MassMutual FINANCIAL GROUP℠

**This notice contains important information that requires your immediate attention. Should you have any queries, you are recommended to seek independent professional advice.**

The following change(s) in investment choice(s) relate(s) to the "Premier-Choice Series" plans, including Premier-Choice ULife InvestPlan, Premier-Choice Flexi, Premier-Choice Flexi Plus, Premier-Choice InvestPlan and Premier-Choice Plus InvestPlan.

**<u>Various Changes of the Underlying Fund of the Investment Choice – Value Partners High-Dividend Stocks Fund – Class A1(VPHDU)(the "Investment Choice")</u>**

As advised by Value Partners Limited, there will be several changes to Value Partners High-Dividend Stocks Fund (the "Underlying Fund"), the underlying fund corresponding to the Investment Choice, with effect from October 12, 2014 which are described below:

1. **Change of Investment Objective and Policy - Indirect Exposure to China A Shares through CAAPs and Enhancement of Disclosures for Investment in Below Investment Grade Debt Securities and Asset Backed Securities**

   The investment policy of the Underlying Fund will be revised to provide flexibility to invest indirectly in China A Shares through CAAPs.

   In addition, to enhance transparency and align with the market practice, the disclosures in the offering document of the Underlying Fund will be enhanced to clarify that (a) not more than 30% of the latest net asset value of the Underlying Fund will be invested in debt securities which are below investment grade; and (b) the Underlying Fund will not invest in asset backed securities (including asset backed commercial papers) for hedging or non-hedging purpose.

   With effect from October 12, 2014, the investment objective and strategy of the Investment Choice will be changed (as underlined below), as a result of the above changes of the Underlying Fund, and will be clarified (as marked in **bold** below) in order to align with the wordings as disclosed in the Product Key Facts Statement of the Underlying Fund.

   **<u>Value Partners High-Dividend Stocks Fund – Class A1(VPHDU)</u>**
   The underlying fund aims to provide capital appreciation to investors by investing primarily in a portfolio of relatively higher yielding debt and equity securities in the Asian region. **The underlying fund will concentrate on investing in interest-bearing or dividend-distributing debt and equity securities of companies or issuers in the Asian markets. There are no fixed geographical or sectoral weightings in the allocation of assets and the manager does not intend to follow benchmark indices in determining the geographical or sectoral weightings of the underlying fund.**

   **The manager may invest in debt and equity securities that are below investment grade and investors should be aware of the greater risks which may be involved in investing in these securities. <u>The manager may invest not more than 30% of the underlying fund's latest available net asset value ("NAV") in debt securities that are below investment grade.</u> In addition, the underlying fund's assets may from time to time include cash, deposits, short-term papers, such as treasury bills, certificates of deposit, banker's acceptances, short-term commercial paper and other fixed income instruments. The manager may also place a substantial portion of the portfolio in cash or cash equivalents.**

   **The underlying fund does not currently have any direct exposure to China A Shares. <u>However, the underlying fund may seek indirect exposure to China A Shares in the People's Republic of China through China A Shares Access Products ("CAAPs"), such as participatory notes, being listed or unlisted derivative instruments issued by a third party ("CAAP Issuer") which represents an obligation of the CAAP Issuer to pay to the underlying fund an economic return equivalent to holding the underlying China A Shares. The investment in CAAPs is subject to a maximum exposure of 10% of the underlying fund's latest available NAV and not more than 10% of the underlying fund's latest available NAV may be invested in CAAPs issued by any single CAAP Issuer.</u>**

   **The underlying fund intends to invest between 0% and 35% of the underlying fund's latest available NAV in China B Shares.**

   **<u>The underlying fund will not invest in any asset backed securities (including asset backed commercial papers) for hedging or non-hedging purposes.</u>**

   Remarks:
   1. For details about performance charge, please refer to the explanatory memorandum of the respective underlying fund, which is made available by the Company.
   2. This investment choice is not applicable to Cayman Islands residents.
   3. **The use of financial derivative instruments may involve additional risks. Please refer to page 1 for details.**

2. **Other Matters Relating to the Investment Choice**

   The following amendments will be reflected in the offering document of the Underlying Fund, with effect from October 12, 2014:
   - Change of distribution policy
   - Amendments to risk factors
   - Amendments to People's Republic of China Taxation
   - Further updates relating to Foreign Account Tax Compliance Act (FATCA)

**You should refer to the relevant offering documents and the notice to shareholders of the underlying fund(s) of the above investment choice(s), which are made available by MassMutual Asia Ltd. upon request, or visit our website (www.massmutualasia.com) to carefully read the details of the relevant documents in relation to the above change(s).**

**If you have selected the above investment choice(s) under your insurance policy and if for any reason you wish to change to other investment choice(s), you may switch your investment choice(s) to other available investment choice(s) provided by your policy. Currently, no switching charge and bid-offer spread apply to the investment choices. For details, please refer to Investment Choice Brochure or contact MassMutual Asia Ltd. - Customer Service Hotline at (852) 2919 9797 (Hong Kong)/ (853) 2832 2622 (Macau).**

Value Partners
Investing through discipline

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***Important***

*This document is important and requires your immediate attention. If you are in any doubt about the content of this document, you should seek independent professional advice.*

12 September 2014

**NOTICE TO UNITHOLDERS – VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND (the "Trust")**

Dear Unitholders,

We are writing to notify you of the following changes to the Trust, which will take effect from 12 October 2014.

1. investment objective and policy – indirect exposure to China A Shares through CAAPs and enhancement of disclosures for investment in below investment grade debt securities and asset backed securities;
2. distribution policy;
3. risk factors;
4. PRC taxation; and
5. updates relating to FATCA.

The amendments will be reflected in an addendum, dated 12 October 2014 (the "**Addendum**"), to the Explanatory Memorandum of the Trust dated 25 June 2011, as amended by addenda dated 22 November 2011, 24 August 2012, 20 September 2012, 11 March 2013 and 23 August 2013 ("**Explanatory Memorandum**").

Capitalized terms used herein but not otherwise defined will have the same meaning as defined in the Explanatory Memorandum.

## 1. Change of Investment Objective and Policy - Indirect Exposure to China A Shares through CAAPs and Enhancement of Disclosures for Investment in Below Investment Grade Debt Securities and Asset Backed Securities

The investment policy of the Trust will be revised to provide flexibility to invest indirectly in China A Shares through CAAPs. Such amendments are shown as bold and underlined:

| Existing investment policy | Revised investment policy |
|---|---|
| The Trust does not currently have any direct or indirect exposure to China A Shares, being domestic shares in PRC incorporated companies listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the prices of which are quoted in Renminbi and which are available to domestic investors, qualified foreign institutional investors and foreign strategic investors approved by the China Securities Regulatory Commission. Any direct or indirect investment in China A Shares will only be made | The Trust does not currently have any direct ~~or indirect~~ exposure to China A Shares, being domestic shares in the **<u>People's Republic of China</u> <u>("PRC")</u>** incorporated companies listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the prices of which are quoted in Renminbi and which are available to domestic investors, qualified foreign institutional investors and foreign strategic investors approved by the China Securities Regulatory Commission. **<u>However, the Trust</u>** |



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| | |
|---|---|
| upon prior authorisation by the SFC and by giving Unitholders one month's prior written notice (or such shorter notice period as approved by the SFC). | **may seek indirect exposure to China A Shares in the PRC through China A Shares Access Products ("CAAPs"), such as participatory notes, being listed or unlisted derivative instruments issued by a third party ("CAAP Issuer") which represents an obligation of the CAAP Issuer to pay to the Trust an economic return equivalent to holding the underlying China A Shares. The investment in CAAPs is subject to a maximum exposure of 10 per cent. of the Trust's latest available Net Asset Value and not more than 10 per cent. of the Trust's latest available Net Asset Value may be invested in CAAPs issued by any single CAAP Issuer.** Any ~~**direct or indirect**~~ **change in the Trust's policy on** investment in China A Shares**, including but not limited to change in the maximum exposure in CAAPs,** will only be made upon prior authorisation by the SFC and by giving Unitholders one month's prior written notice (or such shorter notice period as approved by the SFC). |

In addition to the above, to enhance transparency and align with the market practice, the disclosures in the Explanatory Memorandum will be enhanced to clarify that (a) not more than 30% of the latest Net Asset Value of the Trust will be invested in debt securities which are below investment grade; and (b) the Trust will not invest in asset backed securities (including asset backed commercial papers) for hedging or non-hedging purpose.

Unitholders who do not wish to remain in the Trust after the abovementioned change takes effect may redeem their Units or switch their Units into any other funds which are authorized by Securities and Futures Commission ("**SFC**") and managed by the Manager or any of the Manager's affiliates ("other available funds") during any Dealing Period in accordance with the procedures set out in the Explanatory Memorandum. No redemption charge shall be payable on the redemption of any Classes of Units. Switching of any Classes of Units of the Trust into any other available funds will be subject to prevailing load structure of such other available funds.

**2. Change of Distribution Policy**

In order to add flexibility to the Trust in distributing dividends, dividends may be paid from the capital (including unrealised capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years) of the Trust if the net distributable income attributable to Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units during the relevant period is insufficient to pay dividends as declared. Unitholders should note that payment of dividends 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. Any distributions involving payment of dividends out of the Trust's capital may result in an immediate reduction in the Net Asset Value per Unit and will reduce any capital appreciation for the Unitholders of the relevant classes.

The composition of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the past 12 months is available from the Manager on request and also on the Manager's website www.valuepartners.com.hk[1].

If there is any change to the distribution policy, prior approval will be sought from the SFC, and Unitholders will receive at least one month's prior written notification.

Please refer to the Explanatory Memorandum and the Addendum for further details regarding the change of distribution policy and the relevant risk factor.

**3. Amendments to Risk Factors**

The risk disclosures in the Explanatory Memorandum will be enhanced by inserting new risk factors on "Risks associated with CAAPs", "Liquidity Risk of Investing in China A Shares and China B Shares", "Credit Rating Downgrading Risk" and "Unrated or Below Investment Grade and High Yielding Debt Securities Risk" and enhancing disclosures under the risk factors "PRC Tax Risk", "Dividend Risk and Risk Relating to Dividends Paid Out of Capital", "Credit Risk" and "Foreign Account Tax Compliance Act".

**4. Amendments to PRC Taxation**

The disclosures in the Explanatory Memorandum on PRC taxation will also be enhanced.

**5. Further Updates relating to Foreign Account Tax Compliance Act (FATCA)**

The current disclosures in the Explanatory Memorandum relating to FATCA will be further enhanced.

In this connection, you should note that the Trustee or the Manager may (directly or via your distributor, as the case may be) contact and request you to provide information or other documentation in order to confirm your tax residence status under FATCA or any change in circumstances which may affect your tax residence status. Please consult your own tax advisor as to the potential impact of FATCA in respect of your own tax situation.

The latest Explanatory Memorandum and Addendum of the Trust will be available on our website (www.valuepartners.com.hk)[1] and for your inspection at the Manager's office during normal business hours (except on Saturdays, Sundays and public holidays).

The Manager accepts full responsibility for the accuracy of the information contained in this Notice and confirms, having made all reasonable enquiries, that to the best of its knowledge and believe there are no other facts the omission of which would make any statement in this Notice misleading as at the date of issuance.

If you have any questions relating to the above, please contact our Fund Investor Services Team at (852) 2880-9263 or email us at vpl@vp.com.hk. We would like to take this opportunity to thank you for your valuable support and we look forward to be of continued service to you.

**Value Partners Limited**

[1] This website has not been reviewed or authorized by the SFC.

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**VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND (the "TRUST")**
**ADDENDUM**

***Important***

*If you are in doubt about the contents of this Addendum, you should seek independent professional advice. This Addendum supplements, forms part of and should be read in conjunction with the Explanatory Memorandum of the Trust dated 25 June 2011, as amended by addenda dated 22 November 2011, 24 August 2012, 20 September 2012, 11 March 2013 and 23 August 2013 ("**Explanatory Memorandum**"). The changes made to the Explanatory Memorandum by this Addendum shall take effect on 12 October 2014, unless otherwise stated herein. All capitalized terms used in this Addendum have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Value Partners Limited, the Manager of the Trust, 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 publication.*

**Introduction**

The Explanatory Memorandum will be amended to reflect the following changes to the Trust:

(a) change to investment policy in that the Trust may seek indirect exposure to China A Shares through China A Shares Access Products;

(b) enhancement of disclosures in relation to the Trust's investments in below investment grade debt securities and asset backed securities;

(c) change in distribution policy in that the Manager may pay distributions out of capital;

(d) amendments to risk factors;

(e) amendments to PRC Taxation; and

(f) enhancement of disclosures relating to FATCA (as defined below).

**(A) Change in Investment Policy**

**Investment Objective and Policy**

The second and third paragraphs on page 13 in Section 2.2 of the Explanatory Memorandum are revised as bold and underlined:

> "The Manager may invest in debt and equity securities that are below investment grade and investors should be aware of the greater risks which may be involved in investing in these securities. **The Manager may invest not more than 30 per cent. of the Trust's latest available Net Asset Value in debt securities that are below investment grade.** In addition, the Trust's assets may from time to time include cash, deposits, short-term papers, such as treasury bills, certificates of deposit, banker's acceptances, short-term commercial paper and

other fixed income instruments. The Manager may also place a substantial portion of the portfolio in cash or cash equivalents.

The Trust does not currently have any direct ~~or indirect~~ exposure to China A Shares, being domestic shares in the **People's Republic of China** **("PRC")** incorporated companies listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange, the prices of which are quoted in Renminbi and which are available to domestic investors, qualified foreign institutional investors and foreign strategic investors approved by the China Securities Regulatory Commission. **However, the Trust may seek indirect exposure to China A Shares in the PRC through China A Shares Access Products ("CAAPs"), such as participatory notes, being listed or unlisted derivative instruments issued by a third party ("CAAP Issuer") which represents an obligation of the CAAP Issuer to pay to the Trust an economic return equivalent to holding the underlying China A Shares. The investment in CAAPs is subject to a maximum exposure of 10 per cent. of the Trust's latest available Net Asset Value and not more than 10 per cent. of the Trust's latest available Net Asset Value may be invested in CAAPs issued by any single CAAP Issuer.** Any ~~direct or indirect~~ **change in the Trust's policy on** investment in China A Shares**, including but not limited to change in the maximum exposure in CAAPs,** will only be made upon prior authorisation by the SFC and by giving Unitholders one month's prior written notice (or such shorter notice period as approved by the SFC).

**The Trust will not invest in any asset backed securities (including asset backed commercial papers) for hedging or non-hedging purposes.**"

## (B) Change in Distribution Policy

### Distribution Policy

The entire section under the heading "Distribution Policy" in Section 6.1 of the Explanatory Memorandum on pages 55 and 56 are revised as bold and underlined:

"The Manager may, in accordance with the Trust Deed, determine to make a distribution **out** of ~~the~~ income **and/or capital (including unrealised capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years)** of the Trust to Unitholders. **Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit of the Trust.** ~~The amount available for distribution shall be calculated by the Manager as a percentage of the income of the Trust. Income of the Trust for the purposes of calculating the amount for distribution shall include all interest, dividends and other amounts considered to be in the nature of income and shall be subject to such adjustments as the Manager may think fit.~~

**The Manager may make distribution at its discretion for Class A1 Units of the Trust. The Manager will review the amount for dividend distribution once a year before determining whether dividends will be made. There is no guarantee that dividends will be made once a year. The last dividend payout date was 21 November 2005.** In respect of Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units, the Manager currently intends to make monthly dividends distribution to Unitholders at its discretion. In respect of Class Z Units, the Manager currently does not intend to pay dividends to Unitholders. Therefore, any net income and net realized profits attributable to the Class Z Units will be reinvested and reflected in their respective Net Asset Values.

Dividends will generally be paid in the Class Currency of the relevant Class of Units. With the prior consent of the Manager, arrangements can be made for dividends to be paid in any major currency other than the Class Currency of the relevant Class of Units. 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. None of the Trustee, the Manager, the Administrator, the Custodian, the Registrar or the Registrar's Agent will be liable to any Unitholder for any loss suffered by such Unitholder arising from the said currency conversion.

However, the Manager may consider not making distributions in any financial year, in its absolute discretion, taking into account factors such as fund size, fund history, income for the year, capital growth, administration costs, etc. Where distributions are made, the amount available for distribution in respect of each financial year will be determined and declared at such date(s) the Manager may, with the prior consent of the Trustee, determine. Following declaration, the relevant distribution shall be paid on a Valuation Day as soon as practicable after the date on which the distribution is declared ("**Distribution Date**") to persons who were Unitholders on the Valuation Day immediately preceding the date on which the distribution is declared.

In respect of Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units, unless Unitholders have indicated otherwise to the Manager on the subscription of Units, any distributions payable will automatically be reinvested in the subscription of further Units of the Trust on the Distribution Date at the prevailing Issue Price applicable on the Distribution Date. The Manager may determine to make no distributions or make fewer distributions in a financial year at its absolute discretion.

In respect of Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units, Unitholders may specify on subscription that they wish to receive a cash distribution if a distribution is declared by the Manager. Provided, however, that distributions will not be paid in cash if the amount of the distribution for the relevant Unitholder amounts to less than US$100 (or its equivalent in HKD, AUD, CAD, GBP or NZD as the case may be) 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 applicable on the Distribution Date.

**In the event that the net distributable income attributable to Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units during the relevant period is insufficient to pay dividends as declared, the Manager may in its discretion determine such dividends be paid from capital (including unrealised capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years). Payment of dividends 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.**

**Any distributions involving payment of dividends out of the Trust's capital may result in an immediate reduction in the Net Asset Value per Unit of Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units and Class A2 MDis NZD Hedged Units and will reduce any capital appreciation for the Unitholders of the relevant classes. Any such payments out of capital will only be made to seek to maintain, so far as is reasonable, a stable payment per Unit of the relevant class but the payment per Unit of the relevant class is not fixed or guaranteed and will vary according to economic and other circumstances and the ability of the Trust to support stable monthly payments without a long-term negative impact on capital.**

**Under the current distribution policy, the level of dividend does not necessarily indicate the total return of the Trust. In order to assess the total return of the Trust, both the Net Asset Value movement (including dividend) and the dividend distribution should be considered. The Net Asset Value of relevant classes will be adjusted by such amount of dividend on the ex-date.**

**Where dividends comprise amounts from both income and capital, the composition of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available by the Manager on request and also on the Manager's website www.valuepartners.com.hk. Investors should note that the aforesaid website is not reviewed or authorised by the SFC.**

**The Manager may amend the distribution policy subject to obtaining the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.**"

## (C) Amendments to Risk Factors

(i) The risk factor "Dividend Risk" on page 16 in Section 2.4 of the Explanatory Memorandum is revised as underlined:

"***Dividend Risk and Risk Relating to Dividends Paid Out of Capital***

There is no guarantee that the underlying securities in the Trust will pay out dividends. Therefore, there is no guarantee that the Trust's investment strategies will succeed. There is also neither guarantee of dividend or distribution payments during the period an investor holds Units in the Trust nor will there be a target level of dividend payout. High distribution yield does not imply a positive or high return.

To the extent that the net distributable income generated by the Trust is insufficient to pay a distribution which is declared, the Manager may at its discretion determine such dividends may be paid from capital of the Trust. This would require the Manager to sell assets of the Trust to make such distributions as opposed to paying out net distributable income received by the Trust.

**Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of the amount they originally invested or from any capital gains attributable to the original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit of the Trust.**

The Manager may amend this policy subject to the SFC's prior approval and by giving not less than one month's prior notice to investors."

(ii) The first, second and third paragraphs under the risk factor "Credit Risk" on pages 21 and 22 in Section 2.4 of the Explanatory Memorandum are revised as bold and underlined:

"The Trust may invest in securities which are rated below investment grade. The Trust may be subject to additional risks due to the speculative nature of investing in securities with a rating below investment grade. Accordingly, an investment in these securities may be accompanied by a higher degree of credit risk (as defined below) **and a greater possibility of default** 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**, which may lead to a default and, ultimately, a fall in the value of the Trust**.

Even in the absence of the issuer's default, if the mark-to-market value is lower than the cost of the investment, the Trust may suffer immediate diminution in the Net Asset Value~~, even if the Trust holds that investment to maturity and yields a profit~~. **There is no guarantee that investors will receive the principal amount invested when they redeem their investment in the Trust.**"

(iii) The following risk factors are inserted after the risk factor "Interest Rate Risk" on page 22 in Section 2.4 of the Explanatory Memorandum:

**"Credit Rating Downgrading Risk**

Investment grade securities may be subject to the risk of being downgraded to below investment grade securities. Credit ratings assigned by credit agencies do not guarantee the creditworthiness of the issuers. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, the Trust's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the Trust. If the Trust continues to hold such securities, it will be subject to additional risk of loss. In the event of investment grade securities being downgraded to below investment grade securities, the Trust will also be subject to the below investment grade securities risk outlined in the following paragraph.

**Unrated or Below Investment Grade and High Yielding Debt Securities Risk**

The Trust may invest in high yielding debt securities which may be unrated or rated below investment grade. Investments in securities which are unrated or below investment grade are considered to have a higher credit risk and greater possibility of default than securities which are investment grade with respect to payment of interest and the return of principal. Unrated or lower rated debt securities generally offer a higher current yield than higher grade issues. However, unrated or lower rated debt securities involve higher risks and are more susceptible and sensitive to adverse changes in general economic conditions, changes in interest rates and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers. Valuation of these securities is more difficult and thus the Trust's prices may be more volatile. Additionally, the market for unrated or lower rated debt securities generally is less active than that for higher rated securities and the Trust's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions. As a result, it may be more difficult for the Trust to sell such debt securities or the Trust may be able to sell such debt securities only at prices lower than if such debt securities were widely traded. The Trust will suffer losses if such debt securities have to be sold at prices which are substantially lower than the amount invested by the Trust.

The value of lower rated or unrated debt securities is also affected by investors' perceptions. When economic conditions appear to be deteriorating, lower rated or unrated debt securities may decline in market value more than investment grade debt securities due to investors' heightened concerns and perceptions over credit quality and increase in the default risk of such lower or unrated debt securities. As a result, the value of the Trust's investments may be adversely affected and investors may suffer substantial losses of their investments."

(iv) The following risk factor is inserted after the risk factor "Legal System of the PRC" on page 27 in Section 2.4 of the Explanatory Memorandum:

"***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 Trust. Under the PRC regulations, investment in China A Shares markets by foreign institutional investors is subject to an investment quota. Unitholders should note that there can be no assurance that the Trust may be able to maintain or obtain a sufficient investment in CAAPs. This may have an impact on the Unitholders' investment in the Trust. If any CAAP Issuer has insufficient investment quota, the CAAP Issuer may cease to extend the duration of any CAAPs or to issue further CAAPs and the Trust may be required to dispose of its existing CAAPs.

Further, the Trust 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 China A Shares, the Trust 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."

(v) The risk factor "PRC Tax Risk" on page 28 in Section 2.4 of the Explanatory Memorandum is deleted in entirety and replaced with the following:

"***PRC Tax Risk***

By investing in i) China A Shares via CAAPS, ii) RMB-denominated debt securities issued by non-PRC issuers and iii) China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers, the Trust may be subject to PRC taxes.

i) China A Shares via CAAPs

Under the PRC Corporate Income Tax Law of the PRC ("**CITL**") and its detailed implementation rules, dividends, interest and capital gains derived from the China A Shares invested via CAAPs by the Trust are subject to PRC WIT at a rate of 10 per cent., unless a specific exemption or reduction is available.

Specific rules or regulations governing taxes on capital gains derived from the trading of China A Shares have yet to be announced. It is possible that the relevant tax authorities may in the future clarify the tax position on capital gains realised by the Trust or by a relevant QFII dealing in China A Shares. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the CITL. For an enterprise that is a non-tax resident enterprise without an establishment or place of business ("**PE**") in the PRC, a 10 per cent. WIT should be imposed on the PRC sourced capital gains derived from the disposal of China A Shares, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

Any tax on capital gains levied on China A Shares via CAAPs and payable by the relevant QFII may be passed on to the Trust to the extent that the tax is attributable to the QFII's trading gains on the China A Shares via CAAPs purchased by the Trust. **Certain CAAP Issuers have indicated their intention to withhold an amount equal to 10 per cent. of any gains representing the PRC tax in respect of any capital gains which would be payable on an actual sale of the underlying China A Shares linked to the CAAPs issued to the Trust.** The amounts withheld should generally be retained for a period of 5 years by the CAAP Issuers, pending further clarification of the tax rules and tax collection measures adopted by the PRC authorities. If the tax withheld by the CAAP Issuers is inadequate to meet final PRC tax liabilities on capital gains, the CAAP Issuers may pass on the additional tax liabilities to the Trust, and may therefore result in a decrease in the value of the Trust.

The tax laws, regulations and practice in the PRC are constantly changing, and they may be changed with retrospective effect. **If no withholding is made by the CAAP Issuers, the Manager will make WIT provisions for PRC sourced capital gains from indirect China A Shares investments through CAAPs at a rate of 10 per cent.** In light of the uncertainty on income tax treatment on capital gains derived from indirect China A Shares investments through CAAPs, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities on capital gains derived from indirect China A Shares investments through CAAPs. Any excessive provision or inadequate provision for such taxation may impact on the performance and hence the Net Asset Value of the Trust during the period of such excessive or inadequate provision. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final outcome of how capital gains from indirect China A Shares investments through CAAPs will be taxed, the level of tax provision and when the Unitholders subscribed and/or redeemed their Units in/from the Trust.

ii) RMB-denominated debt securities issued by non-PRC issuers

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

iii) China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers

For dividends, bonuses and interest paid to investors, 10 per cent. PRC withholding income tax ("**WIT**") should be withheld at source under current PRC laws and regulations. For capital gains derived by an investor on the disposal of these securities, there are currently no specific rules or regulations under the CITL. As a result, such gains are technically subject to the 10 per cent. PRC WIT under the CITL. However, as a matter of practice, such 10 per cent. PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of these securities has not been strictly enforced by the PRC tax authorities.

**The Manager will not make provisions for any WIT payable by the Trust on PRC sourced capital gains from China B Shares, H Shares and RMB-denominated debt**

**securities issued or listed offshore by PRC issuers.** The implication of this is that if the Trust is liable to pay such withholding and other taxes, this may result in an unfavourable impact on the Net Asset Value of the Trust.

For further details on the effects of PRC taxation on the Trust, please refer to the section titled "The PRC" under the heading "TAXATION" in the Explanatory Memorandum."

(vi) The following risk factor is inserted after the risk factor "PRC Tax Risk" on page 28 in Section 2.4 of the Explanatory Memorandum:

***"Liquidity Risk of Investing in China A Shares and China B Shares***

China A Shares and China B Shares may be subject to trading bands which restrict increases and decreases in the trading price. CAAP Issuers will be prevented from trading underlying China A Shares when they hit the "trading band limit". If this happens on a particular trading day, CAAP Issuers may be unable to trade China A Shares. When the Manager trades China B Shares for the account of the Trust, the Manager may also be unable to trade China B Shares due to the "trading band limit". As a result, the liquidity of both the CAAPs and the China B Shares may be adversely affected which in turn may affect the value of the Trust's investments."

(vii) The risk factor "Foreign Account Tax Compliance" on in Section 2.4 of the Explanatory Memorandum is deleted in entirety and replaced with the following:

"**Foreign Account Tax Compliance Act**

Subject to the discussion regarding the IGA (as defined below), sections 1471 – 1474 (referred to as "**FATCA**") of the United States ("**U.S.**") Internal Revenue Code of 1986, as amended ("**IRS Code**") will impose new rules with respect to certain payments to non-United States persons, such as the Trust, including interest and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30 per cent. rate (beginning on or after 1st July 2014 with respect to U.S. source dividends and interest, and beginning on or after 1st January 2017 with respect to gross proceeds), unless the recipient of the payment satisfies certain requirements intended to enable the Internal Revenue Service (the "**IRS**") to identify United States persons (within the meaning of the IRS Code) with interests in such payments.

The United States and the Cayman Islands have signed an intergovernmental agreement for the implementation of FATCA (the "**IGA**"). Pursuant to the IGA, which follows the "Model 1B" intergovernmental agreement disclosed by the United States Treasury in 2012, the Trust will generally be relieved from FATCA withholding tax on payments it receives, as well as the obligation to withhold tax on payments made to its investors, provided that the Cayman Islands government and the Trust comply with the terms of the IGA and related Cayman Islands law. Among other things, IGA would require the Trust to identify certain of its U.S. owners and report such ownership to the Cayman Islands, which in turn would report information regarding such ownership to the IRS. Currently, the first calendar year for which FATCA related reporting is required to the Cayman Islands will be the 2014 calendar year, with such first report due in 2015.

However, if the Trust receives payments covered by FATCA, withholding may apply if it cannot satisfy the applicable requirements under the IGA or related Cayman Islands law, or the Cayman Islands government is not in compliance with the IGA.

The Trust has registered with the IRS. The Trust will endeavour to satisfy the requirements imposed under FATCA and the IGA to avoid any withholding tax but no assurance can be given that the Trust will be able to satisfy all these obligations. In the event that the Trust is not able to comply with the requirements imposed by FATCA, the IGA or related Cayman Islands law, and the Trust suffers US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Trust may be adversely affected and the Trust may suffer significant loss as a result.

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

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

**(D) Amendments to PRC Taxation**

The whole section 4.3 of the Explanatory Memorandum under the sub-heading "The PRC" under the heading "TAXATION" on page 48 to 49 is deleted in entirety and replaced with the following:

"**The PRC**

By investing in i) China A Shares via CAAPs, ii) RMB-denominated debt securities issued by non-PRC issuers and iii) China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers, the Trust may be subject to PRC taxes.

***RMB-denominated debt securities issued by non-PRC issuers***

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

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

If the Trust is considered as a tax resident enterprise of the PRC, it should be subject to CIT at 25 per cent. on its worldwide taxable income. If the Trust is considered a non-tax resident enterprise with a PE in the PRC, the profits and gains attributable to that PE should also be subject to CIT at 25 per cent.

The Manager intends to manage and operate the Trust in such a manner that the Trust should not be treated as a tax resident enterprise of the PRC or a non-tax resident enterprise with a PE in the PRC for CIT purposes, although this cannot be guaranteed.

*Dividend income or interest income*

Interests derived from government bonds issued by the in-charge Finance Bureau of the State Council are exempt from PRC income tax under the CIT Law.

China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers

Unless a specific exemption or reduction is available under current PRC CIT law and regulations or relevant tax treaties, non-tax resident enterprises without PE in the PRC are subject to WIT, generally at a rate of 10 per cent., on dividend income or interest income arising from investments in the PRC securities including China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers. The entity distributing such dividends or interest is required to withhold such tax on behalf of the recipients.

<u>China A Shares via CAAPs</u>

Under current regulations in the PRC, foreign investors (such as the Trust) may invest in China A Shares, generally, only through a Qualified Foreign Institutional Investor ("**QFII**") or a Renminbi Qualified Foreign Institutional Investor ("**RQFII**") (in this section referred to as the "**relevant QFII**"). Since only the relevant QFII's interests in China A Shares are recognised under PRC laws, any tax liability would, if it arises, be payable by the relevant QFII, subject to further interpretations and rules that may be issued in the future. However under the terms of the arrangement between the relevant QFII (i.e. the CAAP Issuers) and the Trust, the relevant QFII will pass on any tax liability to the Trust. As such, the Trust is the ultimate party which bears the risks relating to any PRC taxes which are so levied by the relevant PRC tax authority. Under current PRC tax laws and regulations, the relevant QFII (if without a PE in China) is subject to WIT of 10 per cent. on dividends and interest from China A Shares unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

*Capital gains*

<u>China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers</u>

For capital gains derived by an investor on the disposal of these securities, there are currently no specific rules or regulations under PRC **CITL**. As a result, such gains are technically subject to the 10 per cent. PRC WIT under the CITL. However, as a matter of practice, such 10 per cent. PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of these securities has not been strictly enforced by the PRC tax authorities.

**The Manager will not make provisions for any WIT payable by the Trust on PRC sourced capital gains from China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers.** The implication of this is that if the Trust is liable to pay such withholding and other taxes, this may result in an unfavourable impact on the Net Asset Value of the Trust.

<u>China A Shares via CAAPs</u>

Specific rules or regulations governing taxes on the relevant QFII's capital gains derived from the trading of China A Shares have yet to be announced. In the absence of such specific rules, the PRC income tax treatment should be governed by the general tax provisions of the CIT Law. For an enterprise that is a non-tax resident enterprise without PE in the PRC, a 10 per cent. WIT should be imposed on the capital gains derived from the disposal of China A Shares, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

Any tax on capital gains levied on China A Shares via CAAPs and payable by the relevant QFII may be passed on to the Trust to the extent that the tax is attributable to the QFII's trading gains on the China A Shares via CAAPs purchased by the Trust. **Certain CAAP**

**Issuers have indicated their intention to withhold an amount equal to 10 per cent. of any gains representing the PRC tax in respect of any capital gains which would be payable on an actual sale of the underlying China A Shares linked to the CAAPs issued to the Trust.** The amounts withheld should generally be retained for a period of 5 years by the CAAP Issuers, pending further clarification of the tax rules and tax collection measures adopted by the PRC authorities. If the tax withheld by the CAAP Issuers is inadequate to meet final PRC tax liabilities on capital gains, the CAAP Issuers may pass on the additional tax liabilities to the Trust, and may therefore result in a decrease in the value of the Trust.

The tax laws, regulations and practice in the PRC are constantly changing, and they may be changed with retrospective effect. **If no withholding is made by the CAAP Issuers, the Manager will make WIT provisions for PRC sourced capital gains from indirect China A Shares investments through CAAPs at a rate of 10 per cent.** In light of the uncertainty on income tax treatment on capital gains derived from indirect China A Shares investments through CAAPs, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities on capital gains derived from indirect China A Shares investments through CAAPs. Any excessive provision or inadequate provision for such taxation may impact on the performance and hence the Net Asset Value of the Trust during the period of such excessive or inadequate provision. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final outcome of how capital gains from indirect China A Shares investments through CAAPs will be taxed, the level of tax provision and when the Unitholders subscribed and/or redeemed their Units in/from the Trust.

If no provision for potential withholding income tax is made and in the event that the PRC tax authorities enforce the imposition of such withholding income tax in respect of the Trust's investment in the China A Shares via CAAPs, the Net Asset Value of the Trust may be adversely affected. As a result, redemption proceeds or distributions may be paid to the relevant Unitholders without taking full account of tax that may be suffered by the Trust, which tax will subsequently be borne by the Trust and affect the Net Asset Value of the Trust and the remaining Units in the Trust.

Unitholders should refer to the latest financial report of the Trust for details of the amounts currently withheld as provision for taxation liabilities (if any) by the Manager and CAAP Issuers with respect to the taxes on capital gains.

***Business Tax ("BT") and other surtaxes***

*Dividend income or interest income*

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

Dividends income on China A shares, China B Shares and H Shares will not be subject to BT in China.

*Capital gains*

<u>China A Shares</u>

Caishui [2005] No. 155 states that gains derived by QFIIs from the trading of China A Shares are exempt from BT. The new BT law has not changed this exemption treatment at the time of this Addendum.

<u>China B Shares, H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers</u>

According to the new BT law with effect from 1 January 2009, the capital gains derived by non-individual investors from trading of China B shares may be subject to BT at 5 per cent. As a matter of practice the BT has not been strictly enforced by local tax bureau on capital gains derived by non-PRC tax resident enterprises from the trading of China B Shares.

Where capital gains are derived from trading of offshore PRC securities (i.e. H Shares and RMB-denominated debt securities issued or listed offshore by PRC issuers) by the Trust, BT in general should not be imposed as the purchase and disposal are often concluded and completed outside China.

If BT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would also be charged at an amount as high as 12 per cent. of the 5 per cent. BT payable (or an additional 0.6 per cent.). In addition, there may also be other local levies such as flood prevention fee, commodity reconciliation fund and water conservancy fund, depending on the location of the PRC companies.

*Stamp duty*

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

For transfer of H Shares by non-PRC tax resident outside the PRC, PRC stamp duty is not generally applicable.

It should also be noted that the actual applicable tax rates imposed by the PRC tax authorities may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, investors may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual applicable tax rate levied by the State Administration for Taxation ("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 Trust may suffer more than the tax provision amount as the Trust 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 the 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 Trust as assets thereof.

Non-PRC tax resident Unitholders will not be subject to PRC tax on distributions received from the Trust (through the Trust), or on gains derived from the disposal of Units. PRC tax resident Unitholders should seek their own tax advice on their tax position with regard to their investment in the Trust (through the Trust).

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

**(E) General Information**

The following new sections shall be inserted after the sub-section headed "6.10 Material Agreements" on page 68 in Section 6 of the Explanatory Memorandum:

"**6.11 Certification for Compliance with FATCA or Other Applicable Laws**

Each investor (i) will 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 Trust (A) to prevent withholding (including, without limitation, any withholding tax required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Trust receives payments and/or (B) to satisfy reporting or other obligations under IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligation relating to any applicable law, regulation or any agreement with any tax or fiscal authority (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments, and (iii) will otherwise comply with any reporting obligation imposed by the United States, Hong Kong, the Cayman Islands or any other jurisdiction, including reporting obligations that may be imposed by future legislation.

**6.12 Power to Disclose Information to Tax Authorities**

Subject to applicable laws and regulations in the Cayman Islands and Hong Kong, the Trustee or 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 jurisdiction (including but not limited to the U.S. IRS and the Cayman Islands Tax Information Authority), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder 's holdings in the Trust, to enable the Trust to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA)."

12 October 2014