



**PRINCIPAL PROSPERITY SERIES
PRINCIPAL ASIA PACIFIC
HIGH DIVIDEND EQUITY FUND**
EXPLANATORY MEMORANDUM

Principal®

信安

信安資產管理(亞洲)有限公司

Principal Asset Management Company (Asia) Limited

IMPORTANT NOTES:

1. Principal Prosperity Series consists of sub-funds (the "Sub-Funds") investing in equities and/or debt securities located in developed markets or in emerging markets. Such investments carry market, credit, liquidity, currency, regulatory and other associated risks that can cause portfolio values to be very volatile.
2. Generally, emerging market investments carry higher risks due to risks associated with higher volatility, inadequate liquidity and additional regulatory risks. As such, the Sub-Funds that predominantly invest into such markets may be considered speculative and they carry significant risk.
3. Some of the Sub-Funds may carry significant risks arising from credit, counterparty and liquidity issues through investment in high yielding debt securities. Investors may suffer significant loss in the value of their investment in the Sub-Funds when portfolio holdings fall below investment grade or when counterparties default on their obligations.
4. Some of the Sub-Funds may have concentrated exposures in one or a select few markets making them riskier than diversified funds.
5. The Sub-Funds may invest in financial futures, options or structured investments which may involve additional risks including market, counterparty or default risks, exposing the Sub-Funds to losses.
6. The investment decision is yours but you should not invest unless the intermediary who sells it to you has advised you that it is suitable for you and explained why, including how, buying it would be consistent with your investment objectives.

IMPORTANT INFORMATION FOR INVESTORS

Important - Investment in the Sub-Funds may involve a high degree of risk and may not be suitable for all investors. Investors may suffer significant loss in the values of their investment in the Sub-Funds. You should consider your own investment objectives before making an investment and read carefully the investment objectives and policies and risk factors of the Sub-Funds in this Explanatory Memorandum. If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent financial advice.

This Explanatory Memorandum comprises information relating to the Principal Prosperity Series, an umbrella open-ended unit trust established as an exempted trust under the laws of the Cayman Islands by a trust deed dated 24 October 2002 made between Principal Fund Management (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee, as amended by three supplemental deeds dated 21 July 2003, 28 September 2004 and 10 December 2007, respectively. By a deed of retirement and appointment dated 12 January 2006, Principal Trust Company (Asia) Limited replaced HSBC Trustee (Cayman) Limited as the trustee of the Principal Prosperity Series. By a deed of retirement and appointment dated 23 August 2007, Principal Asset Management Company (Asia) Limited replaced Principal Fund Management (Hong Kong) Limited as the manager of the Principal Prosperity Series.

The Manager accepts responsibility for the information contained in this Explanatory Memorandum as being accurate at the date of publication. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to such date. This Explanatory Memorandum may from time to time be updated. Intending applicants for Units should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum has been issued.

Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

The Fund and the initial Sub-Fund have been authorised by the Securities and Futures Commission ("SFC") in Hong Kong. In granting such authorisation, the SFC takes no responsibility for the financial soundness of the Fund or the Sub-Fund or the accuracy of any of the statements made or opinions expressed in this Explanatory Memorandum and such authorisation does not imply that investment in the Fund is recommended by the SFC.

Unless otherwise disclosed in the relevant Appendix in relation to a Sub-Fund, no action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. 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.

In particular:-

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act); and
- (b) the Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

This Explanatory Memorandum does not constitute, and shall not be construed as, an invitation to the public of the Cayman Islands to subscribe for Units and Units may not be directly or indirectly offered or sold to any persons resident or domiciled in the Cayman Islands.

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

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ADMINISTRATION

Manager

Principal Asset Management Company (Asia) Limited
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Wanchai, Hong Kong

Directors of the Manager

Norman R.J. Sorensen Valdez
Yeung Cheuk Wah, Nelson
Binay Chandgothia
Sinn Pak Ming, Ringo
Nora Mary Everett

Delegate of the Manager

Principal Global Investors, LLC
801, Grand Avenue, Des Moines,
Iowa, 50392 USA

Trustee and Registrar

Principal Trust Company (Asia) Limited
Unit 1001-1003, Central Plaza
18 Harbour Road
Hong Kong

Legal Advisers to the Manager as to Hong Kong Law

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10 Harcourt Road
Central, Hong Kong

Legal Advisers to the Manager as to Cayman Island's Law

Maples and Calder Asia
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1 Harbour View Street
Hong Kong

Auditors

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Grand Cayman KY1-1106
Cayman Islands

DEFINITIONS

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

Accumulation Class Units	in respect of a Sub-Fund, means such class of Units in respect of which, unless otherwise determined by the Manager, income receivable after the date of issue thereof shall be accumulated and reflected in the price of the Units
Business Day	means a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
Connected Person	means in relation to the Manager: <ul style="list-style-type: none">(a) any person or fund beneficially owning, directly or indirectly, 20 per cent or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20 per cent or more of the total votes in the Manager; or(b) any person or fund controlled by a person who or which meets one or both of the descriptions given in (a); or(c) any fund in which the Manager owns directly or indirectly 20 per cent or more of the ordinary share capital or in which the Manager is able to exercise, directly or indirectly 20 per cent or more of the total votes of such fund; or(d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above
Dealing Day	means such days as are described in the Appendices for the relevant Sub-Funds
Fund	means Principal Prosperity Series, an open-ended umbrella Cayman Islands unit trust
Income Class Units	in respect of a Sub-Fund, means such class of Units in respect of which, unless otherwise determined by the Manager, income receivable after the date of issue thereof shall be distributed in accordance with the terms of the Trust Deed
Issue Price	means in respect of each Sub-Fund the price per Unit as disclosed in the relevant Appendix
Offer Period	means the initial period during which the Units of the relevant Sub-Fund are being offered to investors as described in the relevant Appendix
Manager	means Principal Asset Management Company (Asia) Limited
Net Asset Value	means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed "Valuation"
Realisation Price	means the price, at which Units will be realised as more fully described in the section headed "Payment of Realisation Proceeds" and in the Appendices
SFC	means the Securities and Futures Commission of Hong Kong
Sub-Fund	means a sub-fund of the Fund
Trust Deed	means the trust deed establishing the Fund dated 24 October 2002, as amended from time to time
Trustee	means Principal Trust Company (Asia) Limited in its capacity as trustee of the Fund
Unit	means a Unit in a Sub-Fund
Unitholder	means a person registered as a holder of a Unit
USD or US\$	means the currency of the United States of America
Valuation Day	means such days as are described in the Appendix for the relevant Sub-Fund
Valuation Point	means such time on the relevant Valuation Day as the Manager with the approval of the Trustee may from time to time determine to calculate the Net Asset Value

INTRODUCTION

Principal Prosperity Series is an open-ended umbrella unit trust established in the Cayman Islands. The Sub-Funds available are described in the Appendix/Appendices to this Explanatory Memorandum. The Manager may create further Sub-Funds in future.

MANAGEMENT OF THE FUND

Manager

Principal Asset Management Company (Asia) Limited is the manager of the Fund. It is a company incorporated in Hong Kong in 1997 and is a subsidiary of the Principal Financial Group, Inc. which is a Fortune 500 company listed on the New York Stock Exchange. Principal Asset Management Company (Asia) Limited is specialized in portfolio management and asset management businesses. Principal Asset Management Company (Asia) Limited is devoted to providing reliable and quality services to its clients and is committed to be a professional fund management house. Principal Asset Management Company (Asia) Limited is also the investment manager for a number of mandatory provident fund schemes and approved pooled investment funds in Hong Kong. As of 30 June 2009, the total assets under management of Principal Asset Management Company (Asia) Limited amounted to approximately HK\$23.2 billion.

Principal Asset Management Company (Asia) Limited has delegated the discretionary investment management of the Fund to Principal Global Investors, LLC. Principal Global Investors, LLC is registered with the Securities and Exchange Commission under the USA regime and manages US\$200.8 billion assets as of 30 June 2009.

The Trustee

The Trustee of the Fund is Principal Trust Company (Asia) Limited, which is a trust company incorporated in Hong Kong. The Trustee will also be responsible for the registrar function of the Fund.

Principal Trust Company (Asia) Limited is a member of the Principal Financial Group and has full access to a diversified network of financial services expertise in a variety of specialties including investment funds, mutual funds, pension and insurance plans. The registered address of Principal Trust Company (Asia) Limited is Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Fund and monitoring the compliance by the Manager with the requirements of the Trust Deed.

INVESTMENT OBJECTIVE

Details of the investment objective and other information specific to a Sub-Fund are set out in the relevant Appendix in relation to such Sub-Fund.

OFFERING

Units of a Sub-Fund will be offered for the first time at the Issue Price during the Initial Offer Period set out in the relevant Appendix relating to such Sub-Fund. Thereafter units of a Sub-Fund may be offered in the manner as described in the relevant Appendix.

The Manager may appoint one or more distributors ("authorised distributors") to distribute the Fund and/or any particular Sub-Fund and to receive applications for Units and requests for realisation of Units. Authorised distributors may fix an earlier cut-off time for submitting such applications and requests and for payments of application monies other than those specified by the Manager or the Trustee as described above. Any investor who makes an application for Units or request for realisation of Units through an authorised distributor must comply with the cut-off time specified by the relevant authorised distributor provided that such cut-off time shall not be later than any relevant deadline specified by the Manager or the Trustee.

Any fees payable to authorised distributors in relation to services provided by authorised distributors in respect of the Fund shall be borne by the Manager.

PURCHASE OF UNITS

Application Procedure

Unless otherwise disclosed in the Appendix relating to a Sub-Fund or otherwise agreed by the Manager or an authorised distributor, to purchase Units an investor should:-

- (a) complete the application form enclosed with this Explanatory Memorandum and return the original form to the Manager or an authorised distributor; or
- (b) fax the completed application form to the Manager or an authorised distributor.

Fax orders must always be followed by an original completed application form. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager or an authorised distributor. Investors should therefore for their own benefit confirm with the Manager or an authorised distributor safe receipt of a form.

Payment should be made at the time of application. If payment is not cleared within 7 Business Days after the Dealing Day of which the relevant units are issued, the Manager reserves the right to cancel the subscription at any time thereafter. Under such circumstances, the applicant may be required to settle the difference between the Subscription Price and the Realisation Price of the Units concerned.

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

The Manager, at its discretion, is entitled to impose a preliminary charge on the offer price of each Unit. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the preliminary charge (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine.

Payment Procedure

Subscription monies should normally be paid in USD. Arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the Trustee or the Manager shall use such currency exchange rates as they may from time to time determine. The cost of currency conversion will be borne by the applicant.

Payments should be made in one of the ways set out in the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds. Any costs of transfer of application monies to a Sub-Fund will be payable by the applicant.

Details of payments by telegraphic transfer are set out in the Application Form enclosed.

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

General

All holdings will be registered and certificates will not be issued. Evidence of title will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager is informed of any change to the registered details. Fractions of Units may be issued calculated to 2 decimal places. Application monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The Manager reserves the right to reject any application in whole or in part. A maximum of 4 persons may be registered as joint Unitholders.

REALISATION OF UNITS

Realisation Procedure

Unitholders who wish to realise their Units may do so on any Dealing Day by submitting a realisation request to the Manager or through an authorised distributor before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix.

A realisation request must be given in writing or by such other means as agreed by the Manager from time to time and must specify the name of the relevant Sub-Fund and the value or number of Units to be realised, the name(s) of the registered holder(s), and give payment instructions for the realisation proceeds. Unless otherwise agreed by the Manager, the original of any realisation request given by facsimile should be forwarded to the Manager. Neither the Manager nor the Trustee shall be responsible to a Unitholder for any loss resulting from non-receipt of any realisation request sent by facsimile by a Unitholder or an authorised distributor on behalf of a Unitholder.

A Unitholder shall not be entitled hereunder to realise part only of his holding of Units in relation to a Sub-Fund if thereby his holding would be reduced to less than the minimum holding for that Sub-Fund.

Payment of Realisation Proceeds

The realisation price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the realisation request is received by the Manager by the number of Units in issue immediately prior to such Dealing Day, such realisation price being rounded down to 2 decimal places, or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior notice to the Trustee) by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point.

The Manager may at its option impose a realisation charge in respect of the Units to be realised. The realisation charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the realisation charge to be imposed (within the permitted limit).

The amount due to a Unitholder on the realisation of a Unit pursuant to the paragraphs above shall be the realisation price per Unit, less any realisation charge, any fiscal and sale charges and any rounding adjustment in respect thereof. The fiscal and sale charges (if any), as well as the rounding adjustment aforesaid in relation to the realisation of any Units shall be retained as part of the relevant Sub-Fund. The realisation charge shall be retained by the Manager.

Realisation proceeds will not be paid to any realising Unitholder until (a) unless otherwise agreed by the Manager, the written original of the realisation request duly signed by the Unitholder has been received by the Manager and (b) where realisation proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Manager.

Realisation proceeds will normally be paid by cheque posted, at the risk of the person entitled thereto, within one week and in any event not later than one month, of the Dealing Day on which the realisation is effected or, if later, after original duly completed realisation documentation has been received by the Manager. At the request and expense of the realising Unitholder, the realisation proceeds can be paid by telegraphic transfer.

Realisation proceeds can be paid in a currency other than the base currency of the relevant Sub-Fund at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. The cost of currency conversion will be borne by the relevant Unitholder.

Restrictions on Realisation

The Manager may suspend the realisation of Units or delay the payment of realisation proceeds during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund realised on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders wishing to realise Units of the same Sub-Fund on that Dealing Day will realise the same proportion of such Units, and Units not realised (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, and will have priority on the next Dealing Day. If requests for realisation are so carried forward, the Manager will inform the Unitholders concerned within seven days of such Dealing Day that their realisation request has been carried forward.

Compulsory Realisation Powers

The Trust Deed gives the Manager the power to realise compulsorily Units in certain circumstances, including in the event of any person holding Units (i) in breach of the law or requirements of any country or governmental authority or (ii) in any circumstances which in the opinion of the Manager might result in the Fund, any Sub-Fund, the Trustee, the Manager or any person connected with either of them incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund or a Sub-Fund might not otherwise have incurred or suffered. The Trustee shall, at the Manager's request, exercise the power to compulsorily realise all (or any part) of the Units of any unitholder on any Dealing Day, if in its absolute discretion, the power becomes exercisable. The power shall be exercisable upon the Dealing Day following the giving of not less than 14 days' notice to a Unitholder of its intended exercise and Units subject to such a notice shall be realised at the applicable Realisation Price.

CONVERSION BETWEEN SUB-FUNDS

Where there are two or more Sub-Funds, Unitholders have the right (subject to the prior approval of the Manager and to any suspension in the determination of the Net Asset Value of the Sub-Fund in which the Units to be switched from are currently held (the "Existing Sub-Fund")) to convert all or part of their Units in any Sub-Fund into Units in another Sub-Fund (the "New Sub-Fund") by giving notice in writing to the Manager prior to the Dealing Deadline for the Existing Sub-Fund. Any conversion request received after such Dealing Deadline will be held over and dealt with on the next Dealing Day.

The rate at which the whole or any part of a holding of Units in the Existing Sub-Fund will be converted on any Dealing Day for the Existing Sub-Fund (the "relevant Dealing Day") into Units of the New Sub-Fund will be determined in accordance with the following formula:-

$$N = \frac{E \times R \times F}{S + SF}$$

where:-

- N = the number of Units in the New Sub-Fund to be issued, provided that amounts lower than the smallest fraction of a Unit of the new class shall be ignored and shall be retained by the New Sub-Fund;
- E = the number of Units in the Existing Sub-Fund to be converted;
- R = the Realisation Price per Unit of the Existing Sub-Fund on the relevant Dealing Day on which conversion is to take effect less any realisation charge imposed by the Manager;
- F = the currency conversion factor determined by the Manager for the relevant Dealing Day as representing the effective rate of exchange between the base currency of the Existing Sub-Fund and the base currency of the New Sub-Fund;
- S = the Subscription Price per Unit of the New Sub-Fund on the Dealing Day for the New Sub-Fund coincident with or next following the relevant Dealing Day; and
- SF = the conversion fee not exceeding 1 per cent of the Subscription Price per Unit of the New Sub-Fund.

If there is, at any time during the period from the time as at which the Realisation Price per Unit of the Existing Sub-Fund is calculated up to the time at which any necessary transfer of funds from the Existing Sub-Fund to the New Sub-Fund takes place, an officially announced devaluation of any currency in which any investment of the Existing Sub-Fund is denominated or normally traded, the Realisation Price shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation and the number of Units of the New Sub-Fund to be allotted to any relevant unitholder pursuant to a conversion request shall be recalculated in accordance with the formula set out above as if that reduced Realisation Price had been the Realisation Price ruling for realisations of Units of the Existing Sub-Fund on the relevant Dealing Day.

The Manager has the discretion not to process a conversion request if as a result a Unitholder would hold less than the minimum holding of Units of the relevant class in any Sub-Fund.

VALUATION

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies and subject as provided in paragraph (f) below, all calculations based on the value of investments quoted, listed, traded or dealt in on any securities market shall be made by reference to the last traded price or (if no last traded price is available) midway between the latest available market dealing offered price and the latest available market dealing bid price on the principal stock exchange for such investments, at or immediately preceding the Valuation Point, and in determining such prices the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine;
- (b) subject as provided in paragraphs (c) and (f) below, the value of each interest in any collective investment scheme shall be the last published net asset value per Unit or share in such collective investment scheme (where available) or (if the same is not available) the last published bid price for such Unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraphs (a) and (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine;

- (d) the value of any investment which is not listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (f) notwithstanding the foregoing, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment; and
- (g) the value of any investment (whether of a security or cash) otherwise than in the base currency of the relevant Sub-Fund shall be converted into such base currency 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.

Calculation of Issue and Realisation Prices

The issue price of a Unit of a Sub-Fund on a Dealing Day is the net asset value per Unit of such Sub-Fund provided that the Manager may add an allowance (for the benefit of the relevant Sub-Fund) for fiscal and purchase charges (not exceeding 0.25%) which might be payable to buy investments for the account of the relevant Sub-Fund, the resultant amount being rounded up to the nearest cent.

The realisation price of a Unit of a Sub-Fund on a Dealing Day is the net asset value per Unit of such Sub-Fund provided that the Manager may deduct an allowance (for the benefit of the relevant Sub-Fund) for fiscal and sale charges (not exceeding 0.25%) which might be payable to sell investments for the account of the relevant Investment Fund, the resultant amount being rounded down to the nearest cent.

The net asset value of a Sub-Fund is calculated by valuing the assets of such Sub-Fund and deducting the liabilities attributable to such Sub-Fund in accordance with the Trust Deed.

Suspension of Calculation of Net Asset Value

The Manager may, after giving notice to the Trustee, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any securities market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit in the relevant Sub-Fund; or
- (b) for any other reason the prices of investments of the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the relevant Sub-Fund or the issue or realisation of Units in the relevant Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange.

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

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

No Units in the relevant Sub-Fund may be issued, realised or converted during such a period of suspension.

INVESTMENT AND BORROWING RESTRICTIONS

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager for the Fund. A summary of these restrictions appears below:-

Unless otherwise disclosed in the Appendix for each Sub-Fund and agreed by the SFC, each of the Sub-Fund(s) is subject to the following principal investment restrictions:-

- (a) not more than 10 per cent of the Net Asset Value of a Sub-Fund may consist of securities (other than Government and other public securities) issued by a single issuer;
- (b) a Sub-Fund may not hold more than 10 per cent of any ordinary shares issued by any single issuer;
- (c) not more than 15 per cent of the Net Asset Value of a Sub-Fund may consist of securities of any company not listed or quoted on a stock exchange, over-the-counter market or other organised securities market;
- (d) not more than 15 per cent of the Net Asset Value of a Sub-Fund may consist of warrants and options, other than warrants and options held for hedging purposes;
- (e) not more than 10 per cent of the Net Asset Value of a Sub-Fund may consist of shares or units in other open ended unit trusts or mutual funds ("managed funds") provided that no investment may be made in a managed fund managed by the Manager or any of its connected persons if such investment would result in an increase in the overall total of the preliminary charge, manager's fee or other costs and charges borne by the Unitholders of the relevant Sub-Fund;
- (f) not more than 20 per cent of the Net Asset Value of a Sub-Fund may consist of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (other than shares in companies engaged in producing, processing or trading in commodities);
- (g) the net aggregate value of the contract prices, whether payable to or by a Sub-Fund (other than futures contracts entered into for hedging purposes), together with the aggregate value of investments falling within paragraph (f) above held by the Sub-Fund, may not exceed 20 per cent of the Net Asset Value of the Sub-Fund;
- (h) not more than 30 per cent of the Net Asset Value of a Sub-Fund may consist of Government and other public securities of a single issue; and
- (i) subject to paragraph (h) above, a Sub-Fund may be fully invested in Government and other public securities issued by a single issuer provided that it holds Government and other public securities of at least six different issues.

The Manager shall not on behalf of any Sub-Fund(s):-

- (i) invest in a security of any class in any company or body if directors and officers of the Manager individually own more than 1/2 per cent of the total nominal amount of all the issued securities of that class or collectively own more than 5 per cent of those securities;
- (ii) 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);
- (iii) make short sales if as a consequence the liability of such Sub-Fund to deliver securities would exceed 10 per cent of the Net Asset Value of such Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);
- (iv) write uncovered options;
- (v) write a call option if the aggregate of the exercise prices of all such call options written on behalf of the relevant Sub-Fund would exceed 25 per cent of the Net Asset Value of that Sub-Fund;
- (vi) make a loan out of that Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit might constitute a loan;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person in respect of borrowed money without the prior written consent of the Trustee;
- (viii) enter into any obligation on behalf of the relevant Sub-Fund or acquire any asset for the account of that Sub-Fund which involves the assumption of any liability by the Trustee which is unlimited; or
- (ix) apply any part of the relevant Sub-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 unless such call could be met in full out of cash or near cash forming part of such Sub-Fund which has not been appropriated and set aside for any other purposes and shall not be entitled without the consent of the Trustee to apply any part of the relevant Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

Unless otherwise disclosed in the relevant Appendix, the Manager may borrow up to 25 per cent of the latest available Net Asset Value of each Sub-Fund to acquire investments. The assets of a Sub-Fund may be charged or pledged as security for any such borrowings. In addition, the assets of a Sub-Fund may be charged to secure a guarantee given in favour of Unitholders in such Sub-Fund.

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders. The Manager is not required to sell investments if any of the investment restrictions are exceeded as a result of changes in the value of the relevant Sub-Fund's investments, reconstructions or amalgamations, payments out of the assets of the Sub-Fund or realisation of Units but for so long as such limits are exceeded the Manager will not acquire any further investments subject to the relevant restriction and will take all reasonable steps to restore the position so that the limits are no longer exceeded.

EXPENSES AND CHARGES

The current rates of management fee and trustee fee for each Sub-Fund are set out in the relevant Appendix. The maximum level of the management fee is 2.5 per cent per annum of the Net Asset Value of the Sub-Fund and the maximum level of the trustee fee is 1 per cent per annum of the Net Asset Value of the Sub-Fund. The Manager will give 3 months' prior notice to affected Unitholders should there be any increase in the management and/or trustee fee from the current level up to the maximum levels. Any increase above the maximum level will only be implemented following the consent of affected Unitholders at an extraordinary general meeting.

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, each one of the Sub-Fund(s) will bear such costs in proportion to its respective Net Asset Value. Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Fund(s), the fees and expenses of custodians of the assets of the Fund, the fees and expenses of the auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any explanatory memorandum.

The costs of establishment of the Fund and each Sub-Fund will be disclosed in the relevant Appendix. If further Sub-Funds are launched, such costs will be allocated amongst the Sub-Funds according to their respective Net Asset Values except for those costs which the Manager shall decide to pay out of its own resources. If any Sub-Fund is wound-up prior to the expenses being fully amortised, such unamortised amount will borne by the relevant Sub-Fund before its termination.

Cash Rebates and Soft Commissions

Neither the Manager nor any of its connected persons will receive cash commissions or other rebates from brokers or dealers in respect of transactions for the account of a Sub-Fund.

The Manager and/or any company associated with it reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any company associated with it has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any company associated with it goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund or of the Manager and/or any company associated with it in providing services to the Fund and for which no direct payment is made but instead the Manager and/or any company associated with it undertakes to place business with that party. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

TAXATION

Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and realisation of Units by him under the laws of the places of his citizenship, residence and domicile.

Hong Kong

During such period as the Fund is authorised by the SFC then, under present Hong Kong law and practice:-

- (a) The Fund is not expected to be subject to Hong Kong tax in respect of any of its authorised activities.
- (b) No tax will be payable by Unitholders in Hong Kong in respect of dividends or other income distributions of the Fund or in respect of any capital gains arising on a sale, realisation or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

Cayman Islands

The Fund has applied for and is expected to receive an undertaking from the Governor in Council of the Cayman Islands that, in accordance with section 81 of the Trusts Law (2001 Revision) of the Cayman Islands, for a period of 50 years from the date of the creation of the Fund, no laws of the Cayman Islands thereafter enacted imposing any tax or duty to be levied on income or on capital assets, gains or appreciations or any tax in the nature of estate duty or inheritance tax shall apply to any property comprised in or any income arising under the Fund or the Trustee or Unitholders in respect of any such property or income.

No stamp duty is levied in the Cayman Islands on the transfer or realisation of Units. There is, at the date of this Explanatory Memorandum, no exchange control in the Cayman Islands.

REPORTS AND ACCOUNTS

The Fund's financial year end is on 30 June in each year. Audited accounts in USD will be sent to Unitholders as soon as possible, and in any event within four months, after the end of the financial year. The first annual audited accounts will be made up for the period ending 30 June 2003.

The Manager also sends unaudited semi-annual reports to Unitholders within two months after 31 December in each year, the first of such reports to be made up for the period ending 31 December 2003. Such reports contain a statement of the Net Asset Value of each Sub-Fund and of the investments comprising its portfolio. Once issued the accounts will be available for inspection at the Manager's office free of charge during normal working hours.

DISTRIBUTION OF INCOME

The distribution policy of a Sub-Fund will be set out in the relevant Appendix.

VOTING RIGHTS

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

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

PUBLICATION OF PRICES

The Net Asset Value per Unit of each Sub-Fund at each Valuation Day will be published at least once a month in Hong Kong in the South China Morning Post and in the Hong Kong Economic Times.

TRANSFER OF UNITS

Subject as provided below, Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

TRUST DEED

The Fund was established under the laws of the Cayman Islands by a Trust Deed dated 24 October 2002 made between Principal Fund Management (Hong Kong) Limited as manager and HSBC Trustee (Cayman) Limited as trustee, as amended by three supplemental deeds dated 21 July 2003, 28 September 2004 and 10 December 2007, respectively. By a deed of retirement and appointment dated 12 January 2006, Principal Trust Company (Asia) Limited replaced HSBC Trustee (Cayman) Limited as the trustee of the Fund. By a deed of retirement and appointment dated 23 August 2007, Principal Asset Management Company (Asia) Limited replaced Principal Fund Management (Hong Kong) Limited as the manager of the Fund.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

Copies of the Trust Deed (together with any undertakings given to the SFC) as for the time being in force may be obtained from the Manager at a cost of HK\$300 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

TERMINATION OF THE FUND OR ANY SUB-FUND

The Fund shall continue for a period of 100 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee in the following events (provided that the Trustee shall certify that in its opinion, the proposed termination is in the interest of Unitholders) namely if (a) within 30 days of the Manager leaving office, no new manager is appointed or (b) if in the opinion of the Trustee the Manager is incapable of performing or fails to perform its duties satisfactorily or (c) if the Manager goes into liquidation or (d) if the Trustee desires to retire and the Manager fails to find a new trustee qualified to act as trustee in the place of the retiring Trustee. The Trustee may also terminate the Fund if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund.

The Fund or any Sub-Fund may be terminated by the Manager (a) if on any date, in relation to any Sub-Fund, the aggregate net asset value of the Units outstanding in respect of such Sub-Fund shall be less than USD2 million or (b) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable, in consultation with the SFC to continue the Fund or such Sub-Fund or (c) if the Fund and/or any Sub-Fund (as the case may be) shall cease to be authorised or otherwise officially approved by the SFC. Three months' notice of any termination will be given to Unitholders. Furthermore, at any time the Unitholders of any Sub-Fund may authorise termination of such Sub-Fund by Extraordinary Resolution.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Trust Deed and the latest annual and semi-annual reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at Unit 1001-1003, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

ANTI-MONEY LAUNDERING REGULATIONS

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager and/or the Trustee may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:-

- (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations.

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

If any person in the Cayman Islands involved in the business of the Fund or any Sub-Fund (including the Trustee) has a suspicion or belief that any person is involved in money-laundering activities, that person is required to report such suspicion to the Cayman Islands Reporting Authority pursuant to The Proceeds of Criminal Conduct Law (2001 Revision) of the Cayman Islands.

CONFLICTS OF INTEREST

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

REGULATION OF THE FUND IN CAYMAN ISLANDS

The Fund will fall within the definition of a "mutual fund" in terms of the Mutual Funds Law (2001 Revision) of the Cayman Islands (the "Law") and accordingly will be regulated in terms of the Law.

Walkers SPV Limited (being a licensed mutual fund administrator in the Cayman Islands) has agreed to provide the principal office of the Fund in the Cayman Islands and the Fund is regulated under section 4(1)(b) of the Mutual Funds Laws of the Cayman Islands.

As a regulated mutual fund, the Fund will be subject to the supervision of the Cayman Islands Monetary Authority (the "Authority") and the Authority may at any time instruct the Fund to have its accounts audited and to submit them to the Authority within such time as the Authority specifies. In addition the Authority may ask the Trustee to give the Authority such information or such explanation in respect of the Fund as the Authority may reasonably require to enable it to carry out its duty under the Law.

The Fund must give the Authority access to or provide at any reasonable time all records relating to the Fund and the Authority may copy or take an extract of a record it is given access to. Failure to comply with these requests by the Authority may result in substantial fines and may result in the Authority applying to the Court to have the Fund terminated.

The Authority may take certain actions if it is satisfied that a regulated mutual fund is or is likely to become unable to meet its obligations as they fall due, is carrying on or is attempting to carry on business or is winding up its business voluntarily in a manner that is prejudicial to its investors or creditors, the direction and management of a regulated mutual fund has not been conducted in a fit and proper manner or a person holding a position as a manager of a regulated mutual fund is not a fit and proper person to hold the position. The powers of the Authority include, inter alia, the power to require the substitution of the Manager or the Trustee, to appoint a person to advise the Fund on the proper conduct of its affairs or to appoint a person to assume control of the affairs of the Fund. There are other remedies available to the Authority including the ability to apply to the court for approval of other actions.

APPENDIX I

INTRODUCTION

The first Sub-Fund of the Fund is Principal Asia Pacific High Dividend Equity Fund.

INVESTMENT OBJECTIVES AND POLICIES

The primary investment objective of Principal Asia Pacific High Dividend Equity Fund is to achieve high current income through investing in a diversified portfolio of listed securities in the Asia Pacific region, including but not limited to the following countries: Australia, China, Hong Kong, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan and Thailand. The Manager does not currently intend to invest in Japan but may do so in the future if suitable investment opportunities arise. The Manager will focus on companies which demonstrate strong corporate fundamentals and offer the potential for superior dividend yields. The Principal Asia Pacific High Dividend Equity Fund will also seek to achieve capital appreciation with relatively moderate to high volatility commensurate with investing in equities.

The Principal Asia Pacific High Dividend Equity Fund may also on an ancillary basis from time to time hold cash, deposits and instruments with floating or fixed rates such as certificates of deposits, bankers' acceptances and commercial paper.

CHARGES & EXPENSES

Management Fees

The Manager is entitled to receive in arrears a monthly management fee in relation to the Sub-Fund, accrued on and calculated as at each Dealing Day, at the rate of 1.4 per cent per annum of the Net Asset Value of the Sub-Fund.

The Manager is also entitled to receive a preliminary charge on the issue of Units in the Sub-Fund of up to 5 per cent of the issue price of such Units.

On realisation of the Units by the Unitholders, the Manager is also entitled to receive a realisation charge of up to 1 per cent of the realisation price of such Units.

On switching of the Units by the Unitholders, the Manager is entitled to receive a conversion charge on the conversion of Units in the Sub-Fund of up to 1 per cent of the conversion price of such Units.

Trustee Fees

The Trustee is entitled to receive a trustee fee in relation to the Sub-Fund calculated and accrued as at each Dealing Day and payable monthly in arrears, equal to a percentage of the Net Asset Value of the Sub-Fund but subject to a minimum fee of USD15,000 per annum in relation to the Sub-Fund.

The current rate of the trustee and administration fee in relation to the Sub-Fund is as follows:

<u>Net Asset Value of the Sub-Fund</u>	<u>Rate of Trustee Fee</u>
On the first USD40 million	0.125% per annum
On the excess above USD40 million	0.08% per annum

In addition, the Trustee is entitled to receive a valuation fee and an annual registrar fee of USD2,000 payable on a pro-rata basis at the end of each month.

General

The Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a particular Sub-Fund, each Sub-Fund will bear such costs in proportion to its respective net asset value.

The issue and realisation price of Units of the Sub-Fund may reflect an allowance for fiscal, purchase and sales charges (not exceeding 0.25% respectively) as provided under the section above headed "Calculation of Issue and Realisation Prices".

The costs of establishment of the Fund and this Sub-Fund are approximately US\$60,000. Such costs will be borne by the Sub-Fund and amortised over a period of 5 years.

CLASSES OF UNITS

The following classes of Units are available for issue under the Sub-Fund:

- Income Class Units; and
- Accumulation Class Units

The Income Class Units of the Sub-Fund are currently offered to investors.

OFFERING

The Accumulation Class Units will be initially offered for subscription by investors during the Offer Period from 9:00 a.m. (Hong Kong time) on 1 January 2008 to 4:00 p.m. (Hong Kong time) on 31 December 2009 (unless otherwise extended or shortened by the Manager). All Units are denominated in U.S. Dollars.

Units of the Accumulation Class Units are being offered at an initial issue price of US\$10.00 per Unit (exclusive of any applicable preliminary charge). Dealing of the Units will commence on the Dealing Day immediately following the closure of the Offer Period.

SUBSCRIPTION OF UNITS

Units will be available for subscription on each Dealing Day, being every Business Day.

Issues of Units

Units will be available for subscription on each Dealing Day. Subscriptions received by the Manager prior to 4:00 p.m. (Hong Kong time) (the “dealing deadline”) on a Dealing Day will be dealt with on that Dealing Day. Where subscriptions are received after such time or on a day which is not a Dealing Day, they will be carried forward and dealt with on the next Dealing Day.

The issue price of units of the Sub-Fund on a Dealing Day will be calculated by reference to the Net Asset Value per Unit of the Sub-Fund as at 6:00 p.m. Hong Kong time (the “Valuation Point”) on that Dealing Day and will be quoted as being inclusive of a preliminary charge of up to 5%.

Subscription and Payment Procedure

Investors should refer to the above section “Purchase of Units” of the Explanatory Memorandum for details of the subscription and payment procedures.

Minimum Investment and Initial Charge

The minimum initial investment in the Sub-Fund is US\$2,000 (inclusive of the preliminary charge). There is no minimum subsequent investment requirement.

The Manager, at its discretion, is entitled to a preliminary charge of up to 5 per cent of the issue price of each Unit. The Manager may re-allow or pay all or part of the preliminary charge (and any other fees it receives) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine.

The Manager has an absolute discretion to accept or reject in whole or in part any subscription for Units. In the event that a subscription is rejected, subscription monies will be returned without interest by cheque through the post at the risk of the person(s) entitled thereto. No Units in the Sub-Fund will be issued where the determination of the Net Asset Value of the Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” above).

REALISATION OF UNITS

Subject as mentioned below, any Unitholder may redeem the Unitholder’s Units on any Dealing Day in whole or in part. The Manager may levy a realisation charge of up to one per cent of the realisation price per Unit.

Investors should refer to the above section “Realisation of Units” of the Explanatory Memorandum for details of the realisation procedures. A realisation request received by the Manager prior to the Dealing Deadline on a Dealing Day will be dealt with on that Dealing Day. Realisation requests received after such time or on a day which is not a Dealing Day will be carried forward and dealt with on the next Dealing Day.

Units realised on a Dealing Day will be realised at a price calculated by reference to the Net Asset Value per Unit of the Sub-Fund as at the Valuation Point on that Dealing Day. The Manager is entitled to a realisation charge of up to 1 per cent of the realisation price of each Unit. **If at any time during the period from the time as at which the realisation price is calculated and the time at which realisation monies are converted out of any other currency into the base currency of the Sub-Fund there is a devaluation or depreciation of that currency, the amount payable to any relevant realising Unitholder may be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.**

Subject to the respective realising unitholder's prior consent having been obtained, the Manager has a discretion to effect a realisation payment to any or all realising unitholders in specie or in kind rather than in cash. The circumstances in which the Manager envisages exercising this discretion include, without prejudice to the generality of the foregoing, a situation where substantial realisation requests are received by the Sub-Fund which will make it impracticable to realise the underlying securities in order to fund the realisation payments. In making realisation payments in specie or in kind, the Manager will use the same valuation procedures used in determining the Net Asset Value of the Sub-Fund (see "Valuation" above) when determining the value to be attributed to the relevant securities to be transferred or assigned or otherwise made available to the realising unitholders. Realising unitholders will receive securities of a value equal to the realisation payment to which they would otherwise be entitled. Realising unitholders receiving the realisation payment in specie or in kind will be responsible for all custody and other costs involved in changing the ownership of the relevant securities from the Sub-Fund to the realising unitholder and for all ongoing custody costs in respect of such securities.

DIVIDEND POLICY

For Income Class Units, the Manager at present intends to distribute all income (other than any realised gain on sale of investments, unrealised gain on investments and foreign exchange gain) or any part thereof received by the Sub-Fund attributable to such Units on a semi-annual basis as at 30 June and 31 December.

Subject to receipt of dividend yields from the Sub-Fund's underlying investments, where distributions payable to a unitholder exceed US\$100, it will normally be paid by cheque by post (in US dollars, unless the Unitholder instructs otherwise), at the risk of the Unitholder entitled thereto, within eight weeks following the end of the relevant distribution period. Unitholders may also receive distribution payments through telegraphic transfer (after deduction of the relevant bank charges) by giving prior written instructions to the Manager.

Unitholders may by giving written instructions to the Manager elect to reinvest distributions to which they are entitled in subscribing for further Units in the Sub-Fund. Any distributions currently below US\$100 will automatically be reinvested in additional units for the account of the Unitholder entitled thereto.

For Accumulation Class Units, the Manager at present does not intend to make distributions in respect of such Units, and any income received by the Sub-Fund attributable to such Units will be reinvested in the Sub-Fund and reflected in the price of such Units.

RISK FACTORS

The Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units and the income from them may go down as well as up.

Investors' attention is drawn to the following risk factors:

The performance of the Sub-Fund is subject to a number of risk factors, including those set out below:

- (a) Political, economic and social risks - All financial markets may at times be adversely affected by changes in political, economic and social conditions.
- (b) Emerging markets - Various countries in which the Sub-Fund may invest are considered as emerging markets. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which the Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. Accounting, auditing and financial reporting standards in some of the emerging markets in which the Sub-Fund's assets may be invested may be less vigorous than international standards. As a result, certain material disclosures may not be made by some companies.
- (c) Currency risk - The performance of the Sub-Fund may be affected by movements in the exchange rate between the currencies in which the Sub-Fund's assets are held and the base currency of the Sub-Fund.

The Sub-Fund will have exposure to fluctuations in currency exchange rates where it invests directly or indirectly in securities denominated in currencies other than US dollars. It may, in part, seek to offset the risks associated with such exposure through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

- (d) Diversification risk - The Sub-Fund will invest in the Asia region. Although the Sub-Fund's portfolio will be well diversified in terms of the number of holdings, investors should be aware that the Sub-Fund is likely to 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 market or in regions in which they invest.
- (e) Market risk - The Sub-Fund's investments are subject to the risks inherent in all securities, including the fact that the value of holdings may go down as well as up. In particular, dividend yields from the Sub-Fund's investments may fluctuate up or down as a result of changes in the dividend policy of the underlying companies in which the Sub-Fund is invested. Such changes will impact on the level of dividends available for distribution by the Sub-Fund.

THE FOREGOING RISK FACTORS DO NOT PURPORT TO BE A COMPLETE EXPLANATION OF ALL THE RISKS INVOLVED IN THIS OFFERING. POTENTIAL INVESTORS MUST READ THE ENTIRE EXPLANATORY MEMORANDUM AND MUST CONSULT THEIR OWN PROFESSIONAL ADVISERS, BEFORE DECIDING TO INVEST IN THE SUB-FUND.