

VALUE PARTNERS CLASSIC FUND

# EXPLANATORY MEMORANDUM

(formerly known as Value Partners “A” Fund)



# VALUE PARTNERS CLASSIC FUND

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

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

Value Partners Classic Fund (formerly known as Value Partners “A” Fund, (the “**Fund**”)) is a unit trust established on 1 April 1993 and recorded by a trust deed dated 26 October 1993 (as amended from time to time) (the “**Original Deed**”) governed by the laws of Hong Kong.

The Fund was originally constituted as a trust governed by the laws of the Cayman Islands and was regulated by the Cayman Islands Monetary Authority in the Cayman Islands. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 17 August 2015 (the “**First Deed of Retirement and Appointment**”), the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong, HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of Bank of Bermuda (Cayman) Limited. Pursuant to a Deed of Retirement and Appointment of the Manager dated 17 August 2015 (the “**Second Deed of Retirement and Appointment**”), Value Partners Hong Kong Limited was appointed as manager in place of Value Partners Limited with effect from 21 September 2015. The Original Deed was amended by a supplemental deed on 1st January 2020 (the “**Supplemental Deed**”). The Original Deed, the First Deed of Retirement and Appointment, the Second Deed of Retirement and Appointment and the Supplemental Deed shall collectively be referred to as the “**Trust Deed**”.

The Fund is authorised by the Securities and Futures Commission currently located at 35th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong (the “**SFC**”) under Section 104 of the Hong Kong Securities and Futures Ordinance (the “**SFO**”). SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Distribution of this Explanatory Memorandum is not authorised unless accompanied by a copy of the latest published annual report of the Fund and a copy of the interim report if published after the annual report. No action has been taken to permit an offering of units in the Fund, or the distribution of this Explanatory Memorandum, in any jurisdiction where action would be required for such purposes other than Hong Kong. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

Any information or representation given or made by any dealer, salesman or other person not contained herein or in the report and/or financial statements forming part hereof must be regarded as unauthorised and must accordingly not be relied upon. Neither the delivery of this Explanatory Memorandum nor the offer, issue or sale of units in the Fund shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date hereof.

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The information contained in this Explanatory Memorandum has been prepared to assist potential investors in making an informed decision in relation to investing in the Fund. It contains important facts about the Fund whose units are offered in accordance with this Explanatory Memorandum. A product key facts statement which contains the key features and risks of the Fund is also issued by the Manager and such product key facts statement shall form part of this Explanatory Memorandum, and shall be read in conjunction with this Explanatory Memorandum.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum 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. The Manager also confirms that this Explanatory Memorandum includes particulars given in compliance with the Code on Unit Trusts and Mutual Funds and the “Overarching Principles” of the SFC Handbook for the Unit Trusts and Mutual Funds, Investment-Linked Assurances Schemes and Unlisted Structured Investment Products for the purposes of giving information with regard to the units of the Fund. This Explanatory Memorandum may be updated from time to time, subject to the terms of the Trust Deed in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law).

Potential subscribers and purchasers of units in the Fund should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the jurisdictions of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, purchase, holding or disposal of units in the Fund.

In this Explanatory Memorandum references to “US dollars”, “US\$” and “cent” are to the currency of the United States of America and references to “HK dollars” and “HK\$” are to the currency of Hong Kong.

**It should be appreciated that the value of the units and the income, if any, from them may fall as well as rise and that, accordingly, the amount redeemed by an investor on the redemption of units may be less than the original investment made. It should also be appreciated that changes in the rates of exchange between currencies may cause the value of units to diminish or increase in terms of the currencies of the jurisdictions in which the unitholder may be located.**

January 2020

## United States

The Fund is not registered as an investment company with the U.S. Securities and Exchange Commission. Units in the Fund have not been registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or any other U.S. federal or state law, and units in the Fund are not offered or sold to, and may not be transferred to or acquired by, U.S. persons (including, without limitation, U.S. residents, as well as business entities organised under U.S. law), except pursuant to an exemption available under the Securities Act.

## For Singapore Prospective Investors

The Fund has been entered onto the list of restricted schemes maintained by the Monetary Authority of Singapore (“**MAS**”) pursuant to section 305 of the Securities and Futures Act, Chapter 289 of Singapore (“**SFA**”).

The offer or invitation of the units of the Fund, which is the subject of this Explanatory Memorandum, are not authorised or recognised by the MAS and units of the Fund are not allowed to be offered to the retail public. Neither this Explanatory Memorandum and any other document nor material issued in connection with the offer or sale is a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectus would not apply. You should consider carefully whether the investment is suitable for you in light of your own personal circumstances.

This Explanatory Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of units of the Fund may not be circulated or distributed, nor may such Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A(1)(c) of the SFA) (each an “**Institutional Investor**”), (ii) to a relevant person as defined in Section 305 of the SFA or any person pursuant to an offer referred to in Section 305(2) of the SFA (each a “**Relevant Investor**”), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Subject to all other restrictions on transferability imposed by the Fund, recipients of this Explanatory Memorandum represent and warrant that where the units are initially acquired pursuant to an offer made in reliance on an exemption under:

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- (a) Section 304 of the SFA by an Institutional Investor, subsequent sales of the units may only be made to another Institutional Investor; and
- (b) Section 305 of the SFA by a Relevant Investor, subsequent sales of the units may only be made to an Institutional Investor or another Relevant Investor.

In addition, it should be noted that where the units are initially subscribed or purchased in Singapore under Section 305 of the SFA by:

- (1) a corporation referred to in Section 305A(2) of the SFA (a “**Relevant Corporation**”), the securities of the Relevant Corporation shall not be transferred within 6 months after the Relevant Corporation has acquired any units unless the transfer is in accordance with the conditions of Section 305A(2) of the SFA; or
- (2) a trust referred to in Section 305A(3) of the SFA (a “**Relevant Trust**”), the rights and interest (howsoever described) of the beneficiaries thereof in the Relevant Trust shall not be transferred within 6 months after any units have been acquired for the Relevant Trust unless the transfer is in accordance with the conditions of Section 305A(3) of the SFA.

Investors are required to ensure that any of their own transfer arrangements in relation to the units of the Fund comply with the above restrictions and should seek legal advice to ensure compliance with the same.

Solely for the purposes of its obligations pursuant to Section 309B of the SFA, the Fund has determined, and hereby notifies all relevant persons (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (“**CMP Regulations 2018**”)), that the interests are capital markets products other than prescribed capital markets products (as defined in Section 309B of the SFA).

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

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

## **Enquiries or Complaints**

Investors may contact the Manager for any queries or complaints in relation to the Fund by writing to the Manager’s address at 43rd Floor, The Center, 99 Queen’s Road Central, Hong Kong), or contact the Fund Investor Services team of the Manager by telephone at (852) 2143 0688. The Manager will respond to the enquiry or complaint as soon as practicable.

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## MANAGEMENT AND ADMINISTRATION

### *Manager*

#### **Value Partners Hong Kong Limited**

43rd Floor  
The Center  
99 Queen's Road Central  
Hong Kong

Telephone: (852) 2880 9263  
Fax: (852) 2565 7975  
Email: [vp1@vp.com.hk](mailto:vp1@vp.com.hk)  
Website: [www.valuepartners-group.com](http://www.valuepartners-group.com)  
Fund Investor Services hotline: (852) 2143 0688  
Fund Investor Services email: [fis@vp.com.hk](mailto:fis@vp.com.hk)

### *Trustee, Administrator, Custodian*

#### **HSBC Institutional Trust Services (Asia) Limited**

1 Queen's Road Central  
Hong Kong

### *Registrar*

#### **HSBC Trustee (Cayman) Limited**

Principal address: Strathvale House, 90 North Church Street, George Town  
Registered address: P.O. Box 309, Ugland House, George Town  
Grand Cayman  
KY1-1104  
Cayman Islands

### *Auditor*

#### **PricewaterhouseCoopers**

22nd Floor, Prince's Building  
Central  
Hong Kong

### *Legal Advisers*

#### **Deacons**

5/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong



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## Manager

Value Partners Hong Kong Limited (the “**Manager**”) was incorporated in Hong Kong on 10 May 1999 and commenced its current operations in January 2008. It is licensed by the SFC for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the SFO.

The Manager may, at its discretion and subject to the prior approval of the SFC, appoint one or more investment delegates (i.e. an entity that is delegated with the investment management function of all or part of the assets of the Fund), investment advisers and other agents to provide it with assistance in its management of the investments of the Fund.

The Directors of the Manager are:

**Dato’ Seri CHEAH Cheng Hye** - Dato’ Seri CHEAH Cheng Hye is Co-Chairman and Co-Chief Investment Officer (“**Co-CIO**”) of Value Partners Group Limited (“**Value Partners**”). He is in charge of Value Partners’ fund management and investment research, business operations, product development and corporate management. He sets Value Partners’ overall business and portfolio strategy.

Dato’ Seri CHEAH has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm’s funds and business operation. He led Value Partners to a successful listing on the Main Board of The Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato’ Seri CHEAH has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 200 professional awards and prizes since the firm’s inception in 1993.

Dato’ Seri CHEAH currently serves as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited (“**HKEX**”), a member of The Hong Kong University of Science and Technology (“**HKUST**”) Business School Advisory Council, as well as Co-Chairman of The Malaysian Chamber of Commerce (Hong Kong and Macau). He was previously a member of the Financial Services Development Council (“**FSDC**”) (from February 2015 to January 2019), and a member of the New Business Committee of FSDC (from 2013 to 2018). FSDC is a high-level, cross-sector advisory body established by the Hong Kong Special Administrative Region Government.

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

Dato' Seri CHEAH was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark, and the co-winner of “CIO of the Year in Asia” along with Mr. Louis SO in the 2011 Best of the Best Awards by Asia Asset Management. In 2010, he was named by AsianInvestor as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by AsianInvestor as one of the 25 Most Influential People in Asian Asset Management. He was also named “Capital Markets Person of the Year” by FinanceAsia in 2007, and in 2003, he was voted the “Most Astute Investor” in the Asset Benchmark Survey.

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

**SO Chun Ki Louis** - Mr. Louis SO is Co-Chairman and Co-Chief Investment Officer (“**Co-CIO**”) of Value Partners. He works closely with Dato' Seri CHEAH Cheng Hye on all aspects of providing leadership to Value Partners, including overseeing all group affairs and activities, daily operations and management of the firm's investment management team. Mr. SO holds a leadership role in Value Partners' investment process, including a high degree of responsibility over portfolio management.

Mr. SO has 20 years of experience in the financial industry, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. He was appointed Co-Chairman of Value Partners with effect from 26 April 2019. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team.

Mr. SO was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of “CIO of the Year in Asia” award alongside Dato' Seri CHEAH Cheng Hye.

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

**HO Man Kei, Norman** - Mr. Norman HO is a Senior Investment Director of Value Partners, where he is a leader in Value Partners' investment process, with a high degree of responsibility over portfolio management. Mr. HO is a member of the Board of Directors of Value Partners Group, and is also a director of certain subsidiaries of the Group.

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

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

## **Trustee, Administrator and Custodian**

HSBC Institutional Trust Services (Asia) Limited (the "**Trustee**") was incorporated in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance in Hong Kong. The Trustee is indirectly a wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales. The HSBC Group is one of the largest banking and financial services organisation in the world with well-established businesses in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other assets forming part of the assets of the Fund and hold them in trust for the unitholders of the Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, shall register all cash and registrable assets in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereof. The investment and cash and other assets forming part of the Fund shall (whether in bearer or registered form) be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereto. The Trustee shall in respect of any investments or other assets forming part of the Fund which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of the Fund.

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## Registrar

HSBC Trustee (Cayman) Limited, a company incorporated in the Cayman Islands, has been appointed as the registrar to the Fund (the “**Registrar**”). The Registrar is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

## Auditor

PricewaterhouseCoopers has been retained as the independent auditors of the Fund. The terms of engagement of the auditors provide that, except where finally determined to have resulted from the wilful or intentional neglect or misconduct or fraudulent behaviour of the auditors, the auditors’ maximum liability to the Fund for any reason relating to their services is limited to three times the fees paid by the Fund to the auditors for the services or work product giving rise to liability.

## INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS

### Investment Objectives and Policies

The investment objective of the Fund is to achieve consistent superior returns through an investment discipline that places emphasis on the fundamental value of potential investments. The Manager seeks to select stocks which it believes are being traded at deep discounts to their intrinsic values.

The Fund will concentrate on investing in the markets of the Asia Pacific region. There are no fixed geographical or sectoral or industry weightings in the allocation of assets in the Fund. The Manager does not attempt to follow benchmark indices in determining the geographical, sectoral or industry weighting of the Fund. The Manager may make large investments in a relatively small number of stocks.

The Fund will invest at least 70 per cent. of its net asset value in equity securities. The Fund may invest in equity securities issued by companies of any market size and in such proportions as the Manager deems appropriate. Equity securities that the Fund may invest in include but are not limited to listed equities, real estate investment trusts (“**REITs**”), and Exchange Traded Funds (“**ETFs**”). The Fund may invest less than 30 per cent. of its net asset value in each of the following types of securities, namely, REITs and ETFs, in accordance with the requirements under the Code on Unit Trusts and Mutual Funds (the “**Code**”).

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In addition to equity securities, the portfolio may from time to time include cash, deposits, short-term papers such as treasury bills, certificates of deposit, bankers' acceptances, short-term commercial paper and other fixed income instruments. However, the Fund will not invest more than 10 per cent. of its net asset value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade. The Manager may also place a substantial portion of the portfolio in cash or cash equivalents and may invest up to 30 per cent. of the Fund's net asset value in collective investment schemes (including those managed or offered by the Manager, the investment delegates (if any) or any of their Connected Persons (as defined below in the section headed "Conflicts of Interest")) to the extent permitted by the Code. Under exceptional circumstances (e.g. market crash or major crisis), the Fund may invest temporarily up to 100 per cent. in liquid assets such as deposits, treasury bills, certificates of deposit, short-term commercial papers for cash flow management. The Fund may also invest in futures, options, warrants, equity-linked notes and other financial instruments to the extent permitted by the Code and the provisions set out under the section headed "Investment Restrictions".

The Fund's exposure to A shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively the "**Stock Connects**") (as further described in the section under the heading "The Stock Connects" below), China A Shares Access Products ("**CAAPs**") (such as participatory notes, being listed or unlisted derivative instruments issued by a third party ("**CAAP Issuer**") and collective investment schemes (including those managed or offered by the Manager or the investment delegates (if any) or any of their Connected Persons) directly investing in A shares through qualified foreign institutional investors ("**QFIIs**") or Renminbi qualified foreign institutional investors ("**RQFIIs**") ("**A Shares CIS**") is subject to a maximum exposure of 20 per cent. of the Fund's total net asset value.

The aggregate exposure to investments in the Mainland China market such as A shares and B shares will not exceed 20 per cent. of the Fund's latest available net asset value.

For the avoidance of doubt, the Fund will not in aggregate invest more than 20 per cent. of its non-cash assets in the Mainland China market.

A shares are shares listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the prices of which are quoted in Renminbi ("**RMB**") and which are available to such investors as approved by the China Securities Regulatory Commission.

B shares are shares listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the prices of which are quoted in foreign currencies (US dollars on the Shanghai Stock Exchange and Hong Kong dollars on the Shenzhen Stock Exchange) and which are available to domestic and foreign investors.

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The Fund will have limited exposure (i.e. less than 30 per cent. of its net asset value) to investments denominated in RMB. Assets denominated in RMB are valued with reference to the CNH rate (see the risk factor headed “Risks associated with RMB classes of units” for meaning of “CNH rate”).

The Fund may also utilise financial derivative instruments (“**FDIs**”) including but not limited to futures, options, swaps (including but not limited to credit and credit-default, equity, interest rate and inflation swaps), forward foreign currency contracts, participation notes, credit linked notes and any other financial derivative instruments, for hedging and/or investment purposes, subject to the limit that the Fund’s net derivative exposure does not exceed 50 per cent. of its net asset value.

The aggregate value of the Fund’s investments in, or exposure to, any single entity through (a) investments in securities issued by that entity; (b) exposure to that entity through underlying assets of FDIs; and (c) net counterparty exposure to that entity arising from transactions of over-the-counter FDIs will not exceed 10 per cent. of the total net asset value of the Fund. The Fund does not use securitized and structured finance instruments such as collateralised debt obligations, mortgage-backed securities and asset-backed securities. Nor does the Fund currently intend to engage in sale and repurchase transactions and reverse repurchase transactions. However, the Fund may enter into securities lending transactions provided that the value of the securities to be loaned, together with the value of all other securities which are the subject of a loan by the Fund does not exceed 10 per cent. of its total net asset value.

All investments are subject to the investment restrictions under the Trust Deed. Please refer to the section headed “Investment Restrictions” of this Explanatory Memorandum for details of the investment restrictions under the Trust Deed.

To the extent permitted by the Code and the provisions set out under the sub-section headed “Investment Restrictions”, the Fund may, should the Manager consider it to be in the interests of the unitholders, invest in commodity futures contracts and financial futures contracts and write covered call options. However, the Manager would not ordinarily expect to utilize any of these investment techniques except to hedge against adverse political and economic developments and/or adverse movements in currency exchange rates or interest rates.

The Fund’s portfolio is subject to market fluctuations and to the risks inherent in all investments and markets. As a result, the price of units of each class may go down as well as up.

## **Use of Derivatives / Investment in Derivatives**

The Fund’s net derivative exposure may be up to 50 per cent. of its net asset value.

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## Stock Connects

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited (“**HKEX**”), Shanghai Stock Exchange (“**SSE**”) and China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) and the Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links programme developed by HKEX, the Shenzhen Stock Exchange (“**SZSE**”) and ChinaClear. The aim of the Stock Connects is to achieve mutual stock market access between Mainland China and Hong Kong.

For the purpose of this Explanatory Memorandum, “**Mainland China**” means all customs territory of the People’s Republic of China (“**PRC**”).

The Shanghai-Hong Kong Stock Connect comprises a Northbound Shanghai Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shanghai Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and a securities trading service company as established by The Stock Exchange of Hong Kong Limited (“**SEHK**”), may be able to trade eligible A shares listed on SSE by routing orders to SSE.

The Shenzhen-Hong Kong Stock Connect comprises a Northbound Shenzhen Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shenzhen Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and a securities trading service company established by SEHK, may be able to trade eligible A shares listed on the SZSE by routing orders to SZSE.

## *Eligible Securities*

### (i) Shanghai-Hong Kong Stock Connect

Under the Shanghai-Hong Kong Stock Connect, Hong Kong and overseas investors (including the Fund) are able to trade certain stocks listed on the SSE market (i.e. “**SSE Securities**”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A shares that are not included as constituent stocks of the relevant indices but which have corresponding H-Shares listed on SEHK, except the following:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are under risk alert.

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

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## (ii) Shenzhen-Hong Kong Stock Connect

Under the Shenzhen-Hong Kong Stock Connect, Hong Kong and overseas investors (including the Fund) are able to trade certain eligible shares listed on the SZSE market (i.e. “**SZSE Securities**”). These include all the constituent stocks of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are under risk alert or under delisting arrangement.

At the initial stage of the Shenzhen-Hong Kong Stock Connect, investors eligible to trade shares that are listed on the ChiNext Board under Northbound trading will be limited to institutional professional investors (which the Fund will qualify as such) as defined in the relevant Hong Kong rules and regulations.

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

### ***Trading Days***

Investors (including the Fund) will only be allowed to trade on the SSE market and the SZSE market on days where both Mainland China and Hong Kong stock markets are open for trading and banking services are available in both markets on the corresponding settlement days.

### ***Trading Quota***

Trading under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect will be subject to a daily quota (“**Daily Quota**”). Northbound Shanghai Trading Link under the Shanghai-Hong Kong Stock Connect, Northbound Shenzhen Trading Link under the Shenzhen-Hong Kong Stock Connect, Southbound Hong Kong Trading Link under the Shanghai-Hong Kong Stock Connect and Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect will be respectively subject to a separate set of Daily Quota.

The Daily Quota limits the maximum net buy value of cross-boundary trades under each of the Stock Connects each day.

SEHK will monitor the quota and publish the remaining balance of the Northbound Daily Quota at scheduled times on the HKEX’s website.



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## *Settlement and Custody*

The Hong Kong Securities Clearing Company Limited (“**HKSCC**”), a wholly-owned subsidiary of HKEX, will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

The A shares traded through Stock Connects are issued in scripless form, so investors will not hold any physical A shares. Hong Kong and overseas investors who have acquired SSE Securities or SZSE Securities through Northbound trading should maintain the SSE Securities or SZSE Securities with their brokers’ or custodians’ stock accounts with CCASS (the Central Clearing and Settlement System operated by HKSCC for the clearing securities listed or traded on SEHK).

## *Corporate Actions and Shareholders’ Meetings*

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities and SZSE Securities held in its omnibus stock account in ChinaClear, ChinaClear as the share registrar for SSE and SZSE listed companies will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities and SZSE Securities.

HKSCC will monitor the corporate actions affecting SSE Securities and SZSE Securities and keep the relevant brokers or custodians participating in CCASS (“**CCASS participants**”) informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

SSE-/SZSE-listed companies usually announce information regarding their annual general meetings/extraordinary general meetings about two to three weeks before the meeting date. A poll is called on all resolutions for all votes. HKSCC will advise CCASS participants of all general meeting details such as meeting date, time, venue and the number of resolutions.

## *Foreign Shareholding Restrictions*

The China Securities Regulatory Commission (the “**CSRC**”) stipulates that, when holding A shares through the Stock Connects, Hong Kong and overseas investors are subject to the following shareholding restrictions:

- shares held by a single foreign investor (such as the Fund) investing in a listed company must not exceed 10 per cent. of the total issued shares of such listed company; and
- total shares held by all foreign investors (i.e. Hong Kong and overseas investors) who make investment in a listed company must not exceed 30per cent. of the total issued shares of such listed company.

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When the aggregate foreign shareholding of an individual A share reaches 26 per cent., SSE or SZSE, as the case may be, will publish a notice on its website (<http://www.sse.com.cn/disclosure/disclosure/qfii> for SSE and <http://www.szse.cn/main/disclosure/news/qfii/> for SZSE). If the aggregate foreign shareholding exceeds the 30 per cent. threshold, the foreign investors concerned will be requested to sell the shares on a last-in-first-out basis within five trading days.

## ***Currency***

Hong Kong and overseas investors will trade and settle SSE Securities and SZSE Securities in RMB only. Hence, the Fund will need to use RMB to trade and settle SSE Securities and SZSE Securities.

## ***Trading Fees***

Under the Stock Connects, Hong Kong and overseas investors will be subject to the fees and levies imposed by SSE, SZSE, ChinaClear, HKSCC or the relevant Mainland Chinese authority when they trade and settle SSE Securities and SZSE Securities. Further information about the trading fees and levies is available online at the website:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)

## ***Investor Compensation***

The Fund's investments through Northbound trading under the Stock Connects will not be covered by Hong Kong's Investor Compensation Fund.

Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong.

Since default matters in Northbound trading via the Stock Connects do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund.

On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, therefore it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China.

Further information about the Stock Connects is available online at the website:

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)

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## Securities Financing Transactions

Subject to the section headed “Investment Objectives and Policies” above, the Fund may enter into securities financing transactions, provided that they are in the best interests of unitholders and the associated risks have been properly mitigated and addressed.

Securities lending transactions will only be entered into:-

- (a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral;
- (b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction;
- (c) the relevant securities lent must be fully paid-up shares listed on internationally organised securities markets on which such securities are regularly traded; and
- (d) the consideration given for the relevant securities must exceed the value of such securities at any one time on daily marked to market values.

In this Explanatory Memorandum, “securities financing transactions” means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions. “Securities lending transactions” means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee; “sale and repurchase transactions” means transactions whereby the Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future; and “reverse repurchase transactions” means transactions whereby the Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

Further, details of the policy regarding securities financing transactions are as follows:-

- (i) all revenue arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of such transactions, will be credited to the account of the Fund;

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- (ii) each counterparty for such transactions (including a borrower for a securities lending transaction) and the issuer of collateral will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision. There is no criteria for country of origin of the counterparty. Each counterparty is expected to be (x) incorporated in countries of high credit quality, (y) have a minimum credit rating of A2/P2 or equivalent assigned by reputable credit rating agencies or in the reasonable opinion of the Manager, or deemed to have an implied rating of A2/P2 or equivalent; alternatively, an unrated counterparty will be acceptable where the Fund is indemnified against losses caused by the counterparty, by an entity which has a minimum credit rating of A2/P2 or equivalent, or (z) be a licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority when entering into such transactions;
- (iii) the Fund should have at least 100 per cent. collateralization in respect of securities financing transactions. The Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below;
- (iv) the value of the securities to be loaned, together with the value of all other securities which are the subject of a loan must not exceed 10 per cent. of the net asset value of the Fund;
- (v) no more than 50 per cent. of the securities of the same issue, or of the same kind (by value) held under the Fund may be the subject of any securities lending at any one time;
- (vi) the Manager will ensure that it is able to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transactions or terminate such transactions into which it has entered;
- (vii) where any securities lending transaction is arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement (the securities lending fee will be disclosed in the connected party transaction section of the Fund's annual financial reports).

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In particular, The HongKong and Shanghai Banking Corporation Limited, which is a Connected Person of the Trustee, may engage in securities financing transactions with the Fund. In acting as securities lending agent, The HongKong and Shanghai Banking Corporation Limited will receive remuneration for its activities; and

- (viii) custody/safekeeping arrangements, which details are set out in the section entitled “Collateral Valuation and Management Policy” below, are in place in respect of the assets subject to the securities financing transactions.

## **Collateral Valuation and Management Policy**

The Manager employs a collateral management policy in relation to collateral received in respect of over-the-counter (“**OTC**”) FDI transactions and securities financing transactions entered into in respect of the Fund.

The Fund may receive collateral from a counterparty to an OTC FDI transaction or a securities financing transaction, so as to reduce its counterparty risk exposure as set out in paragraph (d) under the section entitled “Restrictions applicable to FDIs” below and paragraph (iii) under the section entitled “Securities financing transactions” above, provided that the collateral complies with the requirements set out below:

- Nature and quality of collateral – unless otherwise agreed by the Manager, eligible collateral include:
  - o cash, in the same currency denomination as the securities lent, or in Hong Kong or US dollars if the securities lent are denominated in a foreign currency;
  - o government or other public securities including debt securities;
  - o certificates of deposit;
  - o letters of credit which are unconditional and irrevocable and which have a credit rating of A1/P1 or better; and
  - o certificates issued by securities exchange clearing systems;

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- Selection of counterparties - The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of OTC FDI transactions and securities financing transactions and will be subject to the requirements under paragraph (ii) under the section entitled “Securities financing transactions” above. In particular:
  - o the counterparties for OTC FDI transactions will be entities with legal personality typically located in Organisation for Economic Co-operation and Development (OECD) jurisdictions (but may also be located outside such jurisdictions), and be subject to ongoing supervision by a regulatory authority; and
  - o the counterparties for securities financing transactions (including a borrower for a securities lending transaction) will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision;
- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing. Regular stress tests are carried out under normal and exceptional liquidity conditions to enable an adequate assessment of the liquidity risks attached to the collateral;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Issuer credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut – a haircut is a discount applied to the value of a collateral asset to account for the fact that its valuation, or liquidity profile, may deteriorate over time. Collateral should be subject to prudent haircut policy, which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets:

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- o the haircut policy takes into account the price volatility of the asset used as collateral and, where appropriate, other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the transactions; and
  - o the haircut policy applied to posted collateral will be negotiated on a counterparty basis and will vary depending on the class of asset received by the Fund. Further details of the applicable haircut arrangement for each asset class is available from the Manager upon request;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Fund’s exposure to issuer(s) of the collateral should be taken into account in compliance with the corresponding investment restrictions and limitations set out in the paragraphs (a), (b), (c), (f), (g), (j)(1), (j)(2), provisos of (i) to (iii) of paragraph (j), (k) and (B) under the section entitled “Investment Restrictions” below;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions in such a way that it would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee of the Fund;
- Safe-keeping of collateral and assets subject to securities financing transactions –
  - o any non-cash assets received by the Fund from a counterparty on a title transfer basis (whether in respect of a securities lending transaction or an OTC FDI transaction) shall be held by the Trustee, or a nominee, agent or delegate appointed in relation the assets of the Fund. This is not applicable in the event that there is no title transfer and, in which case, the collateral will be held by a third party custodian which is unrelated to the provider of the collateral; and

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- o assets provided by the Fund on a title transfer basis (in respect of a sale and repurchase transaction) shall no longer belong to the Fund. The counterparty may use those assets at its absolute discretion. Assets provided to a counter party other than on a title transfer basis shall be held by the Trustee or a nominee, agent or delegate appointed in relation the assets of the Fund;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs, or the counterparty of securities financing transactions;
- Re-investment of collateral – cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and the following restrictions:
  - o non-cash collateral received may not be sold, re-invested or pledged;
  - o the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2 (f) and 8.2(n) of the Code;
  - o cash collateral received is not allowed to be further engaged in any securities financing transactions;
  - o when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions; and
  - o up to 100 per cent. of the cash collateral received by the Fund may be reinvested.

For the purposes of re-investment of cash collateral received, “money market instruments” refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments will be taken into account;

- Encumbrances – collateral should be free of prior encumbrances; and



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- Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes.

The requirements under paragraphs (a) and (b) under the section entitled “Investment Restrictions” below will also apply in the case of the “Diversification” and “Re-investment of collateral” requirements of this section.

A description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Fund (by percentage) secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Fund’s annual and interim reports for the relevant period.

If any of the restrictions or limitations set out above is breached in respect of the Fund, the Manager will, as a priority objective, take all necessary steps within a reasonable period of time to remedy such breach, taking due account of the interests of the unitholders of the Fund.

## **Investment Restrictions**

Unless otherwise approved by the SFC, the following principal investment restrictions apply to the Fund:

- (a) the aggregate value of the Fund’s investments in, or exposure to, any single entity (other than Government and other public securities) through the following may not exceed 10 per cent. of the latest available net asset value of the Fund:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the Fund’s investments in, or exposure to, entities within the same group through the following may not exceed 20 per cent. of the latest available net asset value of the Fund:
  - (1) investments in securities issued by such entities;

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- (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) unless otherwise approved by the SFC, the value of the Fund's cash deposits made with the same entity or entities within the same group may not exceed 20 per cent. of the latest available net asset value of the Fund, unless:
- (1) the cash is held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or
  - (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

For the purposes of this paragraph, "cash deposits" generally refers to those that are repayable on demand or have the right to be withdrawn by the Fund and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity held for the account of the Fund may not exceed 10 per cent. of the nominal amount of the ordinary shares issued by the same entity;
- (e) not more than 15 per cent. of the latest available net asset value of the Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (f) notwithstanding (a), (b) and (d), not more than 30 per cent. of the latest available net asset value of the Fund may be invested in Government and other public securities of the same issue;

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- (g) subject to (f), the Fund may fully invest in Government and other public securities in at least six different issues; “Government and other public securities” means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies. Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise;
- (h) unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary, the Fund may not invest in physical commodities;
- (i) unless otherwise provided under the Code, the spread requirements under paragraphs (a), (b), (d) and (e) do not apply to investments in other collective investment schemes by the Fund and for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or
  - (2) listed and regularly traded on internationally recognised stock exchanges open to the public (nominal listing not accepted) and:
    - (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or
    - (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in paragraph (j)(1), (j)(2), provisos of (i) to (iii) of paragraph (j) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and, unless otherwise specified in this Explanatory Memorandum, investment by the Fund in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

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- (j) where the Fund invests in shares or units of other collective investment schemes (“underlying schemes”),
- (1) the value of the Fund’s investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10 per cent. of the latest available net asset value of the Fund; and
  - (2) the Fund may invest in one or more underlying schemes which are either authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Fund’s investment in units or shares in each such underlying scheme may not exceed 30 per cent. of the latest available net asset value of the Fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in this Explanatory Memorandum,

provided that in respect of (1) and (2) above:

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100 per cent. of its latest available net asset value, and exchange traded funds satisfying the requirements in paragraph (i) above in compliance with paragraph (j)(1) and (j)(2);
- (ii) where the underlying schemes are managed by the Manager or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;
- (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
- (iv) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and

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- (v) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of a underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;
  
- (k) in the case of investments in shares in real estate companies and interests in REITs, the Fund shall comply with the requirements under paragraphs (a), (b), (d), (e) and (j)(1) above where applicable. Where investments are made in listed REITs, the requirements under paragraphs (a), (b) and (d) above apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under paragraphs (e) and (j)(1) above apply respectively;
  
- (l) if the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund should, under normal market circumstances, invest at least 70 per cent. of its latest available net asset value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents; and
  
- (m) Notwithstanding paragraphs (a), (b), (d) and (e) above, where direct investment by the Fund in a market is not in the best interests of investors, the Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the unitholders or the Fund as a result must be clearly disclosed in this Explanatory Memorandum; and
  - (3) the Fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Fund.

In this Explanatory Memorandum, “entities within the same group” means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.

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The Fund shall not:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5 per cent. of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager own more than 5 per cent. of those securities;
- (B) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in REITs);
- (C) make short sales if as a result the Fund would be required to deliver securities exceeding 10 per cent. of the latest available net asset value of the Fund (and for this purpose (i) securities sold short must be actively traded on a market where short selling is permitted; and (ii) short selling is carried out in accordance with all applicable laws and regulations);
- (D) carry out any naked or uncovered short sale of securities;
- (E) lend or make a loan out of the assets of the Fund, except to the extent that, in either case, the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (F) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (G) enter into any obligation in respect of the Fund or acquire any asset or engage in any transaction for the account of the Fund which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of unitholders must be limited to their investments in the Fund; or
- (H) apply any part of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

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## **Borrowing restrictions**

The maximum borrowing of the Fund shall not exceed 10 per cent. of its latest available net asset value. Where the Manager so determines, the Fund's permitted borrowing level may be a lower percentage. In determining for the purpose of these borrowing limits, back-to-back loans do not count as borrowing. The assets of the Fund may be charged or pledged as security for any such borrowings in accordance with the provisions of the Trust Deed.

For the avoidance of doubt, securities lending transactions and sale and repurchase transactions (subject to the section headed "Investment Objectives and Policies" above) in compliance with the requirements set out in the section headed "Securities financing transactions" are not subject to the limitations in this section.

## **Financial derivative instruments**

Subject always to the provisions of the Trust Deed, the Code and the section headed "Investment Objectives and Policies" above, the Manager may on behalf of the Fund enter into any transactions in relation to swaps or other FDIs for hedging or non-hedging (investment) purposes:

### *Hedging purposes*

The Fund may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purposes if they meet all of the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

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### *Non-hedging (investment) purposes*

The Fund may acquire FDIs for non-hedging purposes (“investment purposes”), subject to the limit that the Fund’s net exposure relating to these FDIs (“net derivative exposure”) does not exceed 50 per cent. of its latest available net asset value, provided that this limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. In this regard:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) for the avoidance of doubt, FDIs acquired for hedging purposes will not be counted towards the 50 per cent. limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

### *Restrictions applicable to FDIs*

The FDIs invested by the Fund shall be either listed or quoted on a stock exchange, or dealt in over-the-counter market and comply with the following provisions:

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;
- (b) where the Fund invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions set out in paragraphs (a), (b), (c) and (f) of the section headed “Investment Restrictions” above provided that the index is in compliance with the relevant requirements under Chapter 8.6 of the Code;



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- (c) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (d) subject to paragraphs (a) and (b) under the section entitled “Investment Restrictions” above, the Fund’s net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10 per cent. of the latest available net asset value of the Fund, provided that the exposure of the Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (e) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Fund. Further, the administrator/calculation agent should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a) and (b) under the section entitled “Investment Restrictions” above and paragraph (d) of this section will not apply to FDIs that are:

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

Subject to the above, the Fund may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in the paragraphs (a), (b), (c), (f), (g), (j)(1), (j)(2), provisos of (i) to (iii) of paragraph (j), (k) and (B) under the section entitled “Investment Restrictions” above.

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The Fund shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. For such purposes, assets that are used to cover the Fund's payment and delivery obligations incurred under transactions in FDIs should 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 FDIs which gives rise to a future commitment or contingent commitment of the Fund should also be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of FDIs transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Fund 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 Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation.

In the case of holding alternative assets as cover, the Fund shall apply safeguard measures, such as to apply haircut where appropriate, to ensure that such alternative assets held are sufficient to meet its future obligations.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well.

In this Explanatory Memorandum, "substantial financial institution" means an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency.

## **Risk Management Policy**

To manage the risks arising from the use of FDIs, the Manager intends to monitor participation and positions in such FDIs closely and will ensure that a suitable risk management process is employed which is commensurate with the Fund's risk profile.

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Investments in FDI would normally be monitored and controlled by the Manager with regular marked-to-market valuations, careful research prior to investment and compliance monitoring. A risk management team of the Manager will undertake risk management control functions.

## Liquidity Risk Management

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

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

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

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

- the Manager may, with the Trustee's approval, limit the number of units of all classes of the Fund redeemed on any Dealing Day to units representing 10 per cent. of the total net asset value of the Fund (subject to the conditions under the heading entitled "**Suspension and Limitation of Redemption**" in the section headed "**Issue and Redemption of Units**");
- the Manager is entitled to add to the net asset value per unit, for the account of the Fund, an amount which it considers to be an appropriate allowance (not exceeding one per cent. of the net asset value per unit of the relevant class) for fiscal and purchase charges incurred by the Fund in investing subscription moneys but it is not the present intention of the Manager to add any such amount except in the case of applications for an unusually large number of units (i.e. where the subscription amount is US\$2,000,000 or above); and

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- the Manager is also entitled to deduct from the net asset value per unit of each class, for the account of the Fund, an amount which it considers to be an appropriate allowance (not exceeding one per cent. of that net asset value per unit of the relevant class) for fiscal and sales charges incurred in realising assets to provide funds to meet any redemption request but it is not the present intention of the Manager to make any deduction in respect of such fiscal and sales charges except in the case of abnormally large redemption of units (i.e. where the redemption proceeds are US\$2,000,000 or above).

## **Risk Factors**

**This “RISK FACTORS” section sets out the risks associated with investment in the Fund which are believed by the Manager and its directors to be relevant and presently applicable to the Fund. Investors should also pay attention to the applicable fees, charges and expenses. Investors should consult their own financial, tax, accounting, legal and other appropriate advisors before investing into the Fund.**

### ***Equity Market Risk***

Investing in equity securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value. The Fund’s investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

### ***Investment Risk***

There is no guarantee that in any time period, particularly in the short term, the Fund’s portfolio will achieve any capital growth or even to maintain its current value. Investors should be aware that the value of units may fall due to any of the risk factors described in this section as well as rise. Investor’s investment in the Fund may suffer losses. There is no guarantee of the repayment of principal.

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Whilst it is the intention of the Manager to implement strategies which are designed to minimise potential losses, there can be no assurance that these strategies will be successful. It is possible that an investor may lose a substantial proportion or all of its investment in the Fund. As a result, each investor should carefully consider whether he can afford to bear the risks of investing in the Fund.

The Fund may invest in companies which are less well-established or in their early stages of development. These companies may often experience significant price volatility and potential lack of liquidity due to low trading volume of their securities.

In addition, the Fund may invest in the securities of small and medium sized companies. This can involve greater risk than is customarily associated with investments in larger and more established companies. In particular, smaller companies often have limited product lines, markets and/or financial resources and management may be dependent on a few key individuals. As a result, price movements in those companies may be more volatile. Transaction costs on dealing with securities of smaller capitalisation companies can be higher than those of larger capitalisation companies and there may be less liquidity which may constrain the Manager's ability to realise some or all of the Fund's portfolio.

## ***Risk associated with Small-capitalisation / Mid-capitalisation Companies***

The stock of small-capitalisation/ mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

## ***Effect of Redemptions***

If significant redemptions of units are requested, it may not be possible to liquidate the Fund's investments at the time such redemptions are requested or the Fund may be able to do so only at prices which the Fund believes does not reflect the true value of such investments, resulting in an adverse effect on the return to the investors. Where significant redemptions of units are requested, the Fund may limit the number of units that are redeemed on any Dealing Day, suspend the right of unitholders to require redemption, or may extend the period for the payment of redemption moneys. Please see the section headed "Suspension and Limitation of Redemption" for further details.

In addition, the Fund may also in certain circumstances suspend the determination of the net asset value of the Fund for the whole or any part of any period. Please see the section headed "Calculation and Publication of Net Asset Value" for further details.

## ***Possible Business Failure***

In the current economic environment, global markets are experiencing very high level of volatility and an increased risk of corporate failures. The insolvency or other corporate failures of any one or more of the Fund's investments may have an adverse effect on the Fund's performance and ability to achieve its objectives. The Fund intends to diversify its investments to minimise such adverse impact but there is no guarantee that such diversification strategy can mitigate any such adverse impact. Investors may lose money by investing in the Fund.

## ***No Right to Control the Fund's Operation***

Investors will have no right to control the daily operations, including investment and redemption decisions, of the Fund.

## ***Active Investment Management***

The Fund will rely upon the Manager in formulating the investment strategies and its performance is largely dependent on the continuation of an agreement with the Manager and the services and skills of their respective officers and employees. The Fund's investments will not track a particular share index or other predetermined benchmarks. Instead, the Fund's assets will be actively managed by the Manager, based on the expertise of individual fund managers, who will have discretion (subject to the Fund's investment restrictions) to invest the Fund's assets in investments that it considers will enable the Fund to achieve its investment objective. There is no guarantee that the Fund's investment objective will be achieved based on the investments selected. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case the insolvency of the Manager, the Fund may not find successor managers quickly and the new appointment may not be on equivalent terms or of similar quality. Therefore, the occurrence of those events could cause a deterioration in the Fund's performance and investors may lose money in those circumstances.

## ***Market Risk***

The investments of the Fund are subject to risks inherent in all securities (including settlement and counterparty risks). The value of holdings may fall as well as rise. The global markets are currently experiencing very high levels of volatility and instability, resulting in higher levels of risk than is customary (including settlement and counterparty risks).

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## ***Emerging Markets Risk***

Investments may be made by the Fund in the emerging markets, which may be subject to increased risks, additional risks and special considerations not typically associated with investment in more developed markets. Some of the significant additional risks in investing in emerging markets include:

- delays in settling securities transactions and registering transfers of securities
- risk of loss arising out of systems of share registration and custody
- higher risk of political, economic and social uncertainty
- volatility of emerging market currencies against developed market currencies
- higher volatility and lesser liquidity compared to developed markets
- shortage of qualified judicial and legal professionals to interpret or advise upon recently enacted and future laws
- difficulties in enforcement actions
- currency risks/control
- legal and taxation risk

These factors make investments in emerging markets generally more volatile than investments in developed markets, which may result in a declining net asset value and may impair the Fund's liquidity.

## ***Risk associated with High Volatility of the Equity Market in Emerging Markets***

High market volatility and potential settlement difficulties in the emerging markets may also result in significant fluctuations in the prices of the securities traded in such markets and thereby may adversely affect the value of the Fund.

## ***Risk associated with Regulatory / Exchanges Requirements / Policies of Emerging Markets***

Securities exchanges in emerging markets typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Fund.

## ***Geographical Concentration Risk***

The Fund's investments are concentrated in the Asia Pacific region. The Fund may likely be more volatile than a broad-based fund, such as a global equity fund, as it is more susceptible to fluctuations in value resulting from adverse conditions in the jurisdictions in which it invests. The value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the jurisdictions in which the Fund invests.

## ***Concentration Risk***

The Fund's investments may be concentrated in specific industry sectors or a small number of stocks. The value of the Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

## ***Currency Exchange Risk***

The Fund is denominated in US dollars. Underlying investments of the Fund may be denominated in currencies other than the base currency of the Fund. Also, a class of units may be designated in a currency other than the base currency of the Fund. The performance of the assets of the Fund may be affected unfavourably by movements in the exchange rates between the currencies in which the assets are held and US dollars, and any changes in exchange control regulations which may cause difficulties in the repatriation of funds. The Fund may, but is not obliged to, seek to hedge foreign currency risks. However, even if undertaken, such hedging may be ineffective and may even be counterproductive due to the foreign exchange controls in the Mainland China. On the other hand, failure to hedge foreign currency risks may result in the Fund suffering from exchange rate fluctuations.

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

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



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

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

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

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

The Fund currently offers different Currency Hedged Classes as disclosed in this Explanatory Memorandum which are primarily targeted for investors whose base currencies of investment are the currencies of the Currency Hedged Classes.

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

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

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

It is intended that the currency hedging strategy which will be employed will be based on the most up-to-date information in relation to the net asset value of the Fund, and will also take into account future transactions relating to unitholder activity that will be processed through each class of units in the Fund as at the relevant valuation point. The currency hedging strategy will be monitored and adjusted in line with the valuation cycle at which investors are able to subscribe to and redeem from the Fund.

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

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Forward foreign exchange contracts are also used more specifically to hedge the value of certain classes of units in the Fund against changes in the exchange rate between the currency of denomination of the class of units and the base currency of the Fund.

## ***Volatility and Liquidity Risk***

It is possible that there may be no liquidity or no bid or offer prices or no reliable bid or offer prices quoted for certain securities that the Fund may invest in, in particular debt securities and securities that are not listed on a recognised stock exchange. The debt securities in certain emerging markets in the Asia Pacific region may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Fund may incur significant trading costs. It may be difficult to determine the appropriate valuation of such investments and the Fund's ability to sell or liquidate investments at favourable times or for favourable prices may be restricted.

Liquidity risk exists if sizeable redemption requests are received as the Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Fund may suffer losses in trading such investments.

A shares may be subject to trading bands which restrict increases and decreases in the trading price. If the trading price of any A shares has increased or decreased to the extent beyond the trading band limit during the day, trading in the A shares on the relevant stock exchange may be suspended. The Fund if investing through the Stock Connects, CAAP Issuers and A Shares CIS will be prevented from trading A shares when they hit the trading band limit. If this happens on a particular trading day, the Fund, CAAP Issuers and A Shares CIS may be unable to trade A shares. As a result, the liquidity of A shares, the CAAPs and A Shares CIS may be adversely affected. This may in turn affect the value of the Fund's investments.

## ***Custody Risk***

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

## ***Risks relating to Securities Lending Transactions***

Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out.

## ***Risks Associated with Collateral Management and Re-investment of Cash Collateral***

Where the Fund enters into a securities financing transaction or an OTC derivative transaction, collateral may be received from or provided to the relevant counterparty. Notwithstanding that the Fund may only accept non-cash collateral which is highly liquid, the Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Fund may re-invest its cash collateral. Investors should note that there are risks associated with the re-investment of cash collateral. If the Fund reinvests cash collateral, such re-investment is subject to investment risks including the potential loss of principal.

Where collateral is provided by the Fund to the relevant counterparty, in the event of the insolvency of the counterparty, the Fund may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

Finance charges received by the Fund under a securities lending transaction may be reinvested in order to generate additional income. Similarly cash collateral received by the Fund may also be reinvested in order to generate additional income. In both circumstances, the Fund will be exposed to market risk in respect of any such investments and may incur a loss in reinvesting the financing charges and cash collateral it receives. Such a loss may arise due to a decline in the value of the investment made. A decline in the value of investment of the cash collateral would reduce the amount of collateral available to be returned by the Fund to the securities lending counterparty at the conclusion of the securities lending contract. The Fund would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Fund.

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## *Repatriation Limitations*

Some jurisdictions may impose restrictions on foreign exchange, especially in relation to the repatriation of foreign funds. Such markets may prohibit the repatriation of foreign funds for a fixed time horizon and limit the percentage of invested funds to be repatriated at each time. As a result, the Fund can incur loss from any prohibition or delay in its ability to repatriate funds from those jurisdictions and therefore cause a decline in the net asset value. Investors may lose money or may be unable to redeem their units at all, please see the section headed “Suspension and Limitation of Redemption” for further details.

## *Counterparty Risk*

Financial institutions, such as brokerage firms, broker-dealers and banks, may enter into transactions with the Manager on account of the Fund in relation to the Fund’s investments. These financial institutions, being a counterparty to the transactions, may also be issuers of securities or other financial instruments in which the Fund invests. This exposes the Fund to the risk that a counterparty may not settle a transaction in accordance with market practice due to a credit or liquidity problem of the counterparty, or due to the insolvency, fraud or regulatory sanction of the counterparty, thus causing the Fund to suffer a loss.

Deposits of securities or cash with a custodian, bank or financial institution (“**custodian or depository**”) will also carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default by them. In these circumstances, the Fund may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the Fund’s assets. In most cases, the Fund’s assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository. However, for instance, in securities lending arrangements, the Fund may not have a right to have specific assets returned to it, but rather, the Fund may only have an unsecured claim against the custodian or counterparty, in which case it may lose all or the greater part of the value of the relevant assets.

## ***Credit Risk***

The Fund may invest in securities which (or the issuers of which) are rated below investment grade or unrated. The Fund may be subject to additional risks due to the speculative nature of investing in securities which (or the issuers of which) are rated below investment grade. Accordingly, an investment in these securities may be accompanied by a higher degree of credit risk (as defined below), lower liquidity and higher volatility than is present with investment in higher rated, lower yielding securities. Below investment grade securities such as, for example, high yield debt securities, may be considered speculative and can include securities that are unrated and/or in default.

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due.

Even in the absence of the issuer's default, if the mark-to-market value is lower than the cost of the investment, the Fund may suffer immediate diminution in the net asset value, even if the Fund holds that investment to maturity and yields a profit.

In times of market turmoil if redemption pressure is huge, the Fund may be forced to realise a substantial portion of its investments at a value which may result in significant losses to the Fund and investors may lose money in such circumstances.

Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields.

Changes in the financial conditions of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer, are all factors that may have an adverse impact on an issuer's credit quality and security values.

## ***Downgrading Risk***

The credit rating of a debt instrument or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Fund may be adversely affected. The Manager may or may not be able to dispose of the debt instruments that are being downgraded.

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## ***Sovereign Debt Risk***

The Fund'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 Fund to participate in restructuring such debts. The Fund may suffer significant losses when there is a default of sovereign debt issuers.

## ***Valuation Risk***

Valuation of the Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the net asset value calculation of the Fund.

## ***Credit Rating Risk***

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

## ***Interest Rate Risk***

The Fund may invest in fixed income securities which are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Certain fixed income securities give an issuer the right to call its securities, before their maturity date, in periods of declining interest rates. The possibility of such "pre-payment risk" may force the Fund to reinvest the proceeds of such investments in securities offering lower yields, thereby reducing the Fund's interest income.

## ***Borrowing Risks***

The Fund may borrow subject to the limit set out in the Trust Deed, for various reasons, such as facilitating redemptions or to acquire investments for the account of the Fund. Borrowing involves an increased degree of financial risk and may increase the exposure of the Fund to factors such as rising interest rates, downturns in the economy or deterioration in the conditions of the assets underlying its investments. There can be no assurance that the Fund will be able to borrow on favourable terms, or that the Fund's indebtedness will be accessible or be able to be refinanced by the Fund at any time.

***Political, Economic and Social Risks***

The value of the assets of the Fund may be affected by uncertainties or changes such as domestic and international political developments, changes in social conditions, changes in government policies, taxation, restrictions on foreign investments and currency repatriation, the level of interest rates, currency fluctuations, fluctuations in both debt and equity capital markets, sovereign defaults, inflation and money supply deflation, and other developments in the legal, regulatory and political climate in the jurisdictions in which investments may be made, which may or may not occur without prior notice. Any such changes or developments may affect the value and marketability of the Fund's investments.

***Equity Linked Notes and Other Financial Derivative Instruments***

The Fund may invest in the investment targets of the Fund through equity linked notes and other FDIs, including investments in participation notes. The Fund may also use FDIs for hedging purposes. FDIs may not be listed and are subject to the terms and conditions imposed by their issuer. There is no active market in FDIs and therefore investment in FDIs can be illiquid. In order to meet redemption requests, the Fund relies upon the issuer of the FDIs to quote a price to unwind any part of the FDIs that will reflect the market liquidity conditions and the size of the transaction. There is a risk that the issuer of the FDIs will not settle a transaction due to a credit or liquidity problem and the Fund may suffer a total loss of the Fund's interest in the FDIs.

The Fund may also enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Fund's exposure to strategies, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swap agreements can take many different forms and are known by a variety of names. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Fund. The most significant factor in the performance of swap agreements is the change in the individual equity values, the Fund's net asset value, specific interest rate, currency or other factors that determine the amounts of payments due to and from the counterparties. If a swap agreement calls for payments by the Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses to the Fund.

An investment in the FDIs does not entitle the FDIs holder to the beneficial interest in the shares underlying the FDIs nor to make any claim against the company issuing the shares. There can be no assurance that the price of the FDIs will equal the underlying value of the company or securities market that it may seek to replicate.



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Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. Compared to conventional securities, such as shares and debt securities, FDIs with leveraging effect (such as futures and warrants) can be more sensitive to changes in interest rates or to sudden fluctuations in market prices. As a result, a relatively small price movement in the value of the underlying asset of such Derivative Instrument may result in immediate and substantial loss (or gain) to the Fund. The leverage element/ component of a Derivative Instrument and adverse changes in the value or level of the underlying asset, rate or index can result in a loss significantly greater than the amount invested in the Derivative Instrument by the Fund. Exposure to FDIs may lead to a high risk of significant loss by the Fund, and the Fund's losses may be greater than if it invests only in conventional securities such as shares and debt securities. The exposure of the Fund to FDIs is subject to the applicable investment restrictions set out in this Explanatory Memorandum.

## ***Risks relating to Investment in ETFs***

### *Passive investments*

The ETFs that the Fund invests in may not be “actively managed” and the managers of such ETFs do not have the discretion to adapt to market changes due to the inherent investment nature of such ETFs. Therefore, when there is a decline in the underlying index of the ETFs, the ETFs will also decrease in value, which may adversely affect the value of the Fund.

### *Tracking error risk*

Due to fees and expenses of an ETF that the Fund invests in, liquidity of the market and different investment strategies adopted by the manager of the ETF, the ETF's return may deviate from that of the underlying index. Although the manager of the ETF will monitor and seek to manage such risk in minimising tracking error, there can be no assurance of exact or identical replication at any time of the performance of the underlying index.

### *Trading risk*

Generally, the Fund can only buy or sell units/shares of an ETF on any securities exchange. The trading price of units/shares of an ETF on a securities exchange is driven by market factors such as the demand and supply of such units/shares. Therefore, such units/shares may trade at a substantial premium or discount to the relevant ETF's net asset value.

As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell units/shares of an ETF on a securities exchange, the Fund may pay more than the net asset value per unit/share when buying units/shares of an ETF on a securities exchange, and may receive less than the net asset value per unit/share when selling units/shares of an ETF on a securities exchange.

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## *Trading differences risk*

As the relevant stock exchanges may be open when units/shares in an ETF that the Fund invests in are not priced, the value of the securities in the relevant ETF's portfolio may change on days when investors like the Fund will not be able to purchase or sell the ETF's units/shares.

Differences in trading hours between the relevant stock exchanges and the stock exchange on which an ETF is listed may also increase the level of premium or discount of the unit/share price to the net asset value of an ETF, which in turn, may affect the value of the Fund.

## *Termination risk*

The ETFs that the Fund invests in may be terminated early under certain circumstances, for example, where the underlying index is no longer available for benchmarking or if the size of the relevant ETF falls below a pre-determined threshold as set out in the constitutive documents and offering documents. Investors like the Fund may not be able to recover its investments and suffer a loss when the relevant ETF is terminated.

## *Reliance on market maker risk*

Although the manager of an ETF that the Fund invests in will ensure that there will be market making arrangement in place, there is no guarantee that any market making activity will be effective. Also, liquidity in the market for the units/shares of the relevant ETF may be adversely affected if there is no or only one market maker for the relevant ETFs.

## ***Risks relating to REITs***

The prices of REITs are affected by changes in the value of the underlying properties owned by the REITs and may subject the Fund to risks similar to those from direct ownership of real property.

Real estate investments are relatively illiquid and may affect the ability of a REIT to vary its investment portfolio or liquidate part of its assets in response to changes in economic conditions, international securities markets, foreign exchange rates, interest rates, real estate markets or other conditions.

Returns from REITs are dependent on management skills in managing the underlying properties. REITs are subject to risk of defaults by borrowers or tenants. In the event of a default, a REIT may experience delays in enforcing its rights and may suffer losses as a result.

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## ***Risks relating to Dim Sum Bond***

“Dim Sum” bonds are bonds issued outside of Mainland China but denominated in RMB. The “Dim Sum” bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the net asset value of the Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

## ***Legal Infrastructure Risk***

The Asia Pacific region have diverse legal, banking and exchange control systems with which prospective investors may not be accustomed. Company laws in some targeted jurisdictions are in their early stage. In the development of these, certain new laws might have a negative impact on the value of an investment which cannot be foreseen at the time the investment is made. As the efficacy of such laws is as yet uncertain, there can be no assurance as to the extent to which rights of foreign unitholders can be protected. In addition, there may also be a shortage of qualified judicial and legal professionals to interpret or advise upon recently enacted and future laws in some jurisdictions. The value of the Fund’s portfolio can be affected negatively by changes in those legal, banking or exchange control systems. Investors may lose money in those circumstances.

## ***Performance Fee***

The performance fee payable to the Manager may create an incentive for the Manager to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. Prospective investors should note that the management fee and performance fee payable to the Manager are based in part upon unrealised gains (as well as unrealised losses), and that such unrealised gains and losses may never be realised by the Fund.

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There is no equalisation arrangement in respect of the calculation of the performance fees. As there is no adjustment of equalisation credit or equalisation losses on an individual unitholder basis, a unitholder may incur a performance fee notwithstanding the unitholder may have suffered a loss in investment in the units (e.g. a unitholder will be disadvantaged if he subscribes to the Fund during a performance period when the net asset value per unit is above the High Water Mark and redeems prior to or at the end of such performance period when the net asset value per unit at the time of redemption has decreased but remains above High Water Mark. Under such circumstances, he has paid the performance fee despite of a loss). On the other hand, a unitholder may not be subject to any performance fee notwithstanding the unitholder concerned may have realised a gain in investment in the units.

## ***Accounting and Reporting Standards***

The accounting standards and regulatory requirements of financial reporting and information disclosure in some markets in which the Fund may invest may not follow international standards as there are differences between international standards and reporting practices in such markets. These differences may lie in areas such as different valuation methods of the properties or the assets, and the requirements for disclosure of information to investors. Therefore, the Fund may be forced to make investment decisions based on incomplete or incorrect data. If those data turn out to be incomplete or incorrect, the security in which the Fund has invested into could decline in value or become valueless. Investors may lose money in those circumstances.

## ***Risks of Investing in Other Collective Investment Schemes***

The underlying schemes in which the Fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying schemes. There is also no guarantee that the underlying schemes will always have sufficient liquidity to meet the Fund's redemption requests as and when made.

Investment decisions of the underlying schemes are made at the level of such schemes. There can be no assurance that (i) the selection of the managers of the underlying schemes will result in an effective diversification of investment styles and that positions taken by the underlying schemes will always be consistent; and (ii) the investment objective and strategy of the underlying schemes will be successfully achieved.

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The Fund bears the fees payable to the Manager and its other service providers, as well as, indirectly, a proportionate share of the fees paid by the underlying schemes to their managers and the service providers of the underlying schemes (such as subscription fee, redemption fee, management fee and other costs and charges payable to the managers and service providers of the underlying schemes). For the avoidance of doubt, where the Fund invests into an underlying scheme managed by the Manager, the investment delegates (if any) or any of their respective Connected Persons, all initial charges and redemption charges on such underlying scheme will be waived. Further, the Manager or any person acting on behalf of the Fund or the Manager will not obtain a rebate on any fees or charges levied by the underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

The Fund may invest in shares or units of a collective investment scheme managed by the Manager, the investment delegates (if any), or any of their respective Connected Persons. It is possible that any of the Manager, the investment delegates (if any) or any of their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Fund. In the event of such conflicts, the Manager will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Fund and any of them are on an arm's length basis. Please refer to the section headed "Conflicts of Interest" of this Explanatory Memorandum for further details.

## ***Risks Associated with Investment in Mainland China***

The imposition of additional governmental restrictions in the Mainland China may affect some or all of the investments held by the Fund in the Mainland China.

Investors should also note that any change in the policies of the Mainland China may have an adverse impact on the securities market in the Mainland China as well as the underlying securities of the Fund, which may result in an adverse impact on the performance of the Fund.

## ***Legal System of the Mainland China***

The legal system of the Mainland China is based on written laws and regulations. The PRC government is continuously making improvements on its commercial laws and regulations. However, many of these laws and regulations are still at an experimental stage and the enforceability of such laws and regulations remains unclear.

## ***Potential Market Volatility of the Mainland China***

Investors should note that market volatility and potential lack of liquidity in the China A shares markets may result in prices of securities traded on such markets fluctuating significantly resulting in substantial changes in the unit price of the Fund.

## ***Mainland China Tax Risk***

The tax laws, regulations and practice in the Mainland China are constantly changing, and they may be changed with retrospective effect. Any increased tax liabilities on the Fund may adversely affect the Fund's value.

The Manager will assess the tax provisioning approach on an on-going basis. Should the Mainland China tax policies change, the Manager may decide to set aside a provision to meet any potential tax liability in the future.

For further details on the risks and effects of Mainland China taxation on the Fund, please refer to the section titled "Mainland China" under the heading "TAXATION" in the Explanatory Memorandum.

## ***Renminbi Depreciation***

The Fund may invest in investments which are related to the Mainland China and investments whose value the Manager believes would be boosted by a Renminbi appreciation. Conversely, the value of the Fund may be adversely affected in the event of Renminbi depreciation. Investors may lose money in such circumstances.

## ***Risks Associated with CAAPs***

The policy and regulations imposed by the PRC government on the access into the China A shares markets are subject to change and any such change may adversely impact the issuance of CAAPs invested by the Fund. Investors should note that there can be no assurance that the Fund may be able to maintain or obtain a sufficient investment in CAAPs. This may have an impact on the investors' investment in the Fund. If any CAAP Issuer has insufficient investment quota (if applicable), the CAAP Issuer may cease to extend the duration of any CAAPs or to issue further CAAPs and the Fund may be required to dispose of its existing CAAPs.

Further, the Fund will be exposed to the counterparty risk associated with each CAAP Issuer. Because a CAAP is a payment obligation of the CAAP Issuer, rather than a direct investment in A shares, the Fund may suffer losses potentially equal to the full value of the CAAP if the CAAP Issuer were to become insolvent or fails to perform its payment obligations under the CAAPs.

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## ***Risks Associated with A Shares CIS***

*Risk related to QFII/RQFII Policy* – The current QFII/RQFII policy and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the QFII/RQFII regulations will not be abolished. The Fund, which indirectly invests in the China A shares markets through A Shares CIS, may be adversely affected as a result of such changes.

Further, the QFII/RQFII licence of the QFII/RQFII holder of A Shares CIS may be revoked or terminated or otherwise invalidated, or the investment quota (if applicable) granted by PRC government to the QFII/RQFII holder of A Shares CIS may be reduced or withdrawn, at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFII/RQFII holder or for any other reasons. In such event, all or part of the assets held by the Mainland China's QFII/RQFII custodian for the account of the A Shares CIS will be liquidated and repatriated to a bank account maintained for and on behalf of the A Shares CIS outside of the Mainland China in accordance with applicable laws and regulations. The A Shares CIS may suffer significant loss as a result of such liquidation and repatriation, and consequently, the Fund investing in such A Shares CIS may also suffer losses.

Under the relevant Mainland China's law, regulations or measures, there are restrictions on repatriation of funds out of the Mainland China. Thus, the Fund may be exposed, indirectly, to risks associated with remittance and repatriation of monies, through its investment in A Shares CIS. The Fund may be adversely affected and may be exposed to potential losses by the ability of the underlying A Shares CIS to meet redemption requests and may therefore be subject to reduced liquidity.

*Custodial risk* – Custodians or sub-custodians may be appointed in local market for purpose of safekeeping assets of the A Shares CIS. Lack of adequate custodial systems in the Mainland China may subject the A Shares CIS to greater custodial risks. The A Shares CIS may also incur losses due to a default, act or omission of the Mainland China's custodian in the execution or settlement of any transaction or in the transfer of any funds or securities. If the Mainland China's custodian defaults, the A Shares CIS may suffer substantial losses. In the event of liquidation of the Mainland China's custodian, the assets contained in cash account(s) with the Mainland China's custodian may form part of the liquidation assets of the Mainland China's custodian, and the A Shares CIS may become an unsecured creditor of the Mainland China's custodian. This may affect the value of the Fund's investments.

*Other risks* – Other factors such as RMB depreciation, restriction or delay in RMB currency conversion, QFII/RQFII investment restriction, illiquidity of the China A shares market, and delay or disruption in execution of trades or in settlement of trades may also have negative impacts on A Shares CIS and in turn, the Fund investing in A Shares CIS under such circumstances may also incur losses.

### ***Risks Associated with the Stock Connects***

The Fund may invest through the Stock Connects. In addition to the risk factors headed “Risks Associated with Investment in Mainland China”, “Legal System of Mainland China”, “Potential Market Volatility of Mainland China”, “Mainland China Tax Risk” and “Renminbi Depreciation”, it is also subject to the following additional risks:

*Quota limitations* – The Stock Connects are subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the Fund’s ability to invest in A shares through the Stock Connects on a timely basis, and the Fund may not be able to effectively pursue its investment strategies.

*Suspension risk* – Each of the SEHK, SSE and SZSE reserves the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading through the Stock Connects is effected, the Fund’s ability to invest in A shares or access the Mainland China market will be adversely affected. In such event, the Fund’s ability to achieve its investment objective could be negatively affected.

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



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

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

Further, the “connectivity” in the Stock Connects requires routing of orders across the border. SEHK has set up an order routing system (“**Mainland China Stock Connect System**”) to capture, consolidate and route the cross-boundary orders input by exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted. The Fund’s ability to access the A shares markets (and hence to pursue its investment strategy) will be adversely affected.

*Restrictions on selling imposed by front-end monitoring* – Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise SSE or SZSE will reject the sell order concerned. SEHK will carry out pre-trade checking on A share sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

Generally, if the Fund desires to sell certain A shares it holds, it must transfer those A shares to the respective accounts of its brokers before the market opens on the day of selling (“**trading day**”). If it fails to meet this deadline, it will not be able to sell those shares on the trading day. Because of this requirement, the Fund may not be able to dispose of holdings of A shares in a timely manner.

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However, the Fund may request a custodian to open a special segregated account (“SPSA”) in CCASS to maintain its holdings in A shares under the enhanced pre-trade checking model. Each SPSA will be assigned a unique “Investor ID” by CCASS for the purpose of facilitating Mainland China Stock Connect System to verify the holdings of an investor such as the Fund. Provided that there is sufficient holding in the SPSA when a broker inputs the Fund’s sell order, the Fund will be able to dispose of its holdings of A shares (as opposed to the practice of transferring A shares to the broker’s account under the current pre-trade checking model for non-SPSA accounts). Opening of the SPSA accounts for the Fund will enable it to dispose of its holdings of A shares in a timely manner.

*Recalling of eligible stocks* – When a stock is recalled from the scope of eligible stocks for trading via the Stock Connects, the stock can only be sold but restricted from being bought. This may affect the investment portfolio or strategies of the Fund, for example, when the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk* – The HKSCC and ChinaClear have established the clearing links and each is a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC’s liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear’s liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

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*Participation in corporate actions and shareholders' meetings* – The HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities (as defined in the section headed “The Stock Connects” in this Explanatory Memorandum). Where the articles of association of a listed company do not prohibit the appointment of proxy/multiple proxies by its shareholder, HKSCC will make arrangements to appoint one or more investors as its proxies or representatives to attend shareholders' meetings when instructed. Further, investors (with holdings reaching the thresholds required under the Mainland China regulations and the articles of associations of listed companies) may, through their CCASS participants, pass on proposed resolutions to listed companies via HKSCC under the CCASS rules. HKSCC will pass on such resolutions to the companies as shareholder on record if so permitted under the relevant regulations and requirements. Hong Kong and overseas investors (including the Fund) are holding SSE Securities and SZSE Securities traded via the Stock Connects through their brokers or custodians, and they will need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities and SZSE Securities may be very short. Therefore, it is possible that the Fund may not be able to participate in some corporate actions in a timely manner.

*Currency risk* – As the Fund is denominated in US dollars, the performance of the Fund may be affected by movements in the exchange rate between RMB (i.e. the currency in which SSE Securities and SZSE Securities are traded and settled) and US dollars. The Fund may, but is not obliged to, seek to hedge foreign currency risks. However, even if undertaken, such hedging may be ineffective. On the other hand, failure to hedge foreign currency risks may result in the Fund suffering from exchange rate fluctuations. For further details on exchange risk, please see risk factor “Currency Exchange Risk” above.

*No Protection by Investor Compensation Fund* – Investments through the Stock Connects are conducted through brokers, and are subject to the risks of default by such brokers' in their obligations.

As disclosed in the section under the heading “The Stock Connects”, the Fund's investments through Northbound trading under the Stock Connects are not covered by the Hong Kong's Investor Compensation Fund. Therefore the Fund is exposed to the risks of default of the broker(s) it engages in its trading in A shares through the Stock Connects. Further, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China.

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*Regulatory risk* – The Stock Connects are novel in nature, and the Stock Connects will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in Mainland China and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connects.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change which may have potential retrospective effect. There can be no assurance that the Stock Connects will not be abolished. The Fund, which may invest in the Mainland China stock markets through the Stock Connects, may be adversely affected as a result of such changes.

### ***Risks associated with the Small and Medium Enterprise Board of the SZSE (“SME Board”) and/or ChiNext Board of the SZSE (“ChiNext Board”)***

The Fund may have exposure to stocks listed on SME Board and/or ChiNext Board.

*Higher fluctuation on stock prices* – Listed companies on the SME Board and/or ChiNext Board are usually of emerging nature with smaller operating scale. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the Main Board of the SZSE (“**Main Board**”).

*Over-valuation risk* – Stocks listed on SME Board and/or ChiNext Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

*Differences in regulation* – The rules and regulations regarding companies listed on ChiNext Board are less stringent in terms of profitability and share capital than those in the Main Board and SME Board.

*Delisting risk* – It may be more common and faster for companies listed on the SME Board and/or ChiNext Board to delist. This may have an adverse impact on the Fund if the companies that it invests in are delisted.

Investments in the SME Board and/or ChiNext Board may result in significant losses for the Fund and its investors.

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## *Risks Associated with RMB classes of units*

Starting from 2005, the exchange rate of the RMB is no longer pegged to the US dollar. The RMB has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the RMB against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China. As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors.

The possibility that the appreciation of RMB will be accelerated cannot be excluded. On the other hand, non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies will not depreciate. Any depreciation of the RMB could adversely affect the value of investors' investments in the RMB classes of units. If investors are non RMB-based (e.g. Hong Kong) investors and convert other currencies into RMB so as to invest in the RMB classes of units and subsequently convert the RMB redemption proceeds back into other currencies, they may incur currency conversion costs and may suffer a loss if RMB depreciates against such other currencies.

In addition, under the current regulations, the rate at which RMB may be exchanged outside the Mainland China (in the case of Hong Kong, the "CNH" rate) may be different from the exchange rate within the Mainland China (the "CNY" rate) and such divergence may increase due to supply and demand. When calculating the value of the RMB classes of units, namely "C" units RMB, "C" units RMB Hedged, "C" units MDis RMB and "C" units MDis RMB Hedged, reference to the CNH rate rather than the CNY rate will be made and the value of the RMB classes of units thus calculated will be affected by fluctuations in the CNH rate. While the CNH rate and the CNY rate represent the same currency, they are traded at different rates and in different and separate markets which operate independently. As such, the CNH rate does not necessarily have the same exchange rate and may not move in the same direction as the CNY rate. Any divergence between the CNH rate and the CNY rate may adversely impact investors.

In respect of the hedged RMB classes of units, the Manager may attempt to hedge the base currency of the Fund and/or other currencies of non-RMB-denominated underlying investments of the Fund back to RMB. The costs of the hedging transactions will be reflected in the net asset value of the hedged RMB classes of units and therefore, an investor of such hedged RMB classes of units will have to bear the associated hedging costs, which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB classes of units may be exposed to RMB currency exchange risk on an unhedged basis and may therefore suffer further losses.

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Furthermore, there is no guarantee that the hedging strategy will be effective and you may still be subject to the RMB currency exchange risk which may apply to the non-hedged RMB class. For instance, where RMB depreciates against currencies of the non-RMB denominated underlying investments of the Fund, (i) investors may still suffer losses even if there are gains or no losses in the value of the non-RMB-denominated underlying investments; or (ii) investors may suffer additional losses if the non-RMB-denominated underlying investments of the Fund fall in value.

Whilst the hedging strategy may protect investors against a decline in the value of the Fund's base currency and/or other currencies of non-RMB-denominated underlying investments relative to RMB, investors will not benefit from any potential gain in the value of the hedged RMB classes of units if the Fund's base currency and/or other currencies of non-RMB-denominated underlying investments of the Fund rise against RMB. Please also refer to the above risk factor "Currency Hedging Risk".

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and restrictions of the Chinese government. The Chinese government's policies on exchange control and repatriation restrictions are subject to change and the investors' investment in the RMB classes of units may be adversely affected.

Under exceptional circumstances, payment of redemption proceeds and/or distributions in RMB may be delayed due to the exchange controls and restrictions applicable to RMB. The PRC government's imposition of restrictions on the repatriation of RMB out of Mainland China may limit the depth of the RMB market outside the Mainland China and make it impossible for the Fund to hold sufficient amounts of RMB outside the Mainland China to meet redemption requests in RMB. Due to the exchange controls and restrictions applicable to RMB, the Fund may not be able to get sufficient amounts of RMB in a timely manner to meet redemption requests of the RMB classes of units as a substantial portion of its underlying investments are non-RMB denominated.

Even if the Fund aims to pay redemption proceeds to investors of the RMB classes of units in RMB, investors may not receive RMB upon redemption of their investments under extreme market conditions when there is not sufficient RMB for currency conversion. Under such circumstances, the Manager may pay redemption proceeds in USD. There is also a risk that payment of investors' redemption proceeds in RMB may be delayed when there is not sufficient RMB for currency conversion for settlement of the redemption proceeds. Assuming no delay in submitting completed documentation by the redeeming unitholder and the Manager not exercising any of the powers described below under the section headed "Suspension and Limitation of Redemption", the maximum period for paying the redemption proceeds which should elapse between the receipt of a valid redemption request and the date of despatch of redemption moneys is 30 days.

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## *Valuation and Accounting*

In some instances where there may be no liquidity or no bid or offer prices or no reliable bid or offer prices quoted for certain securities that the Fund may invest in, in particular debt securities and securities that are not listed on a recognised stock exchange, it may be difficult to determine the appropriate valuation of such investments and the Manager may have a conflict of interest in striking such valuation since its management and performance fees will be affected by the value of assets under management.

Further, under current market conditions, it may be the case that the bid-offer spread will be very wide for financial instruments held by the Fund, particularly in the case of debt securities that are not listed on a recognised stock exchange, although such spread may be expected to narrow over time. One consequence of this is that to the extent the Fund values its portfolio by reference to bid prices, it will incur an immediate diminution in net asset value on the purchase of such debt instruments.

The Manager adopts the International Financial Reporting Standards (“**IFRS**”) in drawing up the annual reports of the Fund and interim reports will apply the same accounting policies and method of computation as are applied in the annual reports of the Fund. However, the calculation of the net asset value in the manner described below in the section headed “Calculation and Publication of Net Asset Value” (which the Manager intends to adopt for the purpose of the calculation of various fees as described in this Explanatory Memorandum) may not necessarily be in compliance with the IFRS. Accordingly, the net asset value as described in this Explanatory Memorandum may not necessarily be the same as the net asset value to be reported in the annual reports as the Manager may make necessary adjustments in the annual reports to comply with IFRS.

In addition, for any subscription of units which are not paid in full and in cleared funds within the specified period, the Manager or the Trustee may cancel the relevant units, and the relevant units shall be deemed never to have been issued. There is a risk that the calculation of the net asset value may be affected, as the valuations of the Fund will not be re-opened or invalidated as a result of the cancellation of such units, and there is no guarantee that the Fund will be able to recover from the investor the fees and costs charged by the Fund for the cancellation of such units.

## *Foreign Account Tax Compliance*

Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as “**FATCA**”) of the U.S. Internal Revenue Code of 1986, as amended (“**IRS Code**”) impose rules with respect to certain payments to non-United States persons, such as the Fund, including interest and dividends from securities of U.S. issuers. All such payments (referred to as “**withholdable payments**”) may be subject to withholding at a 30 per cent. rate, unless the recipient of the payment satisfies certain requirements intended to enable the U.S. Internal Revenue Service (“**IRS**”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. While such withholding would have applied also to payments of gross proceeds from the sale or other disposition on or after 1 January 2019 of property of a type which can produce U.S. source dividends and interest, recently proposed U.S. Treasury regulations eliminate such withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed U.S. Treasury regulations until final U.S. Treasury regulations are issued. To avoid such withholding on payments made to it, a foreign financial institution (an “**FFI**”), such as the Fund (and, generally, other investment funds organised outside the United States), generally will be required to enter into an agreement (an “**FFI Agreement**”) with the IRS, under which it will agree to identify its direct or indirect United States owners and report certain information concerning such United States owners to the IRS.

The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30 per cent. on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

On 13 November 2014, Hong Kong entered into an intergovernmental agreement with the United States (“**IGA**”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund) would be required to register with the IRS and comply with the terms of the FFI Agreement. Otherwise they will be subject to a 30 per cent. withholding tax on relevant U.S.-sourced payments they receive.



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

The Fund will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any withholding tax. In particular, the Fund has been registered with the IRS as a reporting Model 2 FFI with Global Intermediary Identification Number 31A6ZC.99999.SL.344. In the event that the Fund is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and the Fund does suffer U.S. withholding tax on its investments as a result of non-compliance, the net asset value of the Fund may be adversely affected and the Fund may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which the Fund invests may be required to satisfy their own FATCA compliance obligations, and failure by any underlying collective investment scheme to fully comply with its FATCA obligations may have an adverse impact on the net asset value of the Fund.

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

Each unitholder and prospective investor should consult with his/her own tax advisor as to the potential impact of FATCA in his/her own tax situation.

## ***Distribution Risk***

The Manager intends to distribute the income (net of expenses) attributable to each Distribution Class in respect of each financial year. However, there is no assurance on such distribution or the distribution rate or dividend yield.

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## *Payment of Distributions out of Capital Risk*

Where the income generated by the Fund is insufficient to pay a distribution as the Fund declares, the Manager may in its discretion determine such distributions may be paid from capital including realised and unrealised capital gains. Investors should note that the payment of distributions out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment, as a result, the capital that the Fund has available for investment in the future and capital growth may be reduced. Any such payments of distributions by the Fund may result in an immediate reduction in the net asset value per unit. Also, a high distribution yield does not imply a positive or high return on the total investment.

## ISSUE AND REDEMPTION OF UNITS

### Nature of Units

The Fund initially offered two classes of units, "A" units and "B" units. The Trustee and the Manager may from time to time offer new classes of units for investment. Prospective investors should check with the Manager as to which classes are currently available for investment.

**The Manager has the absolute discretion under the Trust Deed to decide whether to accept or reject in whole or in part any application for units. The Manager has currently decided not to accept any application for "A" units until further notice. As from 15 October 2009, unless otherwise agreed by the Manager, the Manager will also not accept any applications for "B" units until further notice.**

The Fund currently has the following classes of units which are available to investors:

Class	Class Currency
"C" units MDis HKD	HKD
"C" units RMB	RMB
"C" units MDis RMB	RMB
"C" units USD	USD
"C" units MDis USD	USD
"C" units AUD Hedged	AUD
"C" units CAD Hedged	CAD
"C" units HKD Hedged	HKD
"C" units NZD Hedged	NZD
"C" units RMB Hedged	RMB
"C" units MDis RMB Hedged	RMB
"X" units USD	USD
"Z" units	USD

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For existing unitholders of “B” units who are making regular contribution amounts to the Fund under an insurance savings plan commencing before 15 October 2009, the Fund will continue to issue “B” units for those previously agreed regular contributions. Where a unitholder wishes to increase the regular contribution amount, the Fund will issue “C” units USD for those contributions exceeding the originally agreed amount.

“C” units RMB, “C” units MDis RMB, “C” units MDis HKD, “C” units USD and “C” units MDis USD are collectively referred to as **“C” units**.

“C” units AUD Hedged, “C” units CAD Hedged, “C” units EUR Hedged, “C” units GBP Hedged, “C” units HKD Hedged, “C” units NZD Hedged, “C” units RMB Hedged, “C” units MDis RMB Hedged and “C” units SGD Hedged are collectively referred to as **“C” units – Hedged**.

“X” units USD are collectively referred to as **“X” units**.

“Z” units are collectively referred to as **“Z” units**.

“C” units EUR Hedged, “C” units GBP Hedged and “C” units SGD Hedged will be launched on a future date to be determined and notified by the Manager, with the prior approval of the Trustee.

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

“Z” units are only available for subscription by institutional investors and/or professional investors.

The Manager has also established classes of “P” units for offering to investors in Mainland China only (collectively referred to as **“P” units classes**) and will not be offered in Hong Kong. Investors in Mainland China should refer to the supplementary offering document of the Fund distributed in Mainland China for details in relation to “P” units classes.

Key features of “C” units, “C” units – Hedged, “X” units and “Z” units are summarized below:

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	“C” units and “C” units – Hedged	“Z” units	“X” units
<b>Preliminary charge</b>	Up to 5% of the issue price	Up to 5% of the issue price	Nil
<b>Management fee</b>	1.25% per annum	0.75% per annum	Nil
<b>Minimum initial subscription</b>	US\$10,000 (or its equivalent in the relevant class currency)	US\$10,000,000	Nil
<b>Minimum subsequent subscription</b>	US\$5,000 (or its equivalent in the relevant class currency)	US\$100,000	Nil
<b>Minimum holding applicable to partial redemption</b>	US\$10,000 (or its equivalent in the relevant class currency)	US\$5,000,000	Nil
<b>Performance fee</b>	15% per annum of the increase in net asset value per unit in the relevant class in the relevant performance period calculated annually on a high-on-high basis	15% per annum of the increase in net asset value per unit in the relevant class in the relevant performance period calculated annually on a high-on-high basis	Nil
<b>Redemption charge</b>	Currently nil	Currently nil	Nil
<b>Switching charge</b>	Currently nil*	Currently nil*	Nil

\* *Certain distributors may impose a charge for each switching of units in a class of the Fund acquired through them for units in another class of the Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their units in one class to units in another class should check with their respective distributors for the charge on switching.*

The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case). Each of the minimum amount required is inclusive of the preliminary charge and any bank charges in the case of a telegraphic transfer.

Please refer to the section headed “**Fees and Expenses**” in this Explanatory Memorandum for further details on fees and charges payable by the Fund and the investors.

Key features of “A” units and “B” units are summarized under section “General Information” subsection ““A” units and “B” units” below.

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## Issue of Units

**The Manager has generally decided not to accept any application for any “A” units and “B” units until further notice.**

The Fund is valued as at the close of business in the last market to close of all relevant markets in which the Fund is invested on each Dealing Day. The Dealing Day is currently each Business Day and/or such other day or days as the Manager may, with the Trustee’s approval (which shall not be unreasonably delayed or withheld), determine from time to time in its absolute discretion. “Business Day” means a day when banks in Hong Kong are open for general business except for: (i) a Saturday or Sunday; (ii) a day on which banks in Hong Kong are open for a shorter time as a result of a Typhoon Signal, a Rainstorm Warning or similar event, unless the Manager, with the consent of the Trustee, otherwise determines.

“X” units USD are initially issued at the following initial issue price:

<b>Class</b>	<b>Initial Issue Price per unit</b>
“X” units USD	USD10

“C” units EUR Hedged, “C” units GBP Hedged and “C” units SGD Hedged will be offered from a future date to be determined and notified by the Manager. All of the foregoing classes of units will be initially issued at the following initial issue prices:

<b>Class</b>	<b>Initial Issue Price per unit</b>
“C” units EUR Hedged	EUR10
“C” units GBP Hedged	GBP10
“C” units SGD Hedged	SGD10

After the initial issue of each of “C” units, “C” units – Hedged, “X” units and “Z” units, units are normally issued on each Dealing Day:

- (a) in respect of applications in writing (whether by post, fax or other written or electronic forms specified by the Manager) which have been received by the administrator not later than 5:00 p.m. (Hong Kong time) on that Dealing Day, and
- (b) for which the application moneys have been received in full in cleared funds by or on behalf of the Trustee on that Dealing Day or within such period as the Manager may, in its absolute discretion, determine (which shall not be more than 3 Business Days under normal circumstances unless otherwise agreed by the Manager).

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The Fund is denominated in US dollars. The price at which units are issued (after the first issue of units at the initial issue price) is based on the net asset value per unit of that class as determined on that Dealing Day plus the amount of allowance (if any) as described below (“**the Issue Price**”).

A preliminary charge of up to 5 per cent. of the relevant Issue Price of units of the Fund may be levied and be added to the Issue Price of the units. The preliminary charge shall be retained by the Manager for its own absolute use and benefit or be made and retained by person or persons by or through whom the units are offered for subscription for their own use and benefit by agreement between the Manager and such persons.

The Manager is entitled to add to the net asset value per unit, for the account of the Fund, an amount which it considers to be an appropriate allowance (not exceeding one per cent. of the net asset value per unit of the relevant class) for fiscal and purchase charges incurred by the Fund in investing subscription moneys but it is not the present intention of the Manager to add any such amount except in the case of applications for an unusually large number of units (i.e. where the subscription amount is US\$2,000,000 or above).

The procedure for applying and paying for each of “C” units, “C” units – Hedged, “X” units and “Z” units is set out under section “Procedure for Application” below.

The application request must be in writing. The initial application for subscription must be made on the prescribed subscription form available from the Manager or the administrator and sent in original to the administrator. Subsequent applications can be sent to the administrator either in original or by fax if the applicant has provided the Manager with an original fax indemnity in a form approved for this purpose by the Manager and the Trustee, unless an original fax indemnity was already previously provided to the Manager. The Manager and the Trustee may, in their absolute discretion, determine whether or not the original application form is also required in respect of subsequent applications sent by fax. If such discretion is exercised, the Manager and the Trustee are free to act on receipt of the fax or wait for the original in their absolute discretion. The Manager may also, in its discretion, allow any application for subscription to be made by other written or electronic forms.

The Manager will deem each application request received when it comes to the attention of the Manager. The Manager, the Trustee, the Registrar, the administrator and/or its/their agents do not assume any liability or responsibility to the applicant, its successors, agents or any other parties concerned for any loss resulting from acting or refusing to act on faxed or electronic instructions sent or purported to be sent by the applicant, or any loss arising out of or in connection with non-receipt or illegibility of any application request or lack of authenticity of an application.

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Payment of subscription monies can be made in US dollars or HK dollars or the class currency of the relevant class of units and must be received in full and in cleared funds on the relevant Dealing Day or within such period as the Manager may, in its absolute discretion, determine (which shall not be more than 3 Business Days under normal circumstances unless otherwise agreed by the Manager).

If payment in full and cleared funds is not received within such period as above-mentioned, the Manager or the Trustee may cancel the issue of the relevant units. Upon such cancellation, the relevant units shall be deemed never to have been issued and the applicant shall have no right or claim against the Manager or the Trustee, provided that, (i) no previous valuations of the Fund shall be re-opened or invalidated as a result of the cancellation of such units, (ii) the Manager is entitled to charge a cancellation fee of such amount as it may determine to represent the administrative costs involved in processing the applications for such units, (iii) the Manager may also require the investor to pay to the Manager for the account of the Fund in respect of each unit so cancelled the amount (if any) by which the Issue Price of each such unit exceeds the Redemption Price which would have applied in relation to each such unit if the Manager had received on such day or request from such investor for the redemption in accordance with the provisions of the Trust Deed. The Manager also reserves the right to claim the investor directly for any financial loss caused by the cancellation of subscription.

## Procedure for Application

### Method of Application for “C” units, “C” units – Hedged, “X” units and “Z” units

The initial application for “C” units, “C” units – Hedged, “X” units or “Z” units must be made on the prescribed subscription form available from the Manager or the administrator and sent in original to the administrator. Any subsequent applications must be made on the prescribed subsequent subscription form available from the Manager or the administrator.

**Subsequent applications can be sent either in original or by fax if the applicant has already previously provided the Manager with an original fax indemnity in a form approved for this purpose by the Manager and the Trustee.** However, the Manager and the Trustee may, in their absolute discretion determine whether or not the original application form is also required in respect of subsequent applications sent by fax. If this discretion is exercised, the Manager and the Trustee are free to act on receipt of the fax or wait for the original in their absolute discretion. The Manager may also, in its discretion, allow any application for subscription to be made by other written or electronic forms.

**The Manager has the absolute discretion under the Trust Deed to decide whether to accept or reject in whole or in part any application for units. The Manager has generally decided not to accept any application for “A” units and “B” units until further notice.**

## **Payment Procedure**

No unit will be issued unless and until the application moneys have been received in full in cleared funds by or on behalf of the Trustee on the relevant Dealing Day or within such period as the Manager may, in its absolute discretion, determine (which shall not be more than 3 Business Days under normal circumstances unless otherwise agreed by the Manager). However, if payment of subscription monies are not made within the above-mentioned time frame, the Manager or the Trustee may cancel such issue of units. Upon such cancellation, the relevant units shall be deemed never to have been issued and the applicant shall have no right or claim against the Manager or the Trustee, provided that, (i) no previous valuations of the Fund shall be re-opened or invalidated as a result of the cancellation of such units, (ii) the Manager is entitled to charge a cancellation fee of such amount as it may determine to represent the administrative costs involved in processing the applications for such units, (iii) the Manager may also require the investor to pay to the Manager for the account of the Fund in respect of each unit so cancelled the amount (if any) by which the Issue Price of each such unit exceeds the Redemption Price which would have applied in relation to each such unit if the Manager had received on such day or request from such investor for the redemption in accordance with the provisions of the Trust Deed. The Manager also reserves the right to claim the investor directly for any financial loss caused by the cancellation of subscription.

Payment will normally be made in the class currency of the relevant class of units as disclosed in the Explanatory Memorandum unless the applicant has made arrangements with the Manager to make payment in some other currency. Payment details are set out in the subscription form.

Payment in other freely convertible currencies may be accepted subject to the prior consent of the Trustee and/or the Manager. If such applications in other freely convertible currencies are accepted, the number of units to be issued in such circumstances will be determined by the Manager calculating the equivalent of the subscription amount in the currency of account of the Fund at an exchange rate which the Trustee deems appropriate and after deducting the cost of foreign exchange. Any bank charges incurred from payment will be for the account of the investor. The cost of any currency conversion and other related administrative expenses will also be borne by the investor. Conversion of currencies may involve some delay.

Units issued by the Fund will be held for investors in registered form. Certificates will usually not be issued. A contract note will normally be issued by the administrator as soon as practicable after the relevant Dealing Day upon acceptance of an application for subscription or switching of units, as the case may be, and will be forwarded by ordinary post (at the risk of the person(s) entitled thereto).



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No payments should be made to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the SFO. Third party cheques and cash are not accepted.

The Manager reserves the right to reject any application in whole or in part in which case the application moneys will be returned (without interest) by cheque sent by ordinary post or telegraphic transfer at the cost and risk of the person(s) entitled thereto.

The Manager may exercise its discretion to accept late payment of subscription monies, provisionally allot units by reference to the net asset value of the relevant class of units in the Fund and charge interest on such overdue monies until payment is received in full, at such rate as the Manager thinks appropriate. However, if payment of subscription monies are not made within such period as determined by the Manager (which shall not be more than 3 Business Days under normal circumstances unless otherwise agreed by the Manager), the Manager or the Trustee may cancel such issue of units. Upon such cancellation, the relevant units shall be deemed never to have been issued and the applicant shall have no right or claim against the Manager or the Trustee, provided that, (i) no previous valuations of the Fund shall be re-opened or invalidated as a result of the cancellation of such units, (ii) the Manager is entitled to charge a cancellation fee of such amount as it may determine to represent the administrative costs involved in processing the applications for such units, (iii) the Manager may also require the investor to pay to the Manager for the account of the Fund in respect of each unit so cancelled the amount (if any) by which the Issue Price of each such unit exceeds the Redemption Price which would have applied in relation to each such unit if the Manager had received on such day or request from such investor for the redemption in accordance with the provisions of the Trust Deed. The Manager also reserves the right to claim the investor directly for any financial loss caused by the cancellation of subscription.

## **Compulsory Redemption**

The Trust Deed provides that the Manager has power to impose such restrictions as it may think necessary for the purpose of ensuring that no units are acquired by or held by any non-qualified persons including:

- (a) any individual under the age of 18 (or such other age as the Manager may think fit);
- (b) any person in circumstances which might result in the Manager, the Trustee or the Fund incurring any liability to taxation or suffering any other pecuniary disadvantage which the Manager, the Trustee or the Fund might not otherwise have incurred or suffered;

- (c) any person in breach of the law or requirements of any jurisdiction or governmental authority; or
- (d) any United States person.

If it comes to the notice of the Manager that any units are so held by such a person, the Manager may give notice to such person requiring the redemption or transfer of such units in accordance with the provisions of the Trust Deed. A person who becomes aware that he is holding or owning units in breach of any such restriction is required either to deliver to the Fund a written request for redemption of his units in accordance with the Trust Deed or to transfer his units to a person who would not thereby be a non-qualified person. If any unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such units as aforesaid or establish to the satisfaction of the Manager who will be acting in good faith and on reasonable grounds (whose judgment shall be final and binding) that such units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30-day period to have given a request in writing for the redemption of all such units.

## **Redemption of Units**

Subject to the Manager's right to suspend or limit redemption of units as provided below, a unitholder may at any time require the Manager to redeem the whole or any part of his holding of units of any class.

Requests for the redemption of units must be made in writing to the administrator's business address. Such redemption requests may be sent to the administrator in original or by fax if the relevant unitholder has provided the Manager with an original fax indemnity in a form approved for this purpose by the Manager and the Trustee, unless an original fax indemnity was already previously provided to the Manager. If the redemption request is made by fax, the Manager and the Trustee may in their absolute discretion, determine whether or not the original request is required. If such discretion is exercised, the Manager and the Trustee are free to act on receipt of the fax or wait for the original in their absolute discretion. The Manager may also, in its discretion, allow any requests for redemption to be made by other written or electronic forms.

The Manager will deem each redemption request received when it comes to the attention of the Manager. The Manager, the Trustee, the Registrar, the administrator and/or its/their agents do not assume any liability or responsibility to the unitholder, its successors, agents or any other parties concerned for any loss resulting from acting or refusing to act on faxed or electronic instructions sent or purported to be sent by the unitholder, or any loss arising out of or in connection with non-receipt or illegibility of any redemption request or the lack of authenticity of a redemption request.

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Redemption requests should state the number and class of units to be redeemed, the name in which such units are registered and details of the bank account (if any) to which the redemption moneys are to be transferred. All redemption requests must be signed by the unitholder or, in the case of joint unitholders, such one or more joint unitholders as may have been notified in writing to the Manager in advance or all joint unitholders in the absence of such notification. A redemption request once given cannot be revoked without the consent of the Manager.

Redemption may take place on a Dealing Day only. For any application which is received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator on the Business Days after 5:00 p.m. (Hong Kong time) on the last Dealing Day and before 5:00 p.m. (Hong Kong time) on a particular Dealing Day, it will be dealt with by reference to that particular Dealing Day. Valid applications for redemption received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator after 5:00 p.m. (Hong Kong time) on a Dealing Day will be deemed to have been received and dealt with by reference to the next Dealing Day.

The price at which units are redeemed is based on the net asset value per unit of that class as determined on that Dealing Day less the redemption charge and amount of allowance (if any) as described below.

A redemption charge of up to 1.5 per cent. of the net asset value per unit of the relevant class may be levied in relation to the redemption of units of a class where the relevant unitholder has been a unitholder for fewer than 12 consecutive months. The amount of a redemption charge (if any) so charged shall be paid to the Manager for its own account and benefit. The Manager may, in its absolute discretion, waive or reduce, or share with or rebate to any person(s) including those by or through whom the units are offered for subscription, the payment of all or any portion of such redemption charge. Such persons may retain such charges for their own use and benefit by agreement between the Manager and such persons. Currently the Manager has waived the redemption charge applicable to the redemption of units. However, the Manager may reintroduce the redemption charge at any time for up to the maximum level of 1.5 per cent. with 1 month's prior notice (or such shorter notice period as approved by the SFC) to unitholders.

For the purposes of calculating the amount of redemption charge, if any, payable by a relevant unitholder redeeming all or some of his units, (a) a unitholder effecting a partial redemption of units will be deemed to be redeeming those units subscribed for earlier in time prior to redeeming units which were subsequently subscribed for; and (b) where a unitholder is redeeming units which had been transferred to him, the relevant date to determine any such charge will be the date of transfer, and not of subscription, of such units.

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The Manager is also entitled to deduct from the net asset value per unit of each class, for the account of the Fund, an amount which it considers to be an appropriate allowance (not exceeding one per cent. of that net asset value per unit of the relevant class) for fiscal and sales charges incurred in realising assets to provide funds to meet any redemption request but it is not the present intention of the Manager to make any deduction in respect of such fiscal and sales charges except in the case of abnormally large redemption of units (i.e. where the redemption proceeds are US\$2,000,000 or above).

Redemption moneys will not be paid to any redeeming unitholder unless and until:

- (a) (i) the duly signed original redemption request has been received by the administrator; or
- (ii) in a case where the redemption request is sent by fax or electronic means, the administrator has received the duly signed faxed or electronic redemption request (if the relevant unitholder has already previously provided the Manager with an original fax indemnity in a form approved for this purpose by the Manager and the Trustee); and
- (b) where redemption moneys are to be paid to any person other than the redeeming unitholder or by telegraphic transfer to a bank account in New York State, Hong Kong, Australia, Canada, any of all European jurisdictions, United Kingdom, New Zealand or Singapore, the signature of the unitholder (or the relevant joint unitholder or unitholders) shown on the payment instruction is verified to the satisfaction of the administrator. No redemption proceeds will be paid to third parties.

Redemption moneys will normally be paid in US dollars or the class currency of the relevant class of units by telegraphic transfer according to instructions given by the redeeming unitholder to the Manager or by cheque made in favour of, and sent at the risk of the person(s) entitled to such proceeds by post to the registered address of, the unitholder or (in the case of joint unitholders) the first named on the register of unitholders or to the registered address of such other of the joint unitholders as may be authorized in writing by all of them.

In respect of RMB classes of units, redemption moneys will also be paid in RMB under normal circumstances. However, where the Fund is not able to get sufficient amounts of RMB under extreme market conditions to meet redemption requests of such RMB class of units, the Manager may pay redemption moneys in USD or delay the payment of redemption moneys. For further details relating to the associated risks, please refer to the risk factor titled “Risks Associated with RMB class of units” under the “Risk Factors” section.

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Assuming no delay in submitting completed documentation and the Manager not exercising any of the powers described below under the section headed “Suspension and Limitation of Redemption”, the maximum period which should elapse between the receipt of a valid redemption request and the date of despatch of redemption moneys is 30 days.

If at any time during the period from the time as at which the Redemption Price is calculated and the time at which redemption proceeds are converted out of any other currency into the class currency of the relevant class of units there is an officially announced devaluation or depreciation of that other currency, the amount payable to any relevant redeeming unitholder may be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.

Partial redemptions of holdings are permitted provided that they do not result in the unitholder holding units having a value of less than US\$100,000 in the case of “A” units, US\$10,000 in the case of “B” units, US\$10,000 (or its equivalent in the relevant class currency) in the case of “C” units and “C” units – Hedged, or US\$5,000,000 in the case of “Z” units. However, the Manager reserves the right to waive the minimum holding requirement for any partial redemptions.

## **Suspension and Limitation of Redemption**

Having regard to the best interests of unitholders, the Manager may (without liability to any of the unitholders), with the Trustee’s approval (which shall not be unreasonably delayed or withheld), limit the total number of units of all classes which unitholders are entitled to redeem on any Dealing Day to units representing 10 per cent. of the total net asset value of the Fund. In this event, the limitation will apply pro rata so that all unitholders wishing to redeem units on that Dealing Day redeem the same proportion of such units. Units not redeemed, subject to the same limitation, will be carried forward to the next Dealing Day (subject to being further deferred if the carried forward requests themselves exceed 10 per cent. of the total net asset value of the Fund on such Dealing Day) provided that redemption requests carried forward from an earlier Dealing Day shall be dealt with in priority to later requests.

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The Manager may at any time with the Trustee's approval (which shall not be unreasonably delayed or withheld), having regard to the best interests of the unitholders, and without liability to any of the unitholders, suspend the right of unitholders to require the redemption of units of all classes (and not of one class only) during, and extend the period for the payment of redemption moneys by the number of days comprised in, (i) any period when any stock exchange on which investments comprised in and amounting to more than 10 per cent. (or such lower percentage as the SFC may approve) of the Fund's net asset value (as at the immediately preceding Dealing Day or being the latest available value) is quoted, listed or dealt in is closed otherwise than for ordinary holidays; (ii) any period when dealings on any such exchange are restricted or suspended; (iii) the existence of any state of affairs as a result of which disposal of some or all of the Fund's investments cannot, in the absolute discretion of the Manager, be effected normally or without prejudicing the interests of unitholders; (iv) the breakdown in the means of communications normally employed in determining the net asset value of the Fund or when for any other reason the value of any of the Fund's investments cannot be promptly and accurately ascertained; (v) any period when the realisation of the Fund's investments or the transfer of funds involved in such realisation cannot, in the opinion of the Manager, be effected at normal prices or normal rates of exchange.

Whenever the Manager declares such a suspension it shall immediately after any such declaration notify the SFC of such suspension. Notice of declaration of suspension shall be published immediately after any such declaration and at least once a month during the period of such suspension on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*

## Transfers

Unitholders are entitled to transfer units by an instrument in writing in such form as the Manager and the Trustee may from time to time prescribe. All applications for the transfer of units should be sent in original to the administrator.

No transfer will be accepted if, as a result thereof, either the transferor or the transferee holds less than any minimum holding specified in respect of the relevant class of units or, units are acquired or held by a non-qualified person as described on section "Issue and Redemption of Units" subsection "Compulsory Redemption" above. However, the Manager reserves the right to waive the minimum holding requirement for any transfer of units.

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

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Under present law in Hong Kong, each of the transferor and the transferee is liable to pay fixed rate stamp duty at the applicable rate (currently HK\$5 on every transfer of a unit in the Fund). Each of the transferor and the transferee may also be liable to pay ad valorem stamp duty (calculated by reference to the value of the unit transferred at the applicable rate, currently HK\$1 on each HK\$1,000 (or part thereof)) on such transfers. Currently, the register of the Fund is located outside of Hong Kong and therefore the aforesaid fixed rate stamp duty and ad valorem stamp duty are being exempted.

## **Switching of Units between Available Classes within the Fund**

Subject to any suspension of the right of unitholders to require the redemption of units of a class and the minimum subscription requirement for units of each class, unitholders may switch all or part of their units of one class (the “original class”) into units of the other class (the “new class”) by giving to the administrator prior notice in writing of their requirements. The switching notice may be submitted either in original or, if the relevant unitholder has already previously provided the Manager with an original fax indemnity in a form approved for this purpose by the Manager and the Trustee, by fax or other written or electronic means specified by the Manager. If the switching notice is sent by fax or other written or electronic means, the Manager and the Trustee may, in their absolute discretion, determine whether or not the original notice is also required. If such discretion is exercised, the Manager and the Trustee are free to act on receipt of such faxed or other written or electronic instructions or wait for the original in their absolute discretion.

Such notice once given is irrevocable unless with the consent of the Manager. However, if the Manager has decided not to accept any application for units of the new class, no switching into units of that new class can be made. The Manager has currently decided not to accept application for “A” units and “B” units until further notice. Therefore, no switching to “A” units or “B units” is currently available until further notice.

Switching may take place on a Dealing Day only. For any application which is received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator on the Business Days after 5:00 p.m. (Hong Kong time) on the last Dealing Day and before 5:00 p.m. (Hong Kong time) on a particular Dealing Day, it will be dealt with by reference to that particular Dealing Day. Valid applications for switching received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator after 5:00 p.m. (Hong Kong time) on a Dealing Day will be deemed to have been received and dealt with by reference to the next Dealing Day.

The rate at which the whole or any part of a holding of units of the original class will be switched on any Dealing Day into units of the new class will be determined in accordance with the Trust Deed.

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Partial switching may be effected. However, if a partial switching would result in a unitholder having a residual holding which is less than the minimum holding prescribed by the Manager, the Manager may treat it as a switching request to switch all the units held by that unitholder. However, the Manager reserves the right to waive the minimum holding requirement for any partial switching of units between available classes within the Fund.

## **Calculation and Publication of Net Asset Value**

The net asset value of the Fund will be calculated by valuing the assets of the Fund and deducting the liabilities attributable to the Fund in accordance with the Trust Deed.

The Manager, in consultation with the Trustee, shall determine the net asset value of each class by:

- (i) apportioning the net asset value of the Fund (before deduction of liabilities or addition of assets attributable to any particular class) between the classes in accordance with the aggregate number of undivided shares represented by all units of each class at the previous Dealing Day; and
- (ii) then, deducting the fees, costs, expenses or other liabilities attributable to that class in order to arrive at the actual net asset value of each class.

The net asset value per unit in a class is calculated by dividing net asset value of the relevant class by the number of units in issue under the relevant class. All such calculations are carried out with the intention to properly reflect the comparative differences in fees, costs, expenses or other liabilities which are borne differently between the classes.

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



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

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- (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager, in consultation with the Trustee, shall consider appropriate;
- (ii) if any such price as referred to in (i) is not, in the opinion of the Manager, reasonably up-to-date or is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;
- (iii) the value of any futures contract (the “relevant Contract”), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Fund in order to close the relevant Contract and the amount expended out of the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
- (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;

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- (e) the value of each unit, share or interest in any collective investment scheme (other than an interest in a listed collective investment scheme) which is valued as at the same day as the Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Manager so determines, if such collective investment scheme is not valued as at the same day as the Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, provided that if no net asset value is available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Trustee;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the base currency of the Fund or the currency of denomination of the relevant class will be converted into the base currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

Dealing Days are each Business Day and/or such other day or days as the Manager may, from time to time with the Trustee's approval (which shall not be unreasonably delayed or withheld) determine. However, the Manager may (but shall not be obliged to), after having consulted the Trustee and obtained the Trustee's consent where relevant, decide that a day which would otherwise be a Dealing Day shall not be a Dealing Day if on that day the market or markets on which investments comprised in and amounting to more than 10 per cent. (or such lower percentage as the SFC may approve) of the Fund's net asset value (as at the immediately preceding Dealing Day or being the latest available value) is quoted, listed or dealt in is or are not open for normal trading.

The net asset value, i.e. the redemption prices (excluding the redemption charges, if any), per unit of each class is published on every Dealing Day on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*

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

## Form of Units

A contract note will normally be issued by the administrator as soon as practicable after the relevant Dealing Day upon acceptance of an application for subscription or switching of units, as the case may be. Certificates for units will usually not be issued. The number of units in the relevant class to be issued pursuant to any application for subscription or switching will usually be rounded down to the nearest second decimal point and any smaller fraction of a unit will be retained for the benefit of the Fund.

## TAXATION

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

**Investors should consult their professional advisers on the possible tax consequences of their subscribing for, purchasing, holding, selling or redeeming units under the laws of their jurisdictions of citizenship, residence, ordinary residence or domicile.**

### Mainland China

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

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

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

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## *Corporate Income Tax (“CIT”)*

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

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

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

## *Interest/dividend*

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

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

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

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

On 22 November, 2018, the Ministry of Finance (“**MOF**”) and SAT issued Caishui [2018] No.108 (“Circular 108”), which stipulated that foreign institutional investors are exempted from Mainland China WIT and Value Added Tax (“**VAT**”) in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the Mainland China bond market.

### *Capital gains*

#### (i) *Capital gains realised from trading of B shares and H shares*

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

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Having said that, for B shares and H shares invested by the Fund directly, there may be practical difficulty for the Mainland China tax authorities to impose and collect WIT on such capital gains. In practice, the 10 per cent. WIT has not been strictly enforced by the Mainland China tax authorities on capital gains derived by non-Mainland China tax resident enterprises from the trading of these securities with sales and purchase effected through stock exchanges.

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

(ii) *Capital gains realised from trading of A shares through the Stock Connects*

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

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

(iii) *Capital gains realised through trading of A shares through CAAPs and A Shares CIS*

The Fund may from time to time obtain exposure to A shares by investing in CAAPs and A Shares CIS.

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

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

Pursuant to Notice No. 79 and having consulted professional and independent tax advisor, with effect from 17 November 2014, in respect of the Fund, the Manager will not make WIT provision for gross realised or unrealised capital gains derived from trading of A shares through CAAPs and A Shares CIS.

Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the Mainland China authorities announce the expiry date of the exemption, the Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the net asset value.

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



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

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

(v) *Capital gains derived from funds that invest in Mainland China Securities*

The Fund may invest in funds that invest in Mainland China Securities. Such funds may or may not withhold WIT equal to 10 per cent. of any potential capital gains which may be payable on a sale of such Mainland China Securities. Any such withholding by a fund would be reflected in the net asset value of the relevant fund and, therefore, in the net asset value of the Fund on any Dealing Day. Where a fund has no such withholding or insufficient withholding, any retrospective enforcement and/or changes in Mainland China tax law relating to WIT on capital gains on the sale of Mainland China Securities may adversely affect the net asset value of the relevant fund and, therefore, the net asset value of the Fund.

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

(vi) *Tax Provision*

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

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

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

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

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

The Notice No. 36 provides that VAT at 6 per cent. shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. A shares and RMB denominated debt securities issued by Mainland China issuers.

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

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

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

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

Circular 108 stipulated that foreign institutional investors are exempted from Mainland China WIT and VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the Mainland China bond market.

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

## ***Stamp Duty***

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

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

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

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

## ***General***

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

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

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

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

## **Hong Kong**

### ***The Fund***

#### *Profits Tax*

The Fund has been authorised by the SFC pursuant to Section 104 of the SFO. Accordingly profits of the Fund arising from the sale or disposal of securities, net investment income received by or accruing to the Fund and other profits of the Fund are exempt from Hong Kong profits tax for so long as the Fund is so authorised.

#### *Stamp Duty*

The sale or purchase of Hong Kong stocks by the Fund will be subject to stamp duty in Hong Kong at the current rate of HK\$1 per HK\$1,000 or part thereof of the price or market value of the stocks, whichever is higher, unless specific exemptions apply.

## *The Unitholders*

### *Profits Tax*

No tax will be payable by unitholders in Hong Kong in respect of income distributions from the Fund or in respect of any gains arising on a sale, redemption or other disposals of units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

### *Stamp Duty*

If the register of unitholders of the Fund is maintained in Hong Kong, no Hong Kong stamp duty will be payable by the unitholders on the issue and/or redemption of units of the relevant class in the Fund. However, the transfer by unitholders of units in the Fund may be subject to stamp duty in Hong Kong, depending on the mode and circumstances of the transfer. Under present law in Hong Kong, each of the transferor and the transferee is liable to pay a fixed rate stamp duty at the applicable rate (currently HK\$5 on every transfer of a unit in the Fund). Each of the transferor and the transferee may also be liable to pay ad valorem stamp duty on such transfers (calculated by reference to the value of the units transferred at the applicable rate, currently HK\$1 per HK\$1,000 or part thereof of the price or market value of the units, whichever is higher). Currently, the register of unitholders of the Fund is located outside of Hong Kong and therefore the aforesaid fixed rate stamp duty and ad valorem stamp duty are being exempted.

## **FEES AND EXPENSES**

### **Preliminary, Switching and Redemption Charges**

A preliminary charge of up to 5 per cent. of the Issue Price of units in the relevant class may be made by the Manager on the issue of units and retained for its own use and benefit or, be made and retained by person or persons by or through whom the units are offered for subscription for their own use and benefit by agreement between the Manager and such person(s). The Manager has a discretion to waive this preliminary charge in whole or in part in relation to any application for units.

A redemption charge of up to 1.5 per cent. of the net asset value per unit of the relevant class may also be made by the Manager on redemption of units, where the relevant unitholder has been a unitholder for less than 12 consecutive months, and be retained for the Manager's own use and benefit. Currently the Manager has waived the redemption charge applicable to the redemption of units. However, the Manager may re-introduce the redemption charge at any time for up to the maximum level of 1.5 per cent. with 1 month's prior notice (or such shorter notice period as approved by the SFC) to unitholders.

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No switching charge will apply to switching of units between classes within the Fund. However, certain distributors may impose a charge for each switching of units in a class of the Fund acquired through them for units in another class of the Fund, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their units in one class to units in another class should check with their respective distributors for the charge on switching.

## **Trustee Fee**

The trustee fee is calculated and accrued as at each Dealing Day at a rate of 0.15 per cent. per annum for the first US\$150 million of the net asset value of the Fund and is charged monthly in arrears. A rate of 0.13 per cent. per annum is charged on the next US\$150 million, and the remaining balance thereafter is charged at a rate of 0.11 per cent. per annum of the net asset value of the Fund. The Trustee may increase the rate of its trustee fee up to 0.15 per cent. per annum of the total net asset value of the Fund by giving to the Manager and the holders of units not less than one month's prior notice (or such shorter notice period as approved by the SFC) in writing. The Trustee is also entitled to a fixed annual fee of US\$3,000 which is payable quarterly in arrears and certain other fees referred to below under "Expenses".

## **Registrar Fee**

For the duties and functions performed by the Registrar, the Manager and the Trustee have agreed the Registrar shall be entitled to a fee of up to 0.03 per cent. per annum of the net asset value of the Fund (calculated and accrued on each Dealing Day and payable monthly in arrears).

## **Management Fee**

The Manager is entitled to receive annual management fees out of the assets of the Fund. These management fees are payable monthly in arrears, at the rates of 0.75 per cent. per annum of that portion of the net asset value of the Fund attributable to the "A" units and "Z" units and 1.25 per cent. per annum of that portion of the net asset value of the Fund attributable to the "B" units, "C" units and "C" units – Hedged. No management fee shall be payable for "X" units. The Manager may increase the rate of its management fee in relation to any class of units up to a maximum of 2 per cent. per annum of the net asset value of the Fund of any class of units by giving to the Trustee and the holders of units of the relevant class not less than one month's prior notice (or such shorter notice period as approved by the SFC) in writing.

## Performance Fee

### (a) *Performance fee in respect of “A” units and “B” units*

The Manager is entitled to receive a performance fee out of the assets of the Fund in respect of any financial year for “A” units and “B” units.

#### *Performance fee calculation*

Performance fee is payable annually on a high-on-high basis (i.e. when the net asset value per undivided share as at the last Dealing Day of a performance period exceeds the High Water Mark (as defined below)) in accordance with the following formula:

$$(A-B) \times C \times D$$

where:

“A” is the net asset value per undivided share (before deduction of any provision for the performance fee) as at the last Dealing Day of a performance period.

“B” is the **High Water Mark**, which is the higher of:

- (i) the initial issue price; and
- (ii) the net asset value per undivided share on the last Dealing Day of the last performance period in respect of which a performance fee was paid to the Manager (after deduction of all fees including any performance fee).

Where a performance fee is payable for a performance period, the net asset value per undivided share (after deduction of performance fee) on the last Dealing Day of that performance period will be set as the High Water Mark for the next performance period.

“(A-B)” means the outperformance of the net asset value per undivided share, i.e. the amount by which the increase in net asset value per undivided share during the relevant performance period exceeds the High Water Mark.

“C” is the rate of performance fee payable (i.e. 15%).



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“D” is the average number of undivided shares represented by all the units for “A” units and “B” units in issue immediately after each Dealing Day in the relevant performance period, calculated by adding the total number of undivided shares in issue immediately after each Dealing Day of the relevant performance period divided by the total number of Dealing Days in such performance period.

Each performance period corresponds to the financial year of the Fund.

Any performance fee payable shall be paid to the Manager as soon as practicable after the end of the relevant performance period.

The performance fee payable to the Manager in respect of “A” units and “B” units shall be apportioned between “A” units and “B” units in accordance with the aggregate number of undivided shares represented by all units in each class of “A” units and “B” units respectively on the immediately preceding Dealing Day in the relevant financial year.

(b) *Performance fee in respect of “C” units, “C” units – Hedged and “Z” units*

The Manager is entitled to receive a performance fee out of the assets of the Fund for “C” units, “C” units – Hedged and “Z” units.

## *Performance fee calculation*

Performance fee is payable annually on a high-on-high basis (i.e. when the net asset value per unit as at the last Dealing Day of a performance period exceeds the High Water Mark (as defined below)) in accordance with the following formula:

$$(A-B) \times C \times D$$

where:

“A” is the net asset value per unit (before deduction of any provision for the performance fee including any distribution which has been declared or paid during the relevant performance period(s) since the last performance fee is crystallised and paid) as at the last Dealing Day of a performance period.

“B” is the **High Water Mark**, which is the higher of:

(i) the initial issue price; and

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- (ii) the net asset value per unit on the last Dealing Day of the last performance period in respect of which a performance fee was paid to the Manager (after deduction of all fees including any performance fee and any distribution declared or paid in respect of that preceding performance period).

Where a performance fee is payable for a performance period, the net asset value per unit (after deduction of performance fee and any distribution declared or paid in respect of that preceding performance period) on the last Dealing Day of that performance period will be set as the High Water Mark for the next performance period.

“(A-B)” means the outperformance of the net asset value per unit, i.e. the amount by which the increase in net asset value per unit during the relevant performance period exceeds the High Water Mark.

“C” is the rate of performance fee payable (i.e. 15%).

“D” is the average number of each of “C” units, “C” units - Hedged and “Z” units in issue immediately after each Dealing Day in the relevant performance period, calculated by adding the total number of units of each of “C” units, “C” units - Hedged and “Z” units in issue immediately after each Dealing Day of the relevant performance period divided by the total number of Dealing Days in such performance period.

Each performance period corresponds to the financial year of the Fund.

Any performance fee payable shall be paid to the Manager as soon as practicable after the end of the relevant performance period.

The total amount of performance fee that is payable to the Manager shall be the aggregate of performance fees calculated in respect of each class of units in the Fund.

### *Performance fee accrual*

The performance fee shall be accrued on each Dealing Day throughout a performance period. If the net asset value per undivided share/unit exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. On each Dealing Day, the accrual made on the previous Dealing Day will be reversed and a new performance fee accrual will be calculated and made in accordance with the above. If the net asset value per undivided share/unit on a Dealing Day is lower than or equal to the High Water Mark, all provision previously accrued performance fee will be reversed and no performance fee will be accrued.

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The price of units subscribed for or redeemed during a performance period will be based on the net asset value per unit (after accrual of performance fee as calculated in accordance with the above). Depending upon the performance of the Fund during the year, the price at which unitholders subscribe for or redeem units at different times will be affected by performance of the Fund and this could have a positive or negative effect on the performance fee borne by them.

There is no equalisation arrangement in respect of the calculation of the performance fees. That means, there is no adjustment of equalisation credit or equalisation losses on an individual unitholder basis based on the timing the relevant unitholder subscribes or redeems the relevant units during the course of a performance period. The unitholder may be advantaged or disadvantaged as a result of this method of calculating the performance fee. A charge of performance fee may have been borne by a unitholder notwithstanding the unitholder concerned may have suffered a loss in investment in the units. On the other hand, a unitholder may not be subject to any performance fee notwithstanding the unitholder concerned may have realised a gain in investment in the units.

For instance, a unitholder will be advantaged if he subscribes to the Fund during a performance period when the net asset value per undivided share/unit is below the High Water Mark, and redeems prior to the end of such performance period when the net asset value per undivided share/unit has increased up to but does not exceed the High Water Mark at the time of his redemption, and thus, no performance fee is payable even though he has made a profit.

Likewise, a unitholder will be disadvantaged if he subscribes to the Fund during a performance period when the net asset value per undivided share/unit is above the High Water Mark and redeems prior to or at the end of such performance period when the net asset value per undivided share/unit at the time of redemption has decreased but remains above High Water Mark. Under such circumstances, he has paid the performance fee despite of a loss.

The Manager may, in its absolute discretion, waive or reduce, share with or rebate to any person(s) by or through whom the units are offered for subscription, the payment of all or any portion of the preliminary charge, redemption charge, management fee and/or performance fee received by the Manager. Such persons may retain such charges for their own use and benefit by agreement between the Manager and such persons.

### *Illustrative examples*

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

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## Assumptions:

- The initial issue price for the relevant unit is US\$10.
  - The performance fee payable is 15% of the increase in the net asset value per unit during a performance period above the High Water Mark (i.e. outperformance of net asset value per unit).
- (I) First performance period (net asset value per unit above High Water Mark at the end of performance period – performance fee payable)

Investor A subscribes for one unit during the initial offer period at the initial issue price. Thereafter, Investor B subscribes for one unit mid-way through the first performance period at an issue price of US\$12. High Water Mark is the initial issue price, which is US\$10.

By the end of the first performance period, the net asset value per unit (before deducting performance fee accrual) is US\$11. The outperformance of net asset value per unit is thus US\$1. The average number of units in issue on this Dealing Day is 1.5 units.

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

$$(\text{US\$11} - \text{US\$10}) \times 15\% \times 1.5 \text{ units} = \text{US\$0.23}.$$

At the end of the first performance period, the net asset value per unit will be reduced by US\$0.12 (i.e. US\$0.23 / 2 units). In effect, each of Investors A and B will have borne the US\$0.12 performance fee in respect of the first performance period.

- (II) Second performance period (net asset value per unit below High Water Mark on a particular Dealing Day – no performance fee accrual; net asset value below High Water Mark at the end of performance period – no performance fee payable):

At the start of the second performance period, the High Water Mark is US\$10.88 (being the net asset value per unit at the end of the last performance period in respect of which a performance fee was paid (after deduction of performance fee)).

Mid-way through the second performance period, the net asset value per unit is US\$9.85. Investor A redeems his unit. Investor C subscribes for one unit. On this Dealing Day, the net asset value per unit is below the High Water Mark. Therefore, no performance fee is accrued in respect of the unit redeemed by Investor A.

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At the end of the second performance period, the net asset value per unit becomes US\$10.50. No performance fee is payable in the second performance period as the net asset value per unit at the end of performance period is below the High Water Mark. Although Investor C had a gain in this period, no performance fee is charged.

No performance fee shall be payable for “X” units.

## **Expenses**

In addition to the fees described above, the Fund bears stamp duties, taxes, annual fees (if any) payable to the SFC, listing fees, brokerage, bank charges, registration and collection fees, insurance and security costs, the fees and expenses of the Auditors and of any custodian appointed by the Trustee (including transaction fees payable in respect of the settlement of transactions for the account of the Fund and all sub-custodian fees), fees payable for legal advice, expenses incurred by the Manager and the Trustee in obtaining and/or maintaining the listing of units on any stock exchange and/or the authorisation or other official approval or sanction of the Fund under the SFO or any other law or regulation in any part of the world; and certain other expenses incurred in the operation or administration of the Fund. It is also responsible for the costs of preparing, translating, printing and distributing future explanatory memoranda, reports, financial statements and for any costs incurred as a result of a change in law or the introduction of any new law (including any costs incurred as a result of compliance with any code relating to unit trusts).

The formation costs of the Fund has been fully amortised.

## **GENERAL INFORMATION**

### **Distribution Policy**

The Manager has the sole and absolute discretion to amend the distribution policy, subject to the SFC’s prior approval (if applicable) and one month’s prior notice to the relevant unitholders.

In respect of all classes of units other than the Distribution Classes, it is the current intention of the Manager that distributions of income will not be made from the Fund. Any distributions that are made will be automatically reinvested in the subscription of further units in the Fund except where unitholders have requested otherwise.

For Distribution Classes, it is the intention of the Manager to distribute the net distributable income attributable to the relevant Distribution Classes in respect of each accounting period, after charging the expenses attributable to these Distribution Classes respectively.

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It is the intention of the Manager to make distributions on a monthly basis or/and at such other time as the Manager may, after consultation with the Trustee, notify to unitholders. The Manager expects to be able to pay distributions from the net distributable income generated by the Fund from its investment but in the event that such net distributable income is insufficient to pay distributions as it declares, the Manager may in its discretion determine that such distributions may be paid from capital. Please also refer to the risk factors entitled “Distribution risk” and “Payment of distributions out of capital risk”.

For the purpose of this section, classes with suffix “MDis” are collectively referred to as “Distribution Classes”.

The composition of the distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and also on the Manager’s website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

Unitholders may specify on subscription form that they wish to receive a cash distribution if a distribution is declared by the Manager. Provided, however, that distributions will not be paid in cash if the amount of the distribution for the relevant unitholder amounts to less than US\$100 (or its equivalent in other currencies) or such other amount determined by the Manager from time to time. If unitholders do not request cash distributions or if the amount of the distribution payable to the relevant unitholder is less than the minimum amount specified as aforesaid, the distribution to which the unitholder is entitled will be reinvested in further units to be issued at the prevailing Issue Price of the relevant Distribution Class applicable on the Distribution Date.

Any payment of distributions in cash will normally be paid by direct transfer or telegraphic transfer in the class currency of the relevant Distribution Class to the pre-designated bank account of the unitholder (at his risk and expense). No third party payments will be permitted.

Any distribution which is not claimed for six years will be forfeited and becomes part of the assets of the relevant class (and in case such relevant class has been terminated, the Fund).

## **Trust Deed**

The Trust Deed contains certain indemnities and exculpations of liability in favour of the Trustee and the Manager in certain circumstances. Unitholders are advised to consult the terms of the Trust Deed and in particular, Appendix J of the Trust Deed.

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

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Copies of the Trust Deed are available from the Manager at such price as the Manager may from time to time determine or may be inspected during normal working hours at the offices of the Manager, the Trustee, the custodian or the Registrar, free of charge.

## **Financial Reports and Monthly Statements**

The Fund's financial year end is 31 December in each year and annual reports will be sent to unitholders within four months after the end of the financial year. The Manager will also send unaudited interim reports to unitholders within two months after the end of the first six months in each financial year. The English and Chinese reports will provide details of the assets of the Fund and the Manager's statement on transactions during the period under review and will be posted on the Manager's website, [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

At the end of each calendar month, each unitholder will be sent an account statement containing details of his transactions in that period and the market value of his units.

## **Duration of the Fund**

Unless terminated earlier as provided in the Trust Deed, the Fund will continue until the date falling 80 years from the date of its establishment (i.e. 1 April 1993). The Fund may be terminated by the Manager or the Trustee in certain circumstances under the Trust Deed, including where the net asset value of the Fund falls below US\$5,000,000, or by Extraordinary Resolution of unitholders.

Any unclaimed proceeds or other cash held by the Trustee upon termination of the Fund or a class of units, as the case may be, may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

## **Anti-Money Laundering Regulations**

### ***Hong Kong***

The Fund, the Trustee, the Manager, the administrator, the custodian, the Registrar, their agents, affiliates, subsidiaries or associates (as the case may be) will also require verification of identity according to the SFC's Guideline on Anti-Money Laundering and Counter-Terrorist Financing (as amended) and/or Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities (as amended).

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In Hong Kong, there are obligations to report suspicious transactions to the Joint Financial Intelligence Unit jointly run by staff of the Hong Kong Police Force and the Hong Kong Customs & Excise Department under the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organised and Serious Crimes Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance and the Prevention of Money Laundering and Terrorist Financing Guidance Note issued by the SFC. Reporting of suspicious transactions by the Trustee, the Manager, the administrator, the custodian, the Registrar, their agents, affiliates, subsidiaries or associates (as the case may be) shall not be communicated with the unitholder, as such action may constitute an offence in Hong Kong.

## **Conflicts of Interest**

The Manager, the investment delegates (if any), the Trustee and their respective Connected Persons may from time to time establish or act as manager, trustee or successor trustee or investment adviser, representative or otherwise as may be required from time to time for any trust separate and distinct from the Fund, whether separately or in conjunction with any other of them.

In addition:

- (a) The Manager or any Connected Person may purchase and sell investments for the account of the Fund as agent for the Trustee.
- (b) The Trustee, the Manager and any of their Connected Persons may contract with or enter into any financial, banking or other transaction with one another or with any unitholder of the Fund or any company or body any of whose shares or securities form part of the Fund or may be interested in any such contract or transaction.
- (c) The Trustee or the Manager may become the owner of units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee or the Manager.
- (d) The Trustee, the Manager and any of their Connected Persons may buy, hold and deal in any securities, commodities or other property for their own account or for the account of their other customers notwithstanding that similar securities, commodities or other property may be held as part of the Fund.



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- (e) If cash forming part of the Fund's assets is deposited with the Trustee, the Manager, any investment delegate or any of their respective Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the unitholders of the Fund, 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.
- (f) Any arrangements for the borrowing of any monies for the account of the Fund may be made with any of the Trustee, the Manager, any investment delegate or any Connected Person of any of them being a banker or other financial institution provided that such person shall charge interest at no higher rate, and any fee for arranging or terminating the loan is of no greater amount than is in accordance with its normal banking practice, the commercial rate for a loan of a similar size, nature and duration, in the same currency and with institutions of similar standing negotiated at arm's length.
- (g) Subject to restrictions and requirements applicable from time to time, the Manager or any of its Connected Persons may enter into investments for the Fund as agent for the Fund and may deal with the Fund as principal provided that, in both cases, dealings are carried out in good faith and effected on best available terms negotiated on an arm's length basis and in the best interests of the unitholders of the Fund. Any transactions between the Fund and the Manager, investment delegate as may be appointed by the Manager or any of their Connected Persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Fund's annual report.
- (h) In transacting with brokers or dealers connected to the Manager, any investment delegate, the Trustee or any of their Connected Person, the Manager must ensure that:
  - (i) such transactions are on an arm's length terms;
  - (ii) the Manager has used due care in the selection of such persons and has ensured that they are suitably qualified in the circumstances;
  - (iii) transaction execution is consistent with applicable best execution standards;
  - (iv) the fee or commission paid to any such persons in respect of a transaction is not greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
  - (v) the Manager must monitor such transactions to ensure compliance with its obligations; and

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- (vi) the nature of such transactions and the total commissions and other quantifiable benefits received by such persons shall be disclosed in the Fund's annual reports.
- (i) Neither the Trustee nor the Manager nor their respective Connected Person shall be liable to account to each other or to the Fund or to the unitholders for any profits or benefits made or derived from or in connection with any such transaction mentioned above.

It is, therefore, possible that any of the Trustee, the Manager, the investment delegates (if any) or their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Fund. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Fund on normal commercial terms. If such conflicts arise, each of the Trustee and the Manager will, at all times, act in accordance with the terms of the Trust Deed and have regard in such event to its obligations to the Fund and the unitholders and will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Fund and any of them are on an arm's length basis.

For the purposes of this Explanatory Memorandum, "**Connected Persons**" shall have the meaning defined in the Trust Deed and the Code on Unit Trusts and Mutual Funds issued by the SFC and include any subsidiary or holding company or associate of the Manager or the Trustee, or subsidiary of such holding company as the case may be.

Where the Manager invests in shares or units of a collective investment scheme managed by the Manager, the investment delegates (if any), or any of their respective Connected Persons, the manager of the scheme in which the investment is being made must waive any initial charge and redemption charges which it is entitled to charge for its own account in relation to the acquisition or redemption (as the case may be) of shares or units and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any Connected Person) borne by the Fund.

None of the Manager, the investment delegates (if any) or any of their respective Connected Persons shall retain any cash or rebates or other payment or benefit (except as otherwise provided for in this Explanatory Memorandum or in the Trust Deed) received from a third party (either directly or indirectly) in consideration of directing transactions in the Fund's assets to such persons, and any such rebates or payments or benefits which are received shall be credited to the account of the Fund.

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Subject to paragraphs (h)(i) - (vi) above, the Manager, the investment delegates (if any) and/or any of their Connected Persons reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the investment delegates (if any) and/or any of their Connected Persons has an arrangement under which that broker or dealer with from time to time provide to or procure for the Manager, the investment delegates (if any) and/or any of their Connected Persons goods or services for which no direct payment is made but instead the Manager, the investment delegates (if any) and/or any of their Connected Persons undertakes to place business with that broker or dealer. The Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders of the Fund (taken as a body and in their capacity as such) whether by assisting the Manager and/or the investment delegate (if any) in their ability to manage the Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegates (if any), including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

The services of the Trustee and its Connected Persons provided to the Fund are not deemed to be exclusive and each of them shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other monies payable in respect of any of the arrangements described above and the Trustee and its Connected Persons shall not be deemed to be affected with notice of or to be under any duty to disclose to the Fund, any unitholder or any other relevant party any fact or thing which comes to its notice in the course of it rendering similar services to other parties or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed or as required by any applicable laws and regulations for the time being in force. None of the Trustee and its Connected Persons shall be liable to account to the Fund or any investor of the Fund for any profit or benefit made or derived thereby or in connection therewith (including in situations set out above).

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The Manager may enter into trades for the account of the Fund with the accounts of other clients of the Manager or its Connected Persons (including other collective investment schemes managed by the Manager or its Connected Persons) (“cross trades”). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objectives, restrictions and policies of both clients, the cross trades are executed on arm’s length terms at current market value, and the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. accounts owned by the Manager or any of its Connected Persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

## **Voting Rights**

Meetings of all unitholders, or of unitholders of a specific class, may be convened by the Manager or the Trustee. In the case of a meeting of all unitholders, the holders of one-tenth or more in value of the units in issue may require such a meeting to be convened. In the case of a meeting of holders of the units in a particular class, the holders of one tenth in value of the units in issue in the relevant class may require such a meeting to be convened. Unitholders will be given not less than 21 days’ notice of any meeting.

The quorum for the transaction of business, except for the purpose of passing an Extraordinary Resolution, will be unitholders present in person or by proxy registered as holding not less than 10 per cent. of the units for the time being in issue in either the Fund or the relevant class of units, as the case may be. The quorum for passing an Extraordinary Resolution will be unitholders present in person or by proxy registered as holding not less than 25 per cent. of the units for the time being in issue in either the Fund or the relevant class of units, as the case may be.

Meetings of unitholders may be used to sanction any modification of the terms of the Trust Deed agreed by the Trustee and the Manager in accordance with the terms of the Trust Deed or to approve any termination of the Fund as provided under the Trust Deed.

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At any meeting an Extraordinary Resolution put to a vote of the meeting shall be decided on a show of hands unless a poll is demanded by the Chairman or by holder(s) of not less than 5 per cent. of the units in issue. Unless a poll is so demanded a declaration by the Chairman that a resolution has been carried or lost shall be conclusive without proof of the number or proportion of the votes recorded in favour of or against such resolution. On a show of hands, every unitholder (being an individual) who is present in person or (being a firm) is present in the person of one of the partners thereof or (being a corporation) is present by a duly authorised representative shall have one vote. In the case of joint unitholders, the senior of those who tenders a vote (in person or by proxy) will be accepted to the exclusion of the other joint unitholders and seniority is determined by the order in which the names appear on the register of unitholders. A poll may be demanded by the Chairman or one or more unitholders present in person or by proxy registered as holding 5 per cent. or more of the units for the time being in issue. On a poll every holder who is present in person or by representative or by proxy shall have the same number of votes (including fractions) for each unit of each class of which he is the holder as the undivided share in the Fund represented by each such unit.

For as long as the Fund is authorised pursuant to Section 104 of the Hong Kong SFO (as amended, supplemented or replaced from time to time), votes of meetings shall be decided on a poll only.

## **Fax Indemnity**

All unitholders who wish to give instructions relating to subsequent subscription, switching and redemption of units by fax or any electronic means must submit to the Manager an original fax indemnity in a form approved for this purpose by the Manager and the Trustee, unless an original fax indemnity was already previously provided to the Manager.

All faxed or electronic instructions received by the Manager will generally be acted upon by the Manager and the Trustee subject to their absolute discretion not to act until the original written instructions are received. All initial subscriptions of units sent by fax or any electronic means must be followed by a duly signed original applications for subscription.

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

## “A” units and “B” units

The Manager has currently decided not to accept any application for “A” units until further notice. As from 15 October 2009, unless otherwise agreed by the Manager, the Manager will also not accept any applications for “B” units until further notice. However, the interests of the existing unitholders in relation to their current holdings of “A” units and “B” units remains unaffected. Existing “A” units and “B” units continue to be subject to the following charges:

	“A” Units	“B” Units
<b>Management fee</b>	0.75% per annum	1.25% per annum
<b>Performance fee</b>	15% per annum of the increase in net asset value per unit in the relevant class in the relevant performance period calculated annually on a high-on-high basis	15% per annum of the increase in net asset value per unit in the relevant class in the relevant performance period calculated annually on a high-on-high basis
<b>Minimum holding applicable to partial redemption</b>	US\$100,000	US\$10,000
<b>Redemption charge</b>	Currently Nil	Currently Nil

- (a) the annual management fee is payable at the rate of 0.75 per cent. per annum of that portion of the net asset value of the Fund attributable to the “A” units and at the rate of 1.25 per cent. per annum of that portion of the net asset value of the Fund attributable to the “B” units;

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- (b) the Manager is entitled to receive a performance fee out of the assets of the Fund in respect of any financial year for “A” units and “B” units if the net asset value per undivided share on the last Dealing Day of that financial year exceeds the net asset value per undivided share on the last Dealing Day of the last previous financial year in respect of which a performance fee was paid to the Manager (adjusted to take account of the payment of that performance fee). The rate of performance fee is currently 15 per cent. of the product of that excess and the average of the number of undivided shares represented by all the units for “A” units and “B” units in issue immediately after each Dealing Day in the relevant financial year. The performance fee payable to the Manager in respect of “A” units and “B” units shall be apportioned between “A” units and “B” units in accordance with the aggregate number of undivided shares represented by all units in each class of “A” units and “B” units respectively on the immediately preceding Dealing Day in the relevant financial year;
- (c) the maximum level of redemption charge is 1.5 per cent. of net asset value in relation to the redemption of “A” units and “B” units respectively, where the relevant unitholder has been a unitholder for fewer than 12 consecutive months. Currently the Manager has waived the redemption charge applicable to the redemption of “A” units and “B” units. However, the Manager may re-introduce the redemption charge at any time with 1 month’s prior notice (or such shorter notice period as approved by the SFC) to unitholders;
- (d) unitholders of “A” units and “B” units can continue to hold their existing holdings during any period in which the Manager decides not to accept application for “A” units and “B” units. If such unitholders wish to make any subsequent subscription to the Fund, they can for the time being only subscribe for “C” units, “C” units – Hedged or “Z” units.

Unless otherwise disclosed, “A” units, “B” units, “C” units, “C” units – Hedged, “X” units and “Z” units are subject to the same terms, conditions and restrictions of this Explanatory Memorandum and the Trust Deed. However, the performance fees that are payable (if applicable) by the unitholders of each class may be subject to different calculation methods and a different high watermark. Please refer to the section headed “Performance Fees” of this Explanatory Memorandum for further details on calculating the Manager’s annual performance fee. The net asset value of each class will be calculated independently by apportioning the relevant fees, costs, expenses or other liabilities attributable to each class. Accordingly, the performance results and the net asset value of each class may be different.

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For existing unitholders of “B” units who are making regular contribution amounts to the Fund under an insurance savings plan commencing before 15 October 2009, the Fund will continue to issue “B” units for those previously agreed regular contributions. Where a unitholder wishes to increase the regular contribution amount, the Fund will issue “C” units USD for those contributions exceeding the originally agreed amount.

When unitholders wish to redeem any of their units, they must indicate clearly the class of units which they wish to redeem. In determining whether the unitholder has been holding the relevant units for less than 12 consecutive months, the period relating to holding “A” units, “B” units, “C” units, “C” units – Hedged and “Z” units will be calculated separately.

### **Automatic Exchange of Financial Account Information**

The Inland Revenue (Amendment) (No. 3) Ordinance (the “**Ordinance**”) came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (commonly known as “**CRS**”). The CRS requires financial institutions (“**FIs**”) in Hong Kong to collect information relating to account holders, and file such information as it relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department (“**IRD**”) who in turn will exchange the information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships (“**Reportable Jurisdictions**”) however, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

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



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

By investing in the Fund and/or continuing to invest in the Fund, unitholders acknowledge that they may be required to provide additional information to the Fund, the Manager and/or the Fund's agents in order for the Fund to comply with the Ordinance. The unitholder's information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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

Each unitholder (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund (A) to avoid withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund receives payments and/or (B) to satisfy due diligence, reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction, (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any registration, due diligence and reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including but not limited to any law, rule and requirement relating to AEOI), including such obligations that may be imposed by future legislation.

For the purposes herein, “AEOI” means one or more of the following as the context requires:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standards and any associated guidance;
- (c) any intergovernmental agreement, treaty, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in paragraphs (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding paragraphs (a) to (c) above.

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

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

## **Personal Data**

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong, "PDPO"), the Trustee, the Manager, or any of their respective delegates (each a "Data User") may collect, hold, use personal data of individual investors in the Fund only for the purposes for which such data was collected and shall comply with personal data protection principles and requirements as set out in the PDPO and any applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorized or accidental access, processing, erasure or other use.

**Value Partners Hong Kong Limited**

43rd Floor, The Center, 99 Queen's Road Central, Hong Kong

Tel: (852) 2880 9263 Fax: (852) 2565 7975

Email: [vp1@vp.com.hk](mailto:vp1@vp.com.hk) Web Site: [www.valuepartners-group.com](http://www.valuepartners-group.com)

**VALUE PARTNERS CLASSIC FUND (the “Fund”)****FIRST ADDENDUM****Important**

*If you are in doubt about the contents of this Addendum, you should seek independent professional advice. This Addendum forms part of and should be read in conjunction with the Explanatory Memorandum of the Fund dated January 2020 (“**Explanatory Memorandum**”). The changes made to the Explanatory Memorandum by this Addendum shall take effect on 30 April 2021.*

*All capitalized terms used in this Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Value Partners Hong Kong Limited, the Manager of the Fund, accepts full responsibility for the accuracy of the information contained in this Addendum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Addendum misleading as at the date of issuance.*

The Explanatory Memorandum will hereby be amended as follows:

**Amendment to the Trustee Fee**

The paragraph under the section headed “**Trustee Fee**” on page 94 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The trustee fee is calculated and accrued as at each Dealing Day at a rate of 0.15 per cent. per annum for the first US\$150 million of the net asset value of the Fund and is charged monthly in arrears. A rate of 0.13 per cent. per annum is charged on the next US\$150 million, and the remaining balance thereafter is charged at a rate of 0.11 per cent. per annum of the net asset value of the Fund, provided that the aggregate trustee fee payable to the Trustee for any month shall be no less than US\$4,500. The Trustee may increase the rate of its trustee fee up to 0.15 per cent. per annum of the total net asset value of the Fund by giving to the Manager and the holders of units not less than one month’s prior notice (or such shorter notice period as approved by the SFC) in writing. The Trustee is also entitled to certain other fees referred to below under “Expenses”.”

30 April 2021

**VALUE PARTNERS CLASSIC FUND (the “Fund”)****SECOND ADDENDUM****Important**

*If you are in doubt about the contents of this Addendum, you should seek independent professional advice. This Addendum forms part of and should be read in conjunction with the Explanatory Memorandum of the Fund dated January 2020, as amended by the First Addendum dated 30 April 2021 (collectively, the “**Explanatory Memorandum**”). The changes made to the Explanatory Memorandum by this Addendum shall take effect on 29 July 2021.*

*All capitalized terms used in this Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Value Partners Hong Kong Limited, the Manager of the Fund, accepts full responsibility for the accuracy of the information contained in this Addendum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Addendum misleading as at the date of issuance.*

The Explanatory Memorandum will hereby be amended as follows:

**A. Tightening of investment restriction and extent of use of derivatives in light of public distribution in Taiwan**

1. The fourth paragraph under the sub-section headed “**Investment Objectives and Policies**” under the section headed “**INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS**” on page 12 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“In addition to equity securities, the portfolio may from time to time include cash, deposits, short-term papers such as treasury bills, certificates of deposit, bankers’ acceptances, short-term commercial paper and other fixed income instruments. However, the Fund will not invest more than 10 per cent. of its net asset value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade. The Manager may invest up to 30 per cent. of the Fund’s net asset value in collective investment schemes (including those managed or offered by the Manager, the investment delegates (if any) or any of their Connected Persons (as defined below in the section headed “Conflicts of Interest”)) to the extent permitted by the Code. The Manager may also place a substantial portion of the portfolio in cash or cash equivalents. Under exceptional circumstances (e.g. market crash or major crisis), the Fund may invest temporarily up to 100 per cent. in liquid assets such as deposits, treasury bills, certificates of deposit, short-term commercial papers for cash flow management. The Fund may also invest in futures, options, warrants, equity-linked notes and other financial instruments to the extent permitted by the Code and the provisions set out under the section headed “Investment Restrictions”.”

2. The penultimate paragraph under the sub-section headed “**Investment Objectives and Policies**” under the section headed “**INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS**” on page 13 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“To the extent permitted by the Code and the provisions set out under the sub-section headed “Investment Restrictions”, the Fund may, should the Manager consider it to be in the interests of the unitholders, invest in financial futures contracts and write covered call options. However, the Manager would not ordinarily expect to utilize any of these investment techniques except to hedge against adverse political and economic developments and/or adverse movements in currency exchange rates or interest rates. For the avoidance of doubt, the Fund will not acquire any commodities and commodities related derivatives for investment purposes.”

3. The sub-section headed **“Use of Derivatives / Investment in Derivatives”** under the section headed **“INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS”** on page 13 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The Fund’s net derivative exposure may be up to 50 per cent. of its net asset value, provided that for so long as the Fund is registered for public distribution in Taiwan, the Fund shall, unless otherwise approved by the Taiwan Financial Supervisory Commission, comply with local Taiwanese regulation in respect of net derivative exposure, which currently requires the total value of the Fund’s non-offset position in derivatives held for:

- (1) any purposes other than hedging, and in any derivatives held for hedging purposes in excess of the position limit stated in (2) below, not to exceed 40 per cent. of its net asset value (or such other percentage as the Taiwanese regulator may stipulate from time to time); and
  - (2) hedging purposes, not to exceed the total market value of the relevant securities held by the Fund.”
4. The first paragraph under the heading *“Non-hedging (investment) purposes”* under the sub-section headed **“Financial derivative instruments”** under the section headed **“INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS”** on page 31 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The Fund may acquire FDIs for non-hedging purposes (“investment purposes”), subject to the limit that the Fund’s net exposure relating to these FDIs (“net derivative exposure”) does not exceed 50 per cent. of its latest available net asset value and any relevant qualifications under the heading entitled “Investment Objectives and Policies” in the section headed **“INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS”**, provided that this limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. In this regard:”

## **B. Update of Selling Restrictions for Various Jurisdictions**

1. The sections headed **“United States”** and **“For Singapore Prospective Investors”** on pages 3 to 4 of the Explanatory Memorandum shall be deleted in their entirety and replaced with the following:

“The selling restrictions in this Explanatory Memorandum describe restrictions on offers and sales of the units in particular jurisdictions however the jurisdictions mentioned are not exhaustive and the distribution of this Explanatory Memorandum and the offers and sales of units in other jurisdictions not specified in this Explanatory Memorandum may be prohibited or restricted. No persons receiving a copy of this Explanatory Memorandum or the accompanying subscription form in any such jurisdiction may treat this Explanatory Memorandum or such subscription form as constituting an invitation to them to subscribe for units, nor should they in any event use this Explanatory Memorandum or such subscription form, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such subscription form could lawfully be used by them without compliance with any registration or other legal requirements.

This Explanatory Memorandum or the accompanying subscription form does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

It is the responsibility of any persons in possession of this Explanatory Memorandum and any persons wishing to apply for units pursuant to this Explanatory Memorandum to inform themselves of, and to observe, all laws and regulations applicable to them.

### **Australia**

This Explanatory Memorandum is not a prospectus or product disclosure statement under the Corporations Act 2001 (Cth) (the “Corporations Act”) and does not constitute a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer for issue or sale of, any securities in Australia except as set out below. The Fund has not authorised nor taken any action to prepare or lodge with the Australian Securities & Investments Commission an Australian law compliant prospectus or product disclosure statement.

Accordingly, this Explanatory Memorandum may not be issued or distributed in Australia and the units in the Fund may not be offered, issued, sold or distributed in Australia by the Manager, or any other person, under this Explanatory Memorandum other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a “wholesale client” (as defined in section 761G of the Corporations Act and applicable regulations) or otherwise.

This Explanatory Memorandum does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of units to a “retail client” (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

### **Brunei**

This Explanatory Memorandum relates to a foreign collective investment scheme under the Securities Markets Order, 2013 (the “Order”) which is not subject to any form of domestic regulations by the Autoriti Monetari Brunei Darussalam (the “Authority”) and further, it relates to a private collective investment scheme under the Order and is intended for distribution only to specific classes of investors such as an accredited investor, an expert investor or an institutional as specified in the Order at their request and must not, therefore, be delivered to, or relied on by, a retail client. The Authority is not responsible for reviewing or verifying any prospectus or other documents in connection with this collective investment scheme. The Authority has not approved this Explanatory Memorandum or any other associated documents nor taken any steps to verify the information set out in this Explanatory Memorandum, and has no responsibility for it.

The units to which this Explanatory Memorandum relates may be illiquid or subject to restrictions on their resale. Prospective purchasers of the units offered should conduct their own due diligence on the units. If you do not understand the contents of this document you should consult your legal adviser.

### **India**

This Explanatory Memorandum will not be registered as a prospectus with the Registrar of Companies in India, nor has the Registrar of Companies in India circulated or distributed nor will it circulate or distribute this Explanatory Memorandum or any other offering document or material relating to the offering, directly or indirectly, to the public or any members of the public in India. This Explanatory Memorandum does not constitute an offer to the public generally to subscribe for or otherwise acquire the securities and is for the exclusive use of the recipient where the recipient obtained this Explanatory Memorandum on its own or pursuant to a reverse inquiry.

### **Indonesia**

The offering of the units is not registered under the Indonesian Capital Markets Law and its implementing regulations and is not intended to become a public offering of units under the Indonesian Capital Markets Law and regulations. This Explanatory Memorandum does not constitute an offer to sell nor a solicitation to buy securities within Indonesia.



### **Malaysia**

As the recognition or approval by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained, and as this Explanatory Memorandum and other related documents have not been / will not be lodged or registered with or delivered to the Malaysian Securities Commission, no offer or invitation for subscription or purchase of units shall be made within Malaysia and this Explanatory Memorandum and any other document or material in connection therewith shall not be distributed, caused to be distributed or circulated within Malaysia.

### **New Zealand**

Units in the Fund are not offered in New Zealand other than to “wholesale investors” within the meaning of clause 3(2) of Schedule 1 to the Financial Markets Conduct Act 2013 (“FMCA”). If you are a New Zealand investor, and apply for units in the Fund, you warrant that you are such a “wholesale investor” and agree that you will not sell the units in the Fund within 12 months after they are issued, in circumstances where disclosure would be required under Part 3 of the FMCA.

### **Philippines**

The securities being offered or sold herein are being offered pursuant to exempt transactions under 10.1 (l) of the Securities Regulation Code and have not been registered with the Securities and Exchange Commission under the Securities Regulation Code. Any future offer or sale of the securities is subject to the registration requirements under the Securities Regulation Code unless such offer or sale qualifies as an exempt transaction.

By a purchase of a security, the investor will be deemed to acknowledge that the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, such security was made outside the Philippines.

### **Singapore**

The Fund has been entered onto the list of restricted schemes maintained by the Monetary Authority of Singapore (“MAS”) pursuant to section 305 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”).

The offer or invitation of the units of the Fund, which is the subject of this Explanatory Memorandum, are not authorised or recognised by the MAS and units of the Fund are not allowed to be offered to the retail public. Neither this Explanatory Memorandum and any other document nor material issued in connection with the offer or sale is a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectus would not apply. You should consider carefully whether the investment is suitable for you in light of your own personal circumstances.

This Explanatory Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of units of the Fund may not be circulated or distributed, nor may such Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A(1)(c) of the SFA) (each an “Institutional Investor”), (ii) to a relevant person as defined in Section 305 of the SFA or any person pursuant to an offer referred to in Section 305(2) of the SFA (each a “Relevant Investor”), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Subject to all other restrictions on transferability imposed by the Fund, recipients of this Explanatory Memorandum represent and warrant that where the units are initially acquired pursuant to an offer made in reliance on an exemption under:

- (a) Section 304 of the SFA by an Institutional Investor, subsequent sales of the units may only be made to another Institutional Investor; and
- (b) Section 305 of the SFA by a Relevant Investor, subsequent sales of the units may only be made to an Institutional Investor or another Relevant Investor.

In addition, it should be noted that where the units are initially subscribed or purchased in Singapore under Section 305 of the SFA by:

- (1) a corporation referred to in Section 305A(2) of the SFA (a “Relevant Corporation”), the securities of the Relevant Corporation shall not be transferred within 6 months after the Relevant Corporation has acquired any units unless the transfer is in accordance with the conditions of Section 305A(2) of the SFA; or
- (2) a trust referred to in Section 305A(3) of the SFA (a “Relevant Trust”), the rights and interest (howsoever described) of the beneficiaries thereof in the Relevant Trust shall not be transferred within 6 months after any units have been acquired for the Relevant Trust unless the transfer is in accordance with the conditions of Section 305A(3) of the SFA.

Investors are required to ensure that any of their own transfer arrangements in relation to the units of the Fund comply with the above restrictions and should seek legal advice to ensure compliance with the same.

Solely for the purposes of its obligations pursuant to Section 309B of the SFA, the Fund has determined, and hereby notifies all relevant persons (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (“CMP Regulations 2018”)), that the interests are capital markets products other than prescribed capital markets products (as defined in Section 309B of the SFA).

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

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

### **Taiwan**

The units are being made available (i) to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan; (ii) to the offshore banking units (as defined in the Taiwan Offshore Banking Act) of Taiwan banks, the offshore securities units (as defined in the Taiwan Offshore Banking Act) of Taiwan securities firms or the offshore insurance units (as defined in the Taiwan Offshore Banking Act) of Taiwan insurance companies purchasing the units either for their proprietary account or for the accounts of their non-Taiwan clients; (iii) before the Fund is registered for public offering and sale in Taiwan, only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, “Qualified Institutions”) and other entities and individuals meeting specific criteria (“Other Qualified Investors”) to the extent permitted under the Taiwan Rules Governing Offshore Funds, but may not be otherwise be offered, sold or resold in Taiwan. Taiwan purchasers of the units may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission; and (iv) after the Fund is registered for public offering and sale in Taiwan, to all Taiwan resident investors through licensed financial institutions.

**Thailand**

This Explanatory Memorandum has not been approved by the Securities and Exchange Commission Thailand which takes no responsibility for its contents. No offer to the public to purchase the units will be made in Thailand and this Explanatory Memorandum is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**United Arab Emirates**

This Explanatory Memorandum, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates ("UAE") and accordingly should not be construed as such.

The marketing of the units in the UAE requires the prior approval of the Securities and Commodities Authority ("SCA") unless the exemptions to the regulations relating to promotion or offering of units in foreign funds or foreign units (SCA Board of Directors Decision no 3/RM of 2017 concerning the organization of promotion and introduction, as further revised and updated) apply. Consequently, based on the mentioned exemptions, the units are only being offered to (A) a limited number of investors in the UAE who (a) are willing and able to conduct an independent investigation of the risks involved in an investment in such units, (b) upon their specific request, and (c) on a cross-border basis (an "unsolicited request"); or (B) to a limited number of exempt investors in the UAE who fall under one of the following categories of Exempt Qualified Investors: (1) an investor which is able to manage its investments on its own (unless such person wishes to be classified as a retail investor), namely: (a) the federal government, local governments, and governmental entities, institutions and authorities, or companies wholly-owned by any such entities; (b) foreign governments, their respective entities, institutions and authorities or companies wholly owned by any such entities; (c) international entities and organisations; (d) entities licensed by the SCA or a regulatory authority that is an ordinary or associate member of the International Organisation of Securities Commissions (a "Counterpart Authority"); or (e) any legal person who fulfils on the date of the last financial statements at least two of the following requirements: (i) total assets of AED 75 million; (ii) net revenues or annual income of AED 150 million; or (iii) net equities or paid capital of AED 7 million; or (2) a natural person licensed by the SCA or a Counterpart Authority to carry out any of the functions related to financial activities or services (each an "Exempt Qualified Investor").

The units have not been approved by or licensed or registered with the UAE Central Bank, the SCA, the Dubai Financial Services Authority, the Financial Services Regulatory Authority or any other relevant licensing authorities or governmental agencies in the UAE (the "Authorities"). The Authorities assume no liability for any investment that the named addressee makes as an Exempt Qualified Investor.

The Explanatory Memorandum is for the use of the named addressee only, and in case the units are being offered on unsolicited request basis, the named addressee has specifically requested it, on a cross-border basis, without a promotion effected by Value Partners Hong Kong Limited, its promoters or the distributors of units in the Fund. The Explanatory Memorandum should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

In relation to units being offered to Exempt Qualified Investors, no transaction will be concluded in the UAE and any enquiries regarding the units should be made to the Manager.

**United States**

The Fund is not registered as an investment company with the U.S. Securities and Exchange Commission. Units in the Fund have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any other U.S. federal or state law, and units in the Fund are not offered or sold to, and may not be transferred to or acquired by, U.S. persons (including, without limitation, U.S. residents, as well as business entities organised under U.S. law), except pursuant to an exemption available under the Securities Act."

### **C. Other ancillary and miscellaneous changes**

1. The biographies of the Directors of the Manager under the sub-section “**Manager**” under the section “**MANAGEMENT AND ADMINISTRATION**” on pages 8 to 10 of the Explanatory Memorandum shall be deleted in their entirety and replaced with the following:

“**Dato’ Seri CHEAH Cheng Hye** - Dato’ Seri CHEAH Cheng Hye is Co-Chairman and Co-Chief Investment Officer (“**Co-CIO**”) of Value Partners Group Limited (“**Value Partners**”). He is in charge of Value Partners’ fund management and investment research, business operations, product development and corporate management. He sets Value Partners’ overall business and portfolio strategy.

Dato’ Seri CHEAH has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm’s funds and business operation. He led Value Partners to a successful listing on the Main Board of the Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato’ Seri CHEAH has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 200 professional awards and prizes since the firm’s inception in 1993.

Dato’ Seri CHEAH currently serves as an Independent Non-executive Director, Chairman of Investment Committee and Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited (“**HKEX**”), a member of the Hong Kong University of Science and Technology (“**HKUST**”) Business School Advisory Council, Convenor of Advisory Council for the Malaysian Chamber of Commerce (Hong Kong and Macau), a member of the Hong Kong Trade Development Council Belt and Road & Greater Bay Area Committee, a Fellow of the Hong Kong Management Association, and a member of the Hong Kong Academy of Finance (“**MAoF**”).

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

Dato’ Seri CHEAH was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark, and co-winner of “CIO of the Year in Asia” along with Mr. Louis SO in the 2011 Best of the Best Awards by Asia Asset Management. In 2010, he was named by AsianInvestor as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by AsianInvestor as one of the 25 Most Influential People in Asian Asset Management. He was also named “Capital Markets Person of the Year” by FinanceAsia in 2007, and in 2003, he was voted the “Most Astute Investor” in the Asset Benchmark Survey.

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

**SO Chun Ki Louis** - Mr. Louis SO is Co-Chairman and Co-Chief Investment Officer (“**Co-CIO**”) of Value Partners. He works closely with Dato’ Seri CHEAH Cheng Hye on all aspects of providing leadership to Value Partners, including overseeing all group affairs and activities, daily operations and management of the firm’s investment management team. Mr. SO holds a leadership role in Value Partners’ investment process, including a high degree of responsibility over portfolio management.

Mr. SO has 22 years of asset management industry experience, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. He was appointed Co-Chairman of Value Partners on 26 April 2019. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team.

Mr. SO was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of “CIO of the Year in Asia” award alongside Dato’ Seri CHEAH Cheng Hye.

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

**HO Man Kei, Norman** - Mr. Norman HO is a Senior Investment Director of Value Partners, where he is a leader in Value Partners’ investment process, with a high degree of responsibility over portfolio management.

Mr. HO has over 31 years of asset management and financial industry experience, with a solid track record in research and portfolio management. Mr. HO joined Value Partners in November 1995. He was promoted to the roles of Investment Director and Senior Investment Director in 2010 and 2014, respectively. Mr. HO is a member of the Board of Directors of Value Partners, and is also a director of certain subsidiaries of Value Partners.

Prior to joining Value Partners, he was an Executive with Dao Heng Securities Limited and had started his career with Ernst & Young.

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

2. The following new risk factor shall be inserted after the existing risk factor headed “**Political, Economic and Social Risks**” under the section headed “**RISK FACTORS**” on page 47 of the Explanatory Memorandum:

**“Risk Relating to Pandemics or Natural Disasters**

It is possible that a serious pandemic (such as the COVID-19 outbreak in 2020) or a natural disaster may cause severe disruption on the global economy, and may have an adverse impact on the operation of the Fund. The continued spread of COVID-19 or an outbreak of other pandemics or any natural disaster or the measures taken by the governments of affected countries may have an adverse effect on global or regional economic conditions and may adversely affect the ability of the Fund to accurately determine the value of its underlying investments.”

3. The risk factor headed “**Risks associated with the Small and Medium Enterprise Board of the SZSE (“SME Board”) and/or ChiNext Board of the SZSE (“ChiNext Board”)**” under the section headed “**RISK FACTORS**” on page 59 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

**“Risks associated with the ChiNext Board of the SZSE (“ChiNext Board”)**

The Fund may have exposure to stocks listed on ChiNext Board.

*Higher fluctuation on stock prices* – Listed companies on the ChiNext Board are usually of emerging nature with smaller operating scale. Listed companies on ChiNext Board are subject to wider price fluctuation limits, and due to higher entry thresholds for investors may have limited liquidity, compared to other boards. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the Main Board of the SZSE (“**Main Board**”).

*Over-valuation risk* – Stocks listed on ChiNext Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

*Differences in regulation* – The rules and regulations regarding companies listed on ChiNext Board are less stringent in terms of profitability and share capital than those in the Main Board.

*Delisting risk* – It may be more common and faster for companies listed on the ChiNext Board to delist. ChiNext Board has stricter criteria for delisting compared to the Main Board. This may have an adverse impact on the Fund if the companies that it invests in are delisted.

Investments in the ChiNext Board may result in significant losses for the Fund and its investors.”

29 July 2021

**VALUE PARTNERS CLASSIC FUND (the “Fund”)****THIRD ADDENDUM****Important**

*If you are in doubt about the contents of this Addendum, you should seek independent professional advice. This Addendum forms part of and should be read in conjunction with the Explanatory Memorandum of the Fund dated January 2020, as amended by the First Addendum dated 30 April 2021 and the Second Addendum dated 29 July 2021 (collectively, the “**Explanatory Memorandum**”). The changes made to the Explanatory Memorandum by this Addendum shall take effect on 11 April 2022.*

*All capitalized terms used in this Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Value Partners Hong Kong Limited, the Manager of the Fund, accepts full responsibility for the accuracy of the information contained in this Addendum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Addendum misleading as at the date of issuance.*

The Explanatory Memorandum will hereby be amended as follows:

**A. Introduction of anti-dilution pricing adjustment (Swing Pricing)**

1. The fourth paragraph under the sub-section headed “**Liquidity Risk Management**” under the section headed “**INVESTMENT MANAGEMENT, POLICIES AND RESTRICTIONS**” on page 34 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

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

- the Manager may, with the Trustee’s approval, limit the number of units of all classes of the Fund redeemed on any Dealing Day to units representing 10 per cent. of the total net asset value of the Fund (subject to the conditions under the heading entitled “**Suspension and Limitation of Redemption**” in the section headed “**Issue and Redemption of Units**”); and
- the Manager may adjust the net asset value of a unit of any class on a Dealing Day in determining the Issue Price and Redemption Price where the net subscription/redemption exceeds certain pre-determined threshold(s) (as detailed under the heading entitled “**Anti-Dilution Pricing Adjustment Mechanism (Swing Pricing)**” in the section headed “**Issue and Redemption of Units**”).”

2. The following new risk factor shall be inserted after the existing risk factor headed “**Effect of Redemptions**” under the section headed “**RISK FACTORS**” on page 36 of the Explanatory Memorandum:

**“Pricing Adjustments Risk**

Subscriptions or redemptions may dilute the Fund’s assets due to dealing and other costs associated with the trading of underlying securities. In order to counter this impact, adjustment of prices (including swing pricing) may be adopted to protect the interests of the unitholders. Consequently, investors may subscribe (redeem) at a higher subscription price (lower redemption price). Investors should note that the occurrence of events which may trigger adjustment of prices is not predictable. It is not possible to accurately predict how frequent such adjustments of prices will need to be made. Adjustments may be greater than or less than the actual charges incurred. Investors should also be aware that adjustment of prices may not always, or fully, prevent the dilution of the Fund’s assets.”

3. The sixth paragraph under the sub-section headed “**Issue of Units**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 69 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The Fund is denominated in US dollars. The price at which units are issued (after the first issue of units at the initial issue price) is based on the net asset value per unit of that class as determined on that Dealing Day adjusted by the amount of allowance (if any) as described in the section “**Anti-Dilution Pricing Adjustment Mechanism (Swing Pricing)**” below (the “**Issue Price**”).

4. The eighth paragraph beginning with “The Manager is entitled to...” under the sub-section headed “**Issue of Units**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 69 of the Explanatory Memorandum shall be deleted in its entirety.

5. The sixth paragraph under the sub-section headed “**Redemption of Units**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 74 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The price at which units are redeemed is based on the net asset value per unit of that class as determined on that Dealing Day less the redemption charge and adjusted by the amount of allowance (if any) as described in the section “**Anti-Dilution Pricing Adjustment Mechanism (Swing Pricing)**” below (the “**Redemption Price**”).”

6. The ninth paragraph beginning with “The Manager is also entitled to...” under the sub-section headed “**Redemption of Units**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 75 of the Explanatory Memorandum shall be deleted in its entirety.

7. A new sub-section headed “**Anti-Dilution Pricing Adjustment Mechanism (Swing pricing)**” shall be inserted immediately after the existing sub-section headed “**Calculation and Publication of Net Asset Value**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 82 of the Explanatory Memorandum:

**“Anti-Dilution Pricing Adjustment Mechanism (Swing pricing)**

In order to reduce the effect of “dilution” on the Fund, the Manager may (if in its opinion in good faith it is in the best interest of unitholders to do so), adjust the net asset value of a unit of any class. Dilution occurs when the actual cost of purchasing or selling the underlying assets of the Fund, deviates from the carrying value of these assets in the Fund’s valuation due to dealing and other costs, taxes and duties, market movements and any spread between the buying and selling prices of the underlying assets. Dilution may have an adverse effect on the value of the Fund and therefore impact the unitholders. By adjusting the net asset value per unit, this effect can be reduced or mitigated and unitholders can be protected from the impact of dilution.

Under normal market conditions, the Manager expects that the anti-dilution pricing adjustment will not exceed 3 per cent. of the net asset value per unit of the relevant class on the relevant Dealing Day. Under extreme market conditions (such as market crash or global financial crisis), the Manager may increase such amount to protect interests of the unitholders.

In determining the Issue Price and Redemption Price of a unit of any class on each relevant Dealing Day, the net asset value per unit shall be increased by the aforesaid adjustment where the net subscription on the relevant Dealing Day exceeds certain pre-determined threshold(s), or decreased by the aforesaid adjustment where the net redemption on the relevant Dealing Day exceeds certain pre-determined threshold(s). Such pre-determined threshold(s) will be determined and reviewed on a periodic basis by the Manager.

The Manager will consult the Trustee prior to any adjustment and such adjustment will only be made where the Trustee has no objection to it. Any such additional amount will be retained by the Fund and will form part of the assets of the Fund.”



**B. Change of Rounding of Fraction of the Units**

1. The paragraph under the sub-section headed “**Form of Units**” under the section headed “**ISSUE AND REDEMPTION OF UNITS**” on page 83 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“A contract note will normally be issued by the administrator as soon as practicable after the relevant Dealing Day upon acceptance of an application for subscription or switching of units, as the case may be. Certificates for units will usually not be issued. The number of units in the relevant class to be issued pursuant to any application for subscription or switching will usually be rounded down to the nearest fourth decimal point and any smaller fraction of a unit will be retained for the benefit of the Fund.”

11 April 2022