

UNITED FTSE/XINHUA CHINA A50 ETF



Frequently Asked Questions

A. GENERAL QUESTIONS

What is an ETF?

An exchange traded fund or otherwise known as an ETF is generally a fund that aims to track the performance of an index and which also trades on an exchange, thereby giving it the convenience and flexibility of a stock. Similar to stocks, ETFs can be bought or sold at any time of the day during trading hours on an exchange.

What is the United FTSE/Xinhua China A50 ETF?

The United FTSE/ Xinhua China A50 ETF is an ETF that aims to provide investment results that, before fees, costs and expenses (including any taxes and withholding taxes), closely correspond to the performance of the mainland Chinese equity market as measured by the FTSE/Xinhua China A50 Index.

What is the FTSE/Xinhua China A50 Index?

It is an index designed to represent the equity performance of the mainland Chinese market available to A-Shares investors and comprises of the top 50 A-Shares companies by market capitalisation.

What are China A-Shares? What is the difference between China A, B and H shares?

A-Shares - A-Shares are shares in Chinese companies issued in China under the Chinese law and listed on the Shanghai or Shenzhen stock exchanges. Prices of A-Shares are quoted in Chinese Yuan (CNY) and access is limited to Chinese nationals and Qualified Foreign Institutional Investors ("QFIIs") approved by the Chinese Securities Regulatory Commission ("CSRC").

B-Shares – These are foreign-invested shares issued domestically by Chinese incorporated companies and are listed and traded in securities exchanges inside China. However, while B-Shares are issued in the form of registered shares and carry a face value denominated in CNY, they are subscribed and traded in foreign currencies.

H-Shares – These are shares in Chinese companies issued in China under the Chinese law. They are listed on the Hong Kong Stock Exchange and are denominated in Hong Kong dollar.



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What does the United FTSE/Xinhua China A50 ETF invest in?

ETFs may seek to track the performance of an index by either investing directly into the securities comprised in that index or by indirect means. Due to restrictions on foreign ownership of A-Shares (A-Shares may not be directly invested into by a non-People's Republic of China (PRC) person unless the person is a Qualified Foreign Institutional Investor or "QFII"), the United FTSE/Xinhua China A50 ETF cannot invest directly into A-Shares. Therefore, instead of investing directly into A-Shares, the United FTSE/Xinhua China A50 ETF will invest into a type of market access product known as participatory notes (the "P-Notes").

What are these P-Notes?

The P-Notes are financial derivative instruments whose value are linked to the value of a composite portfolio (the "Composite Portfolio") comprising of an underlying basket of the A-Shares held by the relevant QFIIs. The value of the P-Note is therefore designed to track as closely as possible before fees, costs and expenses (including any taxes and withholding taxes) the performance of the FTSE/Xinhua China A50 Index ("China A50 Index"). Investors should note that an investment in the United FTSE/Xinhua China A50 ETF is not the same as owning the constituent A-Shares of the China A50 Index as the P-Notes are the obligations of the relevant P-Notes issuer(s), rather than a direct investment in A-Shares.

How do the P-Notes work?

It is currently intended that the United FTSE/Xinhua China A50 ETF (the "Fund") will initially have one P-Notes issuer, being Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank") and the Fund will initially invest into 2 tranches of P-Notes (Tranches A and B) issued by Rabobank.

The Tranche A P-Notes will be linked to a Composite Portfolio comprising an underlying basket of A-Shares purchased and held by UOB Asset Management Ltd ("UOBAM") under its QFII quota while Tranche B P-Notes will be linked to a Composite Portfolio comprising an underlying basket of A-Shares purchased and held by Robeco Institutional Asset Management B.V. ("Robeco"), a wholly-owned subsidiary of Rabobank, under its QFII quota.

The Composite Portfolio will be constructed by UOBAM such that the performance of the Composite Portfolio will closely correspond, before fees, costs and expenses (including any taxes and withholding taxes) to the performance of the underlying basket of A-Shares held by the relevant QFII as well as the China A50 Index.

In addition, in order to facilitate the pass-through of the economic benefits of the underlying basket of A-Shares held by UOBAM under its QFII quota, UOBAM will enter into a Swap Agreement with Rabobank (acting through its Hong Kong branch) ("Rabobank HK") to provide Rabobank HK with synthetic exposure to the Composite Portfolio to which the Tranche A P-Notes are linked.

For further details on the risks and considerations associated with the P-Notes, please refer to the Prospectus.



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B. MANAGEMENT OF UNITED FTSE/XINHUA CHINA A50 ETF

Who is the Manager of the United FTSE/Xinhua China A50 ETF?

UOB Asset Management Ltd.

Who is the Trustee and Custodian of the United FTSE/Xinhua China A50 ETF

The trustee and custodian of the ETF is HSBC Institutional Trust Services (Singapore) Limited.

What is the Manager's fee and Trustee fees for managing the United FTSE/Xinhua China A50 ETF?

Currently, the Manager's fee is 0.45% per annum of the net asset value of the United FTSE/Xinhua China A50 ETF ("NAV"). Pursuant to the terms of the trust deed for the United FTSE/Xinhua China A50 ETF, this may be varied up to a maximum of 1.50% per annum of the NAV.

The Trustee fee is currently up to 0.10% of the NAV, subject to minimum monthly fee of S\$3,500 and a one-time inception fee of S\$5,000. Pursuant to the terms of the trust deed for the United FTSE/Xinhua China A50 ETF, this may be varied up to a maximum of 0.25% per annum of the NAV, subject to a minimum monthly fee of S\$3,500.

What is the Maintenance Fee and how is it calculated?

As QFII holders are governed by a set of strict regulations imposed by the China regulators, expenses are incurred in maintaining the quota, including, without limitation, monitoring of the QFII investments and filing of mandatory reports on regular basis.

Currently, the Maintenance Fee is 0.30% p.a. of the average net asset value of the Composite Portfolio, accrued daily and calculated as at each Dealing Day and payable quarterly in arrears.

Please refer to the Prospectus for information on other fees and charges payable.

C. TRADING

When is the Initial Offer Period and Listing Date for the United FTSE/Xinhua China A50 ETF?

The Initial Offer Period is from 29 October (9 a.m.) to 4 November (12 noon)¹. The indicative Listing Date of the ETF on the Singapore Stock Exchange is 12 November 2009.

¹ Applications made by investors through Participating Dealers must be received by the relevant Participating Dealer by 12 noon on the last Dealing Day of the Initial Offer Period (or such other time(s) as may be determined by the relevant Participating Dealer), in order for the Participating Dealers to be able to submit all valid subscription applications for Units to the Managers by 2 p.m. on the last Dealing Day of the Initial Offer Period (or such other time(s) as may be determined by the Managers). Where an



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How do I subscribe for units in the United FTSE/Xinhua China A50 ETF during the Initial Offer Period?

You can subscribe for units in the United FTSE/Xinhua China A50 ETF at any UOB ATM, via cash subscription, or through the participating dealer, UOB Kay Hian Pte Ltd (either directly or through your stockbroker), subject to applicable terms and conditions.

If I apply for units in the United FTSE/Xinhua China A50 ETF during the Initial Offer Period, am I guaranteed full allotment of all the units I applied for?

Currently, A-Shares may not be directly invested by a non People's Republic of China person, unless the person is a Qualified Foreign Institutional Investor or "QFII" approved by the China Securities Regulatory Commission. As such, the capacity of the United FTSE/Xinhua China A50 ETF is limited by the total approved QFII investment quota that is available to the United FTSE/Xinhua China A50 ETF. The Managers anticipate that the United FTSE/Xinhua China A50 ETF may be subject to a maximum size of US\$75million at the close of the Initial Offer Period.

In the event of oversubscription during the Initial Offer Period, a ballot will be carried out and for any ATM application that is rejected or otherwise unsuccessful and in instances where an investor is allotted fewer units than the number of units he has applied for, the Managers will refund all the subscription monies (less all fees in connection with the subscription) and any excess subscription monies paid by that investor (without interest) to that investor's UOB Ltd bank account no later than three (3) Business Days after the close of the Initial Offer Period.

During the Initial Offer Period, can I apply for units in the United FTSE/Xinhua China A50 ETF directly from the Manager?

Unlike conventional funds, investors cannot apply for units in the United FTSE/Xinhua China A50 directly from the Manager. During Initial Offer Period, you can subscribe for units in the United FTSE/ Xinhua China A50 ETF at any UOB ATM, via cash subscription, or through the participating dealer, UOB Kay Hian Pte Ltd (either directly or through your stockbroker), subject to applicable terms and conditions.

After the Initial Offer Period, how do I buy and sell units in the United FTSE/Xinhua China A50 ETF and what is the cost?

After the Initial Offer Period, you may buy or sell units in the United FTSE/Xinhua China A50 ETF on the SGX during normal trading hours, through your respective stock brokers or through their online trading facility or you may buy or sell units through the participating dealer, UOB Kay Hian Pte Ltd (either directly or through your stockbroker), subject to applicable terms and conditions. Units which are quoted and traded on the SGX-ST will be quoted and traded in board lots of 100 units.

investor is submitting his application to a Participating Dealer through his stockbroker, that investor should contact his stockbroker for the applicable deadline for such submission.



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Investors who wish to subscribe for or redeem units in the primary market must approach a Participating Dealer (directly or through a stockbroker) to assist them with their applications to the Managers. Investors should note that these applications are subject to a minimum of 500,000 units per application or such other minimum number of units as the Managers may determine from time to time with the approval of the Trustee.

Investors will be subject to the applicable fees and charges (including any applicable brokerage fees and charges as well as a participating dealer fee) that may be imposed by the relevant stockbroker or by the participating dealer. Purchases on the SGX will also be subject to the standard clearing and trading fee imposed by SGX. Please refer to the Prospectus for more information.

Who is the designated market maker and what is their role?

The designated market maker for the United FTSE/Xinhua China A50 is currently Rabobank HK. The designated market maker's role is to facilitate the efficient trading of units by providing liquidity in the secondary market, such as by quoting bid prices to potential sellers and offer prices to potential buyers for units on the SGX when there is a wide bid-ask spread.

D. RISKS

What are the key risks of an investment in the United FTSE/Xinhua China A50 ETF?

China is an emerging market and its stock exchanges are undergoing development. As a result, market volatility, lack of a liquid trading market and settlement difficulties can result in significant fluctuations in the prices of securities traded on such markets. Key risks also include (but are not limited to):

- **Risk of over-concentration** - As it is intended that the United FTSE/Xinhua China A50 ETF (the "Fund") will initially have one P-Notes issuer (being Rabobank), the Fund may be subject to over-concentration risks of having a single counterparty and be exposed to a higher level of risk than portfolios diversifying their holdings across different issuers.
- **Counterparty risks** - Save as described in paragraph 9.2.3 of the Prospectus, as the P-Notes will be unsecured obligations of the P-Notes issuer, the Fund will be exposed to the credit risk of the P-Notes issuer. In addition, as the obligations of Rabobank to make payments under the Tranche A P-Notes are limited to the amounts received by Rabobank HK from UOBAM under the Swap Agreement, the Fund will also be exposed to the credit risk of UOBAM (as swap counterparty under the Swap Agreement).
- **Market risk/Volatility of underlying securities** - Market volatility, lack of a liquid trading market and settlement difficulties in the A-Share markets may result in significant fluctuations in the price of A-Shares which may in turn adversely affect the price of the P-Notes and the net asset value of the Fund.



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- **Possible limited duration of the Fund** – The P-Notes are of limited duration (the P-Notes issued at the launch of the Fund may settle automatically three (3) years after their issue) and the duration of the Fund depends on, among other things, the ability of the Fund to renew the term of the P-Notes held by it. In addition, the P-Notes may be redeemed early upon the occurrence of certain events under the terms and conditions of the P-Notes (for instance, an insolvency filing against the issuer of any of the securities comprising the Composite Portfolio². In the event the Fund is terminated as a result, the final redemption amount of the P-Notes will be determined based on the Singapore dollar equivalent of the fair market value of the underlying basket of A-Shares and taking into account accrued but unpaid dividends (after deduction of applicable costs, expenses, charges, taxes and duties) subject to the relevant adjustments and deductions in accordance with the terms and conditions of the P-Notes. The Fund may suffer a substantial loss on its investment in the P-Notes in such an event. Investors should therefore note that they may not get back their original investments in the Fund.
- **Risks relating to the QFII investment quota** – The investment quota of a QFII may be restricted, suspended or halted. Where insufficient investment quota is available, the supply of P-Notes will be affected and may result in the Fund being unable to create further units (because it is unable to purchase more P-Notes) and/or cause the units to trade at a premium to its net asset value.
- **Legal risks** – There is a risk that the assignment/charge of the Rabobank HK's rights under the Swap Agreement and the collateral to the Trustee for the benefit of the Sub-Fund may not be enforceable (or enforcement may be restricted) under applicable laws³. The net asset value of the Fund will be adversely affected to the extent that such securities are not effectively enforced.
- **Tracking error risk** – Tracking errors occur when funds are unable to track exactly the performance of their underlying indices. Due to its investment structure, the Fund may experience greater tracking error than typical exchange traded index funds.

Please refer to the Prospectus for a full description of the above risks as well as other risks that may be associated with an investment into units of the United FTSE/Xinhua China A50 ETF (including risks inherent in investing in the P-Notes).

How are the counterparty risks exposures to Rabobank and UOBAM being mitigated or reduced?

- The Fund will only invest up to a maximum of one-third of its Deposited Property in Tranche A P-Notes so that the maximum exposure to UOBAM (as Swap Counterparty under the Swap Agreement) would be limited to one-third of the Fund at any one time.

² Please refer to Appendix 5 of the Prospectus for further details on the risks and considerations associated with the P-Notes issued by Rabobank)

³ Please refer to the Prospectus for further details



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- With respect to Tranche B P-Notes, Rabobank HK intends to post collateral for any value of the Tranche B P-Notes that is above one-third of the Deposited Property of the Fund in order to reduce the Fund's exposure to Rabobank to not more than one-third of the Deposited Property.
- In the case of a default by Rabobank under the Tranche A P-Notes, the Fund's credit exposure to Rabobank is minimised as all rights of Rabobank HK (including all moneys payable to Rabobank HK) against the swap counterparty (being UOBAM) under the Swap Agreement will be assigned by way of security to the Trustee as trustee for the Fund.

Please refer to the Prospectus for further details.

Where can I obtain more information on the United FTSE/ Xinhua China A50 ETF?

For more information, you can contact the participating dealers or download the Prospectus from uobam.com.sg . You may also call our Customer Service Hotline at 1800 222 2228.



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The information contained in this document, including any data, projections and underlying assumptions, are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of the document, all of which are subject to change at any time without notice. In preparing this document, UOB Asset Management (**"UOBAM"**) has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was otherwise reviewed by UOBAM. While the information provided herein is believed to be reliable, UOBAM makes no representation or warranty whether express or implied, and accepts no responsibility or liability for its completeness or accuracy. Nothing in this document shall, under any circumstances constitute a continuing representation or give rise to any implication that there has not been or there will not be any change affecting the United FTSE/Xinhua China A50 ETF (the **"Fund"**).

This document refers to certain features of the Fund but does not purport to contain a complete description of all material terms or of the terms which may differ from those summarised in this document, on which any subsequent transaction may be made. Accordingly, this document is qualified in its entirety by the more detailed description in the Prospectus. **Past performance of the Fund or UOBAM and any prediction, projection or forecast on the economy or markets are not necessarily indicative of the future or likely performance of the Fund or UOBAM.** You should remember that value of the units in the Fund and income accruing to those units may fall as well as rise and is not guaranteed.

Investors should note that the Fund is not like a conventional unit trust in that an investor cannot redeem his Units directly with UOBAM and can only do so through the participating dealer, UOB Kay Hian Pte Ltd, (either directly or through his stockbroker) if his redemption amount satisfies a prescribed minimum that will be comparatively larger than that required for redemptions of units in a conventional unit trust. An investor may therefore only be able to realise the value of his Units by selling the Units on the Singapore Exchange (**"SGX"**). Investors should also note that any listing and quotation of Units on the SGX does not guarantee a liquid market for the Units.

Investments are not deposits or other obligations of, or guaranteed or insured by the United Overseas Bank Limited (**"UOB"**), UOBAM or any of their subsidiary, associate or affiliate (**"UOB Group"**) or distributors and, depending on investment portfolio mix, are subject to varying investment risks, including the possible loss of the principal amount invested. The UOB Group may have interests in the units of the Fund and may also perform or seek to perform brokering and other investment or securities-related services for the Fund from time to time.

The Prospectus sets out the methods and procedures through which units in the Fund may be purchased. The Prospectus is available and may be obtained from UOBAM or any of its appointed distributors. The UOB Group, in managing and distributing the Fund, does not take into account your specific investment objectives, financial situation and any of your particular needs. Investors should read the Prospectus carefully and/or seek advice from a financial adviser before deciding whether to subscribe



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for or purchase units in the Fund. Should you choose not to seek advice from a financial adviser, you should consider carefully whether the Fund is suitable for you.

Investment risks include:

- (a) Securities - Prices of securities may fluctuate depending on the economic conditions, interest rates and market's perception of the securities, and the securities may even become valueless;
- (b) Bonds - Bond prices may fluctuate depending on the rise and fall of interest rates, credit risks of the issuers and other factors;
- (c) Currencies - Investments may be held in various currencies whose values are subject to the movements of the currency exchange rates;
- (d) Derivatives - Risks associated with derivatives are very different from those in other investment instruments.

Please refer to the Prospectus for more information on such risks, as well as other risks that may be associated with an investment into units of the Fund.

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