

**Manulife Advanced Fund SPC (“Company”)**  
P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands

**This document is important and requires your immediate attention. If in doubt, you should seek independent professional financial advice.**

**Words and phrases used in this Notice shall, unless otherwise provided, have the same meanings as ascribed to them in the Prospectus of the Company.**

**Notice to Shareholders**

**Changes to**

- **China A Segregated Portfolio\* (the “China A Fund”)**
- **Renminbi Bond Segregated Portfolio\* (the “Bond Fund”)**

29 October 2012

Dear Shareholders,

We wish to advise you of the following changes to the China A Fund and the Bond Fund.

**A. CHINA A FUND**

**I. The following changes shall take effect on 6 November 2012:**

**- QFII/CSRC regulatory updates**

The “Provisions on Relevant Issues in Relation to the Implementation of the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” (“**CSRC Rules**”) were promulgated by the CSRC on 27 July 2012 and came into effect on the same day. The CSRC Rules superseded the “Notice on Relevant Issues in Relation to the Implementation of the Measures for the Administration of Investment in Domestic Securities by Qualified Foreign Institutional Investors” promulgated by the CSRC on 24 August 2006 and which came into effect on 1 September 2006.

Accordingly:

- The investment restrictions of the China A Fund will be updated further to the CSRC Rules, to amend the limit on aggregate shareholding of A-Shares by all foreign investors, who invest via one or more QFIIs in a single listed company, from 20% to 30% of the total issued shares in such company.
- Currently, the investment objectives and strategies of the China A Fund state that under regulations in Mainland China, QFII holders may not enter into any index futures or engage in hedging in Mainland China.

These disclosures will be updated further to the CSRC Rules as QFII holders are permitted to invest in stock index futures for hedging purposes (subject to prevailing regulations in Mainland China). However, the Investment Manager does not currently intend to invest in any futures contracts or engage in any hedging activity in the A-Share markets. If there is a change in this intention, not less than one month’s prior written notice will be given to Shareholders.

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\* This fund is denominated in USD only and not in RMB

- **Closure and re-opening of subscriptions due to QFII Quota**

Currently, the Directors may suspend further subscriptions of any Class and/or Series of Participating Shares of the China A Fund if there is any applicable restriction or constraint on subsequent subscription. Since the China A Fund directly invests in securities in Mainland China through a QFII Quota, the Directors may exercise such power having regard to the amount of available QFII Quota. Where QFII Quota becomes available, the Directors may re-open the China A Fund to subscriptions.

The Prospectus will be amended to clarify that the Directors shall have discretion to accept applications for subscription to the China A Fund depending on the availability of QFII Quota.

- **Waiver of performance fee**

The performance fee of the China A Fund has been waived until further notice. As such, the Prospectus will be amended to reflect the same.

- **New QFII Quota allocation**

The China A Fund has been allocated an additional QFII Quota of US\$50 million.

With respect to the additional QFII Quota allocated to the China A Fund, applications for subscription may be made from 6 November 2012 to 11 January 2013 (both dates inclusive)<sup>1</sup> or such other period as the Directors may determine ("**New Subscription Period**"). Applications must be made in accordance with the dealing procedures set out in the Prospectus of the China A Fund.

Capital remitted with respect to the additional QFII Quota will be subject to a lock-up period, which will expire on 15 April 2013 (the "**Lock-up Period**"). Please note that:

- For any Shareholder who has subscribed for Class I or Class P Shares during the New Subscription Period ("**New Shares**"), any redemption from the beginning of the New Subscription Period up to the end of the Lock-up Period resulting in the Shareholder's holding falling below the number of New Shares so subscribed is not permitted.
- For any Shareholder who has subscribed for Class AA Shares during the New Subscription Period ("**New Shares**"), any redemption from the beginning of the New Subscription Period up to the end of the Lock-up Period resulting in the Shareholder's holding falling below the number of New Shares so subscribed will be subject to a redemption charge of 5.30% of the redemption proceeds.

You should not invest in the China A Fund during the New Subscription Period if you may have short-term cashflow needs which may require you to redeem your Participating Shares in the China A Fund within the Lock-up Period.

Shareholders are advised to refer to the updated Prospectus for further details.

- **Amended risk disclosures**

Further to legal advice sought from PRC counsel, the QFII regime risk disclosures in the Prospectus will be updated to reflect the position of cash assets of the China A Fund held by the QFII Local Custodian in Mainland China. Investors should note that the cash assets held by the QFII Local Custodian will not be segregated in practice but will be a debt owing from the QFII Local Custodian to the China A Fund as a depositor. Such cash will be co-mingled with cash belonging to other clients of the QFII Local Custodian. In the event of bankruptcy or liquidation of the QFII Local Custodian, the China A Fund will not have any proprietary rights to the cash deposited in the cash account opened with the QFII Local Custodian, and the China A Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of

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<sup>1</sup> Please note that dealings in the China A Fund will be on the relevant Dealing Day<sup>China A</sup> (which is currently the last Business Day<sup>China A</sup> at the end of each month, i.e. 30 November 2012, 31 December 2012 (please refer to the Prospectus of the China A Fund for details on the general dealing arrangements), and the additional dealing day 11 January 2013). For the 11 January 2013 Dealing Day<sup>China A</sup>, valid applications must be received on or before 4:00 p.m. (Hong Kong time) two (2) Business Days<sup>China A</sup> prior to the 11 January 2013 Dealing Day<sup>China A</sup>.

the QFII Local Custodian. The China A Fund may face difficulties and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the China A Fund will suffer losses.

**II. The following changes shall be effective on 6 December 2012:**

**- Additional dealing day**

To facilitate subscription to the newly allocated QFII Quota, 11 January 2013 is designated as an additional dealing day of the China A Fund.

**- Change of investment objectives and strategies**

The following restriction will be removed from the China A Fund's investment objectives:

*"No more than 5% of the China A Fund's assets will be invested in the Small and Medium Enterprise Board of the Shenzhen Stock Exchange."*

The number of companies listed on the Small and Medium Enterprise Board ("**SME Board**") of the Shenzhen Stock Exchange has grown over the years and so have their market capitalisation. As a result, the above restriction limits the China A Fund's pursuit of risk adjusted return, portfolio diversification and efforts to obtain a meaningful exposure to these stocks. In general, (a) the forward valuation of the US\$1-5 billion market capitalization stocks of the SME Board are comparable to stocks listed on the Main Boards of the Shanghai and Shenzhen Stock Exchanges; and (b) the historic earnings growth of the SME Board has been shown to be higher than that of the Shanghai Main Board. Accordingly, it is believed that removal of this 5% restriction would be in the interests of the China A Fund and its Shareholders.

As a result, the China A Fund may substantially invest in the stocks of companies listed on the SME Board. As a consequence, the following additional risk factor shall be included in the Prospectus:

***"Risks of investment in medium and small capitalised companies***

*Investors should note that investment in medium and smaller capitalisation companies may involve higher risk than investment in large capitalisation companies. The stock prices of medium and smaller capitalisation companies may tend to be more volatile than large capitalisation companies due to a lower degree of liquidity, greater sensitivity to changes in economic conditions, greater exposure to short-term price volatility, abrupt or erratic market movements, greater vulnerability to adverse market factors such as unfavorable economic reports and higher uncertainty over future growth prospects. Full development of these companies takes time. Medium and smaller companies may also have limited product lines, markets or financial resources, or they may be dependent on a limited management group. These factors may result in above-average fluctuations in the net asset value of the relevant fund."*

**III. The following changes shall be effective on 4 February 2013:**

**- Change in dealing frequency**

Currently, the China A Fund accepts subscription and redemption requests on a monthly basis, with the Dealing Day<sup>China A</sup> being the last Business Day<sup>China A</sup> of each month. This arrangement will be in place up to and including dealing requests received in relation to the relevant Dealing Day<sup>China A</sup> in January 2013 (ie the last Business Day<sup>China A</sup> in January 2013).

Effective on and from 4 February 2013, the Dealing Day<sup>China A</sup> will change to each Business Day<sup>China A</sup>, and thereafter any valid dealing requests for subscription or redemption must be received by the General Adviser and Distributor on or before 4:00 p.m. (Hong Kong time) on each Dealing Day<sup>China A</sup>. Any dealing requests received by the General Adviser and Distributor after 4:00 p.m. (Hong Kong time) on a relevant Dealing Day<sup>China A</sup> will be processed on the next Dealing Day<sup>China A</sup>.

Dealing requests received after the cut-off time for the last Dealing Day<sup>China A</sup> in January 2013 but before 4 February 2013 will be processed as valid requests received on 4 February 2013.

Notwithstanding the change in dealing frequency from monthly to daily, under the QFII regime, remittance of investment capital into and repatriation of investment capital out of Mainland China may only be conducted on a monthly basis. Therefore, whilst dealings in the China A Fund may occur on each Business Day<sup>China A</sup>, pending remittance into China, subscription monies received will be invested and held offshore as permitted under the investment objectives. Furthermore, whilst redemptions may occur on each Business Day<sup>China A</sup>, during the course of the month, payment of redemption proceeds will only be made following the end of the relevant month as explained further below.

Following the above changes to the dealing frequency:

- Payment for subscriptions must be settled within three (3) Business Days<sup>China A</sup> after the relevant Dealing Day<sup>China A</sup> (in respect of subscriptions made in HK Dollars) and within five (5) Business Days<sup>China A</sup> after the relevant Dealing Day<sup>China A</sup> (in respect of subscriptions made in US Dollars).
- Redemption proceeds will normally be paid within seven (7) Business Days<sup>China A</sup> after the end of the relevant calendar month when the redemption was effected, and in any event, by the later of either: (i) one calendar month from the relevant Dealing Day<sup>China A</sup>; or (ii) seven (7) Business Days<sup>China A</sup> after the end of the relevant calendar month when the redemption was effected (or longer in specific circumstances if there are capital repatriation constraints), of receipt by the Sub-Administrator of all required and duly completed redemption documentation.

## **B. BOND FUND**

### **I. The following changes shall be effective on 6 November 2012:**

#### **- QFII/CSRC regulatory updates**

The investment objectives and strategies of the Bond Fund will be updated further to the CSRC Rules to allow the Bond Fund to invest in, inter alia, RMB-denominated debt instruments that are **listed or transferred** on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

Further, the investment restrictions of the Bond Fund will be updated to amend the limit on aggregate shareholding of A-Shares by all foreign investors, who invest via one or more QFIIs in a single listed company, from 20% to 30% of the total issued shares in such company.

#### **- Closure and re-opening of subscriptions due to QFII Quota**

Currently, the Directors may suspend further subscriptions of any Class and/or Series of Participating Shares of the Bond Fund, if there is any applicable restriction or constraint on subsequent subscription. Since the Bond Fund directly invests in securities in Mainland China through a QFII Quota, the Directors may exercise such power having regard to the amount of available QFII Quota. Where QFII Quota becomes available, the Directors may re-open the Bond Fund to subscriptions.

The Prospectus will be amended to clarify that the Directors shall have discretion to accept applications for subscription to the Bond Fund depending on the availability of QFII Quota.

#### **- New QFII Quota allocation**

The Bond Fund has been allocated an additional QFII Quota of US\$50 million.

With respect to the additional QFII Quota allocated to the Bond Fund, applications for subscription may be made from 6 November 2012 to 11 January 2013 (both dates inclusive)<sup>2</sup> or such other period as the

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<sup>2</sup> Please note that dealings in the Bond Fund will be on the relevant Dealing Day<sup>Bond Fund</sup> (which is currently the last Business Day<sup>Bond Fund</sup> at the end of each month, i.e. 30 November 2012, 31 December 2012 (please refer to the Prospectus of the Bond Fund for details on the general dealing arrangements), and the additional dealing day 11 January 2013). For the 11 January 2013 Dealing Day<sup>Bond Fund</sup>, valid applications must be received on or before 4:00 p.m. (Hong Kong time) two (2) Business Days<sup>Bond Fund</sup> prior to the 11 January 2013 Dealing Day<sup>Bond Fund</sup>.

Directors may determine (“**New Subscription Period**”). Applications must be made in accordance with the dealing procedures set out in the Prospectus of the Bond Fund.

Capital remitted with respect to the additional QFII Quota will be subject to a lock-up period, which will expire on 15 April 2013 (the “**Lock-up Period**”). Please note that:

- For any Shareholder who has subscribed for Class I or Class P Shares during the New Subscription Period (“**New Shares**”), any redemption from the beginning of the New Subscription Period up to the end of the Lock-up Period resulting in the Shareholder’s holding falling below the number of New Shares so subscribed is not permitted.
- For any Shareholder who has subscribed for Class AA Shares during the New Subscription Period (“**New Shares**”), any redemption from the beginning of the New Subscription Period up to the end of the Lock-up Period resulting in the Shareholder’s holding falling below the number of New Shares so subscribed will be subject to a redemption charge of 5.30% of the redemption proceeds.

You should not invest in the Bond Fund during the New Subscription Period if you may have short-term cashflow needs which may require you to redeem your Participating Shares in the Bond Fund within the Lock-up Period.

Shareholders are advised to refer to the updated Prospectus for further details.

- **Amended risk disclosures**

Further to legal advice sought from PRC counsel, the QFII regime risk disclosures in the Prospectus will be updated to reflect the position of cash assets of the Bond Fund held by the QFII Local Custodian in Mainland China. Investors should note that the cash assets held by the QFII Local Custodian will not be segregated in practice but will be a debt owing from the QFII Local Custodian to the Bond Fund as a depositor. Such cash will be co-mingled with cash belonging to other clients of the QFII Local Custodian. In the event of bankruptcy or liquidation of the QFII Local Custodian, the Bond Fund will not have any proprietary rights to the cash deposited in the cash account opened with the QFII Local Custodian, and the Bond Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the QFII Local Custodian. The Bond Fund may face difficulties and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Bond Fund will suffer losses.

**II. The following changes shall be effective on 6 December 2012:**

- **Additional dealing day**

To facilitate subscription to the newly allocated QFII Quota, 11 January 2013 is designated as an additional dealing day of the Bond Fund.

- **QFII/CSRC regulatory updates**

Currently, the Bond Fund invests primarily in RMB-denominated debt instruments listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

Further to the CSRC Rules, the investment objectives and strategies of the Bond Fund will be updated to allow the Bond Fund to also invest primarily (in addition to the above instruments), in RMB-denominated debt instruments traded in the Mainland China interbank bond market subject to applicable QFII regulations.

- **Change of investment objectives and strategies**

The following changes will be made to the Bond Fund’s investment objectives:

- in addition to bonds issued by the Mainland China Government and Mainland China corporations, that the Bond Fund may also invest in bonds issued by **international** corporations which carry a rating of at least BBB-/Baa3 assigned by one of the three international rating agencies, Moody’s Investors Service, Standard & Poor’s or Fitch;

- for the credit rating criteria for all of the above bond issues, that the issuer rating may be applied where an issue specific rating is not available, since currently not all Chinese issued bonds carry an issue specific rating; and
- that the following disclosure shall be removed: *“At present, only a relatively small number of corporations in Mainland China meet this rating requirement. Consequently, the initial bond portfolio will be heavily weighted toward Mainland China Government bonds.”*

The above changes seek to clarify the bonds that the Bond Fund may invest in. Given not all the investable bonds have issue specific ratings, the issuer rating may be used for bonds that do not have an issue specific rating. Further, due to market developments, it is considered that the Bond Fund's portfolio will no longer be heavily weighted toward Mainland China Government bonds. The relevant description, which applied at the time the Bond Fund was launched in 2010, is no longer applicable.

The Directors of the Company accept full responsibility for the accuracy of the information contained in this Notice and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.

Shareholders requiring further information about the matters set out in this Notice may contact the Sub-Administrator, Citibank International plc (Luxembourg Branch) on telephone number (352) 45 14 14 258 or fax number (352) 45 14 14 332, or the General Adviser and Distributor, Manulife Asset Management (Hong Kong) Limited, on telephone number (852) 2108 1110 (relating to Class AA Shares) or fax number (852) 2810 9510 (relating to Class AA Shares); or telephone number (852) 2510 3055 (relating to Class I Shares and Class P Shares) or fax number (852) 2907 2076 (relating to Class I Shares and Class P Shares) at any time during normal local business hours.

**For and on behalf of the Board  
Manulife Advanced Fund SPC**