to a maximum of 0.15% per annum of the average daily net assets of the Trust upon three months' notice in writing to unitholders and Participating Dealers and with the prior approval of the Manager and the Supervisory Committee.

HSBC Institutional Trust Services (Asia) Limited only receives the trustee fee for its services provided in its capacity as Trustee and does not receive any remuneration for the services performed by in its capacity as the Trust's Administrator, Registrar and Custodian.

However, the Trust will also be responsible for out-of-pocket expenses incurred by HSBC Institutional Trust Services (Asia) Limited in the course of carrying out its duties as Trustee, Custodian, Registrar or Administrator.

Custody arrangement

Assets of the Trust are safe kept by the Custodian (which may be the Trustee or a Correspondent thereof) and unitholders are exposed to the risk of the Custodian not being able to fully meet its obligation to restitute in a short time frame all of the assets of the Trust in the case of bankruptcy of the Custodian. The assets of a Trust will be identified in the Custodian's books as belonging to such Trust. Securities held by the Custodian will be segregated from other assets of the Custodian which mitigates the risk of non-restitution in case of bankruptcy. However, no such segregation applies to cash deposited with a bank which increases the risk of non-restitution in case of bankruptcy.

Further, the Custodian may (with the prior consent in writing of the Trustee) appoint local Correspondents for the purpose of safekeeping assets in relevant local markets. Unitholders are exposed to the risk of the local Correspondents not being able to fully meet their obligation to restitute in a short time frame all of the assets of the Trust in the case of bankruptcy of the local Correspondent. In extreme circumstances, as the retroactive application of legislation and fraud or improper registration of title, the Trust may even be unable to recover all of its assets and the Trustee and the Custodian may not be liable to make good any such loss. This risk may be greater where the Trust invests in markets where custody and settlement systems and controls are not fully developed.

The Supervisory Committee

The following individuals are appointed as the members to the Supervisory Committee (although up to seven members are permitted):

- Professor Stephen Y. L. Cheung BBS JP, President and Chair Professor of Public Policy, The Education University of Hong Kong;
- Ms. Kyle Hung, Head (External), External Department, Hong Kong Monetary Authority;
- Mr. Andrew Malcolm, Partner, Linklaters; and
- Mr. Anthony Yuen, Non-Executive Director, National Australia Bank Limited

On an ongoing basis appointments to and removals from the Supervisory Committee shall be made by the Supervisory Committee itself. The Supervisory Committee shall meet as and when required and at least annually. Under the terms of the Trust Deed, certain matters require the approval of the Supervisory Committee. In addition, the Supervisory Committee has the power to direct and a duty to oversee the Trustee and the Manager on matters relating to the management and administration of the Trust. The Supervisory Committee shall be entitled to, amongst other things:

- direct the Trustee and the Manager on matters relating to the overall structure of the Trust and strategic (but not day to day) issues related to the management and administration of the Trust;
- require the Trustee and the Manager to report to the Supervisory Committee on any matter, act or thing pertaining to their management or administration of the Trust, and in relation to the exercise of any discretion by the Manager or the Trustee pursuant to the Trust Deed, including without limitation, in respect of the appointment or removal of any service provider and the Manager's current and future marketing plan;
- approve the appointment of the Trust's auditor; and
- approve any amendments, alterations or modifications to the terms of the Trust Deed that are not subject to unitholders' prior approval.

The Supervisory Committee also has the power to recommend the removal of the Manager and the Trustee.

The members of the Supervisory Committee will be entitled to be indemnified out of the Trust's portfolio for any liabilities they may incur as a result of acting as members of the Supervisory Committee, except to the extent of any fraud, recklessness, bad faith or wilful default on their part, and except to the extent provided by applicable law.

None of the members of the Supervisory Committee shall be entitled to receive any remuneration from the Trust in respect of their appointment as members of the Supervisory Committee.

There is an established set of eligibility criteria for members of the Supervisory Committee. Amongst other things, the members of the Supervisory Committee, must have demonstrable knowledge of financial affairs and must not have been convicted of any criminal offence which is of direct relevance to their fitness and properness as members of the Supervisory Committee or have been found by a court or regulatory authority to have acted fraudulently or dishonestly.

The members of the Supervisory Committee may by unanimous decision dissolve the Supervisory Committee permanently in which event any matter requiring the approval, consent or agreement of the Supervisory Committee under the Trust Deed shall no longer require such approval.

Receiving Agent

HSBC Institutional Trust Services (Asia) Limited will act as Receiving Agent under the terms of the Receiving Agency Agreement entered into among the Manager, the Trustee and the Receiving Agent. The Receiving Agent will perform certain services in connection with the creation and redemption of Creation Units by Participating Dealers, including receiving creation and redemption orders from, and issuing settlement instructions to, Participating Dealers as well as facilitating the exchange of Deposit Securities, Redemption Securities, cash and Units on the transaction settlement day.

Acting in its capacity as Receiving Agent, HSBC Institutional Trust Services (Asia) Limited will not be entitled to receive any remuneration, in addition to the trustee fee to which it is entitled in its capacity as Trustee. The Receiving Agent may, however, be reimbursed from Trust property for its out-of-pocket expenses incurred in connection with performing its services.

Processing Agent

HK Conversion Agency Services Limited will act as processing agent ("**Processing Agent**") under the terms of service agreements (each a "**HKSCC/HKCAS Service Agreement**") entered into among others the Manager, Trustee, each Participating Dealer (or on its behalf), Hongkong Clearing and the Processing Agent. The Processing Agent will perform through Hongkong Clearing certain of its services in connection with the creation and redemption of Units by Participating Dealers under the Prospectus including facilitating the deposit of Units into CCASS upon creation of Units and the withdrawal of Units from CCASS upon redemption. The Processing Agent will also charge the Participating Dealers a transaction fee for each creation and redemption application which is included within the Transaction Fee. The Processing Agent's reasonable out-of-pocket expenses incurred in connection with the services under each of the HKSCC/HKCAS Service Agreements will be paid by the Manager (for the account of the Trust) and the respective Participating Dealer on an equal share basis. The Participating Dealer may pass on its costs to investors.

The parties to the HKSCC/HKCAS Service Agreement provide an indemnity to the Processing Agent, Hongkong Clearing and their respective parent companies, subsidiaries, affiliates, directors, officers, employees and agents for certain losses incurred in the performance of the Processing Agent's services set out in the HKSCC/HKCAS Services Agreement. Each Participating Dealer will enter into a separate HKSCC/HKCAS Service Agreement relating to the Trust. All amounts payable to the Processing Agent by the Manager are for the account of the Trust.

Listing Agent

The Manager, HSBC Investment Funds (Hong Kong) Limited, also acts as the Listing Agent of the Trust.

Index Provider

Markit Indices Limited is the Index Provider for the Underlying Index. HSBC indirectly holds a 0.16% interest in the Index Provider. The Index Provider is not however a Connected Person of the Trustee, the Manager, HSBC or the Stock Exchange, and the Manager, the Trustee and HSBC will act independently of the Index Provider.

The Manager and the Trustee have entered into a licence agreement with the Index Provider to use the Underlying Index and trade marks (the "**Licence Agreement**").

The licence fee payable by the Trust to the Index Provider for the use of the Underlying Index and trade marks ("**Licence Fee**") is calculated on a sliding scale as a percentage of the Trust's NAV. The Licence Fee is currently up to a maximum of 0.0175% per annum of the Trust's NAV subject to a minimum charge of US$ 33,636[11] per annum.

[11] The minimum charge and Licence Fee will be reviewed and may be adjusted annually to take into account movements in the exchange rate between the US Dollar and the Euro in excess of 10%.

Fees, Costs and Expenses payable by the Trust

In addition to the management and trustee fees payable to the Manager and the Trustee respectively there are additional ongoing fees, costs and expenses payable by the Trust as follows:

- SFC authorisation fees;
- fees paid to the Hong Kong Mandatory Provident Fund Schemes Authority in connection with or arising out of that authority's approval of the Trust for the purposes of enabling the funds of mandatory provident fund schemes' constituent funds and approved pooled investment funds to be invested in the Trust;
- the costs, fees and expenses payable under any licence and data supply contracts entered into in respect of the Trust (including without limitation, the Licence Agreement);
- taxes, governmental charges, brokerage and commissions, exchange costs and commissions and bank charges in relation to transactions involving all or part of the assets of the Trust;
- the fees and expenses of the auditor, legal counsel, brokers and other professional persons appointed by the Trustee or the Manager in connection with their duties in relation to the Trust;
- professional fees in relation to agreeing and/or contesting taxation liabilities or recoveries to be paid out of or into the Trust;
- fees and expenses of the Manager and Trustee in obtaining and/or maintaining the listing on the Stock Exchange and/or the authorization of the Trust under the SFO or any other law or regulation in any part of the world;
- costs involved in respect of the calculation and publication in newspapers in Hong Kong and elsewhere of the NAV per Unit and/or suspension of issues and redemptions of Units;
- out-of-pocket expenses of the Custodian, Administrator and Receiving Agent (where applicable);
- out-of-pocket expenses of the Registrar;
- charges, expenses and disbursements incurred in relation to the safe-custody, acquisition, holding, realisation of or other dealing with any investment for the account of the Trust;
- fees and expenses in connection with depositing and holding Units in CCASS including fees and expenses payable to the Processing Agent;
- charges and expenses involved in insuring the assets and property of the Trust;
- charges and expenses incurred in conducting legal proceedings or applying to any court for any purposes related to the Trust;
- charges and expenses incurred by the Manager and the Trustee in communicating with each other and with unitholders, Participating Dealers, the Registrar, Custodian, Administrator, Receiving Agent or otherwise in relation to the Trust;
- charges and expenses involved in convening and holding meetings of unitholders or the Supervisory Committee;
- to the extent permitted by the SFC Code, costs incurred in respect of the maintenance of a web-page dedicated entirely to the Trust;

- fees, costs and expenses in preparing any deeds supplemental to the Trust Deed and in respect of preparing any agreement in connection with the Trust;
- costs, fees and expenses involved in preparing, publishing, distributing and updating this Prospectus;
- expenses incurred in preparing and arranging for the preparation and distribution of cheques, statements, reports, financial reports, certificates and notices which the Trustee or the Manager is required to issue under the terms of the Trust Deed or any other regulatory requirement;
- all premiums, fees, costs and expenses incurred in purchasing and maintaining insurance for members or any member of the Supervisory Committee;
- all fees and expenses of the Auditors in connection with the Trust;
- all fees and expenses incurred in connection with the retirement or removal of a Manager, the Trustee or the Auditors or the appointment of a new manager, a new trustee or new auditors;
- all fees and expenses of any delegate of the Supervisory Committee and of any attorney, banker, accountant, broker, lawyer or other professional person instructed by the Supervisory Committee in accordance with the Trust Deed;
- all expenses incurred in the collection of income;
- all expenses associated with the distributions declared pursuant to the Trust Deed;
- all fees and expenses incurred by the Managers and the Trustee in terminating the Trust;
- all other reasonable costs, charges and expenses which in the opinion of the Trustee and the Manager are properly incurred in the administration of the Trust and pursuant to the performance of their respective duties under the Trust Deed; and
- all such charges, costs, expenses and disbursements as under the general law the Trustee is entitled to charge to the Trust.

To the extent that the amount of the Trust's ongoing fees, costs and expenses mentioned above, and other ongoing costs and expenses of the Trust, exceed the amounts received by the Trust in respect of income, interest and coupons paid on the Trust's portfolio securities, interest received on cash deposits and other income received by the Trust, then the excess will be met by disposing of part of the Trust's portfolio of securities or other investments. Any such disposal of portfolio securities or other investments may adversely affect the Trust's ability to achieve its investment objective.

Fees Payable by Investors when trading on the Stock Exchange

Investors who trade their Units on the Stock Exchange will be required to pay a Stock Exchange transaction levy of 0.005% of the traded price of the Units and a SFC Transaction Levy of 0.027% of the traded price of the Units.

Investors who use the services of a broker, dealer or other such intermediary may pay fees for such services.

Fees Payable by Investors when creating or redeeming Units

Anti-dilution

Transaction Fees

The Manager at its discretion may impose a creation transaction fee and a redemption transaction fee (each a "**Transaction Fee**") to offset transfer and other transaction costs associated with the creation and redemption of Creation Units.

The Transaction Fee is a maximum of HK$10,000 per order or request and is payable by the Participating Dealer submitting the order or request to the Trust to offset transfer and other administrative expenses incurred in connection with the Unit creation and redemption process. Participating Dealers may pass on this Transaction Fee, in whole or in part, to the investor. A lower level of transaction fee within the maximum may be charged at the discretion of the Manager. The maximum level of this Transaction Fee may be changed at the discretion of the Manager, and in case such fee is increased, not less than one month's notice of the increase will be given to Participating Dealers and investors, subject to the SFC's approval.

Duties and charges

The value of the property of the Trust could be reduced as a result of costs incurred in investing cash subscriptions received either in lieu of Deposit Securities or on a Dealing Day on an application for Creation Units, or in paying cash redemption proceeds in lieu of delivering Redemption Securities or on a Dealing Day on a redemption of Creation Units. These costs may relate to costs incurred in dealing in portfolio securities and the difference between the buying and selling prices of such securities and the market value of these securities. In order to prevent any dilution of the Trust's property and any consequential potential adverse effect on remaining investors, the Manager has the discretion to charge a fee to investors or Participating Dealers electing to create Units (i) in cash; or (ii) partially in cash and partially in-kind to compensate for any decrease in the Trust's NAV when Units are issued or redeemed. Any fee to be paid to the Trust, will be treated as part of duties and charges and will become part of the property of the Trust. Such fee (if any) will be determined by the Manager as the Manager may consider represents the appropriate provision for duties and charges.

Under normal market conditions, creations attract a provision for duties and charges at a maximum rate of (i) 100 bp of the cash payment in lieu of Deposit Securities (for partial in-kind creation); and (ii) 100 bp of the cash payment in respect of cash creations on a Dealing Day. The level of this additional fee may be changed at the discretion of the Manager within the maximum. However, the provision for duties and charges may be significantly higher than the stated maximum under exceptional market conditions, for example, where market spreads widen due to a financial crisis (often indicated by extreme volatility), on a temporary basis. Any applicable duties and charges will be representative of the prevailing market conditions and will be levied in the best interests of unitholders of the Trust.

If the actual duties and charges incurred by the Trust are less than the Manager's provision therefor, such difference will be for the benefit of the Trust and to the extent such duties and charges incurred by the Trust are more than the provision therefor then any such deficiency will be borne by the Trust.

The maximum rate applicable under normal market conditions may be increased by the Manager as long as not less than one month's notice of the increase will be given to Participating Dealers and investors, subject to the SFC's approval.

Currently there are no duties and charges payable in respect of a redemption of Units in cash or in-kind.

Other Fees

Participating Dealers may also charge an additional commission for their own account.

Purchasers of Units in Creation Unit aggregations are responsible for payment of the costs of transferring the Deposit Securities to the Trust. Investors redeeming Units in Creation Unit aggregations are responsible for the costs of the transfer of the Redemption Securities from the Trust to their accounts or on their order.

<u>Dividends and Distributions</u>

The Trust will pay dividend out of income and/or net realized capital gains and/or capital to unitholders semi-annually within each distribution period in accordance with the methodology set out below. Each distribution period shall commence on the day after the end of the previous distribution period and end on the Dealing Day immediately preceding the 31st July (or such other date as shall be determined by the Manager (with the prior approval of the Trustee)). There is currently no dividend reinvestment service.

The Manager will determine the amount of income and net realized capital gains available for distribution to unitholders on the Dealing Day (each an "**Ex-Dividend Date**") which falls immediately before the 31st January and 31st July or such other date as shall be determined by the Manager (with the prior approval of the Trustee) (each a "**Record Date**"). The amount of income available for distribution to unitholders may be declared by the Manager within 14 Business Days of each Ex-Dividend Date according to the Manager's estimation of the amount of net income which should be distributed for the relevant period, either as the semi-annual distribution or final distribution.

In the case of the interim Ex-Dividend Date of the semi-annual distribution period of the Trust, the Trustee will allocate for interim distribution among the unitholders of the Trust as at the relevant Record Date the Manager's estimation of: (i) the lower of: (a) all of the net income of the Trust (after deduction of the Trust's fees, costs and expenses properly payable from income and making an appropriate provision for the payment of accrued fees, costs and expenses properly payable from income); and (b) an amount equal to the average value of the Trust's NAV multiplied by the average yield of the Underlying Index (after deducting therefrom an amount in respect of all fees, costs and expenses properly payable from income and an appropriate provision for the payment of accrued fees, costs and expenses properly payable from income), in each case in respect of the period commencing from the previous final Ex-Dividend Date; and (ii) such amount of any net realized capital gains, as determined by the Manager having due regard to the total return of the Underlying Index in the relevant semi-annual period, the amount of net income to be distributed and the overall interests of unitholders, in respect of the semi-annual distribution period commencing from the previous final Ex-Dividend Date.

In the case of the final Ex-Dividend Date of the full year distribution period of the Trust, the Trustee will allocate for final distribution among the unitholders of the Trust as at the relevant Record Date the Manager's estimation of: (i) the lower of: (a) all of the net income of the Trust (after deduction of the Trust's fees, costs and expenses properly payable from income and making an appropriate provision for the payment of accrued fees, costs and expenses properly payable from income); and (b) an amount equal to the average value of the Trust's NAV multiplied by the average yield of the Underlying Index (after deducting therefrom an amount in respect of all fees, costs and expenses properly payable from income and an appropriate provision for the payment of accrued fees, costs and expenses properly payable from income), in each case in respect of that full year distribution period less the amount previously allocated and distributed by way of interim distribution; and (ii) such amount of any net realized capital gains, as determined by the Manager having due regard to the total return of the Underlying Index in the relevant period, the amount of net income to be distributed and the overall interests of unitholders, in respect of that full year distribution period less the amount of net realized capital gains previously allocated and distributed by way of interim distribution. Any net income (after the deduction of the Trust's fees and expenses) and net realized capital gains that have not been allocated and distributed to unitholders in respect of a full year distribution period shall be allocated as Deposited Property following the final Record Date of the full year distribution period.

Amounts to be distributed in respect of each Unit will be rounded down to the nearest HK$0.01 per Unit. Any amount of income not distributed in a semi-annual distribution period shall be taken into account when calculating the amount available for allocation and distribution to each unitholder on the next final Ex-Dividend Date.

The Record Dates and Ex-Dividend Dates, and accordingly the distribution period, may be changed, or added to, as determined by the Manager with the prior approval of the Trustee.

Distributions payable to investors shall be paid for the respective semi-annual and annual distributions within two weeks of the relevant Ex-Dividend Date. To the extent that the Trustee and the Manager have made payments to HKSCC Nominees, neither the Trustee nor the Manager will have any responsibility for the distribution by HKSCC Nominees of such payments to CCASS Participants whose Units are registered in the name of HKSCC Nominees.

Details of dividend declaration dates, dividend amounts, Ex-Dividend Dates and dividend payment dates will be published on the Trust's website, www.assetmanagement.hsbc.com/hk-ABF, and the Stock Exchange's website, www.hkex.com.hk. Note that the Trust's website has not been reviewed / authorized by the SFC.

Income received by the Trust pending distribution may be invested by the Manager in a manner consistent with achieving the investment objective of the Trust.

Any moneys payable to a unitholder which remain unclaimed after a period of 12 months shall be accumulated by the Trustee in a special account (the "**Unclaimed Moneys Account**"). The Trustee shall cause such sums which represent moneys unclaimed by a unitholder for more than six years and interest, if any, earned thereon to be paid into court after deducting all fees, costs and expenses incurred in relation to such payment provided that if the said sum is insufficient to meet all such fees, costs and expenses, the Trustee shall be entitled to have recourse to the Trust property. Unclaimed moneys payable to a CCASS Participant are governed by the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Unitholders should be aware that, in accordance with the aforementioned calculation, the Dividends may therefore impact their tax position and accordingly investors are encouraged to seek appropriate tax advice in relation to their investment. Investors should note that the payment of distributions out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Any distributions involving payment of dividends out of a capital will result in an immediate reduction in the NAV. The composition of the latest dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available from the Manager on request and on the website www.assetmanagement.hsbc.com/hk[12]. The Manager may amend the dividend policy with respective distribution out of capital subject to the SFC's prior approval and by giving not less than one month's prior notice to investors.

Income Equalisation

The Manager may from time to time at its discretion operate an income equalisation account. Income equalisation aims to mitigate the effects of subscriptions and redemptions during the financial year on the level of accrued income. The effect being that, if an investor subscribes during the accounting period, the subsequent dividend will include a portion representing a return of capital on the original investment.

[12] Please note that this website has not been reviewed by the SFC.

General Information

Taxation

As with any investment, prospective investors should consider how their investment in Units will be taxed. The tax information in this Prospectus is provided as general information and does not constitute tax or legal advice. Prospective investors should consult their own tax professional about the tax consequences of an investment in Units.

Hong Kong Profits Tax

As the Trust has been authorised as a Collective Investment Scheme by the SFC pursuant to section 104 of the SFO, the Trust is not expected to be subject to Hong Kong tax in respect of its authorised activities.

Hong Kong profits tax will not be payable by an investor on dividends or other income distributions of the Trust or in respect of any capital gains or profits arising from the sale, redemption or other disposal of Units unless such transactions form part of a trade, profession or business carried on in Hong Kong.

Hong Kong Stamp Duty

In general, the sale, purchase or transfer of "Hong Kong stock" will be liable to Hong Kong stamp duty of 0.13% borne by each of the buyer and seller, on the purchase consideration. However, securities of the Trust are expected to only comprise bonds which qualify as “loan capital” under the Stamp Duty Ordinance (Cap. 117) of Hong Kong. On the basis that the scope of "Hong Kong stock" does not include "loan capital", such bonds should not attract Hong Kong stamp duty and the Trust should not be liable to stamp duty when buying, selling or transferring such bonds.

Pursuant to the remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty on the transfer of Hong Kong stocks to the Trust by an investor pursuant to an application in specie will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of Hong Kong stock by the Trust to an investor upon redemption of units will also be remitted or refunded.

No Hong Kong stamp duty is payable by the Trust on an issue or redemption of units. Furthermore, no Hong Kong stamp duty is payable by an investor in relation to an issue or redemption of units to him or her.

No Hong Kong stamp duty is payable by investors when trading via sale or purchase of units of the Trust on the Stock Exchange due to a stamp duty remission granted by the Secretary for Financial Services and the Treasury to the Trust. Pursuant to the Stamp Duty (Amendment) Ordinance 2015, with effect from 13 February 2015, no stamp duty is payable on the transfer (purchase or sale) of units of all exchange traded funds on the Stock Exchange. For the Trust, as a stamp duty remission order was previously granted by the Secretary for Financial Services and the Treasury, hence no stamp duty was in effect payable for the transfer of units in the Trust prior to 13 February 2015. As such, the waiver of stamp duty does not affect the Trust in practice.

Automatic exchange of information

Automatic exchange of information (“AEOI”) is an umbrella term covering a number of inter-governmental and multi-lateral agreements concerning information sharing between states to promote tax transparency.

Investors should consult their own tax advisors regarding AEOI requirements with respect to their own situation. In particular, investors who hold their units through intermediaries should confirm the AEOI compliance status of those intermediaries.

AEOI: Foreign Account Tax Compliance Act

The US Foreign Account Tax Compliance Act ("FATCA") requires non-U.S. (foreign) financial institutions ("FFI") to report certain investor information to the US authorities. Under sections 1471 through 1474 of the U.S. Internal Revenue Code if an FFI is not compliant with FATCA then a 30% withholding tax may be imposed on certain payments to FFIs. Currently this withholding tax only applies to payments that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation). However, beginning on 1 January 2019, this withholding tax is extended to the proceeds received from the sale or disposition of assets that give rise to U.S. source dividend or interest payments.

These FATCA withholding taxes may be imposed on payments to the Trust unless (i) the Trust becomes FATCA compliant pursuant to the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, or (ii) the Trust is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA ("IGA").

Hong Kong has signed an IGA Model 2 with the U.S. and the Trust intends to comply with the terms of the IGA and local implementing regulations.

As an IGA has been signed between Hong Kong and the U.S., FFIs in Hong Kong (such as the Trust) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the U.S. IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the U.S. IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

As at the date of the Prospectus, the Trust is treated as a "Non-reporting IGA FFIs" under IGA Model 2 with the U.S. This means that the Manager will act as "FATCA sponsoring entity" and carry out FATCA obligations on behalf of the Trust. In order to comply with its FATCA obligations, the Trust will be required to obtain certain information from its investors so as to ascertain their U.S. tax status. If the investor is a specified U.S. person, U.S. owned non-U.S. entity, non-participating FFI ("NPFFI") or does not provide the requisite documentation, the Trust may need to report information on these investors to the appropriate tax authority, as far as legally permitted.

If an investor or an intermediary through which it holds its interest in the Trust fails to provide the Trust, its agents or authorised representatives with any correct, complete and accurate information that may be required for the Trust to comply with FATCA, the investor may be subject to withholding on amounts otherwise distributable to the investor, may be compelled to sell its interest in the Trust or, in certain situations, the investor's interest in the Trust may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). The Trust may, at its discretion, enter into any supplemental agreement without the consent of investors to provide for any measures that the Trust deems appropriate or necessary to comply with FATCA.

Investors should consult their own tax advisors regarding the FATCA requirements with respect to their own situation. In particular, investors who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

Although the Trust will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Trust will be able to satisfy these obligations. If the Trust 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.

AEOI: Common Reporting Standard

Hong Kong's Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016 - this is the legislative framework for the implementation in Hong Kong of the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "CRS").

CRS in Hong Kong requires financial institutions, such as the Trust, and/or their agents to collect information relating to non-Hong Kong tax residents holding accounts with FIs, and for certain account holders, report their information to the Hong Kong Inland Revenue Department ("IRD") who will in turn exchange the information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will only be reported to the IRD and exchanged if such jurisdiction has a Competent Authority Agreement ("CAA") with Hong Kong; however, the Trust and/or its agents may further collect information relating to residents of other jurisdictions.

The CRS rules as implemented by Hong Kong require the Trust to, amongst other things: (i) register the Trust's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e., investors) to identify whether any such accounts are considered "Reportable Accounts" for CRS purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA. Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) certain entities controlled by individuals who are tax resident in such other jurisdiction. Under the Ordinance, details of investors, including but not limited to their name, address, tax residence, account number, account balance/value, distribution income and sale/redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

By investing (or continuing to invest) in the Trust, investors shall be deemed to acknowledge that:

(i) the IRD may be required to automatically exchange information as outlined above with relevant tax authorities in other jurisdictions;
(ii) the Trust (or their agent) may be required to disclose to the relevant tax authorities in other jurisdictions certain confidential information when registering with such authorities and if such authorities contact the Trust (or its agent directly) with further enquiries;
(iii) the Trust may require the investor to provide additional information and/or documentation which the Trust may be required to disclose to the IRD;
(iv) in the event an investor does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Trust, the Trust reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, compulsory redemption or withdrawal of the investor concerned, to the extent permitted by applicable laws and the Trust's constitutional documents and the Manager shall observe relevant legal requirements and shall act in good faith and on reasonable grounds;
(v) no investor affected by any such action or remedy shall have any claim against the Trust (or its agent) for any form of damages or liability as a result of actions taken or remedies pursued by or on behalf of the Trust in order to comply with CRS in Hong Kong or any of the relevant underlying legislation; and
(vi) the Trust may, at its discretion, enter into supplemental agreements without the consent of investors to provide for any measures that the Trust deems appropriate or necessary to comply with CRS regulations in Hong Kong.

Anti-Money Laundering

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee or the Trust is subject, the Manager, the Trustee or the Receiving Agent may require a detailed verification of a potential investor's identity and the source of payment of any subscriptions.

In the event of delay or failure by the applicant to produce any information required for verification purposes an order for Units may be refused.

The Trustee will not participate in transactions or activities or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions of the Office of Foreign Assets Control of the US Department of the Treasury. HSBC group of companies has adopted a policy of compliance with the sanctions issued by the Office of Foreign Assets Control. As part of its policy, the Trustee may request for additional information if deemed necessary.

Financial Reports

The Trust's financial year ends on 31st July in each year. The Trustee will arrange for annual financial reports to be prepared in respect of the Trust and audited by the Trust's auditors (who are currently KPMG). Such financial reports, along with reports prepared by the Manager and the Trustee will be published and distributed to unitholders by post and posted on the Trust's designated web-page within four months of the end of the Trust's financial year. In addition, the Trustee or the Manager will procure that unaudited interim reports will be published for the period ending 31st January in each year and distributed to unitholders and posted on the Trust's web-page within two months of the end of that period. The contents of these reports will comply with the requirements of the SFC Code and such reports shall be prepared in accordance with generally accepted accounting principles of Hong Kong. Annual and interim reports will be provided in English and Chinese. Interim reports must apply the same accounting policies and method of computation as are applied to in the annual reports of the Trust and disclose a statement to such effect or include a description of the nature and effect of any change in these policies and methods.

To the extent that any of the valuation principles used to determine the Trust's NAV per Unit at the Valuation Point with respect to each Dealing Day is or becomes inconsistent with generally accepted accounting principles of Hong Kong, the Trust's financial reports may not necessarily be in line with the published NAV per Unit. In this case, a reconciliation note may need to be included in the financial reports of the Trust to reconcile values arrived at by applying generally accepted accounting principles in Hong Kong and the NAV per Unit of the Trust by applying the Trust's valuation principles.

Notices

Any notices required to be given to unitholders under the Trust Deed and/or by the SFC Code or the Listing Rules shall be sent by post to unitholders. In addition, such notices will be published on the Trust's designated web-page and the Stock Exchange's website. Copies of such notices will also be available from the Participating Dealers and the Manager.

Meetings of Unitholders

The Trust Deed sets out procedures to be followed in respect of meetings of the unitholders, including provisions as to the giving of notice, appointment of proxies and quorum.

Amending the Trust Deed without Unitholder Approval

The Trustee and the Manager may not alter, modify or vary the terms of the Trust Deed whereby such alteration, modification or variation involves any material changes without obtaining the approval by an extraordinary resolution of unitholders, except where the alteration, modification or variation is:

- made to enable the Trust to comply with fiscal or other statutory, regulatory or official requirements (whether or not having the force of law) of any country or authority provided that the Trustee certifies in writing that, in its opinion, such change is necessary to so comply; or

- necessary to correct a manifest error and the Trustee certifies in writing accordingly; or
- expedient for any purpose and the Trustee certifies in writing that, in its opinion, such alteration, modification or variation:
  - is not materially prejudicial to the interests of unitholders; and
  - does not to any material extent release the Trustee, the Manager or any other person from liability to unitholders; and
  - does not increase the costs and charges payable out of the Trust (other than costs incurred in altering, modifying or varying the Deed).

In addition, no alteration, modification or variation, regardless of it having been approved by extraordinary resolution, may impose any liability on any unitholder to make further payments in respect of Units held by him or to accept any additional liability in respect of the Units.

The Trustee may in addition certify that, in its opinion, an amendment to the Trust Deed is necessary or desirable for the purposes of listing or maintaining a listing of the Units on the Stock Exchange, in which case, the approval of unitholders by extraordinary resolution will not be necessary to make that amendment.

Any amendment to be made to the Trust Deed by the Manager and the Trustee without requiring the prior approval of unitholders under the Trust Deed will require the approval of the Supervisory Committee. Unless the SFC consents otherwise the Manager will give prior notice to unitholders in writing of any amendments made to the Trust Deed without unitholders' approval.

Intermediaries in Hong Kong

No application monies 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 the SFO.

Liability and Indemnities

The Trust Deed contains the duties and responsibilities of the Trustee and the Manager. The Trust Deed requires that (subject as provided in the Trust Deed) the Trustee and the Manager exercise their respective powers and authorities in the exclusive interests of the unitholders.

The SFC Code requires that the Trustee, amongst other things, take into its custody or under its control all of the property of the Trust, registers investments in its name or to its order and is liable for the acts and omissions of its nominees and agents in relation to the assets forming part of the property of the Trust. The Trustee has appointed the Custodian to safekeep the property of the Trust.

Under the SFC Code, the Manager must manage the Trust in accordance with the constitutive documents of the Trust (including, the Trust Deed) and must comply with the applicable requirements set out in the SFC Code.

The SFC Code provides that neither the Trustee nor the Manager can be exempted from any liability to unitholders imposed under Hong Kong law or for breaches of trust through fraud or negligence, nor may they be indemnified against such liability by unitholders or at the expense of unitholders.

The Trust Deed includes certain exclusions of liability and indemnities in favour of the Trustee and the Manager, other than in respect of the Trustee's or Manager's fraud, negligence, bad faith or wilful default.

The liability of unitholders must be limited to their Investments in the Trust.

Termination

The Trust may be terminated by the Trustee, with the prior approval of the Manager (except the approval of the Manager shall not be required in the case of (i) the liquidation of, or analogous proceedings in respect of, the Manager or (ii) the Trust ceasing to be authorized by the SFC under section 104 of the SFO) and the Supervisory Committee (except the approval of the Supervisory Committee shall not be required in the case of (i) the average of the daily value of the aggregate Trust's NAV is less than HK$200 million over any rolling three-month period, (ii) the Units ceasing to be listed on the Stock Exchange or (iii) the Trust ceasing to be authorized by the SFC under section 104 of the SFO) in the following circumstances:

- it becomes illegal or in the opinion of the Trustee impossible or impracticable to continue the Trust;
- the Trust becomes liable to taxation (whether in Hong Kong or elsewhere) in respect of income or capital gains at a rate considered by the Manager to be excessive in relation to the rate which would be borne by investors by investing directly in the Index Securities;
- the Units cease to be listed on the Stock Exchange;
- the Trust ceases to be authorized by the SFC under section 104 of the SFO;
- the Underlying Index ceases to be compiled or published and there is no successor index;
- the Licence Agreement is terminated and no new licence agreement relating to the Underlying Index or any successor index is entered into by the Trustee and the Manager;
- the Manager goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or analogous proceedings where, after the expiration of a period of three months, the Trustee has not appointed a new manager;
- if on the expiration of three months after notifying the Manager that in the Trustee's opinion a change of Manager is desirable in the interests of the unitholders, the Trustee has not found another company ready to accept the office of manager of the Trust of which the Trustee and the Supervisory Committee and the SFC shall approve; or
- if the average of the daily aggregate net assets of the Trust is less than HK$200 million over any rolling three month period.

Upon the termination of the Trust, all outstanding borrowings and other fees, expenses and liabilities of the Trust must be repaid or paid. Thereafter, at the discretion of the Trustee, the Trust's portfolio of securities and other property will be distributed in kind or sold in favour of unitholders pro rata to the number of Units held in accordance with the terms of the Trust Deed. In the case of unitholders who are retail investors, the Trustee will sell Trust securities and other property pro rata to the number of Units held by them in order to make cash distributions to those unitholders.

Any moneys payable to a unitholder which remain unclaimed after a period of 12 months shall be accumulated by the Trustee in the Unclaimed Moneys Account. The Trustee shall cause such sums which represent moneys unclaimed by a unitholder for more than six years and interest, if any, earned thereon to be paid into court after deducting all fees, costs and expenses incurred in relation to such payment provided that if the said sum is insufficient to meet all such fees, costs and expenses, the Trustee shall be entitled to have recourse to the Trust property. Unclaimed moneys payable to a CCASS Participant are governed by the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

At least three months' prior notice of the termination of the Trust will be given to unitholders (unless the Trust is terminated by reason of illegality, in which case no prior notice needs to be given to unitholders).

Conflicts of Interest

The Trustee, the Manager, the Investment Adviser, the Listing Agent, the Administrator, the Custodian, the Receiving Agent, the Registrar and any of their respective Connected Persons may:

(a) contract or enter into any financial, banking, insurance or other transaction with one another, unitholders, Participating Dealers or any corporation or body any of whose securities form part of the Deposited Property of the Trust and be interested in any such corporation or body; and

(b) invest in and deal with securities or any property of the kind included in the property of the Trust for their respective individual accounts or for the account of a third party.

Neither the Trustee nor the Manager may act as principal to buy or sell investments from or to the Trustee for the account of the Trust or otherwise deal as principal with the Trust. However, with the prior written consent of the Trustee, any Connected Person of the Manager may deal as agent or principal in the sale or purchase of securities and other investments to or from the Trust. There will be no obligation on the part of such Connected Person to account to the Trust or to unitholders for any benefits so arising and any such benefits may be retained by the relevant party, provided that such transactions are in the best interests of the unitholders, entered into on an arm's length basis and at the best price available to the Trust having regard to the kind, size and time of the transaction.

All transactions carried out by or on behalf of the Trust must be executed at arm’s length and in the best interests of the unitholders and executed on the best available terms.

Any cash of the Trust may be deposited with the Trustee, the Manager, the Investment Adviser or any of their Connected Persons or invested in certificates of deposit or banking investments issued by the Trustee, the Manager, the Investment Adviser or any of their Connected Persons provided that such cash deposits or banking instruments shall be maintained in a manner that is in the best interests of the unitholders, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business. Banking or similar transactions may also be undertaken with or through a Connected Person. Any arrangements for borrowing shall be made with the Trustee or any Connected Person of either the Manager or the Trustee (being a bank), provided that (i) such arrangement shall be made in the best interests of the unitholders, (ii) such person shall charge interest at no higher rate, and any fee for arranging or terminating any borrowing shall be of no greater amount than, in accordance with its normal banking practice, the commercial rate for a borrowing of the size and nature of the borrowing in question and negotiated at arm's length, and (iii) such bank shall be entitled to retain for its own use and benefit all profits and advantages which may be derived therefrom.

With the prior written consent of the Trustee, the Manager may effect transactions by or through the agency of another person for the account of the Trust with whom the Manager, the Investment Adviser or any of their Connected Persons have an arrangement for the supply of goods, services or other benefits.

Where the Manager or any Connected Person of the Manager receives any cash rebate of all or any part of any commission paid out of the Trust, the Manager or that Connected Person shall not be entitled to retain that cash rebate but shall account for and pay the same to the Trustee to be held as trust property.

The Manager is responsible for selecting brokers and dealers through whom transactions for the account of the Trust are to be executed (which may include the Manager, the Trustee or a Connected Person of either of them).

The Manager may, in accordance with applicable law and regulation, effect agency cross transactions where both the sale and purchase of an investment are effected for clients (including the Trust on the one hand) of the Manager and/or its Connected Persons provided that the sale and purchase decisions are in the best interests of both clients (including the unitholders), permitted within the investment guidelines/objectives of both clients and the transactions are executed on an arm's length basis and at the best price available to the Trust having regard to the kind, size and time of the transaction. Connected Persons of the HSBC Group may act as counterparties for certain forward foreign exchange and financial futures contracts.

The Trustee, the Manager, the Investment Adviser, the Listing Agent, the Administrator, the Custodian, the Receiving Agent, the Registrar and any of their respective Connected Persons may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Trust. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Trust.

In such event, each will at all times have regard to its obligations under any agreements to which it is party or by which it is bound in relation to the Trust and include the Trust Deed and Investment Advisory Agreement. In particular, but without limitation to its obligations to act in the best interests of the Trust and the unitholders when undertaking any dealings or investments where conflicts of interest may arise, each will respectively use their best efforts to ensure that such conflicts are resolved fairly.

The Investment Adviser or its respective Connected Persons acting in a fiduciary capacity with respect to client accounts may recommend to or direct clients to buy and sell Units of the Trust. If a client defaults on its obligation to repay indebtedness to the HSBC Group that is secured by Units in the Trust, and the HSBC Group forecloses on such interest, the HSBC Group would become a unitholder of the Trust. As a consequence, the HSBC Group and its affiliates could hold a relatively large proportion of Units and voting rights in the Trust.

In respect of voting rights where the Manager would face a conflict between its own interest and that of the unitholders, the Manager shall cause such voting rights to be exercised according to the discretion of the Trustee. The Manager, Trustee, any Investment Adviser appointed by the Manager or their respective Connected Persons are prohibited from voting their beneficially held Units at or from being counted in the quorum for a meeting at which they have a material interest in the business to be contracted, provided that the Manager and its Connected Persons shall be entitled to vote their beneficially owned Units on any resolution(s) to appoint or dismiss the Manager and be counted in the quorum for the purpose of passing such resolution(s) at such meeting of unitholders.

The services of the Trustee, the Manager, the Investment Adviser, the Listing Agent, the Administrator, the Custodian, the Receiving Agent, the Registrar and any of their respective Connected Persons provided to the Trust are not deemed to be exclusive. Each shall be free to render similar services to others so long as its services to the Trust are not impaired thereby and to retain for its own use and benefit all fees and other moneys payable in relation to such services. Further, each shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust any fact or thing which comes to the notice of the relevant party in the course of its rendering of similar services to others or in the course of its business in any other capacity or in any manner, otherwise than in the course of carrying out its duties under the Trust Deed.

Underlying Index Disclaimers

Markit Indices Limited

Investments of the Trust are made on the basis of the Markit iBoxx ABF Hong Kong Index (i.e. the Underlying Index) provided by Markit which is derived from sources considered reliable, but Markit and its employees, suppliers, subcontractors and agents (together "**Markit Associates**") do not guarantee the veracity, completeness or accuracy of this Prospectus or other information furnished in connection with the Trust. No representation, warranty or condition, express or implied, statutory or otherwise, as to condition, satisfactory quality, performance, or fitness for purpose are given or assumed by Markit or any of the Markit Associates in respect of the Trust or the use by any person or entity of the Trust or that data and all those representations, warranties and conditions are excluded save to the extent that such exclusion is prohibited by law.

Markit and the Markit Associates shall have no liability or responsibility to any person or entity for any loss, damages, costs, charges, expenses or other liabilities whether caused by the negligence of Markit or any of the Markit Associates or otherwise, arising in connection with the use of the Trust.

Markit iBoxx is a registered trade mark of Markit and has been licensed for use by the Manager and the Trustee. Markit does not approve, endorse or recommend the Manager, the Trustee or the Trust.

The Manager and Trustee

Neither the Manager nor the Trustee guarantees the accuracy and/or the completeness of the Underlying Index or any data included therein, and the Manager and the Trustee shall have no liability for any errors, omissions, or interruptions therein. The Manager and the Trustee make no warranty, express or implied, as to results to be obtained by the Trust, owners of the Units of the Trust, or any other person or entity from the use of the Underlying Index or any data included therein. The Manager and the Trustee make no express or implied warranties, and expressly disclaim all warranties of merchantability or fitness for a particular purpose or use with respect to the Underlying Index or any data included therein. Without limiting any of the foregoing, in no event shall the Manager or the Trustee have any liability for any special, punitive, direct, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.

Documents Available for Inspection

Copies of the following documents are, or will be, available for inspection during normal business hours at the offices of the Trustee and the Manager:

- Trust Deed
- Licence Agreement
- Investment Advisory Agreement
- Trustee and Manager Fee Letters
- Receiving Agency Agreement
- the most recent annual reports of the Trust (not later than four months after the end of the Trust's preceding financial period) and the most recent interim reports of the Trust (not later than two months after the end of the period to which they relate).

Copies of the Prospectus can be obtained during normal business hours from the Manager and the Receiving Agent.

No person is authorized to give any information or to make any representations about the Trust and the Units not contained in this Prospectus and you should not rely on any other information. Read and keep the current Prospectus for future reference.

Appendix 1 - Underlying Index

The information presented in this Appendix has been extracted from publicly available documents that have not been prepared or independently verified by the Manager, the Trustee, the Supervisory Committee or any of their respective affiliates or advisers in connection with the offering and listing of Units and none of them makes any representation as to or takes any responsibility for the accuracy or completeness of this Appendix. The information presented in this Appendix is subject to change by the Index Provider.

The Markit iBoxx ABF Hong Kong Index

The Markit iBoxx ABF Hong Kong Index is an indicator of investment returns of HK$ denominated debt obligations issued or guaranteed by the HKSAR Government (or any other Asian Government), by an agency or instrumentality of the HKSAR Government (or any other Asian Government), by a HKSAR Government (or any other Asian Government) sponsored entity or a quasi HKSAR Government (or any other Asian Government) entity and HK$ denominated debt obligations issued by supranational issuers in each case as determined by the Index Provider and which are for the time being constituent securities of the Underlying Index.

Composition of the Underlying Index

Only government and quasi-sovereign bonds (subject to certain credit rating requirements as determined by the Index Provider) are eligible for the Underlying Index.

Top 10 largest constituent securities of the Underlying Index[13]

Available at:
https://products.markit.com/indices/UCITS/Constituents.aspx?isd_index=I11300001&fixingflag=Far+East+End+of+Day&Indexname=iBoxx+ABF+Hong+Kong

Description of the index methodology

The following seven criteria are used to derive the Underlying Index: (i) bond type; (ii) issuer type; (iii) issuer domicile; (iv) credit rating; (v) bond life at issuance; (vi) time to maturity; and (vii) amount outstanding.

Bond Type

The following types of securities are eligible for inclusion in the Underlying Index: (i) fixed, zero coupon, compound coupon and step-up coupon bonds; and (ii) sinking funds and amortizing bonds with a fixed redemption schedule.

Securities with any of the following attributes are excluded from the Underlying Index: (i) bonds with embedded call or put options; (ii) floating rate notes and fixed-to-floater bonds; (iii) bonds with warrants; (iv) convertibles; (v) undated bonds; (vi) index-linked and credit-linked notes; and (vii) collateralized bonds.

Only bonds with predetermined cash flows are eligible for the Underlying Index.

Retail bonds are excluded from the Underlying Index.

Private placements that are only offered to a few select investors are excluded from the Underlying Index.

Collateralized bonds are excluded from the Underlying Index.

[13] The Underlying Index is rebalanced monthly and accordingly the top 10 largest constituent securities and/or their weightings may change. Please see the section below entitled "Index re-balancing procedure".

Bonds that are denominated in one currency but pay either the coupon or the principal in a different currency are not considered for the Underlying Index.

Issuer type

Only government and quasi-sovereign bonds (subject to certain credit rating requirements) are eligible for inclusion in the Underlying Index.

Quasi-sovereign bonds are split into sub-sovereign bonds and other sovereign bonds.

Debt issued by one of the eight EMEAP[14] central governments in one of the eight EMEAP currencies other than their respective domestic currencies are classified as "Other Sovereigns" in the quasi-sovereign index. Bonds issued in currencies other than HK dollars are not eligible for the Underlying Index.

Sub-sovereign bonds are issued by entities with explicit or implicit government backing due to legal provision, letters of comfort or the public service nature of their business. The issuer requires strong central government ownership if its bonds are not explicitly guaranteed by the central government.

The four main sub-sovereign categories are: (i) Agencies; (ii) Government-guaranteed; (iii) Regions; and (iv) Supranationals.

Supranational issuers are entities owned and/or supported by more than one central government, including the Asian Development Bank, the European Investment Bank and the International Bank for Reconstruction & Development.

Regions are issued by local or regional governments and are eligible only if they are explicitly guaranteed by the central government.

Bonds from issuers that are explicitly guaranteed by a central government are classified as "Government guaranteed" and are eligible for the Underlying Index. Guaranteed bonds and issuers are classified into that category, even though the underlying issuer may be a quasi sovereign.

Agencies are entities whose major business is to fulfil a government-sponsored role to provide public, non-competitive services. Often, such business scope is defined by a specific law, or the issuer is explicitly backed by the government. There are three main categories of agencies: (i) Financial; (ii) Infrastructure & transport; and (iii) Public utilities.

In principle, the business scope and legal provisions in combination with strong government ownership determines whether an issuer is a quasi sovereign or a corporate. In addition, the rating differential between government and quasi sovereign is also taken into consideration. For instance, a considerable rating differential (e.g. three notches) below the sovereign suggests that the issuer does not belong in the quasi-sovereign sector.

The issuer classification is reviewed regularly and issuers whose status has changed are included in the Underlying Index at the next re-balancing. Additional information documenting the classification decision is provided for quasi sovereigns that are unrated or where the rating differential between the sovereign and issuer is significant.

Further information in respect of the Underlying Index may be obtained from www.markit.com.

[14] The eight relevant EMEAP economies are: People's Republic of China, Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore and Thailand.

Issuer domicile

With the exception of supranationals, all issuers – or in the case of a finance subsidiary the issuers' guarantor – need to be domiciled in one of the eight EMEAP markets: People's Republic of China, Hong Kong, Indonesia, South Korea, Malaysia, Philippines, Singapore and Thailand.

Credit rating

Domestic central government debt does not require a rating. In order to ensure high credit quality of the Underlying Index, most quasi-sovereign bonds need to be rated investment grade. Ratings from the following three credit rating agencies are considered: (i) Fitch Ratings; (ii) Moody's Investor Services; or (iii) Standard & Poor's Rating Services.

If a bond is rated by more than one credit rating agency, the average rating of all ratings is used. Investment grade is defined as BBB- or higher from Fitch and Standard & Poor's and Baa3 or higher from Moody's. The rating is consolidated to the nearest rating grade. Rating notches are not used.

Supranationals need to have at least AA- rating.

Unrated bonds or issuers from investment grade markets are only eligible in the following quasi sovereign categories: (i) Government-guaranteed; and (ii) Financial agencies, provided it can be ascertained that the issuer has strong links to and support from the central government (e.g. a reduced risk weighting for the purpose of calculating capital adequacy ratio for commercial banks, senior government representation on the company board etc.). The decision whether to include unrated financial agencies is taken on a case-by-case basis.

Quasi sovereigns from sub-investment grade rated markets are excluded from the Underlying Index unless they have an investment grade rating. The applicable sovereign debt rating is the best rating of the Fitch, Moody's and Standard & Poor's local currency debt ratings.

Bond life at issuance

All bonds must have a minimum bond life of 18 months at issuance. The minimum life is measured from the first settlement date to the maturity date of the bonds and is rounded to the nearest month.

Time to Maturity

All bonds must have a remaining time to maturity of one year or more at any re-balancing date. The time to maturity is calculated from the re-balancing date to the final maturity date of the bond by using the native day count convention of the bond.

For sinking funds and amortizing bonds, the average life is used instead of the final maturity to calculate the remaining time to maturity.

Amount outstanding

The amount outstanding for bonds to be eligible for the Underlying Index is a minimum of HK$500 million for both HKSAR Government issues and for quasi-sovereign issuers.

Limit on the number of issues per quasi-sovereign issuer

There are no restrictions on the number of issues for sovereign debt.

In order to increase the investability in the Underlying Index, as well as maintain a high degree of issuer diversification, the number of issues for each quasi-sovereign issuer (as identified by the Bloomberg ticker) is limited to five. If more than five issues qualify for inclusion in the Underlying Index, a liquidity ranking is used to decide which bonds have a higher liquidity. The liquidity ranking is based on three factors: (i) size (amount outstanding); (ii) age (time since issuance); (iii) time to maturity.

A formula has been developed to assess the relative liquidity of a bond vis-à-vis other bonds of the same issuer. Further information may be obtained by visiting www.markit.com.

Index re-balancing procedure

The Underlying Index is re-balanced on the last calendar day of the month after close of business. Changes to static data, such as ratings, amount outstanding etc. are only taken into account if they are publicly known three business days before the end of the month. Rating or amount outstanding changes on the last two trading days of the month are accounted for at the next re-balancing. New bonds issued must settle before the end of the month and all relevant information must be known at least three trading days before the end of the month.

The classification of existing bonds is also reviewed at each monthly re-balancing, and resulting classification changes are implemented at the re-balancing. This means that quasi-sovereign issuers, which are no longer considered to have a sufficiently close relationship with the government, are reclassified as corporate issuers and subsequently removed from the index at the monthly rebalancing.

The membership list with final amount outstanding for each bond is published three business days before the end of each month. This list contains the constituents for the next month. The final membership list with closing prices for the bonds and various bond analytics based on prices of the bonds of the Underlying Index is published on the last business day of each month.

Data for Underlying Index calculation

Static Data

Information used in the Underlying Index calculation is sourced from offering circulars and checked against standard data providers.

Bond and Index Data

The Underlying Index is calculated if there is at least one bond available that matches all inclusion criteria. If no more bonds qualify for the Underlying Index, then its level will remain constant. If at least one bond becomes available again, the Underlying Index calculation will be resumed at the last calculated level.

Calculation occurs on a daily basis as soon as the consolidated quotes become available. The Underlying Index is calculated on each trading day. The Underlying Index is also calculated on the last calendar day of each month. If the Underlying Index is calculated on a day that is a non-business day in Hong Kong, then the consolidated prices from the previous trading day will be carried forward and the Underlying Index will be calculated using those prices and the current accrued interest and coupon payment data.

The calculation of the Underlying Index is based on bid quotes. New bonds are included in the Underlying Index with their respective ask prices when they enter the index family. In the event that no consolidated price could be established for a particular bond, the Underlying Index continues to be calculated based on the last available consolidated prices.

On the last trading day of a month, the re-balancing takes place after the daily index calculation for the current month's list - including the calculation of the last calendar day's indices - has been performed. On the last trading day of the month price contributors submit bid and ask quotes for all new bonds, which are to be included in the Underlying Index for the next month.

Circumstances that may affect the accuracy and completeness in the calculation of the Underlying Index

No warranty, representation or guarantee is given as to the accuracy or completeness of the Underlying Index and its computation or any information related thereto. The process and the basis of computing and compiling the Underlying Index and any of its related formulae, constituent securities and factors may at any time be changed or altered by Markit without notice. In addition, the accuracy and completeness of the calculation of the Underlying Index may be affected by, without limitation, the availability and accuracy of prices for constituent securities, market factors and errors in its compilation.

Ongoing Information concerning the Underlying Index

Information in respect of the Underlying Index may be obtained from www.markit.com. The website may contain information in respect of funds not authorized by the SFC.

Appendix 2 - Selling Restrictions

No action has been or will be taken in any jurisdiction that would permit a public offering of the Units or the possession, circulation or distribution of this Prospectus or any other offering or publicity material relating to the Trust or the Units in any country or jurisdiction (other than Hong Kong) where action for the purpose is required. Accordingly, the Units may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Units may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Creation Unit aggregations will normally only be offered to Participating Dealers in Hong Kong. This Prospectus is not intended for use in any other country or jurisdiction.

Set out below are restrictions applicable to investors in certain jurisdictions.

United States

Units have not been and will not be registered under the United States Securities Act of 1933, as amended or under the securities laws of any state and Units have not been and will not be registered under the Investment Company Act of 1940, as amended.

Units of the Trust may not be offered, transferred, acquired or sold to any "US Person" or for the account or benefit of a US Person. For the purposes of this restriction, the term US Person shall mean the following:

1) An individual who is a resident of the US under any US Law.

2) A corporation, partnership, limited liability company, collective investment vehicle, investment company, pooled account, or other business, investment, or legal entity:

   a. created or organized under US Law;

   b. created (regardless of domicile of formation or organisation) principally for passive investment (e.g. an investment company, fund or similar entity excluding employee benefit or pension plans):

      i) and owned directly or indirectly by one or more USPs who hold, directly or indirectly, in aggregate a 10% or greater beneficial interest, provided that any such USP is not defined as a Qualified Eligible Person under CFTC Regulation 4.7(a);

      ii) where a USP is the general partner, managing member, managing director or other position with authority to direct the entity's activities;

      iii) where the entity was formed by or for a USP principally for the purpose of investing in securities not registered with the SEC unless such entity is comprised of Accredited Investors, as defined in Regulation D, 17 CFR 230.501(a), and no such Accredited Investors are individuals or natural persons; or

      iv) where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by USPs;

   c. that is an agency or branch of a non-US entity located in the US; or

   d. that has its principal place of business in the US.

3) A trust:

   a. created or organized under US Law; or

b. where, regardless of domicile of formation or organisation:

    i) any settlor, founder, trustee, or other person responsible in whole or in part for investment decisions for the trust is a USP;

    ii) the administration of the trust or its formation documents are subject to the supervision of one or more US courts; or

    iii) the income of which is subject to US income tax regardless of source.

4) An estate of a deceased person:

a. who was a resident of the US at the time of death or the income of which is subject to US income tax regardless of source; or

b. where, regardless of the deceased person's residence while alive, an executor or administrator having sole or shared investment discretion is a USP or the estate is governed by US Law.

5) An employee benefit or pension plan that is:

a. established and administered in accordance with US Law; or

b. established for employees of a legal entity that is a USP or has its principal place of business in the US.

6) A discretionary or non-discretionary or similar account (including a joint account) where:

a. one or more beneficial owners is a USP or held for the benefit of one or more USPs; or

b. the discretionary or similar account is held by a dealer or fiduciary organized in the US.

A non-US Person who invests through a US nominee will only be considered a non-US Person if the decision making process takes place off-shore.

For the purpose of this definition, the “United States” and “US” means the United States of America (including the States and the District of Columbia), its territories, possessions and other areas of subject to its jurisdiction. For the purpose of this definition, “US Law” means the laws of the US. US Law shall additionally include all applicable rules and regulations, as supplemented and amended from time to time, as promulgated by any US regulatory authority, including, but not limited to, the Securities and Exchange Commission and the Commodity Futures Trading Commission.

If the Trust becomes aware that a unitholder is, or has become, a US Person, such unitholder (i) will be restricted from making any additional investments in the Trust and (ii) may have its units compulsorily redeemed by the Trust (subject to the requirements of applicable law).

The Manager may, from time to time, waive or modify the above restrictions subject to the provisions of the Trust Deed.

Canada

The Units described in this Prospectus may only be distributed in Canada through HSBC Global Asset Management (Canada) Limited, and this Prospectus may not be used to solicit, and will not constitute a solicitation of, an offer to buy Units in Canada unless such solicitation is made by HSBC Global Asset Management (Canada) Limited. A distribution or solicitation may be deemed to occur in Canada where a distribution or solicitation is made to a person (including an individual, corporation, trust, partnership or other entity, or other legal person) resident or otherwise located in Canada at the applicable time. For these purposes, the following persons will generally be considered to be a Canadian resident:

1. An individual, if
   i. the individual's primary principal residence is located in Canada; or
   ii. the individual is physically located in Canada at the time of the offer, sale or other relevant activity.
2. A corporation, if
   i. the corporation's head office or principal office is located in Canada; or
   ii. securities of the corporation that entitle the holder to elect a majority of the directors are held by Canadian Resident individuals (as described above) or by legal persons resident or otherwise located in Canada; or
   iii. the individuals that make investment decisions or provide instructions on behalf of the corporation are Canadian Resident individuals (as described above).
3. A trust, if
   i. the principal office of the trust (if any) is located in Canada; or
   ii. the trustee (or in the case of multiple trustees, the majority of trustees) are Canadian Resident individuals (as described above) or are legal persons resident or otherwise located in Canada; or
   iii. the individuals that make investment decisions or provide instructions on behalf of the trust are Canadian Resident individuals (as described above).
4. A partnership, if
   i. the partnership's head office or principal office (if any) is located in Canada; or
   ii. the holders of the majority of the interests of or in the partnership are held by Canadian Residents (as described above); or
   iii. the general partner (if any) is a Canadian Resident (as described above); or
   iv. the individuals that make investment decisions or provide instructions on behalf of the partnership are Canadian Resident individuals (as described above).

Appendix 3 - Parties involved in the Trust

Manager
HSBC Investment Funds
(Hong Kong) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Directors of the Manager
HO, Wai Fun
TAM, Chun Pong Stephen
LAU, Ka Yin Joanne
CHAN, Po Chi Cecilia

Investment Adviser
HSBC Global Asset Management
(Hong Kong) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

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

Administrator, Custodian, Receiving Agent and Registrar
HSBC Institutional Trust
Services (Asia) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Listing Agent
HSBC Investment Funds
(Hong Kong) Limited
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