iShares by BlackRock

3 June 2013

**IMPORTANT:** Investments involve risks, including the total loss of your investment. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the iShares RMB Bond Index ETF ("RMB Bond Index ETF"). An investment in the RMB Bond Index ETF may not be suitable for everyone. If you are in any doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent financial advice.

# iShares Asia Trust

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

# PROSPECTUS

**iShares RMB Bond Index ETF**

**(RMB Counter Stock Code: 83139)**

**(HKD Counter Stock Code: 3139)**

Listing Agent and Manager
**BlackRock Asset Management North Asia Limited**

The Stock Exchange of Hong Kong Limited, Hong Kong Exchanges and Clearing Limited, Hong Kong Securities Clearing Company Limited and the Hong Kong Securities and Futures Commission take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. The iShares Asia Trust and the RMB Bond Index ETF have been authorised as collective investment schemes by the Hong Kong Securities and Futures Commission. Authorisation by the Securities and Futures Commission is not a recommendation or endorsement of a product nor does it guarantee the commercial merits of a product or its performance. It does not mean the product is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

# IMPORTANT INFORMATION

**Investors should note that the RMB Bond Index ETF will invest in government and corporate non-rated and non-investment grade debt Securities. Investors' attention is drawn to "Below Investment Grade and Non-Rated Securities Risk" for more information relating to the RMB Bond Index ETF's investments in non-rated and non-investment grade debt Securities.**

**It is possible that the RMB Bond Index ETF may experience greater tracking error than typical exchange traded index funds due to, among other things, liquidity, trading, government policy and regulatory risks and the representative sampling strategy adopted by the Manager. In particular, potential investors should note that the RMB Bond Index ETF may invest up to 10% of the Net Asset Value in derivatives for the purposes of hedging and non-hedging including investment, and/or return optimization.**

This Prospectus relates to the offer in Hong Kong of Units in the RMB Bond Index ETF, a sub-fund of iShares Asia Trust (the "Trust"), an umbrella unit trust established under Hong Kong law by a trust deed dated 16 November 2001 between Barclays Global Investors North Asia Limited (now known as BlackRock Asset Management North Asia Limited) and HSBC Institutional Trust Services (Asia) Limited (the "Trustee") as revised and amended by amendments dated 2 January 2002, 27 October 2004, 13 October 2006, 14 November 2008, 11 March 2009, 27 March 2009, 4 November 2009, 31 May 2010 , 27 October 2011 and 28 May 2013.

The Manager accepts full responsibility for the accuracy of the information contained in this Prospectus and for the accuracy and fairness of the opinions expressed (at the date of its publication), and confirms that this Prospectus includes particulars given in compliance with The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Code on Unit Trusts and Mutual Funds (the "Code") and the "Overarching Principles" of the SFC Handbook for Unit Trusts and Mutual Funds, Investment – Linked Assurance Schemes and Unlisted Investment Products for the purposes of giving information with regard to the Units and that having made all reasonable enquiries, the Manager confirms that, to the best of its knowledge and belief that there are no other matters the omission of which would make any statement in this Prospectus misleading, whether of fact or opinion; any inferences that might reasonably be drawn from any statement in the Prospectus are true and are not misleading; and all opinions and intents expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable. The Trustee is not responsible for the preparation of this Prospectus and shall not be held liable to any person for any information disclosed in this Prospectus, except for the information regarding the trustee itself under "The Trustee and Registrar".

The RMB Bond Index ETF is a fund falling within, Chapter 8.6 and Appendix I of the Code. The Trust and the RMB Bond Index ETF are authorised by the Securities and Futures Commission (the "SFC") in Hong Kong pursuant to section 104 of the Securities and Futures Ordinance. The SFC takes no responsibility for the financial soundness of the RMB Bond Index ETF or for the correctness of any statements made or opinions expressed in this Prospectus. Authorisation by the SFC is not a recommendation or endorsement of the RMB Bond Index ETF nor does it guarantee the commercial merits of the RMB Bond Index ETF or its performance. It does not mean the RMB Bond Index ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Applicants for Units should consult their financial adviser, tax advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire Units as to whether any taxation effects, foreign exchange restrictions or exchange control requirements are applicable and to determine whether any investment in the RMB Bond Index ETF is appropriate for them.

Application has been made to The Stock Exchange of Hong Kong Limited (the "SEHK") for the listing of, and permission to deal in the Units. Subject to compliance with the admission requirements of Hong Kong Securities Clearing Company Limited ("HKSCC") and the granting of listing of, and permission to deal in, the Units on the SEHK, the Units will be accepted as eligible securities by HKSCC for deposit, clearing and settlement in the Central Clearing and Settlement System ("CCASS") with effect from the date of commencement of dealings in the Units on the SEHK or such other date as may be determined by HKSCC. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Further applications may be made to list units in additional sub-funds constituted under the Trust in future on the SEHK.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong and, accordingly, the Prospectus does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Furthermore, distribution of this Prospectus shall not be permitted unless it is accompanied by a copy of the latest annual report and accounts of the RMB Bond Index ETF and, if later, its most recent interim report, which form a part of this Prospectus.

In particular:

(a) Units in the RMB Bond Index ETF 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 for the benefit of a US Person (as defined in Regulation S of such Act);

(b) the RMB Bond Index ETF has not been and will not be registered under the United States Investment Company Act of 1940, as amended; Accordingly, Units may not, except pursuant to an exemption from, or in a transaction not subject to, the regulatory requirements of the US Investment Company Act of 1940 be acquired by a person who is deemed to be a US Person under the 1940 Act and regulations; and

(c) Units may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An ERISA Plan is defined as (i) any retirement plan subject to Title I of the United States Employee Retirement Income Securities Act of 1974, as amended; or, (ii) any individual retirement account or plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended.

Where the Manager becomes aware that the Units are directly or indirectly beneficially owned by any person in breach of the above restrictions, the Manager may give notice to such person requiring him to transfer such Units to a person who would not thereby be in contravention of such restrictions or to request in writing the redemption of such Units in accordance with the trust deed.

Investors should note that any amendment, addendum or replacement to this Prospectus will only be posted on the Manager's website (www.ishares.com.hk). Investors should refer to "Information Available on the Internet" for more details.

# DIRECTORY

**MANAGER AND LISTING AGENT**
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16TH FLOOR, CHEUNG KONG CENTER
2 QUEEN'S ROAD CENTRAL
CENTRAL
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COMPANY REGISTRATION NO. 200010143N

**TRUSTEE AND REGISTRAR**
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HONG KONG

**LEGAL ADVISER TO THE MANAGER**
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HONG KONG

**DIRECTORS OF THE MANAGER**
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NICHOLAS MICHAEL WHATELEY GOOD
SHIRLEY JANE LEUNG
MICHAEL TIMOTHY MARQUARDT
MARK SEUMAS MCCOMBE

**SERVICE AGENT**
HK CONVERSION AGENCY SERVICES LIMITED
2ND FLOOR, INFINITUS PLAZA
199 DES VOEUX ROAD
CENTRAL
HONG KONG

**AUDITORS**
PRICEWATERHOUSECOOPERS
22ND FLOOR
PRINCE'S BUILDING
CENTRAL
HONG KONG

BLACKROCK 貝萊德 iShares 安碩

# Product Key Facts

## iShares RMB BOND INDEX ETF

BlackRock Asset Management North Asia Limited 3 June 2013

*This is an exchange traded fund.*

*This statement provides you with key information about this product.*

*This statement is a part of the Prospectus.*

*You should not invest in this product based on this statement alone.*

## Quick facts

| | | |
|---|---|---|
| **Stock code:** | 83139 RMB counter | 3139 HKD counter |
| **Trading lot size:** | 100 Units in RMB counter | 100 Units in HKD counter |
| **Manager:** | BlackRock Asset Management North Asia Limited | |
| **Trustee:** | HSBC Institutional Trust Services (Asia) Limited | |
| **Total Expense Ratio:** | Estimated 0.39% p.a.# | |
| **Underlying Index:** | Citi RMB Bond Capped Index | |
| **Base currency:** | Renminbi (RMB) | |
| **Trading currencies:** | Renminbi - RMB counter | Hong Kong dollars - HKD counter |
| **Financial year end:** | 31 December | |
| **Dividend policy:** | Quarterly at Manager's discretion. **All Units (whether RMB or HKD traded Units) will receive distributions in RMB only**. | |
| **ETF website:** | www.ishares.com.hk (Please refer to the section "Additional Information" below on how to access the product webpage) | |

## What is this product?

This is a fund constituted in the form of a unit trust established under Hong Kong law and is a sub-fund of the iShares Asia Trust. The Units of the iShares RMB Bond Index ETF (the "**RMB Bond Index ETF**") are listed on The Stock Exchange of Hong Kong Limited (the "**SEHK**"). These Units are traded on SEHK like listed stocks. The fund is an index tracking ETF authorized by the SFC under Chapter 8.6 and Appendix I of the Code on Unit Trusts and Mutual Funds.

## Objective and Investment Strategy

### Objective

The RMB Bond Index ETF aims to provide investment results that, before fees and expenses, closely correspond to the performance of the Citi RMB Bond Capped Index (the "**Underlying Index**").

### Strategy

The RMB Bond Index ETF adopts a representative sampling strategy to achieve its investment objective.

A representative sampling strategy involves investing in a representative sample of RMB-denominated bonds that collectively has an investment profile that reflects the profile of the Underlying Index.

# Estimated Total Expense Ratio does not represent the estimated tracking error and does not include extraordinary costs, if any, that may be borne by the RMB Bond Index ETF. Such costs may have an adverse impact on the Net Asset Value and performance of the RMB Bond Index ETF and may result in tracking error.

## Objective and Investment Strategy (cont'd)

The RMB Bond Index ETF will invest primarily in Renminbi ("RMB") denominated and settled bonds that are issued outside of the PRC included in the Underlying Index. However, the Manager may also invest in RMB-denominated bonds and other securities that are not included in the Underlying Index when it believes that so doing will help the RMB Bond Index ETF achieve its investment objective.

In addition, whilst the below investment grade and non-rated sector constituents have been capped at a weighting of 30% of the Underlying Index at every month end, since the Manager will be adopting a representative sampling strategy with the ability to overweight on its holdings, it is possible that the RMB Bond Index ETF will invest in more than 30% of its NAV in below investment grade and non-rated bonds. Further, where there are market conditions beyond the control of the Manager including the credit rating downgrade of a bond or a bond issuer losing its credit rating status, the percentage holdings of below investment grade and non-rated bonds may also increase. Notwithstanding the foregoing, at every month end, the Manager will seek to limit the amount of overall holdings in below investment grade and non-rated sector bonds to a maximum of 30% of the NAV of the RMB Bond Index ETF within a reasonable period of time taking into account the interests of Unitholders.

Under normal circumstances and market conditions, the RMB Bond Index ETF aims to invest at least 95% of its assets in achieving the investment objective. There may be circumstances that the RMB Bond Index ETF may not be able to invest 95% of the assets in the underlying market and hold more cash than normal due to market conditions, for example, where it takes longer than anticipated to invest all the creation proceeds into the dim sum bond market.

The RMB Bond Index ETF may invest up to 10% of its NAV in financial derivative instruments for the purposes of hedging and non-hedging including investment, and/or return optimization.

The investment strategy of the RMB Bond Index ETF is subject to the investment and borrowing restrictions set out in Schedule 1 of the Prospectus.

There is no current intention for the RMB Bond Index ETF to engage in securities lending, repurchase transactions or other similar over-the-counter transactions, but this may change in light of market circumstances and where the RMB Bond Index ETF does engage in these types of transactions, prior approval shall be obtained from the SFC and no less than one month's prior notice will be given to the Unitholders.

## Underlying Index

The Underlying Index is a market capitalization-weighted index that is compiled and published by Citigroup Index LLC. As at 20 May 2013, there are 92 bonds in the Underlying Index with a total market capitalization of approximately RMB 158.5 billion. The Underlying Index was launched on 1 March 2013 and is a total return index. It is currently designed to measure the performance of RMB-denominated bonds issued outside the PRC. It includes fixed-rate securities issued by governments, agencies, supranationals, and corporations that are issued or distributed outside the PRC that has a minimum maturity of one year and has a minimum outstanding amount of RMB 1 billion. The Underlying Index aims to provide better credit quality by capping, at every month end, the below investment grade and non-rated sector constituent bonds at a weighting of 30% of the Underlying Index.

## Objective and Investment Strategy (cont'd)

As at 20 May 2013, the following were the 10 largest constituents representing approximately 32% of the Underlying Index:-

| Issuer Name | Coupon % | Maturity Date | % of Index | Credit Quality* | Issuer Country | Issuer Type |
|---|---|---|---|---|---|---|
| PRC Government Bond | 1.850 | 29/06/15 | 6.29 | AA- | PRC | Sovereign |
| PRC Government Bond | 2.560 | 29/06/17 | 4.85 | AA- | PRC | Sovereign |
| PRC Government Bond | 0.600 | 18/08/14 | 4.58 | AA- | PRC | Sovereign |
| PRC Government Bond | 1.400 | 18/08/16 | 3.81 | AA- | PRC | Sovereign |
| China Guangdong Nuclear Power Corporation | 3.750 | 01/11/15 | 2.37 | A- | PRC | Utility – Other |
| PRC Government Bond | 1.940 | 18/08/18 | 2.29 | AA- | PRC | Sovereign |
| Global Logistics Properties Ltd. | 3.375 | 11/05/16 | 2.07 | BBB | Singapore | Industrial – Service |
| New World China Land Ltd. | 8.500 | 11/04/15 | 2.06 | Not Rated | PRC | Industrial – Service |
| China Development Bank Corp. | 4.200 | 19/01/27 | 2.03 | AA- | PRC | Government Sponsored |
| Baosteel Group | 3.500 | 01/12/2014 | 1.66 | A- | PRC | Industrial – Manufacturing |

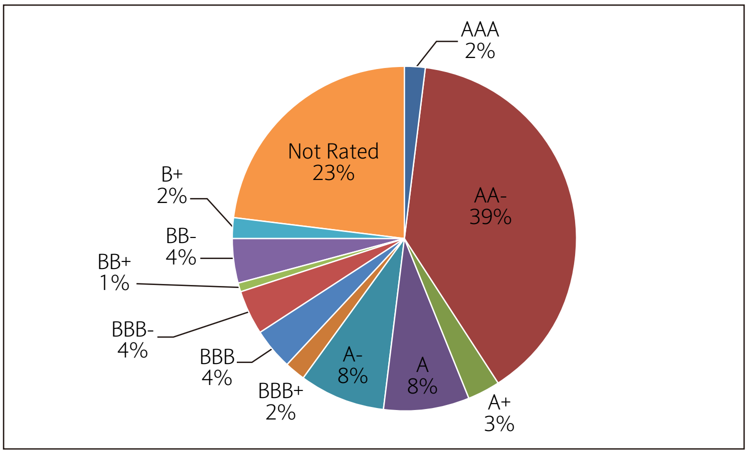
For details (including the latest index level and the up-to-date index methodology), please refer to the website at www.ishares.com.hk. The latest index level can also be obtained on Bloomberg through ticker "CFIIRCIL INDEX".

* The credit quality is first mapped to the S&P rating. If a bond is not rated by S&P but it is rated by Moody's, the S&P equivalent of the Moody's rating will be adopted. If a bond is not rated by S&P or Moody's but its issuer has an S&P rating, the issuer's S&P rating will be adopted as the bond's implied rating. If S&P issuer rating is not available, the S&P equivalent of Moody's issuer rating will be adopted as the bond's implied rating. If the bond and the issuer are neither rated by S&P nor Moody's, the bond will be classified as non-rated.

## Objective and Investment Strategy (cont'd)

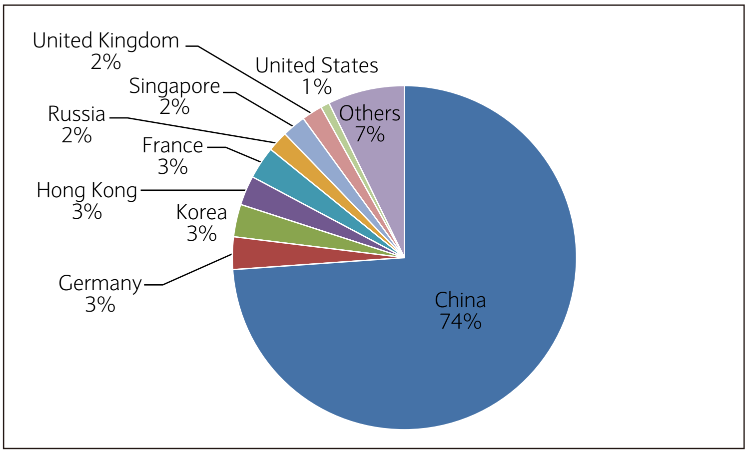
The charts below show the weighting of constituents of the Underlying Index by credit quality, issuer country and issuer type as of 20 May 2013.

**CREDIT QUALITY**

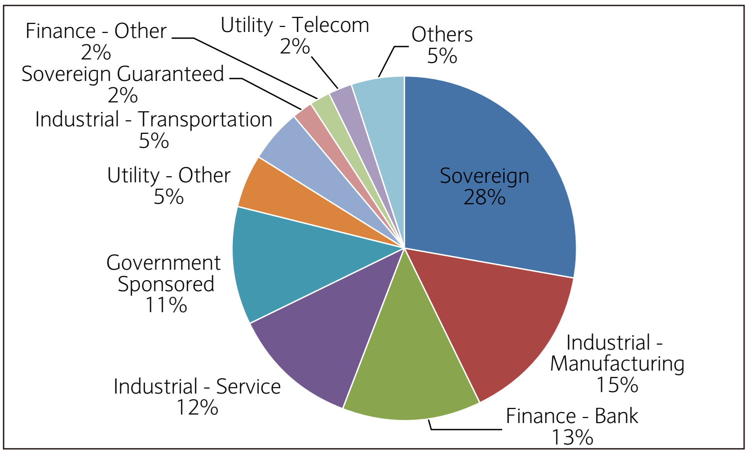



* The credit quality is first mapped to the S&P rating. If a bond is not rated by S&P but it is rated by Moody's, the S&P equivalent of the Moody's rating will be adopted. If a bond is not rated by S&P or Moody's but its issuer has an S&P rating, the issuer's S&P rating will be adopted as the bond's implied rating. If S&P issuer rating is not available, the S&P equivalent of Moody's issuer rating will be adopted as the bond's implied rating. If the bond and the issuer are neither rated by S&P nor Moody's, the bond will be classified as non-rated.

**ISSUER COUNTRY**




**ISSUER TYPE**




Further details are available on the website of the Manager at www.ishares.com.hk.

## What are the key risks?

Investment involves risks. Please refer to the Prospectus for details including the risk factors.

**1. RMB currency risks**

- Although the RMB Bond Index ETF currently has access to the offshore RMB bond market in Hong Kong, the accessibility to this market is subject to changes in regulations or administrative policies. It should be noted that RMB is not a freely convertible currency as it is subject to foreign exchange control policies of the PRC government.

- Any PRC government's policies on exchange control and repatriation restrictions are subject to change and may reduce the depth of the RMB market in Hong Kong and the liquidity of the RMB Bond Index ETF. The possibility that the appreciation of the RMB will be accelerated cannot be excluded. Further, any devaluation of the RMB could adversely affect the value of investors' investments in the RMB Bond Index ETF. Investors whose base currency is not the RMB may be adversely affected by changes in the exchange rates of the RMB.

- The RMB Bond Index ETF is denominated and traded in offshore RMB (i.e. CNH) and although CNH and onshore RMB (i.e. CNY) are the same currency, they trade at different rates. As current regulation has kept onshore and offshore separated, the respective supply and demand conditions lead to separate market clearing exchange rates. Any divergence between CNH and CNY may adversely impact investors who intend to gain exposure to CNY through investments in the RMB Bond Index ETF.

**2. Below investment grade and non-rated securities risk**

The RMB Bond Index ETF tracks the Underlying Index that may include below investment grade and non-rated securities subject to a cap in aggregate of 30% of the Underlying Index at every month end. Further, since the RMB Bond ETF is adopting a representative strategy, it is possible that the RMB Bond Index ETF may hold more than 30% of the NAV in below investment grade and non-rated securities. Such securities tend to be more volatile in their valuations and subject to higher credit risk. Further, these securities may be subject to greater price volatility. Non-rated and non-investment grade securities are subject to the increased risk of an issuer's inability to meet principal and interest payment obligations and may adversely affect the NAV of the RMB Bond Index ETF and result in losses to investors.

**3. Credit rating not a selection criterion risk**

The credit rating of a bond is not a selection criterion for inclusion of such bond in the Underlying Index (subject to the cap of 30% on below investment grade and non-rated bonds). Investors should therefore note that:-

- ➢ even if at every month end, at least 70% of the bonds comprising the Underlying Index have an investment grade rating a considerable percentage of the bonds comprising the Underlying Index may still not be rated ;

- ➢ there is no assurance that bonds rated investment grade will continue to have an investment grade rating and/or bonds that do not have an investment grade rating will not be included in the Underlying Index on future rebalancing dates; and

- ➢ there is no assurance that the Underlying Index constituents will continue to be rated and/or that non-rated bonds will not be included in the Underlying Index on future rebalancing dates.

## What are the key risks? (Cont'd)

4. **"Dim Sum" bond market risks**

- **Low liquidity and high volatility risk.** The "Dim Sum" bond market refers to the market consisting of bonds issued outside of mainland China but denominated in RMB, rather than any other currency. Although such market is growing quickly, it is still a relatively small market. This makes it more susceptible to volatility and illiquidity. Furthermore, the "Dim Sum" bond market is relatively new and therefore has a relatively short period over which one can assess its volatility and behaviour.

- **Government intervention risk.** The PRC, Hong Kong or other governments or their market regulators may promulgate rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances or the PRC and Hong Kong governments could reverse or suspend the liberalisation of the offshore RMB (CNH) market. In such cases, the operation of the "Dim Sum" bond market as well as new issuances could be disrupted causing a drop in the Underlying Index level and accordingly a fall in the NAV of the RMB Bond Index ETF.

- **Limited pool of investments risk.** The RMB Bond Index ETF's investment strategy is to track the Index and so to invest primarily in offshore RMB bonds issued outside the PRC. The quantity of offshore RMB bonds issued or distributed outside the PRC is currently limited although growing fast. This may adversely affect the RMB Bond Index ETF's return and performance.

- **Unavailability of bonds risk.** Due to the potential limited availability of certain issues of offshore RMB bonds, the RMB Bond Index ETF may be unable to track the performance of the Underlying Index during extreme market conditions and this may increase the tracking error significantly.

5. **Interest rate risk**

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

6. **Country concentration risk**

- Currently, the exposure of the RMB Bond Index ETF is concentrated in the PRC and may be more volatile than funds adopting a more diversified strategy.

7. **Liquidity risk**

- The RMB Bond Index ETF is subject to liquidity risk as continued regular trading activity and active secondary market for offshore RMB bonds is not guaranteed. The RMB Bond Index ETF may suffer losses in trading such instruments.

- The bid and offer spread of the price of offshore RMB bonds may be large, so the RMB Bond Index ETF may incur significant trading and realisation costs and may suffer losses accordingly.

- The liquidity and trading price of the Units may be adversely affected by the limited availability of RMB outside the PRC and the restrictions on the conversion of foreign currency into RMB.

- As such, there can be no assurance that investors will be able to dispose of their Units at prices in the amounts and at the times at which they would wish to or which they may otherwise be able to do in respect of Hong Kong dollar denominated securities listed on the SEHK.

## What are the key risks? (Cont'd)

**8. RMB trading and settlement of Units risks**

- The trading and settlement of the RMB traded Units may not be capable of being implemented as envisaged.

- Not all stockbrokers or custodians may be ready and be able to carry out trading and settlement of the RMB traded Units.

- The limited availability of RMB outside of the PRC may also affect the liquidity and trading price of the RMB traded Units.

**9. Dual counter risks**

- The SEHK's dual counter model in Hong Kong is relatively new and currently, there are only a handful of ETFs that have Units traded in both RMB and HKD. The novelty and relatively untested nature of the dual counter may bring additional risks for investing in the RMB Bond Index ETF.

- If there is a suspension of the inter-counter transfer of Units between the HKD counter and the RMB counter for any reason, Unitholders will only be able to trade their Units in the relevant counter on the SEHK.

- The market price on the SEHK of Units traded in HKD and of Units traded in RMB may deviate significantly due to different factors, such as market liquidity, supply and demand in each counter and the exchange rate between the RMB and the HKD (in both the onshore and the offshore markets). As such investors may pay more or receive less when buying or selling Units traded in HKD on the SEHK than in respect of Units traded in RMB and vice versa.

- Investors without RMB accounts may buy and sell HKD traded Units only. Such investors will not be able to buy or sell RMB traded Units and should note that distributions are made in RMB only. As such, investors may suffer a foreign exchange loss and incur foreign exchange associated fees and charges to receive their dividend.

- Not all brokers and CCASS participants may be familiar with and able to buy Units in one counter and to sell Units in the other or to carry out inter-counter transfers of Units or to trade both counters at the same time. This may inhibit or delay an investor dealing in both HKD traded Units and RMB traded Units and may mean an investor can only trade in one currency.

**10. Sovereign debt risk**

- The RMB Bond Index ETF invests in sovereign debt securities and such investments involve special risks. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. The repayment of debts by a government is subject to various factors including the economic and political factors and the RMB Bond Index ETF's recourse against a defaulting sovereign is limited.

**11. Derivatives risk**

- The RMB Bond Index ETF may invest up to 10% of its NAV in derivative instruments for hedging and non-hedging purposes. This means the RMB Bond Index ETF is subject to counterparty risk and may suffer losses if the counterparty fails to perform its obligation under the derivative contract.

## What are the key risks? (Cont'd)

**12. Tracking error risks**

- The RMB Bond Index ETF only holds a representative sample of securities that represents the profile of the Underlying Index and may invest in RMB-denominated bonds not included in its Underlying Index. The RMB-denominated bonds held by the RMB Bond Index ETF may also be over or underweight relative to those RMB-denominated bonds in its Underlying Index. It is therefore possible that the RMB Bond Index ETF may be subject to larger tracking error than other traditional ETFs that fully replicates the Underlying Index, other factors such as fees and expenses, and inability to rebalance the RMB Bond Index ETF's holdings in response to changes to the Underlying Index may also cause tracking error.

- Further, although the "Dim Sum" bond market is growing, it is still relatively less liquid, as such, the RMB Bond Index ETF may also be subject to a larger tracking error whenever creation proceeds take a longer period to be fully invested.

**13. Distribution risks**

- Investors should note that where a Unitholder holds Units traded under the HKD counter, the relevant Unitholder will only receive distributions in RMB and not HKD. In the event the relevant Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency. Unitholders are advised to check with their brokers concerning arrangements for distributions.

- Whether or not distributions will be made by the RMB Bond Index ETF is at the discretion of the Manager taking into account various factors and its own distribution policy. Some factors are beyond the control of the Manager, such as issuer risk where the bond issuer fails to pay interest. There can be no assurance that the distribution yield of the RMB Bond Index ETF is the same as that of its Underlying Index due to factors such as expenses incurred by the RMB Bond Index ETF.

**14. Emerging market risks**

- Some bond issuers may have major businesses in a country such as the PRC that is considered as an emerging market. These bonds may be subject to a greater risk of loss than investments in developed markets due to greater political, economic, taxation and regulatory uncertainty.

- Investing in emerging markets, such as the PRC, involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

- Investing in PRC-related companies and in the PRC markets involve certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity, legal and regulatory risk.

**15. Issuer counterparty risk**

- The RMB Bond Index ETF is exposed to the credit/insolvency risk of issuers of the RMB-denominated bonds that the RMB Bond Index ETF may invest in.

- The RMB-denominated bonds that the RMB Bond Index ETF invests in are typically unsecured debt obligations and are not supported by any collateral. The RMB Bond Index ETF will be fully exposed to the credit/insolvency risk of the bond issuers as an unsecured creditor.

**16. Passive investment**

- The RMB Bond Index ETF is not actively managed and will not adopt any temporary defensive position against any market downturn. Therefore when there is a decline in the Underlying Index, the RMB Bond Index ETF will also decrease in value. Investors may suffer significant losses accordingly.

## What are the key risks? (Cont'd)

**17. Trading risk**

- Generally, retail investors can only buy or sell Units on SEHK. The trading price of the Units on SEHK is subject to market forces and may trade at a substantial premium or discount to the NAV per Unit.

- As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell Units on the SEHK, investors may pay more than the NAV per Unit when buying Units on the SEHK, and may receive less than the NAV per Unit when selling Units on the SEHK.

**18. Reliance on market maker risks**

- Although the Manager intends to ensure that at least one market maker will maintain a market for Units traded in each counter and that at least one market maker for each counter gives not less than 3 months' prior notice before termination of relevant market making under the market maker agreement, there may be circumstances such as the revocation of the relevant market making approvals or registration or other changes beyond the control of the Manager that may result in the sudden loss of a market maker for the RMB Bond ETF. Liquidity in the market for the Units may be adversely affected if there is no market maker for the RMB and the HKD traded Units. It is possible that there is only one SEHK market maker to each counter or the Manager may not be able to engage a substitute market maker within the termination notice period of the market maker. Further, due to the "Dim Sum" bond market being relatively new and illiquid compared to the equity market, it may be more difficult for the Manager to engage a substitute market maker and therefore the risk of not being able to identify and engage a substitute market maker is higher than that of other ETFs that invest in more liquid securities and developed markets. Lastly, there is also no guarantee that any market making activity will be effective.

- Units in the RMB counter are traded and settled in RMB. There may be less interest by potential market makers making a market in Units denominated in RMB. Furthermore, any disruption to the availability of RMB may adversely affect the capability of market makers in providing liquidity for the Units.

**19. Termination risk**

- The RMB Bond Index ETF may be terminated early under certain circumstances, for example, where the Underlying Index is no longer available for benchmarking or if the size of the RMB Bond Index ETF falls below HKD150 million. Investors should refer to "Termination" in the Prospectus for further details.

## Is there any guarantee?

This fund does not have any guarantees. You may not get back the amount of money you invest.

## What are the fees and charges?

### Charges incurred when trading the fund on SEHK

| Fee | What you pay |
|---|---|
| **Brokerage fee** | Market rate |
| **Transaction levy** | 0.003%[1] |
| **Trading fee** | 0.005%[2] |
| **Stamp duty** | Nil |
| **Inter-counter transfer** | HKD5[3] |

### Ongoing fees payable by the fund

The following expenses will be paid out of the fund. They affect you because they reduce the NAV of the RMB Bond Index ETF which may affect the trading price.

| | Annual rate (as a % of NAV) |
|---|---|
| **Management fee** | 0.39% p.a. of NAV calculated daily |
| **Sub-Advisory fee** | Included in the Management fee |
| **Trustee and Custodian fee** | Included in the Management fee |
| **Administration fee** | Included in the Management fee |

One month prior notice will be given to Unitholders in the event that there is any increase in fees.

### Other fees

Please refer to the Prospectus for other fees and expenses payable by the fund.

[1] Transaction levy of 0.003% of the price of the Units payable by the buyer and the seller.
[2] Trading fee of 0.005% of the price of the Units, payable by the buyer and the seller.
[3] HKSCC will charge each CCASS participant a fee of HKD5 per instruction for effecting an inter-counter transfer between one counter and the other counter. Investors should check with their brokers regarding any additional fees.

## Additional Information

You can find the following information of the fund at the following website at www.ishares.com.hk.

- The RMB Bond Index ETF's Prospectus including this statement (as revised from time to time);
- Latest financial reports;
- Dividend record;
- Latest closing NAV of the RMB Bond Index ETF in RMB only and the last closing NAV per Unit in RMB and in HKD;
- Estimated NAV per Unit updated every 15 seconds each Dealing Day in RMB and HKD;
- Daily closing level of the Underlying Index;
- Daily top 10 largest constituents of the Underlying Index with their respective weightings;
- Daily holdings of the RMB Bond Index ETF
- Monthly fund fact sheet;
- Index methodology file;
- Notices and announcements; and
- Identities of the Participating Dealers.

Please note that the estimated NAV per Unit in HKD and the last closing NAV per Unit in HKD are for reference only. The estimated NAV per Unit in HKD is calculated using the estimated NAV per Unit in RMB multiplied by the real time spot rate quoted by Bloomberg for offshore RMB (CNH). The latest closing NAV per Unit in HKD is calculated using the latest closing NAV per Unit in RMB multiplied by the Reuters mid rate for RMB (CNH) at 6:00 p.m. (Hong Kong time) on that Dealing Day. Please refer to the Prospectus for details.

All of the information outlined above can be found on the product webpage of the RMB Bond Index ETF. The product webpage of the RMB Bond Index ETF can be located by using the search function and inserting the RMB counter or the HKD counter stock code of the RMB Bond Index ETF (i.e. 83139 or 3139) at www.ishares.com.hk. The product webpage also provides a link to the announcements and notices section of the website where public announcements and notices can be found.

## Important

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

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# DESCRIPTION OF THE RMB BOND INDEX ETF

The information contained in this Prospectus has been prepared to assist potential investors in making an informed decision in relation to investing in the RMB Bond Index ETF. It contains important facts about the Trust as a whole and the RMB Bond Index ETF.

## The Trust and the RMB Bond Index ETF

The Trust is an umbrella unit trust created by a trust deed (the "Trust Deed") dated 16 November 2001, as amended, made under Hong Kong law between BlackRock Asset Management North Asia Limited (formerly known as Barclays Global Investors North Asia Limited) (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"). The Trust may issue different classes of Units and the Trustee shall establish a separate pool of assets within the Trust (each such separate pool of assets an "Index Fund") for each class of Units. The assets of an Index Fund will be invested and administered separately from the other assets of the Trust. The Manager reserves the right to establish other Index Funds and to issue further classes of Units in the future.

This Prospectus relates to one of the Index Funds, the RMB Bond Index ETF, which is an exchange traded fund (or "ETF") authorized by the SFC.

ETFs are funds that are designed to track an index. The Units of the RMB Bond Index ETF are listed on the SEHK and trade like any other equity security listed on the SEHK. Only Participating Dealers may purchase or redeem Units directly from the RMB Bond Index ETF at Net Asset Value. All other investors may only buy and sell Units in the RMB Bond Index ETF on the SEHK.

**PRICES FOR THE RMB BOND INDEX ETF ON THE SEHK ARE BASED ON SECONDARY MARKET TRADING FACTORS AND MAY DEVIATE SIGNIFICANTLY FROM THE NET ASSET VALUE OF THE RMB BOND INDEX ETF.**

## Key Information

The following table is a summary of key information in respect of the RMB Bond Index ETF, and should be read in conjunction with the full text of the Prospectus.

| | |
|---|---|
| **Underlying Index** | Index: Citi RMB Bond Capped Index<br>Launch Date: 1 March 2013<br>Number of constituents: 92 (20 May 2013)<br>Total Market Capitalisation: RMB 158.5 billion (20 May 2013)<br>Base Currency: RMB<br>Index Provider: Citigroup Index LLC<br>Index Type: Total return index |
| **Listing Date (SEHK)** | 18 June 2013 |
| **Exchange Listing** | SEHK – Main Board |
| **Initial Issue Price** | RMB 35 |
| **Stock Code** | 83139 – RMB counter<br>3139 – HKD counter |
| **Stock Short Names** | iSharesRMBBND-R – RMB counter<br>iSharesRMBBND – HKD counter |
| **Trading Board Lot Size** | 100 Units – RMB counter<br>100 Units – HKD counter |
| **Base Currency** | Renminbi (RMB) |

| | |
|---|---|
| **Trading Currencies** | Renminbi (RMB) – RMB counter<br>Hong Kong dollars (HKD) – HKD counter |
| **Distribution Policy** | Quarterly, at Manager's discretion. **All Units (whether RMB or HKD traded Units) will receive distributions in RMB only. #** |
| **Creation / Redemption Policy** | Cash (RMB only) and/or in-specie |
| **Application Unit Size (only Participating Dealers)** | Minimum 40,000 Units and such other Units above the minimum as the Manager may determine and approved by the Trustee |
| **Management Fee** | 0.39% p.a. of NAV calculated daily<br>(estimated Total Expense Ratio 0.39% p.a.*) |
| **Investment Strategy** | Representative sampling strategy (refer to the "Investment Strategy" section below) |
| **Financial Year End** | 31 December |
| **Market Makers** | As at the date of this Prospectus , The Hongkong and Shanghai Banking Corporation Limited, for updated list, please refer to http://www.hkex.com.hk/eng/etfrc/SMMList/SMM_List.htm |
| **Participating Dealers** | As at the date of this Prospectus, Standard Chartered Bank (Hong Kong) Limited, UBS Securities Hong Kong Limited, KGI Securities (Hong Kong) Limited, Macquarie Bank Limited, Citigroup Global Markets Asia Limited and The Hongkong and Shanghai Banking Corporation Limited. For an updated list, please refer to www.ishares.com.hk |
| **Website** | www.ishares.com.hk |

# Both HKD traded Units and RMB traded Units will receive distributions in RMB only. In the event that the relevant Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency. Unitholders are advised to check with their brokers for arrangements concerning distributions and to consider the risk factor "RMB Distributions Risk."

* Estimated Total Expense Ratio does not represent the estimated tracking error and does not include extraordinary costs that may be borne by the RMB Bond Index ETF. Such costs may have an adverse impact on the Net Asset Value and performance of the RMB Bond Index and may result in tracking error.

## Investment Objective

The investment objective of the RMB Bond Index ETF is to provide investment results that, before fees and expenses, closely correspond to the performance of the Underlying Index.

An index such as the Underlying Index is a group of Securities which an Index Provider selects as representative of a market, market segment or specific industry sector. The Index Provider is independent of the Manager and determines the relative weightings of the Securities in the Underlying Index and publishes information regarding the market value of the Underlying Index.

There can be no assurance that the RMB Bond Index ETF will achieve its investment objective.

The Underlying Index of the RMB Bond Index ETF may be changed by prior approval of the SFC and notice to Unitholders.

## Investment Strategy

### Representative Sampling Strategy

In managing the RMB Bond Index ETF, the Manager adopts a representative sampling strategy that involves investing in a representative sample of the Securities included in the Underlying Index that collectively has an investment profile that reflects the profile of the Underlying Index. The RMB Bond Index ETF will be rebalanced monthly. The Manager does not try to beat or perform better than the Underlying Index.

The RMB Bond Index ETF will not hold all the bonds in all the constituent companies of the Underlying Index, and may hold Securities which are not included in the Underlying Index, provided that the sample closely reflects the overall characteristics of the Underlying Index which the Manager believes will help the RMB Bond Index ETF achieve its investment objective.

The Manager believes that a representative sampling strategy is more appropriate in view of the comparative illiquidity of certain Securities in the Underlying Index which may be experienced with certain Securities comprised in the Underlying Index.

Under normal circumstances and market conditions, the RMB Bond Index ETF aims to invest at least 95% of its assets in achieving the investment objective. There may be circumstances that the RMB Bond Index ETF may not be able to invest 95% of the assets in the underlying market and hold more cash than normal due to market conditions, for example, where it takes longer than anticipated to invest all the creation proceeds into the dim sum bond market.

The RMB Bond Index ETF may invest up to 10% of its Net Asset Value in financial derivative instruments for the purposes of hedging and non-hedging including investment, and/or return optimization.

The investment strategy of the RMB Bond Index ETF is subject to the investment and borrowing restrictions set out in Schedule 1.

Further, as a result of adopting the representative sampling strategy, the RMB Bond Index ETF may overweight holdings of the underlying non-sovereign or government Securities relative to the respective weightings of the constituents in the Underlying Index provided that the maximum extra weighting in any investment relative to the respective constituent will not exceed 3% under normal market conditions. The RMB Bond Index ETF may overweight the underlying holdings of government or sovereign Securities relative to the respective weightings of the constituents in the Underlying Index provided that the maximum extra weighting in any investment relative to the respective constituent will not exceed 5% under normal market conditions. The Manager shall report to the SFC on a timely basis if there is any non-compliance with this limit during such period by the RMB Bond Index ETF. The annual and semi-annual reports of the RMB Bond Index ETF shall also disclose whether or not such limit has been complied with during such period.

In addition, whilst the below investment grade and non-rated sector constituents have been capped at a weighting of 30% of the Underlying Index at every month end, since the Manager will be adopting a representative sampling strategy with the ability to overweight on its holdings, it is possible that the RMB Bond Index ETF will invest in more than 30% of its Net Asset Value in below investment grade and non-rated bonds. Further, where there are market conditions beyond the control of the Manager including the credit rating downgrade of a bond or a bond issuer losing its credit rating status, the percentage holdings of below investment grade and non-rated bonds may also increase. Notwithstanding the foregoing, at every month end, the Manager will seek to limit the amount of overall holdings in below investment grade and non-rated sector bonds to a maximum of 30% of the Net Asset Value of the RMB Bond Index ETF within a reasonable period of time taking into account the interests of Unitholders.

There is currently no intention of the RMB Bond Index ETF to engage in securities lending, repurchase transactions or other similar over-the-counter transactions, but this may change in light of market circumstances and where the RMB Bond Index ETF does engage in these types of transactions, prior approval shall be obtained from the SFC and no less than one month's prior notice will be given to the Unitholders.

### Tracking Error

An index is a theoretical financial calculation based on the performance of particular components that make up the index, whereas the RMB Bond Index ETF is an actual investment portfolio. The performance of the RMB Bond Index ETF and its Underlying Index may be different due to transaction costs, asset valuations, corporate actions (such as mergers and spin-offs), timing variances and differences between the RMB Bond Index ETF's portfolio and the Underlying Index. These differences may result for example from legal restrictions affecting the ability of the RMB Bond Index ETF to purchase or dispose of Securities or the employment of a representative sampling strategy.

The use of a representative sampling strategy can be expected to result in greater tracking error than a full replication strategy. The consequences of tracking error are described in more detail in "Tracking Error Risk".

### Investment and Borrowing Restrictions

The RMB Bond Index ETF must comply with the investment and borrowing restrictions as summarized in Schedule 1 of this Prospectus (which includes a summary of the investment restrictions set out in the Trust Deed).

## Index Licence Agreement

The Manager was granted a license by Citigroup Index LLC ("Citigroup") to use the Underlying Index to create the RMB Bond Index ETF and to use certain trade marks and any copyright in the Underlying Index commencing from 1 March 2013 under a license agreement to use various rights including intellectual property rights and rights to the Underlying Index and the data in relation to the Underlying Index. The license granted forms part of a global arrangement between the Manager and Citigroup which was entered on 17 February 2009 and has a term of five years and can be renewed by written agreement of the parties.

Investors' attention is drawn to "Risks Associated with the Underlying Index".

## Underlying Index

The Citi RMB Bond Capped Index (the "Underlying Index") is a market capitalisation-weighted index compiled and published by Citigroup. The Manager (or its Connected Persons) is independent of the Index Provider.

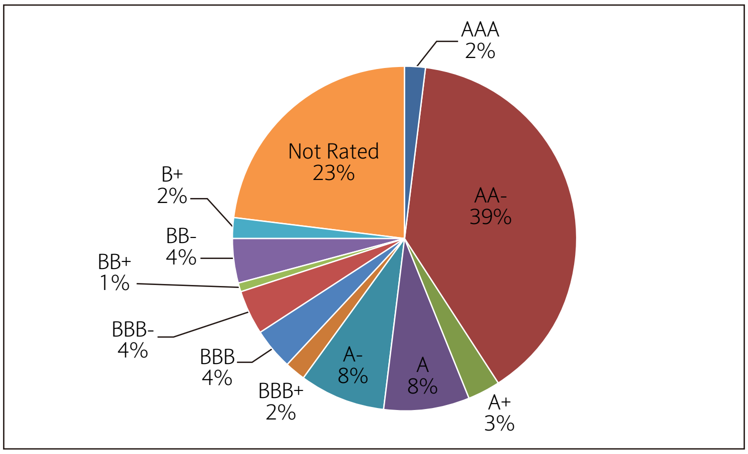
The Underlying Index is currently designed to provide exposure to RMB-denominated bonds that are issued and settled outside the PRC. The Underlying Index includes fixed-rate securities issued by governments, government sponsored agencies, supranationals, and corporations that are issued or distributed outside the PRC with a minimum maturity date of one year and a minimum size outstanding of RMB 1 billion. The Underlying Index does not include synthetic securities that are denominated in RMB but not settled in RMB. The Underlying Index also excludes certificates of deposits ("CDs") or retail securities that are mainly issued by the PRC government and financial institutions for retail customers.

The table below shows the summary profile statistics of the composition of the Underlying Index. As at 20 May 2013, there are 92 constituent bonds with a total market value of RMB158.5 billion. Approximately 70% of the Underlying Index is investment-grade, 7% is high-yield and approximately 23% is not rated. The Index currently has exposure to 18 countries, with the PRC and Hong Kong covering approximately 76% of the market weight in the Underlying Index.

| | Number of Issues | Par Amount in millions (RMB)* | Market | | Coupon | Average Life | Effective Duration | Option Adjusted Spread (bp) |
|---|---|---|---|---|---|---|---|---|
| | | | Amount in millions (RMB)* | Weight (%) | | | | |
| | **92** | **155,642** | **158,520** | **100** | **3.50** | **3.32** | **2.98** | **113** |
| Investment-Grade | 51 | 109,213 | 110,934 | 69.98 | 2.84 | 3.74 | 3.36 | 57 |
| • AAA | 2 | 3,311 | 3,339 | 2.11 | 2.38 | 3.86 | 3.51 | 9 |
| • AA | 22 | 61,321 | 61,995 | 39.11 | 2.30 | 4.46 | 3.94 | 21 |
| • A | 17 | 29,066 | 29,768 | 18.78 | 3.44 | 2.89 | 2.67 | 95 |
| • BBB | 10 | 15,514 | 15,833 | 9.99 | 4.01 | 2.49 | 2.34 | 139 |
| High-Yield & Non Rated | 41 | 46,429 | 47,586 | 30.02 | 5.06 | 2.34 | 2.11 | 244 |
| • BB | 8 | 7,653 | 7,961 | 5.02 | 6.07 | 2.47 | 2.2 | 272 |
| • B | 3 | 3,564 | 3,612 | 2.28 | 7.72 | 3.63 | 3.1 | 539 |
| • Not Rated | 30 | 35,211 | 36,013 | 22.72 | 4.57 | 2.18 | 1.99 | 208 |
| 1-3 Years | 67 | 106,634 | 108,486 | 68.44 | 3.61 | 1.98 | 1.88 | 126 |
| 3-5 Years | 13 | 29,160 | 29,585 | 18.66 | 3.15 | 3.86 | 3.56 | 101 |
| 5-7 Years | 2 | 5,151 | 5,125 | 3.23 | 2.14 | 5.49 | 5.14 | 11 |
| 7-10 Years | 6 | 7,952 | 8,217 | 5.18 | 3.84 | 8.18 | 7.02 | 94 |
| 10+ Years | 4 | 6,745 | 7,107 | 4.48 | 4.08 | 14.83 | 11.23 | 65 |

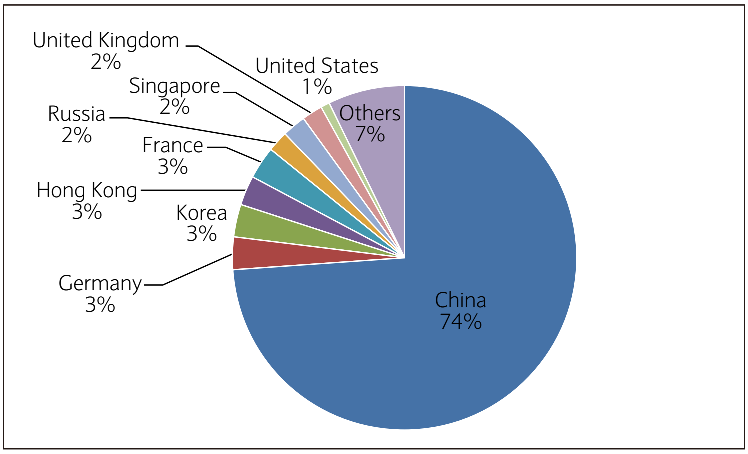
The charts below show the weighting of constituents of the Index by credit quality, issuer country and issuer type as of 20 May 2013.

**CREDIT QUALITY**

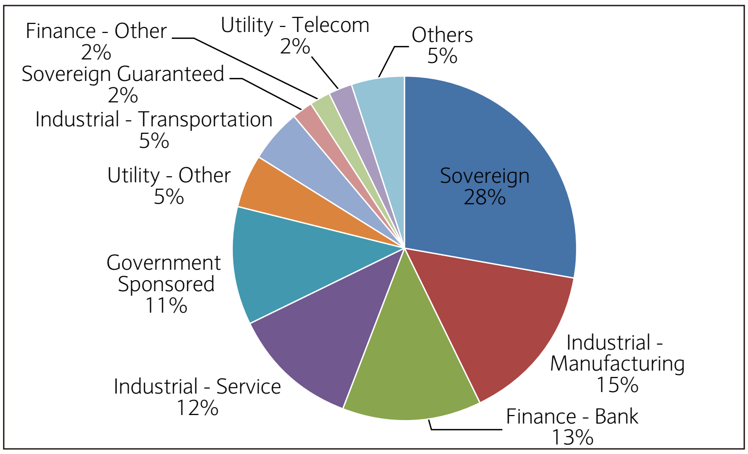



* The credit quality is first mapped to the S&P rating. If a bond is not rated by S&P but it is rated by Moody's, the S&P equivalent of the Moody's rating will be adopted. If a bond is not rated by S&P or Moody's but its issuer has an S&P rating, the issuer's S&P rating will be adopted as the bond's implied rating. If S&P issuer rating is not available, the S&P equivalent of Moody's issuer rating will be adopted as the bond's implied rating. If the bond and the issuer are neither rated by S&P nor Moody's, the bond will be classified as non-rated.

ISSUER COUNTRY




ISSUER TYPE




There is no minimum rating requirement for inclusion in the Underlying Index subject to the cap on below investment grade and non-rated bonds to 30% of the Underlying Index . The Underlying Index aims to provide better credit quality by capping, at every month end, the below investment grade and non-rated sector at 30% of the total Underlying Index.

Some of the bonds that comprise the Underlying Index may therefore be rated below investment grade. Below investment grade bonds are rated Ba1 and lower by Moody's Investor Services, Inc. ("Moody's"), BB+ or lower by Standard & Poor's Rating Group ("S&P"). Below investment grade bonds, commonly referred to as "junk" bonds, are regarded as having predominately speculative characteristics with respect to an issuer's capacity to pay interest and repay principal. Please refer to "Below Investment Grade and Non-rated Securities Risk" for more information regarding risk relating to investments in these Securities.

Citigroup publishes the daily Underlying Index level (Ticker: CFIIRCIL INDEX) on Bloomberg.

**Description of Index Methodology**

All of the bonds denominated and settled in RMB that are issued and settled outside the PRC are eligible for inclusion in the Underlying Index including bonds issued by government, government sponsored agencies, supranational and corporations etc., except floating rate bonds, CDs, synthetics, retail bonds, and convertible bonds and excluding zero coupon bonds.

Further, to be eligible for inclusion in the Underlying Index, the RMB denominated bonds must also satisfy the following criteria:

(i) ***Fixed-rate coupon***

Only bonds that pay coupons at a fixed rate are eligible to be included in the Underlying Index.

(ii) ***Year to maturity***
All constituent bonds included in the Underlying Index must have a minimum year to maturity of one year from month end to remain in the Underlying Index for the following month.

(iii) ***Minimum size outstanding***
All constituents of the Underlying Index must have a minimum size outstanding, and as at the date of this Prospectus, the minimum size outstanding threshold is set at RMB 1 billion.

***Index Construction***
RMB-denominated bonds that are issued and settled outside the PRC and meet the above criteria form the Underlying Index. The weighting of the constituents in the Underlying Index is based on their relative market capitalization to the total market capitalization of the Underlying Index. If the total weight of all below investment grade and non-rated bonds that meet the above criteria exceeds 30%, the excess weight will be redistributed pro rata across the remaining bonds in the Underlying Index. If an individual issue is not rated by S&P or Moody's but its issuer has an S&P or Moody's rating, the Index Provider will assign the issuer's rating to the issue as its implied rating. Total exposures to below investment grade and non-rated bonds therefore are capped at 30% of the Underlying Index.

Index criteria are reviewed on a periodic basis.

***Pricing of bonds***
Bonds in general, including offshore Renminbi bonds, are traded over the counter and hence there is no single market price. For the Underlying Index, Citigroup trading desk bid-side prices will be adopted as a primary source and a third party pricing source, namely, Interactive Data Corporation ("IDC") bid-side pricing will be used for validation. If there is a substantial price difference between the two sources, both sources will be contacted for verification and confirmation, and valuation will be adjusted as necessary.

IDC has over 30 years of experience in providing evaluation and pricing data and is widely used by the industry to provide fixed income pricing. IDC is independent from the Index Provider, the Manager and the Trustee. For more information about IDC, please refer to the website: www.interactivedata.com.

Further, the Trustee will receive data of the Underlying Index including the individual bond prices from the Index provider on a daily basis. For the purposes of calculating the daily closing Net Asset Value of the RMB Bond Index ETF, the Trustee would check and validate the prices using secondary pricing sources such as Reuters or Bloomberg, if deemed necessary.

The Trustee and the Manager has the right to use prices other than those provided by the Underlying Index provider to calculate the Net Asset Value of the RMB Bond Index ETF including prices provided by a pricing service or selected brokers approved by the Manager after consultation with the Trustee with a view to achieve fair pricing of the bonds.

***Treatment of Defaulted Bonds***
In the event a bond included in the Underlying Index defaults or is expected to be defaulted, such bonds will be removed from the Underlying Index during the month-end rebalance. During the time the defaulted bond remains in the Underlying Index, the total return of the Underlying Index and the value of the Underlying Index will include such defaulted bond and will be adjusted to reflect the loss of principal and the loss of coupon where applicable.  The pricing of defaulted bonds will also adopt the pricing policy as described above.

***Index Maintenance***
The Underlying Index is rebalanced monthly at month-end. All Citigroup indexes follow the general methodology of the family of the Citigroup fixed income indexes. Details of the Underlying Index including its methodology is published on www.ishares.com.hk.

**Constituent Securities of the Underlying Index**

As at 20 May 2013, the following were the 10 largest constituents of the Underlying Index are:–

| Issuer Name | Coupon % | Maturity Date | % of Index | Credit Quality* | Issuer Country | Issuer Type |
|---|---|---|---|---|---|---|
| PRC Government Bond | 1.850 | 29/06/15 | 6.29 | AA- | PRC | Sovereign |
| PRC Government Bond | 2.560 | 29/06/17 | 4.85 | AA- | PRC | Sovereign |
| PRC Government Bond | 0.600 | 18/08/14 | 4.58 | AA- | PRC | Sovereign |
| PRC Government Bond | 1.400 | 18/08/16 | 3.81 | AA- | PRC | Sovereign |
| China Guangdong Nuclear Power Corporation | 3.750 | 01/11/15 | 2.37 | A- | PRC | Utility - Other |
| PRC Government Bond | 1.940 | 18/08/18 | 2.29 | AA- | PRC | Sovereign |
| Global Logistics Properties Ltd. | 3.375 | 11/05/16 | 2.07 | BBB | Singapore | Industrial – Service |
| New World China Land Ltd. | 8.500 | 11/04/15 | 2.06 | Not Rated | PRC | Industrial – Service |
| China Development Bank Corp. | 4.200 | 19/01/27 | 2.03 | AA- | PRC | Government Sponsored |
| Baosteel Group | 3.500 | 01/12/2014 | 1.66 | A- | PRC | Industrial – Manufacturing |

**Distribution Policy**

The Manager intends to distribute income to Unitholders quarterly having regard to the RMB Bond Index ETF's net income after fees and costs. The Manager will make an announcement prior to any distribution in respect of the relevant distribution amount in RMB only. Each Unitholder will receive distributions in RMB only (whether holding RMB traded Units or HKD traded Units). The RMB Bond Index ETF will not distribute out of capital or effectively out of capital.

**Further Information**

Further information in relation to the RMB Bond Index ETF (including details of distribution policy and its Net Asset Value) and the Underlying Index is available at the iShares website (www.ishares.com.hk). Investors should refer to "Information Available on the Internet" for more details. Unitholders are encouraged to refer to the information available on the iShares website on a regular basis.

* *The credit quality is first mapped to the S&P rating. If a bond is not rated by S&P but it is rated by Moody's, the S&P equivalent of the Moody's rating will be adopted. If a bond is not rated by S&P or Moody's but its issuer has an S&P rating, the issuer's S&P rating will be adopted as the bond's implied rating. If S&P issuer rating is not available, the S&P equivalent of Moody's issuer rating will be adopted as the bond's implied rating. If the bond and the issuer are neither rated by S&P nor Moody's, the bond will be classified as non-rated.*

# OFFERING PHASES

## Initial Offer Period

During the Initial Offer Period, Participating Dealers (acting for themselves or for brokers that have an account with the Participating Dealers) may apply for Units (to be available for trading on the Listing Date) by means of Creation Applications on each Dealing Day for themselves and/or their clients by transferring cash or Securities in accordance with the Operating Guidelines.

The latest date for making a Creation Application for Units is 11:00 a.m. (Hong Kong time) 4 Business Days prior to the Listing Date or such other time as the Manager (with the approval of the Trustee) may determine on any day within the trading hours of the SEHK.

To be dealt with during the Initial Offer Period, the relevant Participating Dealer must submit the Creation Applications to the Registrar (with a copy to the Manager and the Trustee) before the above deadline. If a Creation Application is received by the Registrar after the above deadline, that Creation Application shall be carried forward and deemed to be received at the opening of business on the next Dealing Day following the Listing Date, which shall be the Dealing Day for the purposes of that Creation Application.

Creation Applications must be made in Application Unit Size, which is currently 40,000 Units. During the Initial Offer Period the Participating Dealers (acting for themselves or for brokers that have an account with the Participating Dealers) can apply for Units on each Dealing Day at the Issue Price.

Please refer to the section on "Creations and Redemptions (Primary Market)" for the operational procedures in respect of Creation Applications.

## After Listing

The after listing phase commences on the Listing Date and continues until the RMB Bond Index ETF is terminated. Dealings in the Units on the SEHK are expected to commence on 18 June 2013 but may be postponed by the Manager to a date no later than 12 July 2013.

You can acquire or dispose the Units in either of the following two ways:

(a) buy and sell Units on the SEHK; or

(b) apply for creation and redemption of Units in cash or in kind through Participating Dealers.

***Buying and selling of Units on the SEHK***

After listing, all investors can buy and sell Units in Trading Board Lot Size (as described in "Key Information" above) or whole multiples thereof like ordinary listed stocks through an intermediary such as a stockbroker or through any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open. The Trading Board Lot Size is currently 100 Units.

However, please note that transactions in the secondary market on the SEHK will occur at market prices which may vary throughout the day and may differ from Net Asset Value per Unit due to market demand and supply, liquidity and scale of trading spread for the Units in the secondary market. As a result, the market price of the Units in the secondary market may be higher or lower than Net Asset Value per Unit.

Please refer to the section on "Exchange Listing and Trading (Secondary Market)" below for further information in respect of buying and selling of Units on the SEHK.

***Creations and redemptions through Participating Dealers***

Units will continue to be created by cash creation and redeemed by cash redemption (both creation and redemption in RMB only unless otherwise consented to by the Manager) and if permitted by the Manager, in-specie creation and redemption at the Issue Price and Redemption Value respectively through Participating Dealers in the Application Unit Size.

If a currency other than RMB is accepted by the Manager for creation and/or redemption purposes, the Participating Dealer may bear the foreign exchange risks/costs associated with the conversion between the base currency of the RMB Bond Index ETF and the relevant currency accepted by the Manager. Such risks and/or associated costs may also be passed onto investors that create and/or redeem through a Participating Dealer. After listing, all Units will be registered in the name of HKSCC Nominees Limited on the register of the Trust. The register of the Trust is the evidence of ownership of Units. The beneficial interests in Units of any client of the Participating Dealers shall be established through such client's account with the relevant Participating Dealer or with any other CCASS participants if the client is buying from the secondary market.

**Timetable**

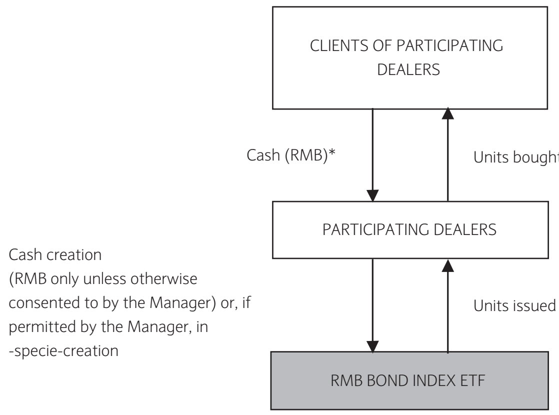
The following table summarises all key events and the Manager's expected timetable:

| | |
|---|---|
| Initial Offer Period commences<br>• Participating Dealers may apply for creation for themselves or for their clients in a minimum number of 40,000 Units (or such other number of Units above the minimum as the Manager may determine and approved by the Trustee) | • 9:00 a.m. (Hong Kong time) on 5 June 2013 but may be postponed by the Manager to no later than 9:00 a.m. (Hong Kong time) 2 July 2013 |
| The date that is 4 Business Days prior to the Listing Date<br>• Latest time for Creation Applications by Participating Dealers for Units to be available for trading on the Listing Date | • 11:00 a.m. (Hong Kong time) on 11 June 2013 but may be postponed by the Manager to no later than 11:00 a.m. 8 July 2013 |
| After listing (period commences on the Listing Date)<br>• All investors may start trading Units on the SEHK through any designated brokers; and<br>• Participating Dealers may apply for creation and redemption (for themselves or for their clients) in a minimum number of 40,000 Units(or such other number of Units above the minimum as the Manager may determine and approved by the Trustee) | • Commence at 9:30 a.m. (Hong Kong time) on 18 June 2013, but may be postponed by the Manager to a date no later than 12 July 2013<br>• In accordance to such times as specified in the Operating Guidelines from time to time. |

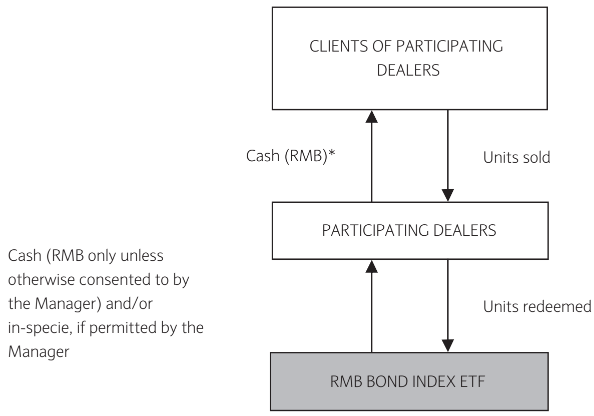
**Diagrammatic illustration of investment in the RMB Bond Index ETF**

The diagrams below illustrate the issue or redemption and the buying or selling of Units:

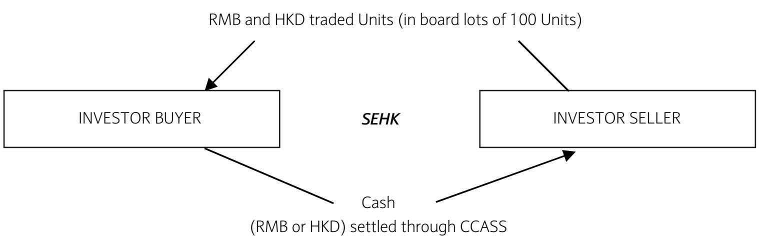
(a) Issue and buying of Units in the primary market – Initial Offer Period and After listing




(b) Redemption and sale of Units in the primary market – After listing




(c) Buying or selling of Units in the secondary market on the SEHK – After listing




* *Clients of the Participating Dealers may agree with the Participating Dealers settlement in another currency.*

**Summary of offering methods and related fees**

*Initial Offer Period*

| Method of Offering | Minimum Number of Units (or such other number of Units above the minimum as determined by the Manager and approved by the Trustee ) | Channel | Available to | Consideration, Fees and Charges* |
|---|---|---|---|---|
| Cash creation (RMB only unless otherwise consented to by the Manager) | 40,000 (Application Unit) | Through Participating Dealers or through brokers that have an account with the Participating Dealers | Any person acceptable to the Participating Dealer as its client | Cash (based on the Initial Issue Price and the number of Units applied)<br>Brokerage fees and/or any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer in the currency determined by or agreed with it) |

*After Listing*

| Method of Acquisition or Disposal of Units | Minimum Number of Units (or such other number of Units above the minimum as determined by the Manager and approved by the Trustee ) | Channel | Available to | Consideration, Fees and Charges* |
|---|---|---|---|---|
| Purchase and sale in cash through brokers on the SEHK (secondary market) in HKD or in RMB | Board lot of 100 Units for HKD traded Units and 100 Units for RMB traded Units | On the SEHK | Any investor | Market price of Units on SEHK (RMB for RMB traded Units and HKD for HKD traded Units)<br>Brokerage fees (in such currency as determined by individual brokers), Transaction Levy and Trading Fee (in HKD only ) |

| Method of Acquisition or Disposal of Units | Minimum Number of Units (or such other number of Units above the minimum as determined by the Manager and approved by the Trustee ) | Channel | Available to | Consideration, Fees and Charges* |
|---|---|---|---|---|
| Cash creation and cash redemption (RMB only unless otherwise consented to by the Manager) or, if permitted by the Manager, in specie-creation or in-specie redemption | 40,000 (Application Unit) | Through Participating Dealers only | Any person acceptable to the Participating Dealer as its client | Cash based on the Issue Price/ Redemption Value and the number of Units applied (payable/receivable in RMB only unless the Participating Dealer otherwise agrees)<br>Any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer in the currency determined by or agreed with it)<br>Basket(s) and the difference between the aggregate value of the Securities and the Net Asset Value of the Application Unit Size<br>Transaction Fee |

## RMB payment or account procedures

Investors may apply for Units through Participating Dealers only if they have sufficient RMB to pay the application monies and the related fees unless otherwise informed by the Participating Dealers that other currencies can be accepted. Investors should note that RMB is the only official currency of the PRC. While both onshore RMB ("CNY") and offshore RMB ("CNH") are the same currency, they are traded in different and separate markets. Since the 2 RMB markets operate independently where the flow between them is highly restricted, CNY and CNH are traded at different rates and their movement may not be in the same direction. Although there is a significant amount of RMB held offshore (i.e. outside the PRC), CNH cannot be freely remitted into the PRC and is subject to certain restrictions, and vice versa. As such whilst CNH and CNY are both the same currency, certain special restrictions do apply to RMB outside the PRC. The liquidity and trading price of the RMB Bond Index ETF may be adversely affected by the limited availability of, and restrictions applicable to, RMB outside the PRC.

Application monies from Participating Dealers to the RMB Bond Index ETF will be paid in RMB (unless otherwise consented to by the Manager ). Accordingly a Participating Dealer may require you (as its client) to pay RMB to it. Payment details will be set out in the relevant Participating Dealer's documentation such as the application form for its clients. As such, you may need to have opened a bank account (for settlement) and a securities dealing account if a Participating Dealer is to subscribe for Units on your behalf as you will need to have accumulated sufficient RMB to pay at least the aggregate Issue Price and related costs, to the Participating Dealer or if an application to the Participating Dealer is not successful or is successful only in part, the whole or appropriate portion of the monies paid will need to be returned to you by the Participating Dealer by crediting such amount into your RMB bank account. Similarly, if you wish to buy and sell Units in the secondary market on the SEHK, you may need to open a securities dealing account with your broker. You will need to check with the relevant Participating Dealer and/or your broker for payment details and account procedures.

* *Please refer to "Fees and Expenses" for further details*

If any investors wish to buy or sell Units on the secondary market, they should contact their brokers and they are reminded to confirm with their brokers in respect of Units traded in RMB their readiness for dealing and/or clearing transactions in RMB securities and to check other relevant information published by the SEHK regarding readiness of its participants for dealing in RMB securities from time to time. CCASS Investor Participants who wish to settle the payment in relation to their trades in the Units traded in RMB using their CCASS Investor Participant account or to receive distributions in RMB should make sure that they have set up an RMB designated bank account with CCASS.

Investors intending to purchase Units in the RMB counter from the secondary market should consult their stockbrokers as to the RMB funding requirement and settlement method for such purchase. Investors may need to open and maintain securities dealing accounts with the stock broker first before any dealing in Units can be effected.

Investors should ensure they have sufficient RMB to settle of Units traded in RMB. The daily maximum exchange limit for RMB is RMB20,000 per Hong Kong resident individual and there is currently no maximum exchange limit for non-Hong Kong residents. Investors should consult the banks for the account opening procedures as well as terms and conditions of the RMB bank account. Some banks may impose restrictions on their RMB cheque account and fund transfers to third party accounts. For non-bank financial institutions (e.g. brokers), however, such restriction may not be applicable and investors should consult their brokers as to the currency exchange service arrangement if required.

The transaction costs of dealings in the Units on the SEHK include the SEHK trading fee and SFC transaction levy. All these secondary trading related fees and charges will be collected in Hong Kong dollars and, in respect of Units traded in RMB, calculated based on an exchange rate as determined by the Hong Kong Monetary Authority on the date of the trade which will be published on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) by 11:00 a.m. (Hong Kong time) or earlier on each trading day.

Investors should consult their own brokers or custodians as to how and in what currency the trading related fees and charges and brokerage commission should be paid by the investors.

Where payment in RMB is to be made by cheque investors are advised to consult the bank at which their respective RMB bank accounts are opened in advance whether there are any specific requirements in relation to the issue of RMB cheques. In particular, investors should note that some banks have imposed an internal limits (usually RMB80,000) on the balance of RMB cheque account of their clients or the amount of cheques that their clients can issue in a day and such limit may affect an investor’s arrangement of funding for an application (through a Participating Dealer) for the creation of Units.

When an individual investor opens an RMB bank account or settle RMB payments, he or she will be subject to a number of restrictions, including:

(a) in respect of Hong Kong residents, the existing permitted conversions in relation to personal customers are up to RMB20,000 conducted through RMB bank accounts per person per day or up to RMB20,000 per transaction per person in bank notes for walk-in personal customers; and

(b) the daily maximum remittance amount to the PRC is RMB80,000 and a remittance service is only available to an RMB deposit account-holder who remits from his or her RMB deposit account to the PRC and provided that the account name of the account in the PRC is identical with that of the RMB bank account with the bank in Hong Kong.

Please also refer to the section entitled “RMB Currency Risks” for further details.

# CREATIONS AND REDEMPTIONS (PRIMARY MARKET)

## Creation by Participating Dealers

Only Participating Dealers may apply for Units directly from the RMB Bond Index ETF. Units in the RMB Bond Index ETF are continuously offered to Participating Dealers who may apply for them on any Dealing Day on their own account or for the account of their clients in accordance with the Operating Guidelines, in the minimum size of 40,000 Units or any number of Units above the minimum holding as determined by the Manager and approved by the Trustee and notified to the Participating Dealers.

The dealing period on any Dealing Day commences and ends at the Dealing Deadline as stated in the Operating Guidelines as updated by the Manager and notified to the Participating Dealers from time to time. The Manager expects that Participating Dealers will generally accept and submit creation requests received from third parties, subject to normal market conditions and their client acceptance procedures. Participating Dealers may impose fees and charges in handling any creation request which would increase the cost of investment. Investors are advised to check with the Participating Dealers as to relevant fees and charges. You should note although the Manager has a duty to closely monitor the operations of the Trust, neither the Manager nor the Trustee is empowered to compel any Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager, or to accept any such application requests received from third parties. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by the Participating Dealer.

The minimum holding of the RMB Bond Index ETF is 40,000 Units for cash Creation Application and for in-specie Creation Applications. Units in the RMB Bond Index ETF are offered and issued at the Issue Price only in the minimum Units or any number of Units above the minimum holding as determined by the Manager and approved by the Trustee and notified to the Participating Dealers (the “Application Unit Size”). Applications submitted in respect of Units other than in Application Unit Size will not be accepted. Any cash payable by a Participating Dealer in a cash Creation Application must be in RMB only (unless otherwise consented to by the Manager).

Whilst it is open to a Participating Dealer to choose the method of creation in accordance with the Operating Guidelines, in addition to its rights to reject or cancel a Creation Application under the Trust Deed, the Manager reserves the right to reject or cancel a Creation Application if it is unable to invest the RMB cash proceeds of a cash creation or if proposed Securities are not acceptable to the Manager.

The Manager shall instruct the Trustee to effect, for the account of the Trust, the creation of Units in the RMB Bond Index ETF in Application Unit Size in accordance with any of (a), (b) or (c) below (or a combination of any or all of the same) as determined by the Manager in its discretion:

(a) in exchange for a transfer, by the Participating Dealer, to or for the account of the Trustee of Securities constituting an application basket for the relevant Units, a cash amount equivalent to any Duties and Charges payable plus, if the cash component is a positive value, a cash payment equivalent to the amount of the cash component. If the cash component is a negative value, the Trustee shall be required to make a cash payment equivalent to the amount of the cash component (expressed as a positive figure) to the Participating Dealer. In the event that the RMB Bond Index ETF has insufficient cash required to pay any cash component payable by the RMB Bond Index ETF, the Manager may effect sales of the deposited property of the RMB Bond Index ETF, or may borrow moneys in accordance with the Trust Deed, to provide the cash required;

(b) if permitted by the Manager, in exchange for a cash payment by the Participating Dealer equivalent to the relevant application basket value (which shall be accounted for as deposited property) plus an amount equivalent to any cash component, which the Manager shall use to purchase the Securities comprised in the application basket , provided that the Manager shall be entitled in its discretion to (a) charge (for the account of the RMB Bond Index ETF) to the applicant of any Units for which cash is paid in lieu of delivering any Securities such additional sum as represents the appropriate provision for Duties and Charges and (b) cause to be paid to the Participating Dealer such amount as is determined by the Manager for the purpose of compensating the Participating Dealer up to an amount equal to the positive difference (if any) between the prices used when valuing the Securities of the RMB Bond Index ETF for the purpose of such creation and the purchase prices actually paid or to be paid out of the deposited property in relation to the RMB Bond Index ETF in acquiring such Securities for the RMB Bond Index ETF (after the addition to the relevant purchase prices of any Duties and Charges in respect of such acquisition of Securities); or

(c) in exchange for a cash payment by the Participating Dealer equivalent to the Issue Price of the relevant Units plus such sum as the Manager in its discretion considers appropriate for the Duties and Charges.

provided that the Manager shall have the right to reject or suspend a Creation Application if (i) in the opinion of the Manager, acceptance of any Security in connection with the Creation Application would have certain adverse tax consequences for the RMB Bond Index ETF; (ii) the Manager reasonably believes that the acceptance of any Security would be unlawful; (iii) the acceptance of any Security would otherwise, in the opinion of the Manager, have an adverse effect on the RMB Bond Index ETF; (iv) circumstances outside control of the Manager make it for all practicable purposes impossible to process the Creation Application; (v) the Manager has suspended the rights of Participating Dealers pursuant to the Trust Deed to redeem Units or; (vi) an insolvency event occurs in respect of the Participating Dealer.

Once the Units are created, the Manager shall effect, for the account of the Trust, the issue of Units to a Participating Dealer in accordance with the Operating Guidelines. Units which are created must be deposited in CCASS as RMB counter Units (i.e. tradeable in RMB only) initially.

Units are denominated in RMB (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee.

An application for the creation and issue of Units shall only be made or accepted (as the case may be) on a Dealing Day, shall only be in respect of Units constituting an Application Unit Size for in-specie Creations and shall only be accepted if made by or through a Participating Dealer in accordance with the terms of a Participation Agreement.

The creation and issue of Units pursuant to a Creation Application shall be effected on the Dealing Day on which the Creation Application is received (or deemed received) and accepted in accordance with the Operating Guidelines but, for valuation purposes only, Units shall be deemed created and issued after the Valuation Point on the Dealing Day on which the relevant Creation Application was received or deemed received and the register will be updated on Settlement Day or the Dealing Day immediately following Settlement Day if the settlement period is extended. An extension fee may be payable in relation to such an extension. See the “Fees and Expenses” for further details.

If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. The Dealing Deadline for in-specie Creation Applications and for cash Creation Applications are specified in the Operating Guidelines and any changes will be notified by the Manager to the Participating Dealers from time to time.

No Units shall be issued to any Participating Dealer unless the application is in a form and substance satisfactory to, and accompanied by such documents as may be required by, the Trustee and the Manager in accordance with the Operating Guidelines.

The Manager may charge a Transaction Fee in respect of Creation Applications and may on any day vary the rate of the Transaction Fee it charges (but not as between different Participating Dealers). The Transaction Fee shall be paid by or on behalf of the Participating Dealer applying for such Units (and may be set off and deducted against any cash amount due to the Participating Dealer in respect of such Creation Application(s)) for the benefit of the Trustee and/or the Service Agent. See “Fees and Expenses” for further details.

Any commission, remuneration or other sum payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price of such Unit and shall not be paid from the assets of the RMB Bond Index ETF.

The Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the register if at any time the Trustee is of the opinion that the provisions, in regard to the issue of Units, are being infringed.

**Subscription during Initial Offer Period**

On receipt of a Creation Application by a Participating Dealer for Units in the RMB Bond Index ETF during the Initial Offer Period, the Manager shall procure the creation of Units in the RMB Bond Index ETF for settlement on the Initial Issue Date being 4 Dealing Days following the close of the Initial Offer Period for the RMB Bond Index ETF.

**Evidence of Unitholding**

Units will be deposited, cleared and settled in CCASS. Units are held in registered entry form only, which means that no Unit certificates are issued. HKSCC Nominees Limited is the registered owner (i.e. the sole holder of record) of all outstanding Units deposited with the CCASS and is holding such Units for the participants in accordance with the General Rules of CCASS. Furthermore, the Trustee and the Manager acknowledge that pursuant to the General Rules of CCASS neither HKSCC Nominees Limited nor HKSCC has any proprietary interest in the Units. Investors owning Units in CCASS are beneficial owners as shown on the records of the participating brokers or the relevant Participating Dealer(s) (as the case may be).

**Restrictions on Unitholders**

The Manager has power to impose such restrictions other than a restriction on transfers as it may think necessary for the purpose of ensuring that no Units are acquired or held which would result in such holding being:–

- a breach of the law or requirements of any country or governmental authority or any stock exchange on which the Units are listed in circumstances which, in the Manager's opinion, might result in the Trust or the RMB Bond Index ETF being adversely affected which the Trust or the RMB Bond Index ETF might not otherwise have suffered; or

- in the circumstances which, in the Manager's opinion, may result in the Trust or the RMB Bond Index ETF incurring any tax liability or suffering any other pecuniary disadvantage which the Trust or the RMB Bond Index ETF might not otherwise have incurred or suffered.

Upon notice that any Units are so held, the Manager may require such Unitholders to redeem or transfer such Units in accordance with the provisions of the Trust Deed. A person who becomes aware that he is holding or owning Units in breach of any of the above restrictions is required either to redeem his Units in accordance with the Trust Deed or to transfer his Units to a person whose holding would be permissible under this Prospectus and the Trust Deed in a manner that would result in such Unitholder no longer being in breach of the restrictions above.

**Cancellation of Creation orders**

The Trustee shall cancel Units created and issued in respect of a Creation Application if it has not received good title to all Securities and/or cash (including Duties and Charges) relating to the Creation Application by the Settlement Day, provided that the Manager may at its discretion, with the approval of the Trustee, (a) extend the settlement period (either for the Creation Application as a whole or for a particular Security) such extension to be on such terms and conditions (including as to the payment of an Extension Fee to the Manager or the Trustee or their Connected Persons or otherwise) as the Manager may determine or (b) partially settle the Creation Application to the extent to which Securities and or cash has been vested in the Trustee, on such terms and conditions the Manager may determine including terms as to any extension of the settlement period for the outstanding Securities and/or cash.

In addition to the preceding circumstances, the Manager may also cancel any Units if it determines by such time as it specifies in the Operating Guidelines that it is unable to invest the cash proceeds of the relevant Creation Application.

Upon the cancellation of any Units as provided for above or if a Participating Dealer otherwise withdraws a Creation Application other than in certain circumstances contemplated in the Trust Deed, any Securities or cash received by or on behalf of the Trustee in connection with a Creation Application shall be redelivered to the Participating Dealer (without interest) and the relevant Units shall be deemed for all purposes never to have been created and the applicant therefore shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:–

- the Manager may charge the Participating Dealer for the account of the Trustee and/or the Registrar an Application Cancellation Fee, currently RMB8,000;

- the Manager may at its discretion require the Participating Dealer to pay to the Trustee for the account of the RMB Bond Index ETF in respect of each Unit so cancelled Cancellation Compensation, being (a) the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Value which would have applied in relation to each such Unit if a Participating Dealer had, on the date on which such Units are cancelled, made a Redemption Application, plus (b) such other amount as the Manager reasonably determines as representing any charges, expenses and losses incurred by the RMB Bond Index ETF as a result of any such cancellation;

- the Trustee and/or the Service Agent shall be entitled to the Transaction Fee payable in respect of a Creation Application; and

- no previous valuations of the Trust Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

## Redemption of Units

Redemption Applications may only be made by a Participating Dealer in respect of an Application Unit Size . Participating Dealer may redeem Units on any Dealing Day in accordance with the Operating Guidelines, by submitting a Redemption Application to the Trustee. The Manager may charge a Transaction Fee in respect of Redemption Applications. The Transaction Fee shall be paid by or on behalf of the Participating Dealer submitting the Redemption Application(s) (and may be set off and deducted against any amount due to the Participating Dealer in respect of such Redemption Application(s)) for the benefit of the Trustee and/or the Service Agent. See "Fees and Expenses" for further details.

Investors cannot acquire or redeem Units directly from the RMB Bond Index ETF. Only Participating Dealers may submit Redemption Applications to the Manager. The Manager expects that Participating Dealers will generally accept and submit redemption requests received from third parties, subject to normal market conditions and their client acceptance procedures. Participating Dealers may impose fees and charges in handling any redemption request which would increase the cost of investment and/or reduce the redemption proceeds. Investors are advised to check with the Participating Dealers as to relevant fees and charges. You should note although the Manager has a duty to closely monitor the operations of the Trust, neither the Manager nor the Trustee is empowered to compel any Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager, or to accept any such application requests received from third parties. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by the Participating Dealer.

If a Redemption Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, the Redemption Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Redemption Application. For the purpose of valuation, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the Redemption Application is treated as having been received.

The Dealing Deadline for in specie Redemption Applications and for cash Redemption Applications are set out in the Operating Guidelines and may be updated from time to time by the Manager and notified to the Participating Dealers.

On a redemption, a Participating Dealer shall have transferred Securities or cash or combination of Securities and cash in accordance with the Operating Guidelines.

The Manager shall, on receipt of an effective Redemption Application for the RMB Bond Index ETF from a Participating Dealer, effect the redemption of the relevant Units in Application Unit Size in accordance with any of (a), (b) or (c) below (or a combination of any or all of the same) as determined by the Manager in its discretion:–

(a) require the Trustee to transfer to the Participating Dealer, in accordance with the Operating Guidelines, Securities constituting an application basket for the relevant Units plus, if the cash component is a positive value, a cash payment equivalent to the amount of the cash component. If the cash component is a negative value, the Participating Dealer shall be required to make a cash payment equivalent to the amount of the cash component to the Trustee (expressed as a positive figure) to the Trustee. The Participating Dealer shall be required to make a cash payment (if any) in respect of any Redemption Application in accordance with the Operating Guidelines;

(b) require the Trustee to pay to the Participating Dealer, (i) a cash amount equivalent to the relevant application basket value plus (ii) an amount determined by the Manager for the purpose of compensating the Participating Dealer up to the amount by which the prices used when valuing the Securities of the RMB Bond Index ETF for the purpose of such Redemption Application are less than the sale prices actually received or to be received in selling the Securities for the RMB Bond Index ETF (after the deduction from the relevant sale prices of any Duties and Charges in respect of such disposal of Securities); or

(c) require the Trustee to pay to the Participating Dealer a cash amount equivalent to the Redemption Value of the relevant Units minus such sum as the Manager in its discretion considers appropriate for the Duties and Charges.

In the event that the RMB Bond Index ETF has insufficient cash to pay any cash amount payable, the Manager may effect sales of the Deposited Property of the RMB Bond Index ETF, or borrow moneys in accordance with the Trust Deed, to provide the cash required.

To be effective, a Redemption Application must:–

- be given by a Participating Dealer in accordance with the Participation Agreement (including the Operating Guidelines);

- specify the RMB Bond Index ETF and the number of Units which is the subject of the Redemption Application; and

- include the certifications required in the Operating Guidelines in respect of redemptions of Units, together with such certifications and opinions of counsel as the Trustee and the Manager may consider necessary to ensure compliance with applicable Securities and other laws in relation to the redemption of Units which are the subject of the Redemption Application.

A Redemption Application once given cannot be revoked or withdrawn without the consent of the Manager. The Registrar may charge a Unit Cancellation Fee in connection with each accepted Redemption Application.

The Redemption Value of Units tendered for redemption and cancellation shall be the Net Asset Value per Unit of the RMB Bond Index ETF rounded to the nearest 4 decimal places. Any Duties and Charges will be deducted from the Redemption Value.

The Manager may deduct from and set off against any cash payable to a Participating Dealer on the redemption proceeds such sum (if any) as the Manager may consider represents an appropriate provision for Duties and Charges and/or the Transaction Fee. To the extent that the cash amount is insufficient to pay such Duties and Charges and/or the Transaction Fee payable on such redemption the Participating Dealer shall promptly pay the shortfall in the currency of account for the RMB Bond Index ETF to or to the order of the Trustee. The Trustee shall not be obliged to deliver (and shall have a general lien over) any Security to be transferred in respect of the relevant Redemption Application until such shortfall and any cash amount, Transaction Fee and Extension Fee payable by the Participating Dealer is paid in full in cleared funds to or to the order of the Trustee.

Any accepted Redemption Application will be effected by the transfer or payment of the Securities or cash or a combination of both (at the discretion of the Participating Dealer) in accordance with the Operating Guidelines and the Trust Deed, on the Settlement Day provided that a Redemption Application duly signed by a Participating Dealer (to the satisfaction of the Manager and, where any amount is to be paid by telegraphic transfer to a bank account in Hong Kong or New York State, verified in such manner as may be required by, and to the satisfaction of, the Trustee) has been received and provided further that the Manager shall have received (unless otherwise provided in the Operating Guidelines) the original (and not a faxed copy) of the certificates (if any) representing the Units to be cancelled (or an indemnity in terms acceptable to the Trustee) and the full amount of any amount payable by the Participating Dealer including any Duties and Charges and the Transaction Fee have been either deducted or otherwise paid in full.

Notwithstanding the Dual Counter, any cash proceeds received by a Participating Dealer in a cash Redemption Application shall be paid only in RMB (unless otherwise consented to by the Manager). Both RMB traded Units and HKD traded Units may be redeemed by way of a Redemption Application (through a Participating Dealer). Where a Participating Dealer wishes to redeem HKD traded Units the redemption process is the same as for RMB traded Units.

Provided that on the relevant Settlement Day in relation to an effective Redemption Application:–

- the Units, which are the subject of the Redemption Application, shall be redeemed and cancelled;

- the Trust Fund shall be reduced by the cancellation of those Units but, for valuation purposes only, such Units shall be deemed to have been redeemed and cancelled after the Valuation Point as at the Dealing Day on which the Redemption Application was received; and

- the name of the holder of such Units shall be removed from the register in respect of those Units on the relevant Settlement Day,

and the Trustee shall transfer Securities and/or cash relevant to the Redemption Application out of the assets of the RMB Bond Index ETF to the Participating Dealer in accordance with the Operating Guidelines.

No Security or cash shall be transferred or paid in respect of any Redemption Application unless Units, which are the subject of the Redemption Application, have been delivered to the Manager for redemption by such time on the Settlement Day as the Trustee and the Manager shall for the time being prescribe for Redemption Applications generally. In the event that Units, which are the subject of a Redemption Application, are not delivered to the Manager for redemption in accordance with the foregoing:–

- the Redemption Application shall be deemed never to have been made except that the Transaction Fee in respect of such application shall remain due and payable by the Participating Dealer and once paid, shall be retained by the Trustee and/or the Service Agent;

- the Manager may charge the Participating Dealer for the account of the Trustee and/or the Registrar an Application Cancellation Fee, currently RMB 8,000;

- the Manager may at its discretion require the Participating Dealer to pay to the Trustee, for the account of the RMB Bond Index ETF, in respect of each Unit Cancellation Compensation, being (a) the amount (if any) by which the Redemption Value of each such Unit is less than the Issue Price which would have applied in relation to each such Unit if a Participating Dealer had, on the actual date when the Manager is able to repurchase the replacement Securities, made a Creation Application, plus (b) such other amount as the Manager reasonably determines as representing any charges, expenses and losses incurred by the RMB Bond Index ETF as a result of any such cancellation; and

- no previous valuations of the Trust Fund shall be re-opened or invalidated as a result of an unsuccessful Redemption Application.

The Manager, with the approval of the Trustee, may at its discretion extend the settlement period such extension to be on such terms and conditions (including as to the payment of an Extension Fee to the Manager or the Trustee or their Connected Persons or otherwise) as the Manager may determine but, in any event, not later than one month from the receipt of an effective Redemption Application.

The Manager may charge a Transaction Fee in respect of Redemption Applications and may on any day vary the amount of the Transaction Fee it charges (but not as between different Participating Dealers). The Transaction Fee shall be paid by or on behalf of the Participating Dealer submitting the Redemption Application(s) (and may be set off and deducted against any cash amount due to the Participating Dealer in respect of such Redemption Application(s)).

## Redemption Gate

The Manager may, in consultation with the Trustee, limit the total number of Units which Participating Dealers may redeem on any Dealing Day to 10% of the total number of Units then in issue (disregarding any Units which have been agreed to be issued), such limitation to be applied pro rata to all Participating Dealers who have validly made Redemption Applications for Units on such Dealing Day. Any Units which, by virtue of the powers conferred by the Trust Deed, are not redeemed shall be redeemed (subject to any further application of the provisions of the Trust Deed) on the next succeeding Dealing Day provided that if on such next succeeding Dealing Day the total number of Units to be redeemed, including those carried forward from any earlier Dealing Day, exceeds such limit, the Manager shall be entitled to further carry forward the redemptions of Units until such time as the total number of Units to be redeemed on a Dealing Day falls within such limit and provided further that any Units which have been carried over as aforesaid shall on any such succeeding Dealing Day be redeemed in priority to any new Units due to be redeemed on that Dealing Day. If redemptions of Units are carried forward as aforesaid, the Manager shall, within 7 Business Days of such carrying forward, give notice to the Participating Dealers affected thereby that such Units have not been redeemed and that (subject as aforesaid) they shall be redeemed on the next succeeding Dealing Day.

## Directed Cash Dealing

Where a Participating Dealer subscribes or redeems in RMB cash, the Manager may at its sole discretion (but shall not be obliged to) transact for Securities with a broker nominated by the Participating Dealer. Should the nominated broker default on, or change the terms for, any part of the transaction, the Participating Dealer shall bear all associated risks and costs. In such circumstances the Manager has the right to transact with another broker and amend the terms of the Creation Application or Redemption Application to take into account the default and the changes to the terms. Any directed arrangement is subject to the RMB Bond Index ETF being treated fairly.

## Suspension of Creations and Redemptions

Units may not be created during any period when the right of Unitholders to redeem is suspended by the Manager.

The Manager may, at its discretion, at any time after giving notice to the Trustee (and where practicable, after consultation with Participating Dealers) suspend the right of Unitholders to redeem Units of the RMB Bond Index ETF and/or delay the payment of any moneys and transfer of any Securities in respect of any Redemption Application during:–

- any period when a market on which a Security (being a component of the Underlying Index) or any futures contract has its primary listing, or the official clearing and settlement depositary (if any) of such market, is closed; or

- any period when dealings on a market on which a Security (being a component of the Underlying Index) or any futures contract has its primary listing is restricted or suspended; or

- any period when, in the opinion of the Manager, settlement or clearing of Securities in the official clearing and settlement depositary (if any) of such market is disrupted; or

- the existence of any state of affairs as a result of which delivery or purchase of Securities or disposal of investments for the time being comprised in the RMB Bond Index ETF cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders; or

- any period when the Underlying Index for the RMB Bond Index ETF is not compiled or published; or

- any breakdown in the means normally employed in determining the Net Asset Value of the RMB Bond Index ETF or when for any other reason the Value of any Securities or other property for the time being comprised in the RMB Bond Index ETF cannot in the opinion of the Manager, reasonably, promptly and fairly be ascertained.

The Manager will, after notice to the Trustee, suspend the right to subscribe for or redeem Units or delay the payment of any monies or the transfer of any Securities when dealings in the Units on the SEHK are restricted or suspended.

A suspension shall remain in force until the earlier of (a) declaration by the Manager that the suspension is at an end; or (b) the Business 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 exists. Notification to the SFC and unitholders will be issued as required by the Code upon the decision by the Manager to suspend creation and redemption.

The Manager shall consider any Redemption Application or any Creation Application received during the period of suspension (that has not been otherwise withdrawn) as having been received immediately following the termination of the suspension. The period for settlement of any redemption will be extended by a period equal to the length of the period of suspension.

A Participating Dealer may, at any time after a suspension has been declared and before termination of such suspension, withdraw any Creation Application or Redemption Application by notice in writing to the Manager and the Trustee shall cause the return of any Securities and/or cash received by it in respect of the relevant application (without interest).

## Transfer of Units

A Unitholder may transfer Units using the standard transfer form issued by SEHK or 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 Unitholders of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of the Units being transferred. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding in the RMB Bond Index ETF. If and to the extent that all Units are deposited in CCASS, HKSCC Nominees Limited will be the sole Unitholder, holding such Units for the persons admitted by HKSCC as a participant of CCASS.

# EXCHANGE LISTING AND TRADING (SECONDARY MARKET)

## General

As at the date of this Prospectus, Units of the RMB Bond Index ETF are neither listed nor dealt on any other stock exchange. Application has been made to the Listing Committee of the SEHK for the listing of, and permission to deal in the Units. Application may be made in the future for a listing of Units on one or more other stock exchanges.

Dealings on the SEHK in Units are expected to begin on 18 June 2013.

Units will trade on the SEHK in board lots of 100 Units. Participating Dealers should note that they will not be able to sell or otherwise deal in the Units on the SEHK until dealings begin on the SEHK.

The purpose of the listing of the Units on the SEHK is to enable investors to buy and sell Units on the secondary market, normally via a broker/dealer in smaller quantities than would be possible if they were to subscribe and/or redeem Units in the primary market.

The market price of a Unit listed or traded on the SEHK may not reflect the Net Asset Value per Unit of the RMB Bond Index ETF. Any transactions in the Units of the RMB Bond Index ETF on the SEHK will be subject to the customary brokerage commissions and/or transfer taxes associated with the trading and settlement through the SEHK. There can be no guarantee that once the Units are listed on the SEHK they will remain listed.

The Manager will ensure that at least one Market Maker will maintain a market for Units traded in RMB and at least one Market Maker will maintain a market for Units traded in HKD (although the Market Maker for the counters may be the same entity). Broadly, the obligations of a Market Maker will include quoting bid and offer prices on the SEHK with the intention of providing liquidity. Given the nature of the Market Maker's role, the Manager will make available to a Market Maker, the portfolio composition information made available to a Participating Dealer.

Units may be purchased from and sold through the Market Maker. However, there is no guarantee or assurance as to the price at which a market will be made. In maintaining a market for Units, the Market Makers may make or lose money based on the differences between the prices at which they buy and sell Units, which is to a certain extent dependent on the difference between the purchase and sale prices of the underlying Securities comprised within the Underlying Index. Market Markers may retain any profits made by them for their own benefit and they are not liable to account to the RMB Bond Index ETF in respect of their profits. For the list of Market Makers for ETFs, please refer to www.hkex.com.hk.

Investors wishing to purchase or sell Units on the secondary market should contact their broker.

Investors cannot acquire or redeem Units directly from the RMB Bond Index ETF. Only Participating Dealers may submit creation or redemption applications to the Manager. The Manager expects that Participating Dealers will generally accept and submit creation or redemption requests received from third parties, subject to normal market conditions and their client acceptance procedures. Participating Dealers may impose fees and charges in handling any creation/redemption request which would increase the cost of investment and/or reduce the redemption proceeds. Investors are advised to check with the Participating Dealers as to relevant fees and charges. You should note although the Manager has a duty to closely monitor the operations of the Trust, neither the Manager nor the Trustee is empowered to compel any Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager, or to accept any such application requests received from third parties. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by the Participating Dealer.

Subject to the granting of listing of, and permission to deal in, the Units on the SEHK as well as the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the SEHK or on any other date HKSCC chooses. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS Settlement Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

If trading of the Units of the RMB Bond Index ETF on the SEHK is suspended or trading generally on the SEHK is suspended, then there will be no secondary market dealing for those Units.

Investors should note that the Renminbi Trading Support Facility (the "**TSF**") launched by HKEx is currently not made available for fixed income exchange traded funds. As such, if an investor does not have sufficient RMB, it will need to source RMB from other channels or it will only be able to buy units of the RMB Bond Index ETF through the HKD counter.

**Dual Counter**

The Manager has arranged for the Units to be available for trading on the secondary market on the SEHK under a Dual Counter arrangement. Units are denominated in RMB. Despite the Dual Counter arrangement the creation of new Units and redemption of Units in the primary market are settled in RMB only. The RMB Bond Index ETF offers 2 trading counters on the SEHK (i.e. RMB counter and HKD counter) to investors for secondary trading purposes. Units traded in RMB counter will be settled in RMB and Units traded in HKD counter will be settled in HKD. Apart from settlement in different currencies, the trading prices of Units in the 2 counters may be different as the RMB counter and HKD counter are 2 distinct and separate markets.

Units traded on both counters are of the same class and all Unitholders of both counters are treated equally. The 2 counters will have different stock codes, different stock short names and different ISIN numbers as follows:

| | **RMB counter** | **HKD counter** |
|---|---|---|
| SEHK stock code | 83139 | 3139 |
| Short name | iSharesRMBBND – R | iSharesRMBBND |
| ISIN numbers | HK0000151107 | HK0000151099 |

Normally, investors can buy and sell Units traded in the same counter or alternatively buy in one counter and sell in the other counter provided their brokers provide both HKD and RMB trading services at the same time and offer inter-counter transfer services to support Dual Counter trading. Inter-counter buy and sell is permissible even if the trades take places within the same trading day. However, investors should note that the trading price of Units traded in the RMB counter and that of HKD counter may be different and may not always maintain a close relationship depending on factors such as market demand and supply and liquidity in each counter.

More information with regard to the Dual Counter is available in the frequently asked questions in respect of the Dual Counter published on HKEx's website http://www.hkex.com.hk/eng/prod/secprod/etf/dc.htm.

Investors should consult their brokers if they have any questions concerning fees, timing, procedures and the operation of the Dual Counter, including inter-counter transfers. Investors' attention is also drawn to the risk factor below entitled "Dual Counter Risks".

# DETERMINATION OF NET ASSET VALUE

The Net Asset Value of the RMB Bond Index ETF will be determined by the Trustee as at each Valuation Point by valuing the assets of the RMB Bond Index ETF and deducting the liabilities of the RMB Bond Index ETF, in accordance with the terms of the Trust Deed.

Set out below is a summary of how various Securities held by the RMB Bond Index ETF are valued:–

(a) Securities that are quoted, listed, traded or dealt in on any Market shall unless the Manager (with the consent of the Trustee) determines that some other method is more appropriate, be valued by reference to the price appearing to the Manager to be the official closing price, or if unavailable, the last traded price on the Market as the Manager may consider in the circumstances to provide fair criterion, provided that (i) if a Security is quoted or listed on more than one Market, the Manager shall adopt the price quoted on the Market which in its opinion provides the principal market for such Security; (ii) if prices on that Market are not available at the relevant time, the value of the Securities shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee, (iii) in the case of a Security that is quoted that is a debt instrument which is traded over-the-counter and which is a constituent of an Underlying Index, the value of such security shall be determined in accordance with the relevant Underlying Index's valuation policy (this being the fair value), and the Manager and the Trustee shall have the final determination right to the valuation of such quoted security and shall be entitled to use prices furnished by the relevant Underlying Index provider, a pricing service of selected brokers approved by the Manager after consultation with the Trustee; (iv) interest accrued on any interest-bearing Securities shall be taken into account, unless such interest is included in the quoted or listed price; and (v) 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, notwithstanding that the prices so used are not the official closing prices or last traded prices as the case may be;

(b) the value of each interest in any unlisted mutual fund corporation or unit trust shall be the latest available net asset value per share or unit in such mutual fund corporation or unit trust or if not available or appropriate, the average of the latest available bid and offer prices for the share or unit, unless the Manager considers the latest available bid price is more appropriate;

(c) futures contracts will be valued based on the formulae set out in the Trust Deed;

(d) except as provided for in paragraph (b), the value of any investment which is not listed, quoted or ordinarily dealt in on a Market shall be the initial value thereof equal to the amount expended on behalf of the RMB Bond Index ETF 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 investments (which may, if the Trustee agrees, be the Manager);

(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; and

(f) notwithstanding the foregoing, the Manager may adjust the value of any investment if, having regard to relevant circumstances, the Manager considers that such adjustment is required to fairly reflect the value of the investment.

The Trustee will perform any currency conversion at rates it determines appropriate.

The above is a summary of the key provisions of the Trust Deed with regard to how the various assets of the RMB Bond Index ETF are valued. Investors are encouraged to review the specific provisions of the Trust Deed in relation to valuation of assets.

## Suspension 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 the RMB Bond Index ETF for the whole or any part of any period during which:–

(a) there exists any state of affairs prohibiting the normal disposal of the RMB Bond Index ETF's investments; or

(b) there is a breakdown in any of the means normally employed in determining the Net Asset Value of the RMB Bond Index ETF or the Net Asset Value per Unit, or when for any other reason the value of any Security or other asset in the RMB Bond Index ETF 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 Securities held or contracted for the account of the RMB Bond Index ETF or it is not possible to do so without seriously prejudicing the interest of 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 Securities of the RMB Bond Index ETF or the subscription or realisation of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange; or

(e) the right to redeem Units of the relevant class is suspended pursuant to the Trust Deed.

Any suspension shall take effect upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the RMB Bond Index ETF and the Manager shall be under no obligation to rebalance the RMB Bond Index ETF until the suspension is terminated on the earlier of (a) the Manager declaring the suspension at an end and (b) the first Dealing 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 exists.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at www.ishares.com.hk or in such publications as it decides.

No Units will be issued or redeemed during any period of suspension of the Net Asset Value.

## Issue Price and Redemption Value

The Initial Issue Price which is the subject of a Creation Application during the Initial Offer Period will be RMB 35.

After the expiry of the Initial Offer Period, the Issue Price of Units of the RMB Bond Index ETF, created and issued pursuant to a Creation Application, will be the Net Asset Value of the RMB Bond Index ETF divided by the total number of Units of the RMB Bond Index ETF in issue in RMB rounded to the nearest 4 decimal places.

The Redemption Value of a Unit on a Dealing Day shall be the Net Asset Value of the RMB Bond Index ETF divided by the total number of Units of the relevant class in issue in RMB for the RMB Bond Index ETF rounded to the nearest 4 decimal places.

The benefit of any rounding adjustment will be retained by the RMB Bond Index ETF.

The Issue Price and the Redemption Value for the Units (or the latest Net Asset Value of the Units) will be available on the Manager's website at www.ishares.com.hk or published in such publications as the Manager may decide from time to time.

Neither the Issue Price nor Redemption Value takes into account Duties and Charges or fees payable by the Participating Dealer.

# FEES AND EXPENSES

There are 3 levels of fees and expenses applicable to investing in the RMB Bond Index ETF as set out in the following table, current as at the date of the Prospectus.

| **Fees and expenses payable by Participating Dealers on creation and redemption of Units (primary market)** | **Amount** |
|---|---|
| Transaction Fee | RMB12,000[1] per Application (in kind) |
| | RMB1,600[1] per Application (in cash) |
| Service Agent's Fee | HKD1,000[1] per book-entry deposit and withdrawal |
| Application Cancellation Fee | RMB8,000[2] per Application |
| Extension Fee | RMB8,000[3] per Application |
| Partial Delivery Request Fee | RMB8,000[4] per Application |
| Stamp duty | Nil |
| Transaction levy and trading fee | Nil |
| **Fees and expenses payable by investors on the SEHK (secondary market)** | **Amount** |
| Brokerage | Market rates |
| Transaction levy | 0.003%[5] |
| Trading fee | 0.005%[6] |
| Stamp duty | Nil |
| Inter-counter transfer | HKD5[7] |

***No money should be paid to any intermediary in Hong Kong which is not licensed or recognised to carry on Type 1 regulated activity under Part V of the SFO.***

| **Fees and expenses payable by the RMB Bond Index ETF (see further disclosure below)** | **Amount** |
|---|---|
| Management Fee[8] | 0.39% p.a. of NAV (estimated TER of 0.39% p.a.[9]) |

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[1] *For in kind creation, RMB 12,000 is payable to the Registrar. For cash creation, RMB 1,600 is payable to the Registrar. HKD 1,000 is payable to the Service Agent per book-entry withdrawal and deposit.*

[2] *An Application Cancellation fee is payable to the Trustee and/or Registrar by the Participating Dealer in respect of either a withdrawn or failed Creation Application or Redemption Application. Cancellation compensation may also be payable pursuant to the terms of the Operating Guidelines.*

[3] *An extension fee is payable by the Participating Dealer to the Trustee on each occasion the Manager grants the Participation Dealer's request for extended settlement in respect of a Creation or Redemption Application.*

[4] *A partial delivery request fee is payable by the Participating Dealer for the benefit of the Trustee or Registrar on each occasion the Manager grants the Participation Dealer's request for partial settlement.*

[5] *Transaction levy of 0.003% of the price of the Units payable by the buyer and the seller.*

[6] *Trading fee of 0.005% of the price of the Units, payable by the buyer and the seller.*

[7] *HKSCC will charge each CCASS participant a fee of HKD5 per instruction for effecting an inter-counter transfer from one counter to another counter. Investors should check with their brokers regarding any additional fees.*

[8] *Accrued daily and payable monthly in arrears.*

[9] *Estimated Total Expense Ratio does not represent the estimated tracking error and does not include extraordinary costs, if any, such as litigation costs that may be borne by the RMB Bond Index ETF. Such costs may have an adverse impact on the Net Asset Value and performance of the RMB Bond Index ETF and may result in tracking error.*

## Fees and Expenses Payable by RMB Bond Index ETF

The RMB Bond Index ETF employs a single management fee structure, with the RMB Bond Index ETF paying all of its fees, costs and expenses (and its due proportion of any costs and expenses of the Trust allocated to it) as a single flat fee (the "Management Fee").

Fees and expenses taken into account in determining the RMB Bond Index ETF's Management Fee include, but are not limited to, the Manager's fee, the Sub-Adviser's fee, the Trustee's fee, the Registrar's fee, the fees and expenses of the Auditor, service agents, ordinary legal and out-of-pocket expenses incurred by the Trustee or Manager, and the costs and expenses of licensing indices used in connection with the RMB Bond Index ETF. The Manager may also pay a distribution fee to any distributor or sub-distributor of the RMB Bond Index ETF out of the Management Fee. A distributor may re-allocate an amount of the distribution fee to the sub-distributors.

The Management Fee does not include brokerage and transaction costs such as the fees and charges relating to the investment and realizing the investments of the RMB Bond Index ETF and extraordinary items such as litigation expenses. The Management Fee is accrued daily, paid monthly in arrears.

The RMB Bond Index ETF will not be responsible for any promotional expenses including those incurred by any marketing agents and any fees imposed by such marketing agents on their customers investing in the RMB Bond Index ETF will not be paid (either in whole or in part) out of the RMB Bond Index ETF.

### Establishment costs

The cost of establishing the Trust and the RMB Bond Index ETF including the preparation of this Prospectus, the costs of seeking and obtaining the listing and all initial legal and printing costs has been borne by the Manager. If subsequent Index Funds are launched and incur establishment costs which are specific to them, such expenses may either be allocated to the relevant Index Fund for whose account they were incurred or be paid by the Manager.

### Total Expense Ratio

The Total Expense Ratio (the "TER") of the RMB Bond Index ETF is estimated to be 0.39% p.a. of the Net Asset Value of the RMB Bond Index ETF. The TER percentage is the sum of anticipated charges to the RMB Bond Index ETF and includes the Management Fee but does not include extraordinary items such as litigation, change of law and any other costs that may be incurred in extreme market conditions which may result in an increase in TER. The Manager will update Unitholders in the event that the TER is increased in any material respect.

Whilst the TER represents an estimate of the annual routine operating costs of the RMB Bond Index ETF relative to its total assets, it does not represent an estimated tracking error and is not the only factor that may cause the RMB Bond Index ETF's returns to deviate from its Underlying Index. Please refer to the section "Tracking Error Risk" under the section of this Prospectus titled "Risk Factors" for more details of other factors which may have an impact on the tracking error of the RMB Bond Index ETF.

### Increase in fees

The fees payable to the Manager and the Trustee (which are included in the calculation of the Management Fee) may be increased on 3 months' notice to Unitholders, subject to the maximum rate of 2% p.a. of the Net Asset Value of the RMB Bond Index ETF as set out in the Trust Deed.

# RISK FACTORS

**An investment in the RMB Bond Index ETF carries various risks referred to below. Each of these risks may affect the Net Asset Value, yield, total return and trading price of the Units. There can be no assurance that the investment objective of the RMB Bond Index ETF will be achieved. Prospective investors should carefully evaluate the merits and risks of an investment in the RMB Bond Index ETF in the context of their overall financial circumstances, knowledge and experience as an investor.**

## Investment Risk Relating to the RMB Bond Index ETF

### RMB Currency Risks

**RMB Not Freely Convertible and Subject to Exchange Controls and Restrictions Risk.** It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the People's Bank of China (the "PBOC"), which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, the PRC announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In April 2012, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/- 0.5% to +/- 1%. However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the RMB Bond Index ETF. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange (the "SAFE"). On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

Any PRC government's policies on exchange control and repatriation restrictions are subject to change and may reduce the depth of the RMB market in Hong Kong and the liquidity as well as operation of the RMB Bond Index ETF. It may also cause suspension of creation of units of the RMB Bond Index ETF.

**RMB Trading and Settlement of Units Risk.** The trading and settlement of RMB denominated Securities are recent developments in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. The trading and settlement of the RMB traded Units may not be capable of being implemented as envisaged. In addition, the Units are some of the first securities with a Dual Counter (i.e. RMB traded and HKD traded Units) to be traded on the SEHK and settled in CCASS. Although end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in March, September and October 2011, some brokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, there is no assurance of their readiness for dealing in RMB denominated securities. Investors should note that not all brokers may be ready and able to carry out trading and settlement of RMB traded Units and thus they may not be able to deal in the RMB traded Units through some brokers. Investors should check with their brokers in advance if they intend to engage Dual Counter trading or in inter-counter transfers and should fully understand the services which the relevant broker is able to provide (as well as any associated fees). Some exchange participants may not provide inter-counter transfer or Dual Counter trading services.

**Non-RMB or Late Settlement Redemption Risk.** Where, in extraordinary circumstances, the remittance or payment of RMB funds on the redemption of Units cannot, in the opinion of the Manager in consultation with the Trustee, be carried out normally due to legal or regulatory circumstances beyond the control of the Trustee and the Manager, redemption proceeds may be delayed or, if necessary in exceptional circumstances, be paid in US dollars or Hong Kong dollars instead of in RMB (at an exchange rate determined by the Manager after consultation with the Trustee). As such, there is a risk that investors may not be able to receive, through Participating Dealers, settlement upon a redemption of Units in RMB (and may receive US dollars or Hong Kong dollars) or may receive settlement in RMB on a delayed basis.

**Exchange Rates Movement Between the RMB and Other Currencies Risk.** Investors in RMB traded Units whose assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between the such currencies and RMB. In addition, investors in HKD traded Units should note that distributions on HKD traded Units will only be paid in RMB. Accordingly, foreign exchange risk will also apply to investors in HKD traded Units. There is no guarantee that RMB will appreciate in value against Hong Kong dollar or any other currency, or that the strength of RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into Hong Kong dollars (or any other currency).

**Unavailability of the Renminbi Trading Support Facility ("TSF") Risk.** Investors should note that the TSF launched by the SEHK is currently not made available for fixed income exchange traded funds. As such, if an investor does not have sufficient RMB, it will need to source RMB from other channels or it will only be able to buy Units through the HKD counter.

**Future Movements in RMB Exchange Rates Risk.** The exchange rate of the RMB ceased to be pegged to the US dollar on 21 July 2005, resulting in a more flexible RMB exchange rate system. The China Foreign Exchange Trading System, authorised by the PBOC, promulgates the central parity rate of the RMB against the US dollar, Euro, Yen, pound sterling and Hong Kong dollar at 9:15 a.m. on each business day, which will be the daily central parity rate for transactions on the Inter-bank Spot Foreign Exchange Market and OTC transactions of banks. The exchange rate of the RMB against the above-mentioned currencies fluctuates within a range above or below such central parity rate. As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. There can be no assurance that such exchange rates will not fluctuate widely against US dollars, Hong Kong dollars or any other foreign currency in the future. From 1994 to July 2005, the exchange rate for the RMB against the US dollar and the Hong Kong dollar was relatively stable. Since July 2005, the appreciation of the RMB has begun to accelerate. Although the PRC government has constantly reiterated its intention to maintain the stability of RMB, it may introduce measures (such as a reduction in the rate of export tax refund) to address the concerns of the PRC's trading partners.

The possibility that the appreciation of the RMB will be accelerated cannot be excluded. Further, any devaluation of the RMB could adversely affect the value of investors' investments in the RMB Bond Index ETF. Investors whose base currency is not the RMB may be adversely affected by changes in the exchange rates of the RMB.

**Offshore RMB ("CNH") Market Risk.** The onshore RMB ("CNY") is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in the PRC. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC. Since June 2010, the offshore RMB ("CNH") is traded officially, regulated jointly by the Hong Kong Monetary Authority (the "HKMA") and the PBOC. While both CNY and CNH represent RMB, they are traded in different and separated markets. The two RMB markets operate independently where the flow between them is highly restricted. Though the CNH is a proxy's of the CNY, they do not necessarily have the same exchange rate and their movement may not be in the same direction. This is because these currencies act in separate jurisdictions, which leads to separate supply and demand conditions for each, and therefore separate but related currency markets. Any divergence between CNH and CNY may adversely impact investors who intend to gain exposure to CNY through investments in the RMB Bond Index ETF.

However, the current size of RMB-denominated financial assets outside the PRC is limited. As at 31 December 2012, the total amount of RMB (CNH) deposits held by institutions authorised to engage in RMB banking business in Hong Kong amounted to approximately RMB603 billion. In addition, participating authorised institutions are also required by the HKMA to maintain a total amount of RMB (in the form of cash and its settlement account balance with the Renminbi Clearing Bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for Hong Kong resident individual customers of up to RMB20,000 per person per day. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions. Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of RMB offshore. The limited availability of RMB outside the PRC may affect the ability of investors to acquire Units or to sell Units affecting the liquidity and trading price of the Units on the SEHK. To the extent the Manager is required to source RMB in the offshore market, there is no assurance that it will be able to source such RMB on satisfactory terms, if at all.

**RMB Distributions Risk.** Investors should note that where a Unitholder holds Units traded under the HKD counter, the relevant Unitholder will only receive distributions in RMB and not HKD. In the event the relevant Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency. Unitholders are advised to check with their brokers concerning arrangements for distributions.

**"Dim Sum" Bond Market Risks**

**Low Liquidity and High Volatility Risk.** The "Dim Sum" bond market, although growing quickly, is still a relatively small market. This makes it more susceptible to volatility and illiquidity. Furthermore, the "Dim Sum" bond market is relatively new and therefore has a relatively short period over which to assess its volatility and behaviour.

**Government Intervention Risk.** In addition to the risks relating to PRC laws and regulations, the operation and functioning of the "Dim Sum" bond market is subject to risks relating to governmental intervention. The PRC, Hong Kong or other governments or their market regulators may promulgate rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances or the PRC and Hong Kong governments could reverse or suspend the liberalisation of the offshore RMB (CNH) market. In such cases, the operation of the "Dim Sum" bond market as well as new issuances could be disrupted causing a drop in the Underlying Index level and accordingly a fall in the Net Asset Value of the RMB Bond Index ETF.

**Limited Pool of Investments Risk.** The RMB Bond Index ETF's investment strategy is to track the Underlying Index and so to invest primarily in offshore RMB bonds issued outside the PRC. However, although as at 20 May 2013 the offshore RMB bonds issued represented approximately RMB 158.5 billion, the quantity of offshore RMB bonds issued or distributed outside the PRC that are available to the RMB Bond Index ETF is still limited (although growing fast) by comparison with, for example, US dollar denominated bonds, and the remaining duration of such instruments may be short. This may adversely affect the RMB Bond Index ETF's return and performance.

**Unavailability of Bonds Risk.** Due to the potential limited availability of certain issues of offshore RMB bonds, the RMB Bond Index ETF may be unable to track the performance of the Underlying Index during extreme market conditions and this may increase the tracking error significantly.

**Fixed Income Investments Risks**

**Emerging Market Risk.** Some bond issuers may have major businesses in a country such as the PRC that is considered as an emerging market. These bonds may be subject to a greater risk of loss than investments in developed markets due to greater political, economic, taxation and regulatory uncertainty.

**Over-the-Counter Market Risk.** Over-the-counter ("OTC") markets are subject to less governmental regulation and supervision of transactions (in which many different kinds of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions on OTC markets. Therefore, by entering into transactions on OTC markets, the RMB Bond Index ETF will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that the RMB Bond Index ETF will sustain losses.

**Issuer Risk.** Investment in offshore RMB bonds by the RMB Bond Index ETF is exposed to the credit/insolvency risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. An issuer suffering an adverse change in its financial condition could lower the credit quality of a Security, leading to greater price volatility of the Security. A lowering of the credit rating of a security or its issuer may also affect the Security's liquidity, making it more difficult to sell. In general, debt instruments that have a lower credit rating or that are non-rated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the bonds, the bonds and the RMB Bond Index ETF's value will be adversely affected and investors may suffer a substantial loss as a result. The RMB Bond Index ETF may also encounter difficulties or delays in enforcing its rights against the issuers of offshore RMB bonds as such issuers may be incorporated outside Hong Kong and subject to foreign laws.

Offshore RMB bonds are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of offshore RMB bonds only after all secured claims have been satisfied in full. The RMB Bond Index ETF will be fully exposed to the credit/insolvency risk of its bond issuer counterparties as an unsecured creditor.

**Liquidity Risk.** Liquidity risk exists when a particular investment is difficult to purchase or sell. If the RMB Bond Index ETF invests in illiquid Securities or the current market become illiquid, it may reduce the returns of the RMB Bond Index ETF because the fund cannot sell the illiquid securities at an advantageous time or price. The Underlying Index consists of RMB denominated debt Securities issued or distributed outside of the PRC and the quantity of such securities available for inclusion, and thus for the RMB Bond Index ETF to invest in, currently is limited. The cost of dealing may be high in such illiquid markets. A disruption in the asset allocation in the RMB Bond Index ETF is also possible if underlying Securities cannot be purchased or sold. The RMB Bond Index ETF is subject to liquidity risk as continued regular trading activity and active secondary market for offshore RMB bonds is not guaranteed. The RMB Bond Index ETF may suffer losses in trading such instruments. The bid and offer spread of the price of offshore RMB bonds may be large, so the RMB Bond Index ETF may incur significant trading and realisation costs and may suffer losses accordingly. The liquidity and trading price of the Units may be adversely affected by the limited availability of RMB outside the PRC and the restrictions on the conversion of foreign currency into RMB. As such, there can be no assurance that investors will be able to dispose of their Units at prices in the amounts and at the times at which they would wish to or which they may otherwise be able to do in respect of Hong Kong dollar denominated Securities listed on the SEHK.

**Sovereign Debt Risk.** The RMB Bond Index ETF invests in sovereign debt Securities and such investments involve special risks. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt, including a fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. As at the date of this Prospectus, there is no bankruptcy proceeding by which sovereign debt on which a governmental entity has defaulted may be collected in whole or in part. The RMB Bond Index ETF's recourse against a defaulting sovereign is limited.

**Interest Rate Risk.** Because the RMB Bond Index ETF invests in fixed-income Securities, the RMB Bond Index ETF is subject to interest rate risk. Interest rate risk is the risk that the value of the RMB Bond Index ETF's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter term fixed income investments and higher for longer term fixed income investments.

**Income Risk.** Falling market interest rates can lead to a decline in income for the RMB Bond Index ETF. This can result when, in declining interest rate environment, the RMB Bond Index ETF reinvests into Securities at a lower yield than then-current RMB Bond Index ETF portfolio yield.

**Credit Risk.** The value of the RMB Bond Index ETF is affected by the credit worthiness of its underlying investments. A deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spread) of an underlying investment will adversely impact the value of such investment. Fixed income instruments are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. The RMB Bond Index ETF is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

**Call Risk.** The RMB Bond Index ETF may invest into callable fixed income securities that are subject to call risk. During periods of falling interest rate and rising security price, the issuer may prefer to "call" or repay the security prior to its stated maturity. RMB Bond Index ETF may then have to reinvest such proceeds into lower yielding Securities at a falling interest rate environment, which may thus result in a decline in the RMB Bond Index ETF's income.

**Covered Bond Risk.** The RMB Bond Index ETF may invest into covered bonds. While such covered bonds are backed by a pool of assets, there is no guarantee that such bonds will be free from counterparty default. Any deterioration in the assets backing a covered bond may also result in a decline in the bond value and therefore a decline in the RMB Bond Index ETF's Net Asset Value.

**Valuation Risk.** In a thinly traded market, it may be more difficult to achieve fair value when purchasing or selling underlying Securities because of the wide bid-ask spread. The inability to transact at advantageous times or prices may result in a reduction in the RMB Bond Index ETF's returns. Further, changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the RMB Bond Index ETF as the value of the RMB Bond Index ETF's portfolio of fixed income instruments, including corporate bonds may become more difficult or impossible to ascertain. In such circumstances, valuation of the RMB Bond Index ETF's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the RMB Bond Index ETF may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the RMB Bond Index ETF to increased liquidity risk as it may become more difficult for the RMB Bond Index ETF to dispose of its holdings of bonds at a reasonable price or at all.

**Illiquidity of Bonds Close to Maturity Risk.** The RMB Bond Index ETF's underlying fixed income Securities may become more illiquid when nearing maturity. It therefore may be more difficult to achieve fair valuation in the market.

**Insufficiency of Duties and Charges Risk.** A preset spread, included in Duties and Charges, related to subscription or redemption price calculation in a cash creation or cash redemption may be determined prior to trading of the underlying Securities to cover estimated trading costs. If such spread is narrower than the actual associated trading costs, the Net Asset Value of the RMB Bond Index ETF will be adversely affected.

**Non-guaranteed Investment Risk.** The RMB Bond Index ETF is not principal guaranteed and the purchase of Units is not the same as investing directly in the Index Securities comprised in the Underlying Index. The instruments invested by the RMB Bond Index ETF may fall in value and therefore investments in the RMB Bond Index ETF may suffer losses.

**Credit Rating not a Selection Criterion Risk.** The credit rating of a bond is not a selection criterion for inclusion of such bond in the Underlying Index (subject to the cap of 30% on below investment grade and non-rated bonds at every month end). Investors should therefore note that even if approximately 70% of the bonds comprising the Underlying Index have an investment grade rating as of 20 May 2013, a considerable percentage (approximately 23%) is not rated and there is no assurance that rated bonds will continue to have an investment grade rating that bonds that do not have an investment grade rating will not be included in the Underlying Index on future rebalancing dates, and that the Underlying Index constituents will continue to be rated and/or that non-rated bonds will not be included in the Underlying Index on future rebalancing dates.

**Credit Rating Downgrading Risk.** Investment grade Securities may be subject to the risk of being downgraded to below investment grade Securities. In the event of downgrading in the credit ratings of a Security or an issuer relating to a Security, the RMB Bond Index ETF's investment value in such Security may be adversely affected. The Manager may not dispose of the Securities, subject to the investment objective of the RMB Bond Index ETF. In the event of investment grade securities being downgraded to below investment grade securities, the RMB Bond Index ETF will also be subject to the below investment grade securities risk outlined below.

**Below Investment Grade and Non-rated Securities Risk.** The RMB Bond Index ETF tracks the Underlying Index that may include below investment grade and non-rated Securities subject to a cap, in aggregate of 30% of the Underlying Index at every month end. Further, since the RMB Bond Index ETF is adopting a representative strategy, it is possible that the RMB Bond Index ETF may hold more than 30% of the Net Asset Value in below investment grade and non-rated Securities. Investors should note that such Securities would generally be considered to have a higher credit risk and a greater possibility of default than more highly rated Securities. If the issuer of Securities defaults, or such Securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these Securities may be less active, making it more difficult to sell the Securities. Valuation of these Securities is more difficult and thus the RMB Bond Index ETF's prices may be more volatile. An issuer suffering an adverse change in its financial condition could lower the credit quality of a Security, leading to greater price volatility of the Security. A lowering of the credit rating of a Security or its issuer may also affect the Security's liquidity, making it more difficult to sell. Non-rated and non-investment grade Securities are subject to the increased risk of an issuer's inability to meet principal and interest payment obligations (i.e. a higher default risk) and may adversely affect the Net Asset Value of the RMB Bond Index ETF and result in losses to investors.

**Other Investment Risks**

**Distributions May Not Be Paid.** Whether or not distributions will be made by an RMB Bond Index ETF is at the discretion of the Manager taking into account various factors and its own distribution policy. Some factors are beyond the control of the Manager, such as issuer risk where the bond issuer fails to pay interest. There can be no assurance that the distribution yield of RMB Bond Index ETF is the same as that of its Underlying Index due to factors such as expenses incurred by the RMB Bond Index ETF.

**Economic Risk.** Economic instability in an emerging market may arise when such country is heavily dependent upon commodity prices and international trade. Economies in emerging market countries have been and may continue to be adversely affected by the economics of their trading partners, foreign exchange controls, managed adjustments in relative currency values, trade barriers and other protectionist measures imposed or negotiated by the countries with which they trade. Some emerging market countries have experienced currency devaluations and some have experienced economic recession causing a negative effect on their economies and Securities markets.

**Political and Social Risk.** Some governments in emerging market countries are authoritarian or have been installed or removed as a result of military coup and some have periodically used force to suppress civil dissent. Disparities of wealth, the pace and success of democratisation and capital market development and ethnic, religious and racial disaffection, among other factors, have also led to social unrest, violence and/or labour unrest in some emerging market countries. Unanticipated political or social developments may result in sudden and significant investment losses. All of these factors can have a material impact on the Underlying Index and create a risk of higher price volatility which, in turn, can increase any tracking error.

**Market Risk.** Past performance is not indicative of future performance. The Net Asset Value of the RMB Bond Index ETF will change with changes in the market value of the Securities it holds. The price of Units and the income from them may go down as well as up. There can be no assurance that the RMB Bond Index ETF will achieve its investment objective or that an investor will achieve profits or avoid losses, significant or otherwise. The capital return and income of the RMB Bond Index ETF is based on the capital appreciation and income on the Securities it holds, less expenses incurred. The RMB Bond Index ETF's return may fluctuate in response to changes in such capital appreciation or income. Furthermore, the RMB Bond Index ETF may experience volatility and decline in a manner that broadly corresponds with its Underlying Index. Investors in the RMB Bond Index ETF are exposed to the same risks that investors who invest directly in the Underlying Index would face. These risks include, for example, interest rate risks (risks of falling portfolio values in a rising interest rate market); income risks (risks of falling incomes from a portfolio in a falling interest rate market); and credit risk (risk of a default by the underlying issuer of a Security that forms part of the Underlying Index).

**Asset Class Risk.** Although the Manager is responsible for the continuous supervision of the investment portfolio of the RMB Bond Index ETF, the returns from the types of Securities in which the RMB Bond Index ETF invests may underperform or outperform returns from other Securities markets or from investment in other assets. Different types of Securities tend to go through cycles of out-performance and underperformance when compared with other general Securities markets.

**Foreign Security Risk.** The RMB Bond Index ETF invests in the debt market of a single country and/or region. These markets are subject to special risks associated with foreign investment including market fluctuations caused by factors affected by political and economic developments. Investing in the Securities of non-Hong Kong entities involves special risks and considerations not typically associated with investing in Hong Kong entities. These include differences in accounting, auditing and financial reporting standards, the possibility of nationalisation of assets, expropriation or confiscatory taxation, or regulation, the imposition of withholding taxes on payments or distributions referable to underlying Securities, adverse changes in investment, tax or exchange control regulations, economic growth and indicators (such as GDP, inflation rate, self sufficiency and balance of payments position of the relevant economy), government regulation, political instability that could affect local investments in foreign countries, and potential restrictions on the flow of international capital. Each of these factors may have a large impact on the performance of the RMB Bond Index ETF.

**Derivatives Risk.** The RMB Bond Index ETF may, subject to its investment restrictions, invest up to 10% of its Net Asset Value in derivative instruments such as futures or swaps and other derivatives for hedging and non-hedging purposes. Investing in a derivative is not the same as investing directly in an underlying asset which is part of the Underlying Index.

A derivative is a form of contract. Under the terms of a derivative contract the RMB Bond Index ETF and its counterparty (i.e. the person(s) with whom the RMB Bond Index ETF has made the agreement) agree to make certain payments to the other party under particular circumstances or on the occurrence of particular events specified in the contract. The value of the derivative depends on, or is derived from, or determined by reference to, the value of an underlying asset such as a Security or an index. Derivatives may be more sensitive to factors which affects the value of investments. Accordingly derivatives have a high degree of price variability and are subject to occasional rapid and substantial price changes. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss (or gain) to the RMB Bond Index ETF. The RMB Bond Index ETF's losses may be greater if it invests in derivatives than if it invests only in conventional Securities.

In addition, many derivatives are not traded on exchanges. This means that it may be difficult for the RMB Bond Index ETF to sell its investments in derivatives in order to raise cash and/or to realise a gain or loss. The sale and purchase of derivatives, which are not traded on an exchange, are privately negotiated and are generally not subject to regulation by government authorities and it may be difficult to find a willing buyer/seller because there is no regulatory requirement for a market maker to ensure that there is continuous market for such derivatives.

**Derivatives Counterparty Risk.** As explained in "Derivatives Risk", a derivative is a form of contract. Payments to be made under a derivatives contract are not made through or guaranteed by a central clearing agency. Accordingly the RMB Bond Index ETF which invests in derivatives is exposed to the risk of its counterparty being unwilling or unable to perform its payment (and other) obligations under the contract. If the counterparty to the derivative is involved in any insolvency event, the value of that derivative may drop substantially or be worth nothing and the RMB Bond Index ETF's value will be adversely affected and investors may suffer a loss as a result. This is because investing in a derivative is not the same as investing directly in an underlying asset which is part of the Underlying Index.

**Passive Investment Risks.** The aim of the RMB Bond Index ETF is to track the performance of the Underlying Index. The RMB Bond Index ETF is not actively managed and will not adopt any temporary defensive position against any market downturn, i.e. it does not try to beat or perform better than the Underlying Index. The RMB Bond Index ETF invests in Securities representative of the Underlying Index regardless of their investment merit. The Manager does not attempt to select Securities individually or to take defensive positions in declining markets. Investors should note that the lack of discretion on the part of the Manager to adapt to market changes due to the inherent investment nature of the RMB Bond Index ETF will mean that where there is a decline in the Underlying Index this is expected to result in corresponding decline in the value of the RMB Bond Index ETF.

**Management Risk.** Because there can be no guarantee that the RMB Bond Index ETF will fully replicate its Underlying Index and may hold non-index Securities, it is subject to management risk. This is the risk that the Manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. In addition, the Manager has absolute discretion to exercise Unitholders' rights with respect to Securities held by the RMB Bond Index ETF. There can be no guarantee that the exercise of such discretion will result in the investment objective of the RMB Bond Index ETF being achieved. Investors should also note that in certain cases, none of the Manager, the RMB Bond Index ETF or the Unitholders has any voting rights with respect to Securities held by the RMB Bond Index ETF.

**Tracking Error Risk.** The RMB Bond Index ETF only holds a representative sample of Securities that represents the profile of the Underlying Index and may invest in RMB-denominated bonds not included in its Underlying Index. The Net Asset Value of the RMB Bond Index ETF may not have exactly the same net asset value of the Underlying Index. Factors such as the fees and expenses of RMB Bond Index ETF, the investments of RMB Bond Index ETF not matching exactly the Securities which make up the Underlying Index (e.g. where it uses representative sampling), an inability to rebalance the RMB Bond Index ETF's holdings of Securities in response to changes to the Securities which make up the Underlying Index, rounding of Security prices, changes to the Underlying Index and regulatory policies that may affect the Manager's ability to achieve close correlation with the Underlying Index. This may cause the RMB Bond Index ETF's returns to deviate from the Underlying Index. Further, the fact that the Manager is adopting a representative sampling strategy may lead to a greater risk of tracking error. Further, although the "Dim Sum" bond market is growing, it is still relatively less liquid, as such, the RMB Bond Index ETF may also be subject to a larger tracking error whenever creation proceeds take a longer period to be fully invested.

**Country Concentration Risk.** The exposure of the RMB Bond Index ETF is concentrated in the PRC and may be more volatile than funds adopting a more diversified strategy. To the extent that the Underlying Index or its portfolio is concentrated in the Securities in a particular market, industry, group of industries, sector or asset class, the RMB Bond Index ETF may be adversely affected by the performance of those Securities, may be subject to increased price volatility and may be more susceptible to adverse economic, market, political or regulatory event affecting that market, industry, group of industries, sector or asset class.

**Operational Risk.** Trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the execution of due care and special procedures designed to prevent such errors. Such trade errors may have adverse consequences (for example, due to an inability to correct effectively such an error when detected).

**Counterparty to the Executing Broker Risk.** Institutions, such as brokerage firms, banks, and broker-dealers, may enter into transactions with the Trustee in relation to the sale and purchase of assets or Securities. Bankruptcy, fraud, regulatory sanction or a refusal to complete a transaction at one of these institutions could significantly impair the operational capabilities or the capital position of the Trust or the RMB Bond Index ETF and as a result adversely impact the value of the RMB Bond Index ETF and investors may suffer a loss as a result. The Trust intends to attempt to limit its investment transactions to well-capitalised and established banks and brokerage firms in an effort to mitigate such risks. There can be no guarantee that transactions between such counterparties will always be completed in the manner contemplated by, and favourable to, the

Trust. Furthermore, the Trust is permitted to borrow in order to carry out its functions under the Trust Deed. Borrowings may be secured by the Securities or other assets of the Trust that are pledged to counterparties as collateral.

**Counterparty to the Custodian Risk.** The RMB Bond Index ETF will be exposed to the credit risk of any custodian or any depository used by the custodian where cash is held by the custodian or other depositaries. In the event of the insolvency of the custodian or other depositaries, the RMB Bond Index ETF will be treated as a general creditor of the custodian or other depositaries in relation to cash holdings of the RMB Bond Index ETF. The RMB Bond Index ETF's Securities are however maintained by the custodian or other depositaries in segregated accounts and should be protected in the event of insolvency of the custodian or other depositaries.

**Risk of Indemnity.** Under the Trust Deed, the Trustee and the Manager have the right to be indemnified for any liability or expense incurred by them in performing their respective duties except as a result of their own negligence, default or breach of duty or trust. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of the affected RMB Bond Index ETF or the Trust and the value of the Units.

**Operating Cost Risk.** There is no assurance that the performance of the RMB Bond Index ETF will achieve its investment objective. The level of fees and expenses payable by the RMB Bond Index ETF will fluctuate in relation to the Net Asset Value. Although the amounts of certain ordinary expenses of the RMB Bond Index ETF can be estimated, the growth rate of the RMB Bond Index ETF, and hence its Net Asset Value, cannot be anticipated. Accordingly, no assurance can be given as to the performance of the RMB Bond Index ETF or the actual level of its expenses.

**Representative Sampling Risk.** With a representative sampling strategy, the RMB Bond Index ETF does not hold all of the Securities in its Underlying Index and may invest in bonds not included in its Underlying Index. The Securities held by the RMB Bond Index ETF may also be over or underweight relative to the Securities in its Underlying Index. It is therefore possible that the RMB Bond Index ETF may be subject to larger tracking error.

## Market Trading Risks Associated with the RMB Bond Index ETF

**First RMB Bond ETF Risk.** The RMB Bond Index ETF is the first RMB denominated bond ETF listed on the SEHK. Whilst other Securities (such as units in real estate investment trusts) and RQFII ETFs denominated in RMB have been listed and traded on the SEHK, the RMB Bond Index ETF is the first open-ended collective investment scheme which tracks a bond index denominated in RMB and which operates in RMB. As such the Manager, the Trustee and certain service providers connected to the RMB Bond Index ETF have no operating experience with regard to a RMB denominated bond ETF. The listing, trading and settlement of RMB denominated Securities have not been done very much in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. In case of any such problem, there can be no assurance that the listing, trading and settlement of Units will be capable of being implemented as envisaged.

**Unit Liquidity Risk.** Because RMB counter Units are traded in RMB, such Units may be inherently less liquid than other Securities which are listed on the SEHK, including other ETFs, due to the relatively limited supply of RMB (CNH) outside the PRC as well as levels of demand for RMB cash and greater barriers for investors generally in trading RMB denominated SEHK listed products.

**Dual Counter Risks.** The SEHK's Dual Counter model in Hong Kong is relatively new. The RMB Bond Index ETF will be one of the few ETFs to have Dual Counter traded Units which are traded and settled in RMB under the RMB counter and traded and settled in HKD under the HKD counter. The novelty and relatively untested nature of the Dual Counter for ETFs may make investment in the Units riskier than in single counter units or shares of an SEHK listed issuer for example where for some reason there is a settlement failure on an inter-counter transfer if the Units of one counter are delivered to CCASS at the last settlement on a trading day, leaving not enough time to transfer the Units to the other counter for settlement on the same day.

In addition, where there is a suspension of the inter-counter transfers of Units between the HKD counter and the RMB counter due to, for example, operational or systems interruption, Unitholders will only be able to trade their Units in the currency of the relevant counter. Accordingly it should be noted that the inter-counter transfers may not always be available. There is a risk that the market price on the SEHK of Units traded in HKD may deviate significantly from the market price on the SEHK of Units traded in RMB due to market liquidity, supply and demand in each counter and the exchange rate between the RMB and the HKD (in both the onshore and the offshore markets). The trading price of HKD traded Units or RMB traded Units is determined by market forces and so will not be the same as the trading price of Units multiplied by the prevailing rate of foreign exchange. Accordingly when selling Units traded in HKD or buying Units traded in HKD, an investor may receive less or pay more than the equivalent amount in RMB if the trade of the relevant Units is in RMB and vice versa. There can be no assurance that the price of Units in each counter will be equivalent.

Investors without RMB accounts may buy and sell HKD traded Units only. Such investors will not be able to buy or sell RMB traded Units and should note that distributions are made in RMB only. As such investors may suffer a foreign exchange loss and incur foreign exchange associated fees and charges to receive their dividend.

It is possible that some brokers and CCASS participants may not be familiar with and may not be able to (i) buy Units in one counter and to sell Units in the other, (ii) carry out inter-counter transfers of Units, or (iii) trade Units in both counters at the same time. In such a case another broker or CCASS participant may need to be used. Accordingly this may inhibit or delay an investor dealing in both HKD traded and RMB traded Units and may mean an investors may only be able to sell their Units in one currency. Investors are recommended to check the readiness of their brokers in respect of the Dual Counter trading and inter-counter transfer.

**Absence of Active Market and Liquidity Risks.** Although Units of the RMB Bond Index ETF are listed for trading on the SEHK, there can be no assurance that an active trading market for such Units will develop or be maintained. In addition, if the underlying Securities which comprise the RMB Bond Index ETF themselves have limited trading markets, or if the spreads are wide, this may adversely affect the price of the Units and the ability of an investor to dispose of its Units at the desired price. If a Unitholder needs to sell its Units at a time when no active market for them exists, the price it receives for its Units – assuming it is able to sell them – is likely to be lower than the price received if an active market did exist.

**Reliance on Market Makers Risk.** Although the Manager intends to ensure that at least one Market Maker will maintain a market for the Units traded in each counter, and that at least one Market Maker for each counter gives not less than 3 months' notice prior to terminating market making under the relevant market making agreement, there may be circumstances such as the revocation of the relevant market making approvals or registration or other changes beyond the control of the Manager that may result in the sudden loss of a market maker for the RMB Bond ETF. It should be noted that liquidity in the market for the Units may be adversely affected if there is no Market Maker for the RMB traded Units or no Market Maker for the HKD traded Units. There may be less interest by potential Market Makers in making a market in Units denominated or traded in RMB. Further, any disruption to the availability of RMB may adversely affect the capability of Market Makers in providing liquidity for RMB traded Units. It is possible that there is only one SEHK Market Maker to a counter or to the RMB Bond Index ETF or the Manager may not be able to engage a substitute Market Maker within the termination notice period of a Market Maker. Further, due to the "Dim Sum" bond market being relatively new and illiquid compared to the equity market, it may be more difficult for the Manager to engage a substitute Market Maker and therefore the risk of not being able to identify and engage a substitute market maker is higher than that of other ETFs that invest in more liquid securities and developed markets. There is also no guarantee that any market making activity will be effective.

**Reliance on Participating Dealers.** The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of securities through the CCASS is disrupted or the Underlying Index is not compiled or published. In addition, Participating Dealers will not be able to issue or redeem Units if some other event occurs that impedes the calculation of the Net Asset Value of the RMB Bond Index ETF or disposal of the RMB Bond Index ETF's Securities cannot be effected. Since the number of Participating Dealers at any given time will be limited, and there may even be only one Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

**Units may Trade At Prices Other Than NAV Risk.** The trading price of Units of the RMB Bond Index ETF on the SEHK is subject to market forces and may trade at a substantial premium or discount to the most recent Net Asset Value. The Net Asset Value per Unit of the RMB Bond Index ETF is calculated at the end of each Business Day and fluctuates with changes in the market value of the RMB Bond Index ETF's holdings. The trading prices of the RMB Bond Index ETF's Units fluctuate continuously throughout the trading hours based on market supply and demand rather than Net Asset Value. The trading price of the RMB Bond Index ETF's Units may deviate significantly from Net Asset Value particularly during periods of market volatility. Any of these factors may lead to the Units of the RMB Bond Index ETF trading at a premium or discount to the Net Asset Value in the secondary market. On the basis that Units can be created and redeemed in Application Units at Net Asset Value, the Manager believes that large discounts or premiums to Net Asset Value are not likely to be sustained over the long-term. While the creation/redemption feature is designed to make it likely that the RMB Bond Index ETF's Units will normally trade at prices close to the RMB Bond Index ETF's next calculated Net Asset Value, trading prices are not expected to correlate exactly with the RMB Bond Index ETF's Net Asset Value due to reasons relating to timing as well as market supply and demand factors. In addition, disruptions to creations and redemptions or the existence of extreme market volatility may result in trading prices that differ significantly from Net Asset Value. In particular, if an investor purchases Units at a time when the market price is at a premium to Net Asset Value or sells when the market price is at a discount to Net Asset Value, then the investor may sustain losses.

**Termination Risk.** The RMB Bond Index ETF may be terminated early under certain circumstances as set out in the section "Termination", for example where the Underlying Index is no longer available for benchmarking or if the size of the RMB Bond Index ETF falls below HKD150 million. Upon the RMB Bond Index ETF being terminated, the Trustee will distribute the net cash proceeds (if any) derived from the realisation of the investments comprised in the RMB Bond Index ETF to the Unitholders in accordance with the Trust Deed. Any such amount distributed may be more or less than the capital invested by the Unitholder. A Unitholder who purchases Units at a time when the market price is at a premium to Net Asset Value may therefore be unable to recover the premium in the event the RMB Bond Index ETF is terminated.

**Cost of Trading Units Risk.** Buying or selling Units involves various types of costs that apply to all Securities transactions. When trading Units through a broker investors will incur a brokerage commission or other charges imposed by the broker. In addition, investors on the secondary market, will also incur the cost of the trading spread, which is the difference between what investors are willing to pay for the Units (bid price) and the price they are willing to sell Units (ask price). Frequent trading may detract significantly from investment results and an investment in Units may not be advisable particularly for investors who anticipate regularly making small investments. Investors may pay more than the Net Asset Value per Unit when buying Units on the SEHK and may receive less than the Net Asset Value per Unit when selling Units on the SEHK.

**Suspension of Trading Risk.** Investors and potential investors will not be able to buy, nor will investors be able to sell Units on the SEHK during any period in which trading of the Units is suspended. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate in the interests of a fair and orderly market to protect investors. The Manager may, in accordance with The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, request for the trading of Units to be suspended. Any such suspension would depend on the SEHK's agreement to the suspension. The subscription and redemption of Units may also be suspended if the trading of Units is suspended.

## Risks Associated with the Underlying Index

**The Underlying Index is Subject to Fluctuations Risk.** The performance of the Units should, before expenses, correspond closely with the performance of the Underlying Index. If the Underlying Index experiences volatility or declines, the price of the Units will vary or decline accordingly.

**Composition of and Weightings in the Underlying Index May Change Risk.** The companies which comprise the Underlying Index are changed by the Index Provider from time to time. The price of the Units may rise or fall as a result of such changes. The composition of the Underlying Index may also change if one of the callable bonds were called by the issuer or companies buying back their bonds causing removal from the Underlying Index, or companies issuing new bonds that are eligible for inclusion in the Underlying Index. If this happens, the weighting or composition of the Securities owned by the RMB Bond Index ETF would be changed as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Underlying Index as its constituents change from time to time, and not necessarily the way it is comprised at the time of an investment in the Units.

**Licence to use Underlying Index May be Terminated Risk.** The Manager is granted a licence by the Index Provider to use the Underlying Index to create the RMB Bond Index ETF based on the Underlying Index and to use certain trade marks and any copyright in the Underlying Index. The RMB Bond Index ETF may not be able to fulfill its objective and may be terminated if the licence agreement is terminated. The RMB Bond Index ETF may also be terminated if the Underlying Index ceases to be compiled or published and there is no replacement Underlying Index using the same or substantially similar formula for the method of calculation as used in calculating the Underlying Index. The Index Provider and the Manager (and its Connected Persons) are independent of one another.

**Compilation of Underlying Index Risk.** The Securities of the Underlying Index are determined and composed by the Index Provider without regard to the performance of the RMB Bond Index ETF. The RMB Bond Index ETF is not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider does not make any representation or warranty, express or implied, to investors in the RMB Bond Index ETF or other persons regarding the advisability of investing in securities generally or in the RMB Bond Index ETF particularly. The Index Provider has no obligation to take the needs of the Manager or investors in the RMB Bond Index ETF into consideration in determining, composing or calculating the Underlying Index.

There is no assurance that the Index Provider will compile the Underlying Index accurately, or that the Underlying Index will be determined, composed or calculated accurately and index providers do not generally provide any warranty or accept any liability in relation to the quality, accuracy or completeness of data in respect of their benchmark indices, nor any guarantee that the published indices will be in line with their described benchmark index methodologies. Errors in respect of the quality, accuracy and completeness of the data may occur from time to time and may not be identified and corrected for a period of time, in particular where the indices are less commonly used. During a period where the Underlying Index contains incorrect constituents, the RMB Bond Index ETF tracking such published Underlying Index would have market exposure to such constituents. As such, errors may potentially result in a negative or positive performance impact to the RMB Bond Index ETF and the Unitholders.

Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to their benchmark indices in order, for example, to correct an error in the selection of index constituents. Where the Underlying Index of the RMB Bond Index ETF is rebalanced and the RMB Bond Index ETF in turn rebalances its portfolio to bring it in line with its Underlying Index, any transaction costs and market exposure arising from such portfolio rebalancing will be borne by the RMB Bond Index ETF and, by extension, its Unitholders.

Therefore, errors and additional ad hoc rebalances carried out by the Index Provider to the Underlying Index may increase the costs and market exposure risk of the RMB Bond Index ETF.

In addition, the process and the basis of computing and compiling the Underlying Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the Index Provider without notice. Consequently there can be no guarantee that the actions of the Index Provider will not prejudice the interests of the RMB Bond Index ETF, the Manager or investors.

**Composition of the Underlying Index May Change Risk.** The Securities constituting the Underlying Index will change as the Securities of the Underlying Index are called back or bought back causing them to be excluded or new bonds are issued and included in the Underlying Index. When this happens the weightings or composition of the Securities owned by the RMB Bond Index ETF will change as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Underlying Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. However, there can be no guarantee that the RMB Bond Index ETF will, at any given time accurately reflect the composition of the Underlying Index.

## Regulatory Risks

**Withdrawal of SFC Authorisation Risk.** The RMB Bond Index ETF has been authorised as a collective investment scheme under the Code by the SFC pursuant to section 104 of the Securities and Futures Ordinance. Authorisation by the SFC is not a recommendation or endorsement of the RMB Bond Index ETF nor does it guarantee the commercial merits of a product or its performance. It does not mean the RMB Bond Index ETF is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The SFC reserves the right to withdraw the authorisation of the RMB Bond Index ETF or impose such conditions as it considers appropriate. Without limiting the foregoing, the SFC may withdraw authorisation where the SFC no longer considers the Underlying Index acceptable. If the Manager does not wish the RMB Bond Index ETF to continue to be authorised by the SFC, the Manager will give Unitholders at least 3 months' notice of the intention to seek SFC's withdrawal of such authorisation. In addition, any authorisation granted by the SFC may be subject to certain waivers which may be withdrawn or varied by the SFC. If as a result of such withdrawal or variation of waivers it becomes illegal, impractical or inadvisable to continue the RMB Bond Index ETF, the RMB Bond Index ETF will be terminated.

**Hong Kong and PRC Regulatory Policies Risk.** The government or the regulators may intervene in the financial markets. These changes may be introduced suddenly and in accordance with market conditions. Such changes may have a negative impact on existing funds such as the RMB Bond Index ETF including without limitation, an adverse cost impact which may materially prejudice existing investors of the RMB Bond Index ETF. Further, any such change in policies may also negatively impact the incentive of the counterparties to participate in the RMB Bond Index ETF and thereby decreasing the liquidity of the RMB Bond Index ETF. In order to maintain its authorization status and to continue to list on the SEHK, the RMB Bond Index ETF will be required to comply with such rules and policies at all times. To the extent that any such change in rules or policies adversely impact the RMB Bond Index ETF, investors may suffer accordingly.

**Units may be delisted from the SEHK Risk.** The SEHK imposes certain requirements for the continued listing of securities, including the Units, on the SEHK. Investors cannot be assured that the RMB Bond Index ETF will continue to meet the requirements necessary to maintain the listing of Units on the SEHK or that the SEHK will not change the listing requirements. If the Units are delisted from the SEHK, Unitholders will have the option to redeem their Units by reference to the Net Asset Value of the RMB Bond Index ETF. Where the RMB Bond Index ETF remains authorised by the SFC, such procedures required by the Code will be observed by the Manager.

**Legal and Regulatory Risk.** The RMB Bond Index ETF must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in the investment policy and objectives followed by the RMB Bond Index ETF. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the performance of the Underlying Index and as a result the performance of the RMB Bond Index ETF. It is impossible to predict whether such an impact caused by any change of law will be positive or negative for any RMB Bond Index ETF. In the worst case scenario, a Unitholder may lose all its investments in the RMB Bond Index ETF.

**Taxation in Overseas Jurisdictions.** The RMB Bond Index ETF will make investments in a number of different jurisdictions. Interest, dividend and other income realised by the RMB Bond Index ETF from sources in these jurisdictions, and capital gains realised on the sale of assets may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced and/or in which the issuer is located and/or in which the permanent establishment is located. It is impossible to predict the rate of foreign tax that the RMB Bond Index ETF may be required to pay since the nature and amounts of assets to be invested in any particular jurisdiction, the tax treatment of the activities of the RMB Bond Index ETF in any particular jurisdiction, and the ability of the RMB Bond Index ETF to reduce such taxes in any particular jurisdiction are not known. It is not practical to provide more specific disclosure of the tax consequences that might result from an investment in the RMB Bond Index ETF.

## Risk Factors Relating to the PRC

Although the RMB Bond Index ETF does not currently invest in the onshore PRC bond market, the availability of CNH, its liquidity and any PRC foreign control policies as well as the risk factors generally relating to the PRC is also highly relevant for the RMB Bond Index ETF. Further, in view of the limited circulation of RMB, the debt securities that are issued outside of PRC that are included in the Underlying Index are currently largely issued by PRC corporates and/or government.

**World Trade Organisation (the "WTO") Increases Competition for PRC Companies Risk.** The PRC's accession to the WTO occurred on 11 December 2001. As a member of the WTO, China is required to significantly reduce the trade barriers for imports that have historically existed and that currently exist in the PRC, such as: reducing restrictions on trading for certain kinds of products on foreign companies; lifting prohibitions, quantitative restrictions or other measures maintained against imports over time and significantly reducing tariffs. Any present or future increase in foreign competition may have a material adverse effect on PRC companies and their business operations.

**PRC Economic, Political and Social Conditions as well as Government Policies Risk.** The economy of the PRC, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

Although the majority of productive assets in the PRC are still owned by the PRC government at various levels, in recent years, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of the PRC and a high level of management autonomy. The economy of the PRC has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 20 years, the PRC government has carried out economic reforms to achieve decentralisation and utilisation of market forces to develop the economy of the PRC. These reforms have resulted in significant economic growth and social progress. There can, however, be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the underlying Securities of the RMB Bond Index ETF. Further, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may also have an adverse impact on the capital growth and performance of the RMB Bond Index ETF.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the PRC bonds in the Underlying Index.

**PRC Laws and Regulations Risk.** The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have no precedent value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. Two examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which went into effect on 1 October 1999, and the Securities Law of the PRC, which went into effect on 1 July 1999. However, because these laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

**Legal System of the PRC Risk.** The legal system of the PRC is based on written laws and regulations. Despite the PRC government's effort in improving the commercial laws and regulations, many of these laws and regulations are still at an experimental stage and the implementation of such laws and regulations remains unclear.

**Potential Market Volatility Risk.** Investors should note that the Shanghai Stock Exchange and Shenzhen Stock Exchange in which A Shares are traded are undergoing development. Market volatility may result in significant fluctuation in the prices of Securities of PRC companies traded on such markets and thereby changes in the Net Asset Value of the RMB Bond Index ETF.

**Accounting and Reporting Standards Risk.** Accounting, auditing and financial reporting standards and practices applicable to PRC companies may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors.

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

# MANAGEMENT OF THE TRUST

## The Manager

The Manager is BlackRock Asset Management North Asia Limited. The Manager is part of the BlackRock group of companies, the ultimate holding company of which is Blackrock, Inc., which provides investment management services internationally for institutional, retail and private clients. The Manager was incorporated in Hong Kong with limited liability on 10 August 1998 and is licensed by the SFC to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance.

Under the Trust Deed, the monies forming part of each Index Fund (including the RMB Bond Index ETF) are invested, at the direction of the Manager, in accordance with the Trust Deed. The Manager is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of each Index Fund (including the RMB Bond Index ETF). The Manager is also the Listing Agent for each of the Index Funds.

Without limiting the other powers mentioned in this Prospectus, the Manager may purchase and sell investments for the account of the RMB Bond Index ETF and subject to the provisions of the Trust Deed and enter into such contracts including sale and purchase agreements, loans and broker and trading agreements in accordance with the Trust Deed, as it deems appropriate in the performance of its role as Manager.

### The Directors of the Manager

**Marc Bovell Paul Desmidt,** Managing Director, Head of Alpha Strategies for Asia Pacific. Prior to moving to his current role in 2011, Mr. Desmidt spent three years as Chief Operating Officer – Asia Pacific for BlackRock's Fundamental Equity group. Before that role, he was the CIO of BlackRock Japan's Portfolio Management Group. Mr. Desmidt's service with the firm dates back to 1991, including his years with Merrill Lynch Investment Managers ("MLIM"), which merged with BlackRock in 2006. At MLIM, Mr. Desmidt held a variety of Portfolio Management roles in Hong Kong, Singapore and Japan. Mr. Desmidt earned a BSocSc degree in economics from the University of Cape Town, South Africa in 1988, and an MPhil degree from Oxford University, United Kingdom in 1991.

**Nicholas Michael Whateley Good,** is the Head of Strategy and Business Development, Asia-Pacific. He is responsible for defining and executing Blackrock's strategic agenda in Asia Pacific, including identifying and developing business opportunities across the region. Prior to taking this role, Mr. Good was Head of iShares, Asia Pacific and is responsible for all aspects of the iShares business across the Asia-Pacific region including sales, marketing, business strategy and new product development in BlackRock's offices in Australia, Hong Kong, Japan and Singapore. Mr. Good joined BlackRock following the merger with Barclays Global Investors ("BGI") in 2009. Mr. Good joined BGI in 2006 from the Boston Consulting Group, where he served as a lead client manager consulting in a number of industries, including finance. Mr. Good holds a BA and an MA in biochemistry from Oxford University, United Kingdom.

**Shirley Jane Leung, CFA,** Managing Director, is the Head of iShares, Asia-Pacific, responsible for the iShares business across Asia, including both distribution and management of iShares products and offices in Japan, Australia, Hong Kong, Singapore, and Taiwan. She is a member of the BlackRock Asia-Pacific Executive Committee, a member of the BlackRock Global iShares Executive Committee, and a Responsible Officer for BlackRock North Asia Ltd. Prior to taking this role, Ms. Leung was Head of BlackRock's Asia Pacific Index Equity team and was responsible for portfolio management activities across the region, covering iShares and institutional products. Ms. Leung's service with the firm dates back to 2001 including her years with BGI which merged with BlackRock in 2009. At BGI, she was the Senior Director of Product for iShares ex-Japan and was responsible for product development, product management and portfolio management within the region. Ms. Leung has also held roles as senior portfolio manager on the US iShares Equity Portfolio Management team and US Institutional Equity Portfolio Management team. Prior to joining BGI, Ms. Leung worked as an active portfolio manager at Berger and Associates, LLC and as an investment banking analyst at Donaldson, Lufkin, and Jenrette. Ms. Leung earned a BA degree in political science from the University of California, Los Angeles, United States.

**Michael Timothy Marquardt,** is the Chief Operating Officer, Asia Pacific for BlackRock. Mr. Marquardt joined BlackRock following the merger with BGI in 2009. Mr. Marquardt joined BGI in 2000 where he began in San Francisco working first as a Global Risk Manager and then as a Senior Project Manager on strategic initiatives. In 2005 Mr. Marquardt moved to Japan as Chief Administrative Officer, later becoming Chief Operating Officer. Mr. Marquardt was responsible for BGI Japan's Operations, IT, Finance, HR, Risk, Legal and Compliance groups. Prior to working at BGI, Mr. Marquardt was employed as Relationship Manager and Private Banking analyst for American Express Bank located in London. Mr. Marquardt holds an MBA with High Honors from Boston University, United States, a BA in Economics and History from Clark University, United States.

**Mark Seumas McCombe, OBE,** is the Chairman, Asia-Pacific for BlackRock. Mr. McCombe joined BlackRock in 2012 and is responsible for all business activity in the region, which includes Greater China, Japan, Australia, Singapore, India and Korea. Mr. McCombe has had an international career in finance spanning more than 20 years. Before joining BlackRock, he served as Chief Executive Officer in Hong Kong, for The Hongkong and Shanghai Banking Corporation Limited. He was also a Group General Manager of HSBC plc, a Non-Executive Director of Hang Seng Bank Ltd, and a Chairman of HSBC Global Asset Management (HK) Ltd. Prior to that, he was based in London where he was Chief Executive of HSBC Global Asset Management. In this capacity Mr. McCombe was responsible for all of HSBC's fund management businesses, including latterly the real estate and Private Equity businesses. Before that, Mr. McCombe was Chief Executive Officer of HSBC Private Bank (UK) Ltd, a position which included responsibility for Private Banking in the Channel Islands and Luxembourg. Between 1990 and 2005, Mr. McCombe lived and worked in France, Turkey, the U.S., Japan, the Middle East, in a variety of roles in financial services. Mr. McCombe earned an MA degree from Aberdeen University, United Kingdom and attended Wharton Business School, United States.

## The Sub-Adviser

BlackRock (Singapore) Limited is the sub adviser (the "Sub-Adviser") for the RMB Bond Index ETF. The Sub Adviser was incorporated in Singapore with limited liability on 2 December 2000 with its registered office at #18-01, Twenty Anson, 20 Anson Road, Singapore 079912. The Sub-Adviser holds a capital markets services licence in respect of fund management and dealing in securities, trading in futures contracts and leveraged foreign exchange trading under the Securities and Futures Act, Chapter 289 of Singapore.

The Sub-Adviser was established to provide fund management and advisory services for clients in the South East Asia region and has managed collective investment schemes and/or discretionary funds since 2001. As of the date of this Prospectus, the Sub-Adviser manages 4 fixed income ETFs in Singapore.

The Manager believes the RMB Bond Index ETF will benefit from the expertise of BlackRock (Singapore) Limited and has entered into a sub-advisory agreement with the Sub-Adviser to provide investment advice to the Manager, however, the Manager will retain all investment discretion with respect to the RMB Bond Index ETF. All fees paid to the Sub-Adviser will borne by the Manager and paid out of the Management Fee.

## The Trustee and Registrar

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, which is a registered trust company in Hong Kong. The Trustee is an indirect wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England.

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Trust. The Trustee may, however, appoint any person or persons (including a Connected Person) to be custodian of the assets of the Trust or to otherwise act as its agent. The Trustee is required to exercise reasonable skill, care and diligence in the selection, appointment and monitoring of such persons and, during the term of their appointment, must satisfy itself as to the ongoing suitability of such persons to provide custodial services to the Trust, having regard to the market or markets for which such persons are appointed to act as custodian. The Trustee will remain responsible for the acts or omissions of such persons in the same manner as if such acts or omissions were those of the Trustee, except where such persons are appointed in respect of a market or markets which the Trustee has determined by notice to the Manager to be emerging markets. Notwithstanding the above, the Trustee will remain responsible for the acts or omissions of any Connected Person appointed in respect of an emerging market. As at the date of this Prospectus, the Trustee does not have any intention to appoint any person or persons to be the custodian of the assets of the Trust in an emerging market, in the event such appointment is proposed, the Trustee will notify the Manager and the SFC will be notified by the Manager accordingly. Prior approval of the SFC has to be obtained in the event such emerging market custodian proposed to be appointed is not a Connected Person of the Trustee.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment. The Trustee has no responsibility or authority to make investment decisions, or render investment advice with respect to the RMB Bond Index ETF, which is the sole responsibility of the Manager.

The Trustee will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury. The OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent "prohibited transactions," which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general licence for certain categories of transactions, or by specific licences issued on a case-by-case basis. HSBC group of companies has adopted a policy of compliance with the sanctions issued by OFAC. As part of its policy, the Trustee may request for additional information if deemed necessary.

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed including (a) liquidation of the Trustee; (b) where the Manager acting in good faith and in the beset interests of unitholders, wishes to remove the Trustee; (c) the holders of not less than 50% in value of the Units for the time being outstanding deliver in writing a request that the Trustee should retire; or (d) the SFC withdraws its approval of the Trustee as the trustee of the RMB Bond Index ETF. Replacement of the Trustee will be subject to the requirements of the Trust Deed and the Code including approval by the SFC and notification to the unitholders.

Neither the Trustee nor any of its employees, service providers or agents are or will be involved in the sponsorship or investment management of the RMB Bond Index ETF, and they are not responsible for the preparation or issue of this Prospectus other than the description under the section on "The Trustee and Registrar".

The Trustee will also act as the Registrar of the RMB Bond Index ETF. In addition to the amount paid by the Manager out of the Management Fee, the Trustee will be entitled to other fees described in the section headed "Fees and Expenses".

## Indemnities of the Trustee and Manager

The Trustee and the Manager benefit from various indemnities in the Trust Deed. Except as provided under the Trust Deed, the Trustee and the Manager shall be entitled to be indemnified out of, and have recourse to, the RMB Bond Index ETF or the Trust generally, in respect of any liabilities, costs, claims or demands arising directly or indirectly from the proper performance of the Trust. Nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from or indemnify them against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to them in respect of any negligence, fraud, default, breach of duty or trust of which they may be guilty in relation to their duties.

## The Service Agent

HK Conversion Agency Services Limited acts as Service Agent under the terms of the Service Agreement entered into among the Manager, the Trustee, the Registrar, the Participating Dealers, the Service Agent and HKSCC. The Service Agent performs, through HKSCC, certain of its services in connection with the creation and redemption of Units in the RMB Bond Index ETF by Participating Dealers.

## The Auditor

The Manager has appointed PricewaterhouseCoopers to act as the auditor of the Trust and each of the Index Funds ("Auditor"). The Auditor is independent of the Manager and the Trustee.

## The Participating Dealers

A Participating Dealer may act for its own account or for your account as its clients in making Creation Applications and Redemption Applications. As at the date of this Prospectus, the participating dealers are Standard Chartered Bank (Hong Kong) Limited, UBS Securities Hong Kong Limited, KGI Securities (Hong Kong) Limited, Macquarie Bank Limited, Citigroup Global Markets Asia Limited and The Hongkong and Shanghai Banking Corporation Limited. The latest list of the Participating Dealers is available at www.ishares.com.hk.

## The Market Makers

A Market Maker is a broker or dealer permitted by the SEHK to make a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the SEHK. Market Makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market making requirements of the SEHK.

Subject to applicable regulatory requirements, the Manager will ensure that there is at least one Market Maker for Units traded in RMB and one Market Maker for Units traded in HKD on the listing date on the SEHK and after Listing. If the SEHK withdraws its permit to the existing Market Maker(s), the Manager will endeavour to ensure that there is at least one other Market Maker to facilitate the efficient trading of Units in RMB and one other Market Maker to facilitate the efficient trading of Units in Hong Kong dollars. The Manager will seek to ensure that at least one Market Maker per counter is required to give not less than 3 months' prior notice to terminate market making under the relevant market making agreement. As at the date of this Prospectus, the market makers for the HKD counter and for the RMB counter is The Hongkong and Shanghai Banking Corporation Limited. The latest list of Market Makers is available at www.hkex.com.hk.

## Conflicts of Interest

The Manager, the Sub-Adviser and the Trustee may from time to time act as trustee, administrator, registrar, secretary, manager, custodian, investment manager or investment adviser or perform other functions in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the RMB Bond Index ETF or any Index Fund.

In addition:–

- the Manager or any of its Connected Persons including the Sub-Adviser may enter into investments for the Trust as agent for the Trustee and may, with the consent of the Trustee, deal with the Trust as principal;

- the Trustee, the Manager, the Sub-Adviser or the Registrar or any of their Connected Persons may have banking or other financial relationships with any company or party which is the issuer of Securities, financial instruments or investment products held by the Trust;

- the Trustee, the Manager, the Sub-Adviser or the Registrar or any of their Connected Persons may hold and deal in Units or in investments held by the Trust either for their own account or for the account of their customers; and

- the monies of the Trust may be deposited with the Manager, the Trustee, the Sub-Adviser or any of their Connected Persons or invested in certificates of deposit or banking instruments issued by any of them.

The Trustee, the Manager, the Sub-Adviser or the Registrar or their Connected Persons may, in the course of business, and in providing services to the Trust, have potential conflicts of interest with the Trust the RMB Bond Index ETF or any Index Fund. Each will, at all times, have regard to its obligations to the Trust and to Unitholders and will endeavour to ensure that any such conflicts are resolved fairly.

Conflicts of interest may arise due to the widespread business operations of the Trustee, the Manager, the Sub Adviser, the Registrar and the Service Agent and their respective holding companies, subsidiaries and affiliates. The foregoing parties may effect transactions where those conflicts arise and shall not, subject to the terms of the Trust Deed, be liable to account for any profit, commission or other remuneration arising. However, all transactions carried out by or on behalf of the Trust (or any Index Fund) will be on arm's length terms.

## Soft Dollars

The Manager (as well as any of its Connected Persons) will not receive or enter into any soft dollar commissions or arrangements in respect of the management of the RMB Bond Index ETF. The Manager (as well any of its Connected Persons) will not retain any cash rebates from any broker or dealer.

# STATUTORY AND GENERAL INFORMATION

## Reports and Accounts

The financial year-end of the Trust and the RMB Bond Index ETF is 31 December every year. Audited accounts are to be prepared according to International Financial Reporting Standards and half-yearly unaudited reports are also to be prepared up to the last Dealing Day in June of each year. The first audited accounts and the first half yearly unaudited report will be for the year end 31 December 2013 and half-year 30 June 2014 respectively.

The audited report provide details of the assets of the Trust and the Manager's statement on transactions during the period under review (including a list of any constituent Securities of an Underlying Index, if any, that each accounts for more than 10% of the weighting of the Underlying Index as at the end of the relevant period and their respective weighting showing any limits adopted by the RMB Bond Index ETF have been complied with). The audited report shall also provide a comparison of the RMB Bond Index ETF's performance and the actual Underlying Index performance over the relevant period and such other information as is required under the Code.

Audited accounts in English and Chinese will be available from the Manager's website at www.ishares.com.hk within four months of the end of each financial year end and unaudited reports will be available from the same website within two months of the end of the financial half-year end. Hard copies of these financial reports may also be obtained from the Manager free of charge. Unitholders will be notified of the means of getting access to the financial reports as and when the financial reports are issued and available.

Unitholders will be given at least one month's prior notice of any change to the mode of delivery of these financial reports.

## Trust Deed

The Trust was established under Hong Kong law by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust and their relief from liability in certain circumstances (summarised above in "Indemnities of the Trustee and Manager"). Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

## Modification of Trust Deed

The Trustee and the Manager may agree to jointly modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification (i) does not materially prejudice to the interests of unitholders in any Index Fund, does not operate to release to any material extent the Trustee or the Manager or any other person from any responsibility to the unitholders in any Index Fund and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of any Index Fund or (ii) is necessary in order to make possible compliance with any fiscal, statutory or official requirement (whether or not having the force of law) or (iii) is made to correct a manifest error. In all other cases modifications, alterations and additions require the sanction of an extraordinary resolution of the Unitholders affected.

Except in respect of amendments sanctioned by extraordinary resolution, the Manager will notify affected Unitholders of amendments as soon as practicable after they are made. No such notice will be given if the Trustee is of the opinion that the amendment is not of material significance or is made to correct a manifest error.

## Voting Rights

Unitholders' meetings may be convened by the Manager, by the Trustee or by Unitholders representing one-tenth or more of the current Units in issue. These meetings may be used to modify the terms of the Trust Deed, including increasing the maximum fees payable to the service providers, removing the Trustee or terminating the Trust at any time. Such amendments to the Trust Deed must be considered by Unitholders of at least 25% of the Units in issue and passed by a 75% majority of the votes cast. Unitholders will be given not less than 21 days' notice of such meeting. An instrument of proxy may be used by unitholders in accordance with the Trust Deed. Where the unitholder is a recognized clearing house, it may authorize such person(s) as it thinks fit to act as its proxy, or proxies or representative(s) at any unitholders' meetings.

## Termination

The Trust may be terminated by the Trustee if: (i) the Manager goes into liquidation or a receiver is appointed and not discharged within 60 days; (ii) in the opinion of the Trustee, the Manager is incapable of performing its duties satisfactorily; (iii) the Manager has failed to perform its duties satisfactorily or has, in the opinion of the Trustee, done something calculated to bring the Trust into disrepute or that is harmful to the interests of Unitholders; (iv) a law is passed that renders it illegal, or in the opinion of the Trustee, impracticable or inadvisable to continue the Trust; (v) the Trustee is unable to find an acceptable person to replace the Manager within 30 days after the removal of the Manager, or the person nominated shall fail to be approved by Extraordinary Resolution; or (vi) 30 days after the Trustee notifies the Manager of its intention to retire, no new person willing to act as trustee has been identified.

The Manager may terminate the Trust (or in the case of (iii) any Index Fund) if: (i) the aggregate Net Asset Value of all the Units in each Index Fund is less than HKD150 million; (ii) any law is passed or amended or regulatory directive or order is imposed which renders it illegal or in the opinion of the Manager, impracticable or inadvisable to continue the Trust; (iii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects an Index Fund and which renders such Index Fund illegal or in the good faith opinion of the Manager, makes it impracticable or inadvisable to continue such Index Fund; or (iv) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed.

The Manager may, in its absolute discretion, by notice in writing to the Trustee, terminate any Index Fund (including the RMB Bond Index ETF) if: (i) after 3 years from the date of the creation of such Index Fund, the Net Asset Value of such Index Fund is less than HKD150 million; (ii) at any time the Net Asset Value of such Index Fund investing primarily in market access products is less than the Hong Kong dollar equivalent of USD10 million; (iii) its Underlying Index is no longer available for benchmarking or if the Units of the relevant Index Fund are no longer listed on the SEHK or any other Recognised Stock Exchange; (iv) at any time, the Index Fund ceases to have any Participating Dealer; or (v) if the Manager is unable to implement its investment strategy. In such circumstances, unless the Manager and the Trustee agree that another strategy is: (a) possible, feasible as well as practicable; and (b) in the best interests of the Unitholders, the Units then in issue shall be compulsorily redeemed at the Net Asset Value of the relevant Index Fund. The Manager shall, in such event, notify the SFC in advance in such circumstance and agree with the SFC appropriate methods of notification of Unitholders in the relevant Index Fund prior to such redemption and termination. Further, the Unitholders may at any time authorise termination of the Trust or any Index Fund by extraordinary resolution.

Unless previously terminated as described above or under another provision in the Trust Deed, the Trust shall in any event terminate at the expiry of 80 years from the date of the Trust Deed, being 16 November 2081.

Notice of any termination of an Index Fund will be given to the Unitholders after the SFC has approved release of the notice. The notice will contain the reasons for the termination, the consequences to Unitholders of terminating the Index Fund and the alternatives available to them, and any other information required by the Code.

## Inspection of Documents

Copies of the constitutive documents including the Trust Deed, its agreement with the Conversion Agent and the form of the Participation Agreement are available for inspection free of charge at the offices of the Manager and copies thereof may be obtained from the Manager at a cost of HKD150 per set.

## Part XV of the Securities and Futures Ordinance

Part XV of the Securities and Futures Ordinance sets out the Hong Kong disclosure of interests' regime applicable to Hong Kong listed companies. The regime does not apply to unit trusts that are listed on the SEHK like the RMB Bond Index ETF. Consequently, Unitholders are not obliged to disclose their interest in the RMB Bond Index ETF. Further, pursuant to section 323(1)(c)(i) of the Securities and Futures Ordinance, Unitholders are not considered to hold an interest in the underlying shares (if any) of a company whose securities are listed on the SEHK held by the RMB Bond Index ETF.

## Anti-Money Laundering Regulations

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee or the Trust is subject, the Manager, the Registrar or the Trustee may require a detailed verification of an investor's identity and the source of payment of any subscriptions. Depending on the circumstances of each application, a detailed verification might not be required where:–

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

These exceptions apply only if the financial institution or intermediary is within a country recognised by the Trustee and the Manager as having sufficient anti-money laundering regulations.

## Change of Underlying Index

The Manager reserves the right with the prior approval of the SFC and provided that in its opinion the interests of the Unitholders would not be adversely affected, to replace the Underlying Index with another Underlying Index. The circumstances under which any such replacement might occur include but are not limited to the following events:–

(a) the Underlying Index ceasing to exist;

(b) the licence to use the Underlying Index being terminated;

(c) a new index becoming available that supersedes the existing Underlying Index;

(d) a new index becoming available that is regarded as the market standard for investors in the particular market and/or would be regarded as more beneficial to the Unitholders than the existing Underlying Index;

(e) investing in the Securities comprised within the Underlying Index becomes difficult;

(f) the Index Provider increasing its licence fees to a level considered too high by the Manager;

(g) the quality (including accuracy and availability of the data) of the Underlying Index having in the opinion of the Manager, deteriorated;

(h) a significant modification of the formula or calculation method of the Underlying Index rendering that index unacceptable in the opinion of the Manager; and

(i) the instruments and techniques used for hedging and/or return optimization not being available.

The Manager may change the name of the RMB Bond Index ETF if the Underlying Index changes or for any other reasons including if licence to use the Underlying Index is terminated. Any change to the Underlying Index and or the name of the RMB Bond Index ETF will be notified to investors as soon as practicable.

## Information Available on the Internet

The Manager will publish important news and information with respect to the RMB Bond Index ETF, both in the English and in the Chinese languages, on the Manager's website at www.ishares.com.hk including:–

- The RMB Bond Index ETF's Prospectus and the Product Key Facts Statement (as revised from time to time);
- Latest financial reports;
- Dividend record;
- Latest closing Net Asset Value of the RMB Bond Index ETF in RMB and the last closing Net Asset Value per Unit in RMB and in HKD;
- Estimated Net Asset Value per Unit updated every 15 seconds each Dealing Day in RMB and HKD;
- Daily closing level of the Underlying Index;
- Daily top 10 largest constituents of the Underlying Index with their respective weightings;
- Daily holdings of the RMB Bond Index ETF
- Monthly fund fact sheet;
- Index methodology file;
- Notices and announcements; and
- Identities of the Participating Dealers.

Please note that the estimated Net Asset Value per Unit in HKD and the last closing Net Asset Value per Unit in HKD are for reference only. The estimated Net Asset Value per Unit in HKD is calculated using the estimated Net Asset Value per Unit in RMB multiplied by the real time spot rate quoted by Bloomberg for offshore RMB (CNH). The latest closing Net Asset Value per Unit in HKD that is calculated using the latest closing Net Asset Value per Unit in RMB multiplied by Reuters mid rate for RMB (CNH) at 6:00 p.m. (Hong Kong time) on that Dealing Day. The Manager will publish on its website the constituent Securities of the RMB Bond Index ETF at such frequency as is permitted by the Index Provider.

All of the information outlined above can be found on the product webpage of the RMB Bond Index ETF. The product webpage of the RMB Bond Index ETF can be located by using the search function and inserting the RMB counter or the HKD counter stock code of the RMB Bond Index ETF (i.e. 83139 or 3139) at www.ishares.com.hk. The product webpage also provides a link to the announcements and notices section of the website where public announcements and notices can be found.

## Notices

All notices and communications to the Manager and Trustee should be made in writing and sent to the following addresses:–

**Manager**
BlackRock Asset Management North Asia Limited
16th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

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

## Queries and Complaints

Investors may contact the Manager at its address as set out above, or by phone at its telephone number: (852) 3903 2823 or by email: iSharesAsiaEnquiry@blackrock.com to seek any clarification regarding the Trust or the RMB Bond Index ETF or to file a complaint. If a query or complaint is received by phone, the Manager will respond orally. If a query or complaint is received in writing, the Manager will respond in writing. Under normal circumstances the Manager will respond to any query or complaint as soon as practicable and in any event within 21 days.

# TAXES

The following summary of Hong Kong and the PRC taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong, the PRC and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong and the PRC at the date of this Prospectus. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Prospectus.

**Hong Kong**

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|---|---|
| The RMB Bond Index ETF | Profits Tax: As the Trust and the RMB Bond Index ETF have been authorised as collective investment schemes by the SFC pursuant to section 104 of the Securities and Futures Ordinance, profits of the RMB Bond Index ETF arising from the sale or disposal of Securities, net investment income received by or accruing to the RMB Bond Index ETF and other profits of the RMB Bond Index ETF are exempt from Hong Kong profits tax.<br><br>Other Taxes: Notwithstanding that profits or income of the RMB Bond Index ETF are exempt from Hong Kong profits tax, the RMB Bond Index ETF may be subject to tax in certain jurisdictions where investments are made on income or capital gains derived.<br><br>Stamp Duty: Pursuant to a remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty on the transfer of Securities to the RMB Bond Index ETF by an investor pursuant to an application in specie will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of Securities by the RMB Bond Index ETF to an investor upon redemption of Units will also be remitted or refunded.<br><br>No Hong Kong stamp duty is payable by the RMB Bond Index ETF on an issue or redemption of Units. |
| The Unitholders | Profits Tax: Hong Kong profits tax will not be payable by the Unitholder (other than Unitholders carrying on a trade, profession or business of investing in securities in Hong Kong) on any gains or profits made on the sale, redemption or other disposal of the Units and on any distributions made by the RMB Bond Index ETF. In accordance with the practice of the Inland Revenue Department of Hong Kong (as at the date of this Prospectus) tax should not be payable in Hong Kong in respect of distributions to Unitholders.<br><br>Stamp Duty: Immediately before the listing of the Units on the SEHK, an application has been made to and is expected to be granted by the Secretary for Financial Services and Treasury for remission or refund in full of stamp duty payable or paid in respect of any contract notes or instruments of transfer relating to transactions by investors on the SEHK in Units (applicable to each counter and including any inter-counter transfer). |

**PRC**

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|---|---|
| The RMB Bond Index ETF | Corporate Income Tax ("CIT"): The Manager and the Trustee intend to manage and operate the RMB Bond Index ETF in such a manner that the RMB Bond Index ETF should not be treated as a tax resident enterprise of the PRC or a non-tax resident enterprise with an establishment or place of business in the PRC for CIT purposes. As such, it is expected that the Trust should not be subject to CIT on an assessment basis and would only be subject to CIT on a withholding basis to the extent the RMB Bond Index ETF directly derives PRC sourced income, irrespective of whether the investments held by the RMB Bond Index ETF are issued in or outside the PRC.<br><br>Although the PRC's enactment of the Enterprise Income Tax Law, effective 1 January 2008, provided a 10% withholding tax upon non-residents with respect to PRC sourced income such as dividend and interest, significant uncertainties remain in respect of the PRC taxation of capital gains. Such uncertainties may result in capital gains imposed upon the RMB Bond Index ETF relative to companies being, or deemed to be, headquartered, listed, or managed in the PRC. The Manager anticipates that a proportion of the portfolio may comprise of issuers having that degree of connection with the PRC and hence at risk of such taxation. While the application and enforcement of this law with respect to the RMB Bond Index ETF remains subject to clarification, to the extent that such taxes are imposed on any capital gains of the RMB Bond Index ETF relative to companies being, or deemed to be, headquartered, listed, or managed in the PRC, the RMB Bond Index ETF's Net Asset Value or returns would be adversely impacted. The RMB Bond Index ETF may also be subject to business, stamp, and/or other taxes imposed in the PRC. However, the RMB Bond Index ETF does not currently intend to make any accounting provision for these tax uncertainties.<br><br>Furthermore, the PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect, and possibly retrospectively, the after-taxation profit of PRC companies and other issuers of bonds in which the RMB Bond Index ETF may invest. |

# DEFINITIONS

In this Prospectus, unless the context requires otherwise, the following expressions have the meanings set out below. Other capitalised terms used, but not defined, have the meaning given to those terms in the Trust Deed.

“Application Unit Size” means such number of Units as specified in the Prospectus as the minimum holding or any number of Units above the minimum holding from time to time determined by the Manager, approved by the Trustee and notified to Participating Dealers.

“Business Day” means a day (other than a Saturday) on which the SEHK is open for normal trading and on which the Underlying Index is compiled and published, and a day on which banks in Hong Kong are open for general business 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 otherwise determine.

“CCASS” means the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors.

“CNH” means RMB traded offshore in Hong Kong. Although CNH and RMB are the same currency, they trade at different rates as the regulation has explicitly kept onshore and offshore separated, the respective supply and demand conditions lead to separate market clearing exchange rates.

“Code” means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended, or replaced, from time to time).

“Connected Person” has the meaning as set out in the Code which at the date of the Prospectus means in relation to a company:–

(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or

(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or

(c) any member of the group of which that company forms part; or

(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

“Creation Application” means an application by a Participating Dealer for the creation and issue of Units in an Application Unit Size in accordance with the Operating Guidelines and terms of the Trust Deed.

“Dealing Day” means each Business Day during the continuance of the RMB Bond Index ETF, and/or such other day or days as the Manager may from time to time determine with the approval of the Trustee.

“Dealing Deadline” in relation to any particular place and any particular Dealing Day, means the time on each Dealing Day specified in the Operating Guidelines.

“Dim Sum bonds” mean bonds issued outside the PRC but denominated and settled in RMB, rather than any other currency.

“Dual Counter” means the facility by which the Units traded in RMB and traded in HKD are each assigned separate stock codes on the SEHK and are accepted for deposit, clearing and settlement in CCASS in more than one eligible currency (RMB or HKD) as described in the Prospectus.

"Duties and Charges" means, in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage, bank charges, transfer fees, registration fees, transaction levies and other duties and charges whether in connection with the constitution of the deposited property (as defined in the Trust Deed) or the increase or decrease of the deposited property or the creation, issue, transfer, cancellation or redemption of Units or the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, any transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units, a charge (if any) of such amount or at such rate as is determined by the Manager to be made for the purpose of compensating or reimbursing the Trust or the RMB Bond Index ETF for the difference between (a) the prices used when valuing the Securities of the Trust or the RMB Bond Index ETF for the purpose of such issue or redemption of Units; and (b) (in the case of an issue of Units) the prices which would be used when acquiring the same Securities if they were acquired by the Trust or the RMB Bond Index ETF with the amount of cash received by the Trust or the RMB Bond Index ETF upon such issue of Units and (in the case of a redemption of Units) the prices which would be used when selling the same Securities if they were sold by the Trust or the RMB Bond Index ETF in order to realise the amount of cash required to be paid out of the Trust upon such redemption of Units. For the avoidance of doubt, when calculating subscription and redemption prices, duties and charges shall include any provision for bid and ask spreads (to take into account the difference between the price at which assets were valued for the purpose of calculating the Net Asset Value and the estimated price at which such assets shall be bought as a result of a subscription or sold as a result of a redemption), but shall not include any commission payable to agents on sales and purchases of the Units or any commission, taxes, charges or costs which may have been taken into account in ascertaining the Net Asset Value of Units).

"HKD" means Hong Kong dollars, the lawful currency of Hong Kong.

"HKSCC" means the Hong Kong Securities Clearing Company Limited or its successors.

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China.

"Index Fund" means one segregated pool of assets and liabilities into which the Trust Fund is divided in accordance with the Trust Deed and where the context requires, means only the RMB Bond Index ETF.

"Index Provider" means the person responsible for compiling the Underlying Index against which the RMB Bond Index ETF benchmarks its investments and who holds the right to licence the use of such Underlying Index to the RMB Bond Index ETF.

"Initial Issue Date" means the date of the first issue of Units, which shall be 4 Business Days immediately before the Listing Date or such other time as may be agreed between the Manager and the Trustee.

"Initial Offer Period" means the period from 9:00 a.m. (Hong Kong time) on 5 June 2013 until 11:00 a.m. (Hong Kong time) on 11 June 2013 or may be postponed to such times and dates as stated in the timetable under the section "Offering Phases" of the Prospectus.

"Issue Price" means the price at which Units may be issued, determined in accordance with the Trust Deed.

"Listing Date" means the date, expected to be 18 June 2013, on which the Units are first listed and from which dealings therein are permitted to take place on SEHK.

"Market" means the following, in any part of the world:–

(a) in relation to any Security: the SEHK or a Recognised Stock Exchange; and

(b) in relation to any futures contract: the Hong Kong Futures Exchange or any international futures exchange recognised by the SFC or approved by the Manager and the Trustee, and any over-the-counter transaction conducted in any part of the world and in relation to any Security or futures contract shall be deemed to include any bilateral agreement with a responsible firm, corporation or association in any country in any part of the world dealing in the Security or futures contract which the Manager may from time to time elect with the approval of the Trustee.

"Market Maker" means a broker or dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market on the SEHK.

"Net Asset Value" or "NET ASSET VALUE" means the net asset value of the RMB Bond Index ETF or, as the context may require, of a Unit calculated pursuant to the Trust Deed.

"Operating Guidelines" means the guidelines for the creation and redemption of Units out in the schedule to the Participation Agreement as amended from time to time by the Manager with the approval of the Trustee and following consultation, to the extent reasonably practicable, with the Participating Dealers and as notified in writing to the Participating Dealers.

"Participating Dealer" means any participant of CCASS has entered into a Participation Agreement.

"Participation Agreement" means an agreement entered into between the Trustee, the Manager and a Participating Dealer setting out, (amongst other things), the arrangements in respect of the issue of Units and the redemption and cancellation of Units.

"PRC" means The People's Republic of China excluding Hong Kong and the Macau Special Administrative Region.

"Recognised Stock Exchange" means an international stock exchange which is recognised by the SFC or which is approved by the Trustee and the Manager.

"Redemption Application" means an application by a Participating Dealer for the redemption of Units in Application Unit Size in accordance with the Operating Guidelines and terms of the Trust Deed.

"Redemption Value" means, in respect of a Unit, the price per Unit at which such Unit is redeemed, calculated in accordance with the Trust Deed.

"RMB" means Renminbi Yuan, the lawful currency of the PRC.

"RMB Bond Index ETF" means iShares RMB Bond Index ETF, an Index Fund of the Trust.

"Security" means any share, stock, debenture, loan stock, bond, security, future (including a futures contract), forward, derivative commercial paper, acceptance, trade bill, treasury bill, instrument or note of, or issued by or under the guarantee of, any body, whether incorporated or unincorporated, or of any government or local government authority or supranational body, whether paying interest or dividends or not and whether fully-paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):–

(a) any right, option or interest (howsoever described) in or in respect of any of the foregoing, including units in any unit trust;

(b) any certificate of interest or participation in, or temporary or interim certificate for, receipt for or warrant to subscribe or purchase, any of the foregoing;

(c) any instrument commonly known or recognised as a security;

(d) any receipt or other certificate or document evidencing the deposit of a sum of money, or any rights or interests arising under any such receipt, certificate or document; and

(e) any bill of exchange and any promissory note.

“Securities and Futures Ordinance” or “SFO” means the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

“SEHK” means The Stock Exchange of Hong Kong Limited or its successors.

“Settlement Day” means the Business Day which is two Business Days after the relevant Dealing Day (or such later Business Day as is permitted in relation to such Dealing Day pursuant to the Operating Guidelines) or such other number of Business Days after the relevant Dealing Day as the Manager and the Trustee may from time to time agree and notify to the relevant Participating Dealers.

“SFC” means the Securities and Futures Commission of Hong Kong or its successors.

“Sub-Adviser” means BlackRock (Singapore) Limited.

“Trust” means the umbrella unit trust constituted by the Trust Deed and called iShares Asia Trust or such other name as the Trustee and the Manager may from time to time determine.

“Trust Fund” means all the property held by the Trust, including all Deposited Property and Income Property (both as defined in the Trust Deed), except for amounts to be distributed, in each case in accordance with the terms and provisions of the Trust Deed.

“Trustee” means HSBC Institutional Trust Services (Asia) Limited.

“Underlying Index” means the Citi RMB Bond Capped Index.

“Unit” means one undivided share in the RMB Bond Index ETF.

“Unitholder” means a person entered on the register of holders as the holder of Units including, where the context so admits, persons jointly registered.

“Valuation Point” means the official close of trading on the Market on which (i) Securities in question are listed or (ii) any futures contract held by the RMB Bond Index ETF (if any) is traded, on each Dealing Day and, in the case of the RMB Bond Index ETF investing in Securities trading on more than one Market, the official close of trading on the last relevant Market to close or such other time or times as determined by the Manager and the Trustee from time to time provided that there shall always be a Valuation Point on each Dealing Day other than where there is a suspension of the creation and redemption of Units.

# SCHEDULE 1

## Investment Restrictions

If any of the restrictions or limitations set out in this Schedule 1 is breached, the Manager will make it a priority objective to take all necessary steps within a reasonable period to remedy such breach, taking into account the interests of the Unitholders.

The Trustee will take reasonable care to ensure compliance with the investment and borrowing limitations set out in the constitutive documents and the conditions under which the scheme was authorised.

The investment restrictions applicable to the RMB Bond Index ETF that are included in the Trust Deed are summarised below:–

(a) the RMB Bond Index ETF may not collectively hold more than 10% of any one class of Security issued by any single issuer, unless otherwise agreed by the SFC;

(b) no more than 10% of the latest available Net Asset Value of the RMB Bond Index ETF may be invested in ordinary shares issued by any single issuer, unless otherwise agreed by the SFC;

(c) no more than 15% of the latest available Net Asset Value of the RMB Bond Index ETF may be invested in Securities which are not quoted, listed or dealt in on a Market, including swaps;

(d) no more than 30% of the latest available Net Asset Value of the RMB Bond Index ETF may be invested in government and other public Securities of the same issue. Subject to the foregoing, the RMB Bond Index ETF may invest all of its assets in government and other public Securities in at least six different issues;

(e) the RMB Bond Index ETF may not hold options and warrants valued at more than 15% of its latest available Net Asset Value, except that this 15% limit will not apply to options and warrants acquired for hedging purposes;

(f) no more than 20% of the latest available Net Asset Value of the RMB Bond Index ETF may be invested in (i) commodities including physical commodities, and other commodity-based investments and excluding, for this purpose, Securities of companies engaged in the production, processing or trading of commodities) and (ii) futures contracts on an unhedged basis;

(g) no more than 10% of the latest available Net Asset Value of the RMB Bond Index ETF may be invested in Units or shares in other collective investment schemes unless otherwise agreed by the SFC and other requirements of the Code are met.

In addition, the Trust is subject to the following additional restrictions. The Manager shall not for the account of the RMB Bond Index ETF:–

(a) invest in shares or contracts which are not quoted, listed or dealt in on a Market unless the Manager reasonably believes (either generally or in any particular case) that (i) it is possible to make an investment more advantageously in some other manner and (ii) it is not possible to effect such investment on a Market;

(b) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trust (REITs) that are listed on a stock exchange);

(c) make short sales unless (i) the RMB Bond Index ETF's liability to deliver Securities does not exceed 10% of its latest available Net Asset Value; and (ii) the Security which is to be sold short is actively traded on a market where short selling activity is permitted;

(d) grant or create in favour of any person any option and for the avoidance of doubt, write uncovered options;

(e) effect or enter into any underwriting or sub-underwriting contracts in relation to the subscription or purchase of Securities (other than the initial issue of Units);

(f) invest in any Security or other property which involves the assumption of any liability by the Trustee which is unlimited;

(g) lend any monies comprising part of the Trust Fund to any person (but which shall not prohibit the holding or investment of uninvested cash in any of the ways or instruments permitted under the Trust Deed);

(h) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person;

(i) invest in any Security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued Securities of that class, or collectively, the directors and officers of the Manager own more than 5%, of those Securities;

(j) invest in any Security where a call is to be made, unless the call could be met in full out of cash or near cash from the RMB Bond Index ETF.

The investment restrictions set out above apply to the RMB Bond Index ETF, subject to the following:–

(a) The RMB Bond Index ETF may (directly or indirectly) overweight holdings of non-sovereign or government Securities relative to the respective weightings in the Underlying Index (taking into account any representative sampling strategy) on condition that the maximum extra weighting in any non-sovereign or government Security will not exceed 3%. The RMB Bond Index ETF may (directly or indirectly) overweight holdings of government or sovereign Securities relative to the respective weightings in the Underlying Index (taking into account any representative sampling strategy) on condition that the maximum extra weighting in any sovereign or government Security will not exceed 5%. The Manager shall report to the SFC on a timely basis if there is any non-compliance with this limit by the RMB Bond Index ETF. The annual and semi-annual reports of the RMB Bond Index ETF shall also disclose whether or not such limit has been complied with during such period.

(b) By adopting a representative sampling strategy the Manager may invest (directly or indirectly) in Securities outside the Underlying Index. The Manager may do so for reasons including liquidity and cost. The Manager will only invest in Securities which are not included in the Underlying Index provided the sample closely reflects the overall characteristics of the Underlying Index.

## Stock Lending

The Manager will not enter into any repurchase agreements or stock lending transactions or such similar OTC transactions on behalf of the RMB Bond Index ETF. One month's prior notice will be given to Unitholders in the event the Manager intends to engage in such activities.

## Borrowing Policy

Borrowing against the assets of the RMB Bond Index ETF is allowed up to a maximum of 10% of its latest available Net Asset Value. The Trustee may at the request of the Manager borrow for the account of the RMB Bond Index ETF any currency, and charge or pledge assets of the RMB Bond Index ETF, for the following purposes:–

- facilitating the creation or redemption of Units or defraying operating expenses;
- enabling the Manager to acquire Securities for the account of the RMB Bond Index ETF; or
- for any other proper purpose as may be agreed by the Manager and the Trustee.

# SCHEDULE 2

## Index Provider Disclaimer

iShares RMB Bond Index ETF (the "Fund") is not sponsored, endorsed, sold or promoted by Citigroup Index LLC ("Citigroup Index"). Citigroup Index makes no representation or warranty, express or implied, to the owners or prospective owners of shares of the Fund or any member of the public regarding the advisability of investing in securities generally or in the Fund particularly, or the ability of the Fund to track the price and yield performance of the Citi RMB Bond Capped Index (the "Underlying Index") or the ability of the Underlying Index to track general bond market performance. Citigroup Index's only relationship to BlackRock (the "Adviser") is the licensing of certain information, data, trademarks and trade names of Citigroup Index or its affiliates. The Underlying Index is determined, composed and calculated by Citigroup Index without regard to the Adviser or the Fund. Citigroup Index has no obligation to take the needs of the Adviser or the owners or prospective owners of the Fund into consideration in determining, composing or calculating the Underlying Index. Citigroup Index is not responsible for and has not participated in the determination of the prices and amount of the shares to be issued by the Fund or the timing of the issuance or sale of the shares to be issued by the Fund or in the determination or calculation of the equation by which the shares to be issued by the Fund are to be converted into cash. Citigroup Index has no obligation or liability in connection with the administration, marketing or trading of the Fund.

CITIGROUP INDEX DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF THE UNDERLYING INDEX OR ANY DATA INCLUDED THEREIN, OR FOR ANY COMMUNICATIONS, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATIONS (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO, AND CITIGROUP INDEX SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS OR DELAYS THEREIN. CITIGROUP INDEX MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE ADVISER, OWNERS OR PROSPECTIVE OWNERS OF SHARES OF THE FUND, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE UNDERLYING INDEX OR ANY DATA INCLUDED THEREIN. CITIGROUP INDEX MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE UNDERLYING INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL CITIGROUP INDEX HAVE ANY LIABILITY FOR ANY DIRECT, SPECIAL, PUNITIVE, INDIRECT, CONSEQUENTIAL OR ANY OTHER DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE.

# SCHEDULE 3

## Offshore RMB (CNH) Market

**What led to RMB Internationalisation?**
RMB is the lawful currency of the PRC. RMB is not a freely convertible currency and it is subject to foreign exchange control policies of and repatriation restrictions imposed by the PRC government. Since July 2005, the PRC government began to implement a controlled floating exchange rate system based on the supply and demand in the market and adjusted with reference to a portfolio of currencies. The exchange rate of RMB is no longer pegged to US dollars, resulting in a more flexible RMB exchange rate system.

Over the past two decades, the PRC's economy grew rapidly at an average annual rate of 9.8% in real terms. This enables it to overtake Japan to become the second largest economy and trading country in the world. The International Monetary Fund has projected that the PRC will contribute to more than one-third of global growth by 2015. As the PRC's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

**Accelerating the pace of the RMB internationalisation**
The PRC has been taking gradual steps to increase the use of RMB outside its borders by setting up various pilot programmes in Hong Kong and neighbouring areas in recent years. For instance, banks in Hong Kong were the first permitted to provide RMB deposits, exchange, remittance and credit card services to personal customers in 2004. Further relaxation occurred in 2007 when the authorities allowed PRC financial institutions to issue RMB bonds in Hong Kong. As of the end of February 2013, there are 140 banks in Hong Kong engaging in RMB business, with RMB deposits amounting to about RMB651.7 billion, as compared to just RMB63 billion in December 2009. Up to end October 2012, there had been 1190 RMB bonds issuances (including Certificates of Deposit), with the total issuance size amounting to some RMB507 billion.

The pace of RMB internationalisation has accelerated since 2009 when the PRC authorities permitted cross-border trade between Hong Kong/Macau and Shanghai/four Guangdong cities, and between ASEAN and Yunnan/Guangxi, to be settled in RMB. In June 2010, the arrangement was expanded to 20 provinces/municipalities on the PRC and to all countries/regions overseas. As of the end of October 2012, about RMB2,125 billion worth of cross-border trade was settled in Hong Kong using RMB.

**Onshore versus offshore RMB market**
Following a series of policies introduced by the PRC authorities, an RMB market outside the PRC has gradually developed and started to expand rapidly since 2009. RMB traded outside the PRC is often referred as "offshore RMB" with the denotation "CNH", which distinguishes it from the "onshore RMB" or "CNY".

Both onshore and offshore RMB are the same currency but are traded in different markets. Since the two RMB markets operate independently where the flow between them is highly restricted, onshore and offshore RMB are traded at different rates and their movement may not be in the same direction. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The relative strength of onshore and offshore RMB may change significantly, and such change may occur within a very short period of time.

Notwithstanding that the offshore RMB market showed a meaningful growth during the past 2 years, it is still at an early stage of the development and is relatively sensitive to negative factors or market uncertainties. For instance, the value of offshore RMB had once dropped by 2% against the US dollars in the last week of September 2011 amidst the heavy sell off of the equities market. In general, the offshore RMB market is more volatile than the onshore one due to its relatively thin liquidity.

There have been talks on the potential convergence of the 2 RMB markets but that is believed to be driven by political decisions rather than just economics. It is widely expected that the onshore and offshore RMB markets would remain two segregated, but highly related, markets for the next few years.

**Recent measures**

More measures to relax the conduct of offshore RMB business were announced in 2010. On 19 July 2010, with respect to the lifting of restrictions on interbank transfer of RMB funds and, as well as granting permission for companies in Hong Kong to exchange foreign currencies for RMB without limit. One month later, the PRC authorities announced the partial opening up of PRC's interbank bond market for foreign central banks, RMB clearing banks in Hong Kong and Macau and other foreign banks participating in the RMB offshore settlement programme.

The National Twelfth Five-Year Plan adopted in March 2011 explicitly supports the development of Hong Kong as an offshore RMB business centre. In August 2011, PRC Vice-Premier Li Keqiang has announced more new initiatives during his visit, such as allowing investments on the PRC equity market through the RMB Qualified Foreign Institutional Investor scheme and the launch of an exchange-traded fund with Hong Kong stocks as the underlying constituents in the PRC. Also the PRC Government has given approval for the first non-financial PRC firm to issue RMB-denominated bonds in Hong Kong.

**RMB Internationalisation is a long-term goal**

Given the PRC's economic size and growing influence, RMB has the potential to become an international currency in the same rank as US dollars and euros. But the PRC has to first accelerate the development of its financial markets and gradually make RMB fully convertible on the capital account. Although the internationalisation of RMB will bring benefits such as increasing political influence and reduced exchange rate risks, it also entails risks including rising volatility of RMB exchange rate.

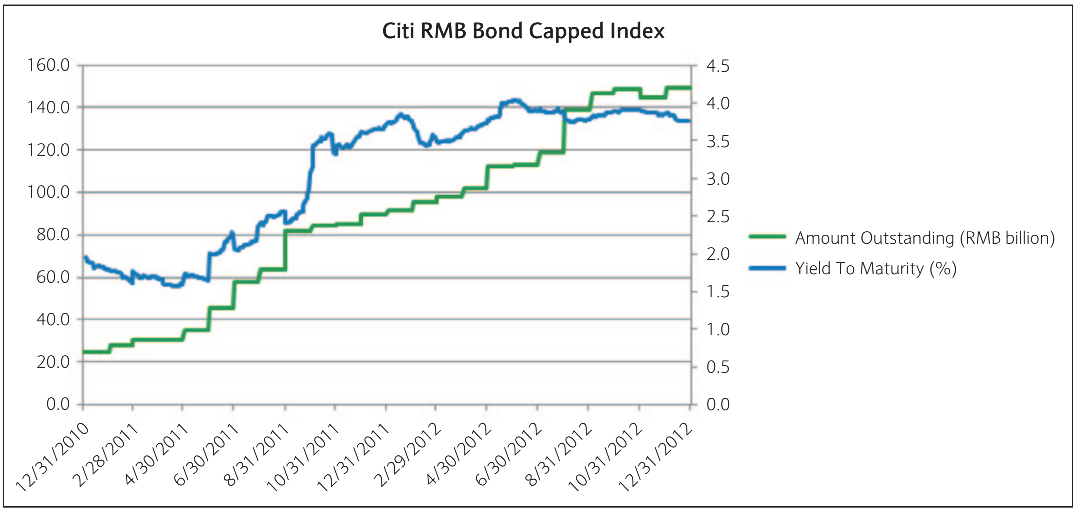
The process of RMB internationalisation is a long and gradual one. It took the US dollar many decades to replace the British pound to become a dominant reserve currency. It will also take time for RMB to gain importance in coming years. RMB will not be in a position to challenge the US dollar's main reserve currency status for some time to come.

## Offshore "Dim Sum" Bond Market

The Offshore Renminbi (CNH) bond market, also nicknamed "Dim Sum", experienced a rapid development after 2009. Any issuer, including foreign and multinational companies, can issue CNH bonds in Hong Kong. In reality, the mainland-domiciled corporates, especially the state owned enterprises, still need to get approvals from the regulators if they want to use their PRC entities to issue CNH bonds. There is no restriction in Hong Kong on the use of the proceeds raised from the CNH bond issue. Issuers are free to remit the proceeds to places outside Hong Kong or convert them into other currencies. However, the repatriation of the RMB proceeds raised from CNH bond issuance back into the PRC needs to be compliant with the relevant regulations by PRC authorities.

As of the end of 2012, the total size of the CNH bond market is approximately RMB 384 billion, compared to RMB 46 billion at the end of 2010. As a comparison, RMB deposit in Hong Kong rose from RMB 315 billion at the end of 2010 to RMB 603 billion at the end of 2012. The gradual relaxation on the repatriation of RMB proceeds to the PRC should see more issuers tapping the CNH market.

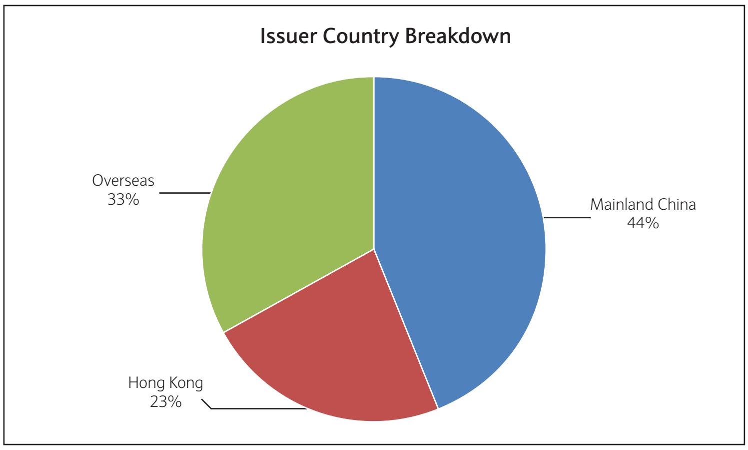
The low interest rates in the CNH market have caused most CNH bonds to trade relatively higher to their onshore peers as well as those in other currencies; with the expectation for RMB appreciation also playing a part in keeping the yields low. However, the interest rates in the CNH market have been rising, as a result of the tighter CNH liquidity and the waning expectation for RMB appreciation, making the cost advantage for issuers less apparent. The rise in issuances has, in part, lead to increasing costs of borrowing for CNH bond issuers as competition for funds grew and investors demanded higher yields, as seen in the chart below. Since the CNH bonds give investors exposure to both credit risk and currency risk, its performance is highly correlated with the global risk sentiment and the RMB appreciation expectation.

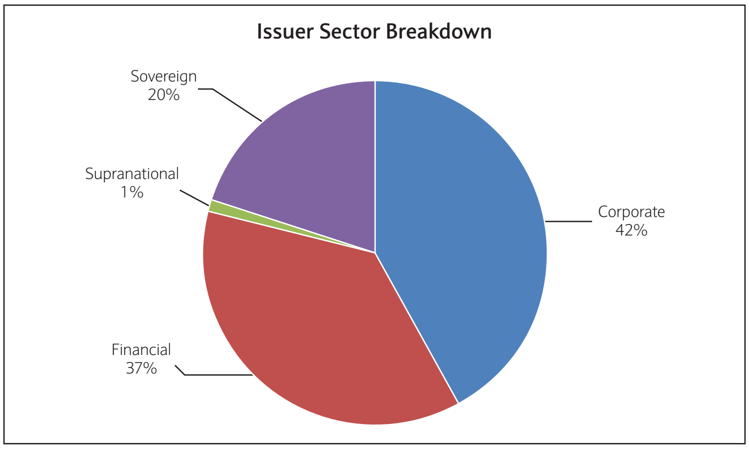



*Source: Citigroup*

The CNH bonds issued by the PRC's Ministry of Finance (the "MOF") set the benchmark for the market. However the issuances of the MOF bonds were infrequent and the size of each issuance was not large. In addition, much of the MOF issuances were bought by buy-and-hold investors, which reduced the secondary market liquidity. From 2009 to 2011, the MOF tapped the CNH market once a year and the tenors spanned from 3 years to 10 years. With the PRC's strong commitment to develop Hong Kong into the offshore RMB centre, the issuance of the CNH bonds by the MOF is likely to become more frequent and regular in the future.

The issuer base of the CNH bond market is quite diversified, both in terms of geographical breakdown as well as sector breakdown. Most mainland corporates issue the CNH bonds through their Hong Kong branches or subsidiaries.

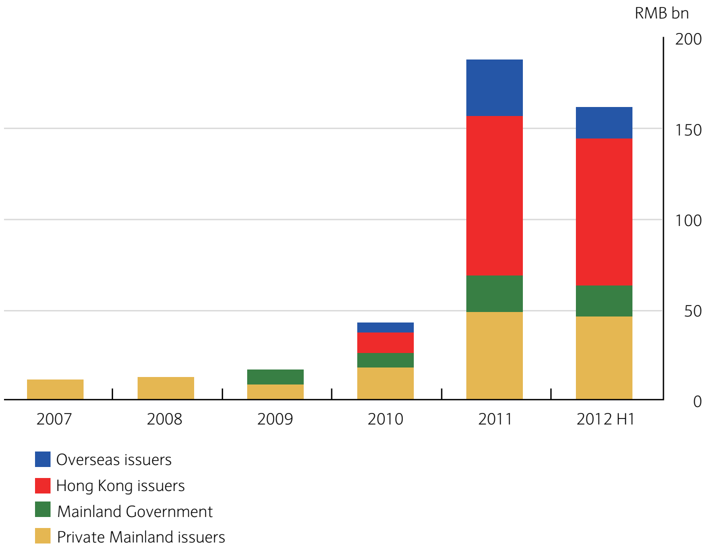



*Source: Bloomberg, Citigroup – as of Dec 2012*

Further, according to the Hong Kong Monetary Authority's data below, the size of issuances and the range of issuers have grown substantially in the past few years.

**New issuance of offshore renminbi debt securities**




*Sources: Newswires and HKMA staff estimates.*

Any company or institution in Hong Kong or overseas can invest in CNH bonds. An investor will need an RMB bank account to make subscription payments, conduct trading of bonds and receive interests and principal payments. Currently the investors in the CNH bond market include foreign central banks, commercial banks, private banks, insurance companies, mutual funds and hedge funds.