

# Guotai Junan Investment Funds

January 2020



## Explanatory Memorandum



**國泰君安國際**  
GUOTAI JUNAN INTERNATIONAL  
ASSET MANAGEMENT

## GUOTAI JUNAN INVESTMENT FUNDS

### GUOTAI JUNAN GREATER CHINA GROWTH FUND

#### FIRST ADDENDUM TO THE EXPLANATORY MEMORANDUM

---

This First Addendum is supplemental to and forms part of the Explanatory Memorandum for Guotai Junan Investment Funds dated January 2020 (the “**Explanatory Memorandum**”). Unless otherwise defined herein, words and expressions defined in the Explanatory Memorandum shall have the same meaning when used in this First Addendum.

**If you are in doubt about the contents of the Explanatory Memorandum and this First Addendum, you should seek independent professional financial advice.**

The Manager and the directors of the Manager accept full responsibility for the accuracy of the information contained in the Explanatory Memorandum and this First Addendum 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.

---

The Explanatory Memorandum shall be amended as follows with immediate effect:

1. The fourth and fifth paragraphs under the sub-section headed “Trustee and Registrar” and the section headed “MANAGER AND TRUSTEE” of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“Under the Trust Deed, the Trustee is responsible for the safe-keeping of all the investments, cash and other assets forming part of the assets of each Sub-Fund and shall take into custody or under its control all the investments, cash and other assets forming part of the assets of the Sub-Fund and hold them in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed. Subject as otherwise provided in the Trust Deed and where permitted by law, all cash and registrable assets from time to time comprised in the Sub-Fund shall be registered in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for safe-keeping thereto. With respect of any investments or other assets of the Sub-Fund which by nature cannot be held in custody, the Trustee shall maintain a proper record of such investments or assets in its books under the name of that Sub-Fund. The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any connected person) as custodian or co-custodian of the whole or any part of the assets comprised in any Sub-Fund and may empower any such custodian or co-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodian and sub-custodian shall be paid out of the Fund. Notwithstanding anything contained in the Trust Deed, the Trustee will remain liable for the acts and omissions of agents, nominees and delegates which are appointed for the custody and/or safekeeping of any of the investments, cash or other assets forming part of the property of the Fund or any Sub-Fund (other than a securities depository or clearing system or its nominees) as if the same were the act or omission of the Trustee.

Provided however that if the Trustee (i) has exercised reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of nominees, agents and delegates which are appointed for the custody and/or safekeeping of any of the investments, cash, or other assets forming part of the property comprised in the Fund or any Sub Fund and

(ii) is satisfied that such nominees, agents and delegates retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund or any Sub-Fund, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of such nominees, agents and delegates, who are not connected persons of the Trustee.”

2. The following section shall be inserted immediately after the section headed “SECURITIES LENDING, SALE AND REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS” of the Explanatory Memorandum:

**“INVESTMENT VIA SUBSIDIARY**

Where direct investment by a Sub-Fund in a market is not in the best interests of investors, such Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market subject to the requirements of the Code. Where a Sub-Fund may invest through a wholly-owned subsidiary, further details are set out in the Appendix of such Sub-Fund.”

3. The section headed “Transactions with Connected Persons” of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

**“TRANSACTIONS WITH CONNECTED PERSONS, CASH REBATES AND SOFT DOLLARS**

All transactions carried out by or on behalf of the Fund or the Sub-Fund must be executed at arm’s length, on the best available terms and in the best interests of the Unitholders of the relevant Sub-Fund. In particular, any transactions between the Sub-Fund and the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the annual report of the Fund and/or the relevant Sub-Fund.

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the Trustee or any of their connected persons, the Manager must ensure that it complies with the following requirements: (a) such transactions are on arm’s length terms; (b) it must use due care in the selection of such brokers or dealers and ensure that they are suitably qualified in the circumstances; (c) transaction execution must be consistent with applicable best execution standards; (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature; (e) it must monitor such transactions to ensure compliance with its obligations; and (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the Fund and/or the relevant Sub-Fund.

Subject to the requirements in the paragraph below, the Manager and/or any of its Connected Persons reserve the right to effect transactions by or through the agency of another person (including a broker or dealer) with whom the Manager and/or any of its Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its Connected Persons goods, services or other benefits the nature of which is such that their provision can reasonably be expected to benefit the relevant Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund and for which no direct payment is made but instead the Manager and/or any of its Connected Persons undertakes to place business with that party.

Neither the Manager nor any of its Connected Persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them save that the goods and services (soft dollars) may be retained if: (a) the goods and services to be provided pursuant thereto are of demonstrable benefit to the Unitholders; (b) the transaction execution is consistent with best execution standards and the brokerage rates are not in excess of customary institutional full service brokerage rates; (c) periodic disclosure is made in the annual report of the Fund and/or the relevant Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager, including a description of the goods and services received by it; and (d) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.”

4. The section headed “SOFT COMMISSIONS REBATE” of the Explanatory Memorandum shall be deleted in its entirety.
5. The section headed “CONFLICTS OF INTEREST” of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The Manager, the Trustee and their respective connected persons may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager, investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund and the Sub-Funds. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If conflicts arise, each of the Manager and the Trustee will, at all times, have regard in such event to its obligations to the Fund and the Sub-Funds and will endeavour to ensure that such conflicts are managed and minimized so far as reasonably practicable and that measures are adopted that seek to ensure such conflicts are resolved fairly, taking into account the best interests of the Unitholders of the relevant Sub-Fund as a whole. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated and all transactions are effected in good faith at arm’s length and in the best interests of the relevant Sub-Fund on normal commercial terms.

In effecting the following transactions, the Manager shall ensure that the relevant requirements under the section headed “**Transactions with Connected Persons, Cash Rebates and Soft Dollars**” above are complied with:

- (a) transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the Trustee or any of their connected persons; and
- (b) transactions by or through a broker or dealer with whom the Manager and/or any of its Connected Persons has an arrangement under which that broker or dealer will from time to time provide to or procure for the Manager and/or any of its Connected Persons goods or services and for which no direct payment is made.

Cash forming part of the property of a Sub-Fund may be placed on deposit with the Manager, the Trustee or any of their connected persons (being an institution licensed to accept deposits) so long as such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the relevant Sub-Fund, having regard to the prevailing rate for a deposit of similar type, size and term, negotiated at arm's length in accordance with the ordinary and normal course of business."

**Guotai Junan Assets (Asia) Limited**

29 April 2020

***The Explanatory Memorandum may only be distributed if accompanied by this First Addendum.***

# **Guotai Junan Investment Funds**

- Guotai Junan Greater China Growth Fund

## **EXPLANATORY MEMORANDUM**

**January 2020**

- \* INVESTORS SHOULD NOTE THAT THE GUOTAI JUNAN GREATER CHINA GROWTH FUND IS AUTHORISED BY THE SECURITIES AND FUTURES COMMISSION UNDER THE CODE ON UNIT TRUSTS AND MUTUAL FUNDS. SUCH AUTHORISATION IS NOT A RECOMMENDATION OR ENDORSEMENT OF THE FUND NOR DOES IT GUARANTEE THE COMMERCIAL MERITS OF THE FUND OR ITS PERFORMANCE. IT DOES NOT MEAN THE FUND IS SUITABLE FOR ALL INVESTORS NOR IS IT AN ENDORSEMENT OF ITS SUITABILITY FOR ANY PARTICULAR INVESTOR OR CLASS OF INVESTORS.

## TABLE OF CONTENTS

<u>Heading</u>	<u>Page</u>
IMPORTANT INFORMATION FOR INVESTORS .....	3
DIRECTORY OF PARTIES .....	4
DEFINITIONS .....	5
INTRODUCTION .....	8
MANAGER AND TRUSTEE .....	9
INVESTMENT OBJECTIVE AND STRATEGY .....	11
INVESTMENT AND BORROWING RESTRICTIONS .....	11
SECURITIES LENDING, SALE AND REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS .....	11
RESTRICTIONS ON UNITHOLDERS .....	12
LIQUIDITY RISK MANAGEMENT .....	12
OFFERING .....	13
PURCHASE OF UNITS .....	13
REDEMPTION OF UNITS .....	14
PAYMENT OF REDEPMTION PROCEEDS .....	15
CONVERSION BETWEEN SUB-FUNDS .....	16
VALUATION .....	17
DISTRIBUTION POLICY .....	19
EXPENSES AND CHARGES .....	19

<u>Heading</u>	<u>Page</u>
RISK FACTORS .....	20
TAXATION.....	22
FINANCIAL REPORTS .....	28
PUBLICATION OF PRICES .....	28
VOTING RIGHTS .....	28
TRANSFER OF UNITS.....	29
TRUST DEED.....	29
REMOVAL AND RETIREMENT OF THE TRUSTEE AND THE MANAGER .....	30
MODIFICATION OF TRUST DEED.....	30
TERMINATION OF THE FUND OR ANY SUB-FUND .....	30
DOCUMENTS AVAILABLE FOR INSPECTION.....	31
ANTI-MONEY LAUNDERING REGULATIONS .....	31
SOFT COMMISSIONS REBATE.....	32
CONFLICTS OF INTEREST .....	32
CERTIFICATION FOR COMPLIANCE WITH FATCA, AEOI OR OTHER APPLICABLE LAWS .....	32
POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES .....	33
PERSONAL DATA.....	33
SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS .....	33
APPENDIX A – GUOTAI JUNAN GREATER CHINA GROWTH FUND.....	45

## IMPORTANT INFORMATION FOR INVESTORS

**Important – If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial and/or legal advice. Investment in the Fund involves risks. Please refer to the Risk Factors Section for further details.**

This Explanatory Memorandum comprises information relating to Guotai Junan Investment Funds which was originally constituted as an umbrella unit trust established under the laws of the Cayman Islands by a trust deed dated 29 August 2007 between Guotai Junan Assets (Asia) Limited as manager and HSBC Trustee (Cayman) Limited as trustee. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 26 October 2016, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of the Hong Kong Special Administrative Region (“Hong Kong”) and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect on and from 18 November 2016. The Trust Deed is currently governed by the laws of Hong Kong.

The Manager and the directors of the Manager accept full responsibility for the accuracy of the information contained in the Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. This Explanatory Memorandum may from time to time be updated.

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

The Fund and its Sub-Funds have been authorised by the SFC. Such authorisation does not imply that investment in the Fund is recommended or endorsed by the SFC nor does the SFC guarantee the commercial merits of the Fund or its performance. Further, the authorisation does not mean that the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

In particular:–

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

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

This document is based on the laws and practices currently in force in Hong Kong and is subject to changes therein.

Please contact the Manager with the following contact details should you have any enquiries or complaints in relation to the Fund or its Sub-Funds:

Guotai Junan Assets (Asia) Limited  
27/F., Low Block  
Grand Millennium Plaza  
181 Queen's Road Central, Hong Kong

*For enquiries:*

E-mail: [anna.sung@gtjas.com.hk](mailto:anna.sung@gtjas.com.hk)/[kathy.yuen@gtjas.com.hk](mailto:kathy.yuen@gtjas.com.hk)  
Telephone number: (852) 2509 7714/(852) 2509 7746

*For complaints:*

E-mail: [compliance@gtjas.com.hk](mailto:compliance@gtjas.com.hk)  
Telephone number: (852) 2509 7590

The Manager will aim to respond by telephone or in writing within 7 Business Days of receiving the enquiry or complaint.

## **DIRECTORY OF PARTIES**

### **Manager**

Guotai Junan Assets (Asia) Limited  
27/F., Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

### **Directors of the Manager**

YIM Fung  
QI Haiying  
LI Guangjie  
LAI Changhua  
CHIU Simon Siu Hung

### **Trustee and Registrar**

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

### **Auditors**

Ernst & Young  
22/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

### **Legal Advisers to the Manager**

Deacons  
5/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong

January 2020

## DEFINITIONS

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

- “A Share”** shares denominated in RMB and issued by PRC companies listed on the exchanges in the PRC or such other shares issued by PRC companies listed on the exchanges in the PRC
- “Business Day”** a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, either generally or in relation to a particular Sub-Fund, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
- “Class”** Each sub-fund may issue different classes of Units, which may have different terms and fee structures
- “Closing Day”** such days as are described in the Appendix for the Sub-Funds
- “Code”** the SFC’s Code on Unit Trusts and Mutual Funds, as amended from time to time
- “Commencement Date”** such date and time as may be agreed by the Manager and the Trustee as being the date and time on which the first Units of the Class relating to a particular Sub-Fund (as outlined in the relevant Appendix) are to be issued
- “Connected Person”** in relation to the Manager means:
- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total voting rights in the Manager; or
  - (b) any person or company controlled by a person as described in (a); or
  - (c) any company in which the Manager owns directly or indirectly 20% or more of the ordinary share capital or in which the Manager is able to exercise, directly or indirectly 20% or more of the total voting rights of such fund; or
  - (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above

<b>“Dealing Day”</b>	such days as are described in the Appendix for the Sub-Funds
<b>“Extraordinary Resolution”</b>	means a resolution proposed at one or more meetings of Unitholders convened and held in accordance with the provisions of Appendix K of the Trust Deed and passed at such meeting by a majority consisting of 75% or more of the total number of votes cast for and against such resolution or by resolution in writing passed in accordance with paragraph 21 of Appendix K of the Trust Deed
<b>“Fund”</b>	Guotai Junan Investment Funds
<b>“Government and other public securities”</b>	any investment issued by, or the payment of principal and interest on which is guaranteed by, a government or any fixed-interest investment issued by its public or local authorities or other multilateral agencies
<b>“HK Dollar” or “HK\$”</b>	means the currency of the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“HKFRS”</b>	means the Hong Kong Financial Reporting Standards
<b>“Initial Offer Period”</b>	the initial period during which the Units of a Sub-Fund are being offered to investors as described in the Appendix relating to the relevant Sub-Fund
<b>“Issue Price”</b>	in respect of the Sub-Fund the price per Unit as disclosed in the Appendix relating to the relevant Sub-Fund
<b>“Manager”</b>	Guotai Junan Assets (Asia) Limited
<b>“Market”</b>	means any stock exchange, any over-the-counter market, any futures exchange and any organised securities market which is open to the international public and on which securities are regularly traded, being in each case an exchange or market in any part of the world and includes, in relation to any particular securities, any responsible association in any part of the world which so deals in the securities as to be expected generally to provide in the opinion of the Manager a satisfactory market for such securities and is approved by the Trustee and in such a case the relevant securities shall be deemed to be the subject of an effective permission to deal on the Market deemed to be constituted by such association
<b>“Minimum Holding”</b>	means the minimum amount invested in the Fund as outlined in the relevant Appendix for a Sub-Fund
<b>“Net Asset Value”</b>	the net asset value of the Fund or a Sub-Fund or a Class of Units or a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”

<b>“Ordinary Resolution”</b>	means a resolution passed at one or more meetings of Unitholders convened and held in accordance with the provisions of Appendix K of the Trust Deed and passed at such meeting by a simple majority or more of the total number of votes cast for and against such resolution
<b>“QFII”</b>	means a Qualified Foreign Institutional Investor
<b>“Qualified Exchange Traded Funds”</b>	exchange traded funds that are: <ul style="list-style-type: none"> <li>(a) authorized by the SFC under 8.6 or 8.10 of the Code; or</li> <li>(b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and either (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code</li> </ul>
<b>“Registrar”</b>	HSBC Institutional Trust Services (Asia) Limited
<b>“REITs”</b>	real estate investment trusts
<b>“reverse repurchase transactions”</b>	transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future
<b>“RQFII”</b>	means a Renminbi Qualified Foreign Institutional Investor
<b>“sale and repurchase transactions”</b>	transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future
<b>“securities financing transactions”</b>	collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions
<b>“securities lending transactions”</b>	transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
<b>“Sub-Fund”</b>	a separate pool of assets of the Fund allocated to a sub-fund, which is invested and administered separately from other assets of the Fund

<b>“Subscription Monies Deadline”</b>	within 3 Business days following the relevant Dealing Day (or such other date as the Manager shall determine and notify the relevant subscriber at the time of receipt of the subscription)
<b>“substantial financial institution”</b>	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency
<b>“Trust Deed”</b>	the trust deed establishing the Fund entered into by the Manager and the Trustee dated 29 August 2007 and as amended from time to time
<b>“Trustee”</b>	HSBC Institutional Trust Services (Asia) Limited in its capacity as trustee of the Fund
<b>“Trustee Ordinance”</b>	the Trustee Ordinance, Chapter 29 of the Laws of Hong Kong
<b>“Unit”</b>	means a Unit in a Sub-Fund
<b>“Unitholder”</b>	means a person registered as a holder of a Unit
<b>“Valuation Day”</b>	means such days as are described in the relevant Appendix for the relevant Sub-Fund
<b>“Valuation Point”</b>	means close of business in the last relevant market to close on each Valuation Day or such other Business Day or Business Days as the Manager may determine from time to time with the approval of the Trustee

## INTRODUCTION

Guotai Junan Investment Funds was originally constituted as an umbrella unit trust established in the Cayman Islands by the Trust Deed. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 26 October 2016, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect on and from 18 November 2016. The Trust Deed is currently governed by the laws of Hong Kong. The assets and liabilities of the Fund will be apportioned and attributed in the books of the Fund to the relevant Sub-Fund. The Manager may create further Sub-Funds in future. Each Sub-Fund may have different objectives, and may issue different Classes of Units, which may have different terms and fee structures. This Explanatory Memorandum together with the applicable Appendix relates to the relevant Sub-Fund referred to in the table below.

Appendix	Sub-Fund
A	Guotai Junan Greater China Growth Fund

## MANAGER AND TRUSTEE

### Manager

The Manager of the Fund is Guotai Junan Assets (Asia) Limited.

The Manager was incorporated in Hong Kong with limited liability in August 1995. It is principally engaged in fund management and advisory investment services for corporations, institutions and individual investors. The Manager's experienced investment management team comes from renowned international asset management companies. The team has extensive international investment experience, has achieved outstanding investment performance; and is well versed in many kinds of investment products and services.

The Manager is a wholly-owned subsidiary of Guotai Junan International Holdings Limited ("**GTJAI**") which is listed on the Stock Exchange of Hong Kong Limited. The major shareholder of GTJAI is Guotai Junan Securities Company Limited ("**Guotai**"), an investment bank in the People's Republic of China ("**PRC**"). The Manager acts as the asset management arm of GTJAI.

In accordance with section 116 of the SFO, the Manager is licensed by the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities, as defined in Schedule 5 of the SFO.

Details of the Directors of the Manager are as follows:—

#### ***YIM Fung***

Dr. Yim Fung holds a doctorate degree in Economics from the Graduate School of the Chinese Academy of Social Sciences and a Bachelor's degree in Environmental Engineering from Tsinghua University. He has over 26 years' experience in the securities industry. Dr. Yim is licensed as a responsible officer by the Securities and Futures Commission in Hong Kong to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities in Hong Kong. He is the Chairman, Executive Director and Chief Executive Officer of GTJAI. Dr. Yim was appointed Justice of the Peace in July 2013.

#### ***QI Haiying***

Ms. QI Haiying worked in Shenzhen Supervision Bureau of the China Securities Regulatory Commission on regulatory supervision of securities companies and listed companies between 2004 and 2012. Ms. Qi joined Guotai Junan Securities Co., Ltd in April 2012, holding a post of Deputy General Manager in the Compliance Department and the Strategic Management Department respectively. Ms. Qi was appointed as executive director and Deputy Chief Executive Officer of GTJAI on 5 March 2015. Ms. Qi was appointed as director of the Manager on 3 July 2017. Ms. Qi holds a master degree of Financial Economics from London School of Economics and Political Science (LSE) and a bachelor degree of International Economy and Trade from the University of International Business and Economics (UIBE) in China.

#### ***LI Guangjie***

Mr. Li Guangjie, an Executive Director of GTJAI since March 2010 and the Chief Financial Officer of GTJAI since December 2017. Mr. Li is also a director of various subsidiaries of GTJAI. Mr. Li joined the Guotai Junan Group in 2001. Mr. Li used to work for Shenzhen Jinpeng Certified Public Accountants as the deputy head of appraisal department. He has over 27 years' experience in accounting, audit, taxation and asset appraisal. Mr. Li holds a master's degree in Economics from the Central University of Finance and Economics and a bachelor's degree in Economics from the Shenzhen University. He is an Economist and a member of the Chinese Institute of Certified Public Accountants and the Chinese Certified Tax Agents Association.

## ***LAI Changhua***

Mr. Lai Changhua, the Chief Risk Officer of GTJAI since December 2017 and is responsible for overall risk management of the Guotai Junan Group (including compliance and legal matters). He joined Guotai Junan Group in October 2015. Before that, Mr. Lai held a management role in the risk management departments of several international investment banks, with over 20 years' experience in financial markets and risk management. Mr. Lai holds a master degree in Economics from the Nankai University, a master degree in Business Administration from the Western Sydney University, and a bachelor degree in Engineering from the Sichuan University. He is also a certified FRM (Financial Risk Manager) and PRM (Professional Risk Manager).

## ***CHIU Simon Siu Hung***

Mr. Simon Chiu has over 30 years of experience in the banking and investment industry in London and Hong Kong. Mr Chiu was a Managing Director at JP Morgan Chase (Asia) from 1994 to 2009, managing the credit trading until 2006 and then head of proprietary trading from 2006 to 2008 and then managing the Emerging Markets Credit portfolio until he left the company in September 2009. Mr. Chiu joined BNP Paribas, Hong Kong as a Managing Director in September 2009, taking charge of the Credit Trading business for the Asia / Pacific region and then took over the Head of Institutional Sales role taking care of 36 sales professionals in 10 countries. After leaving BNP Paribas, Mr. Chiu joined Guotai Junan Fund Management Limited in July 2015 as a Director / Senior Portfolio Manager running the newly created credit hedge fund and then joined the Guotai Junan Assets (Asia) Limited as Co-Chief Investment Officer in February 2017 and appointed as a Director in July 2017. He is licensed as a Responsible Officer with the SFC to conduct Type 1 (dealing in securities), Type 4 (advising on securities), and Type 9 (asset management) regulated activities on behalf of the Manager.

## **Trustee and Registrar**

The Trustee of the Fund is HSBC Institutional Trust Services (Asia) Limited. The Trustee also acts as the Registrar and provides services in respect of the maintenance of the register of the Unitholders in Hong Kong.

The Trustee was incorporated in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance in Hong Kong. It is indirectly a wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment of any Sub-Fund. The Trustee has no responsibility or authority to make investment decisions, or render investment advice, with respect to any Sub-Fund.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of all the investments, cash and other assets forming part of the assets of each Sub-Fund and shall take into custody or under its control all the investments, cash and other assets forming part of the assets of the Sub-Fund and hold them in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed. Subject as otherwise provided in the Trust Deed and where permitted by law, all cash and registrable assets from time to time comprised in the Fund shall be registered in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for safe-keeping thereto. The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any Connected Person) as custodian or co-custodian of the whole or any part of the assets comprised in any Sub-Fund and may empower any such custodian or co-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodian and sub-custodian shall be paid out of the Fund. Notwithstanding anything contained in the Trust Deed, the Trustee will remain liable for the acts and omissions of agents, nominees and delegates which are appointed for the custody and/or safekeeping of any of the investments, cash or other assets forming part of the property of the Fund or any Sub-Fund (other than a securities depository or clearing system or its nominees) as if the same were the act or omission of the Trustee.

Provided however that if the Trustee (i) has exercised reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of nominees, agents and delegates which are appointed for the custody and/or safekeeping of any of the investments, cash, or other assets forming part of the property comprised in the Fund or any Sub Fund and (ii) is satisfied that such nominees, agents and delegates retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund or any Sub-Fund, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of such nominees, agents and delegates, who are not Connected Persons of the Trustee.

The Trustee will not participate in transactions or 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. HSBC Group has adopted a policy of compliance with the sanctions issued by OFAC.

The Trustee is not involved directly or indirectly with the business affairs, organisation or sponsorship of the Fund. In addition, the Trustee is not responsible for the preparation of this Explanatory Memorandum or any Appendix hereto and therefore accept no responsibility for any information contained in this Explanatory Memorandum or any Appendix hereto. The Trustee is independent of the Manager.

### **INVESTMENT OBJECTIVE AND STRATEGY**

The investment objective of each Sub-Fund is set out in the relevant Appendix which is or will be attached to this Explanatory Memorandum. The investment objective, the principal risks, as well as other important details of the relevant Sub-Fund are set forth in the applicable Appendix referred to in the table below.

<b>Appendix</b>	<b>Sub-Fund</b>
A	Guotai Junan Greater China Growth Fund

### **INVESTMENT AND BORROWING RESTRICTIONS**

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager for the Fund and borrowing restrictions. Unless otherwise disclosed in the Appendix for the relevant Sub-Fund and agreed by the SFC, each of the Sub-Fund(s) is subject to the following investment restrictions and borrowing restrictions set out in Schedule 1 to this Explanatory Memorandum.

The Manager on behalf of the Fund and/or the Sub-Funds has no current intention to invest in other collective investment schemes managed by the Manager and/or its connected persons. In the event that the Fund invests in other collective investment schemes managed by the Manager or its connected person, the Unitholders or the Fund will not bear any increase in the Management Fee or any costs and charges payable to the Manager or any of its connected persons.

Each of the Sub-Funds currently does not intend to use financial derivative instruments for any non-hedging purposes.

If any of the investment and borrowing restrictions for a Sub-Fund is breached, the Manager shall as a priority objective take all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the Unitholders of the relevant Sub-Fund.

### **SECURITIES LENDING, SALE AND REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS**

Unless otherwise disclosed in the Appendix of the relevant Sub-Fund, the Manager does not intend to enter into any securities financing transactions in respect of any of the Sub-Funds. The approval of the SFC will be sought and at least one month’s prior notice will be given to Unitholders should there be a change in such intention.

## RESTRICTIONS ON UNITHOLDERS

The investor declares that he or she is not a “United States Person”. A “United States Person” has the meaning ascribed to it in Regulation S of the United States Securities Act of 1933. A “United States Person” includes any person resident in the United States. An investor must inform the Manager immediately on becoming a “United States Person”, in which circumstances the investor may be required to redeem his or her Units in the Fund.

The Manager has power to impose such restrictions as it deems necessary for the purpose of ensuring that no Units of the Fund are acquired or held directly or beneficially by:–

- (i) any person under the age of 18; or
- (ii) any person in breach of the law or requirements of any country or governmental authority; or
- (iii) any person or persons in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other person or persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Trustee, the Manager or the Fund breaching any law or requirement of any country or governmental authority or suffering any other pecuniary disadvantage, including incurring any liability to taxation, which the Trustee, the Manager or the Fund might not otherwise have incurred or suffered (a “**non-qualified person**”).

If it comes to the notice of the Manager that any Units are held by any such non-qualified person, the Manager may give notice to such person requiring the redemption or transfer of any Units held 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 such restrictions is required to deliver, either to the Trustee or the Manager or its authorised agents, a written request for the redemption of such Units or to transfer the same to a person who is not a non-qualified person. In such circumstances, neither the Manager, the Trustee, nor any other person is required to compensate the investor or any other person for any loss which may arise in connection with the redemption of Units.

## LIQUIDITY RISK MANAGEMENT

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of each Sub-Fund and at all times exercise due care, skill and diligence in managing the liquidity of each Sub-Fund under its management to ensure investors are treated fairly, and to ensure that the liquidity profile of the investments of each Sub-Fund is appropriate to its underlying obligations to meet redemption requests on any Dealing Day and is in accordance to the redemption policy as stated under the section headed “**Redemption of Units**”.

The liquidity risk management of each Sub-Fund is carried out by the Manager’s liquidity risk management staff who are functionally independent from the day-to-day portfolio investment staff of the Manager. The oversight of the liquidity risk management staff and other related responsibilities are performed by the Manager-In-Charge of Risk Management of the Manager.

The Manager uses quantitative tools to monitor the liquidity risk of each Sub-Fund on a regular basis. Appropriate liquidity limits are set for each Sub-Fund having regard to the relevant Sub-Fund’s historical subscriptions and redemption patterns, changes on macro and micro economic factors and market situations. Liquidity limits may be adjusted according to the results of periodic stress tests. Periodic stress tests with normal and extreme historical scenarios are performed to analyze each Sub-Fund’s liquidity conditions to test the effectiveness of the tools to mitigate the liquidity risks arising from various historical scenarios of stressful conditions as well as under normal and extreme scenarios.

In addition, the Manager’s liquidity policy takes into account the investment strategy, the dealing frequency, the underlying assets’ liquidity, the ability to enforce redemption limitations and fair valuation policies of each Sub-Fund. These measures seek to ensure fair treatment and transparency for all investors.

The following tools may be employed by the Manager to manage liquidity risks:

- the Manager is entitled, with the approval of the Trustee, to limit the total number of Units of any Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue. If such limitation is imposed, this will restrict the ability of a Unitholder to redeem in full the Units he intends to redeem on a particular Dealing Day. For further details, please refer to the section headed “**Restrictions on Redemption**” above); and
- unless otherwise disclosed in the Appendix of the relevant Sub-Fund, the Trustee may at the request of the Manager temporarily borrow not more than 10% of the latest available Net Asset Value of a Sub-Fund to meet redemption requests.
- the Manager may, after consultation with the Trustee and having regard to the best interests of Unitholders, suspend the redemption of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of a Sub-Fund is suspended. During such period of suspension, Unitholders would not be able to redeem their investments in a Sub-Fund. For further details, please refer to the section headed “**Suspension of Calculation of Net Asset Value**” below).

## **OFFERING**

Units of the Sub-Fund will be offered for the first time at the Issue Price during the Initial Offer Period set forth in the Appendix relating to the relevant Sub-Fund. Units of a Sub-Fund may or may not be issued following the close of the Initial Offer Period as described in the relevant Appendix for the Sub-Fund. Investments can only be made after Units are issued to Unitholders subsequent to the close of the relevant Initial Offer Period.

## **PURCHASE OF UNITS**

### **Application Procedure**

Unless otherwise disclosed in the Appendix relating to the relevant Sub-Fund, to purchase Units an investor should complete the application form enclosed with this Explanatory Memorandum and return the original form to the Trustee by hand or by mail.

Investors are reminded that if they choose to send application forms by fax or by mail, they bear the risk of the forms not being received by the Trustee. Investors should therefore for their own benefit confirm with the Trustee safe receipt of an application form. None of the Manager, the Trustee and/or the respective agents are responsible to a Unitholder for any loss resulting from the non-receipt or duplicate receipt of any application form sent by facsimile or by mail.

Subject to the conditions outlined in the section headed “**Subscription of Units**” in the relevant Appendix, applications will generally be accepted only if completed application form and relevant documents have been received on or prior to the relevant application submission cut-off times in relation to which Units are to be issued, as set out in the section headed “**Subscription Details**” in the Appendix, or at the discretion of the Manager. Investors should confirm the relevant application submission cut-off times with their distributor.

The Manager reserves the right to reduce the subscription amount by any financial charges.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units but no certificates will be issued. A Unitholder must examine contract notes and statements issued by the Fund. A register of Unitholders shall be kept by the Trustee. If a Unitholder does not notify the Trustee of any errors within 30 days of issue of the statement or contract note, the Unitholder will be deemed to have waived any right to raise any objections in relation to them.

The Manager, at its discretion, is entitled to impose a subscription fee on the total value of the Units subscribed for by the investor or Unitholder. The subscription fee, if any, is described in the Appendix in respect of the relevant Sub-Fund. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. The Manager may from time to time vary the level of subscription fee to be imposed up to the maximum level as outlined in the relevant Appendix. The Manager may also differentiate between applicants as to the amount of the subscription fee to be imposed (within the permitted limit).

### **Payment of Subscription Amount**

The subscription price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of a Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the application form is received by the Trustee by the number of Units then in issue, rounded to the nearest 2 decimal places or in such manner and to such other number of decimal places as may from time to time be determined by the Manager in consultation with the Trustee ("**Subscription Price**"). Any rounding adjustment as a result of determining the Subscription Price will be charged to or retained for the relevant Sub-Fund.

Subscription monies should normally be paid in HK\$ unless otherwise set out in a Sub-Fund's relevant Appendix. Arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant.

The Subscription Price will be calculated in the base currency of a Sub-Fund and quoted by the Manager in that base currency.

All payments should be made by telegraphic transfer or cheque. Cheques should be crossed "**a/c payee only, not negotiable**" and made payable to "**HSBC Institutional Trust Services (Asia) Limited – Subscription Account**", and sent with the completed application form and relevant documents required by the Trustee. Payment by cheque should be made in HK Dollars and is likely to cause delay in the receipt of cleared funds as it normally takes 3 Business Days to clear. Units will be issued on the Closing Day or the Dealing Day (as the case may be) only if the completed application form and relevant documents are received. A Sub-Fund may rely upon the receipt of completed application form and relevant documents and issue Units to investors before subscription monies are cleared. If the subscription monies are not cleared by 4:00 pm on the Subscription Monies Deadline, the Trustee reserves the right to cancel the issuance of Units. In such circumstances, any investor may be required to settle the difference in the subscription amount calculated based on the Net Asset Value per Unit on the date of issuance and upon cancellation of the Units subscribed, in addition to, any applicable cancellation fees and charges imposed by the Trustee. The Applicant will bear the costs of transfer of subscription monies to a Sub-Fund. No third party payment or cash payment will be accepted.

Details of payments by telegraphic transfer are set out in the application form enclosed.

**No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the SFO. For the avoidance of doubt, HSBC Institutional Trust Services (Asia) Limited is exempted from the requirement to be licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the SFO.**

## **REDEMPTION OF UNITS**

### **Redemption Procedure**

Unitholders may redeem their Units on any Dealing Day by submitting a redemption request to the Trustee or to an authorised distributor before the relevant redemption request submission cut-off time for a Sub-Fund, as set out in the section headed "**Redemption of Units**" in the relevant Appendix. Investors should confirm the relevant redemption request submission cut-off time with their distributor.

A redemption request must be given in writing or by facsimile and must specify:

- the name of the Sub-Fund;
- the number of Units to be redeemed;
- the name(s) of the Unitholder(s); and
- give payment instructions for the redemption proceeds.

Unless otherwise agreed by the Trustee, the original of any redemption request given by facsimile should be forwarded to the Trustee. None of the Manager or the Trustee shall be responsible to a Unitholder for any loss resulting from the non-receipt or duplicate receipt of any redemption request sent by facsimile.

A Unitholder shall not be entitled to redeem part only of his holding of Units in relation to a Sub-Fund if his holding would be reduced to less than the Minimum Holding for the Sub-Fund. Unitholders will be deemed to have requested a redemption of all Units in the Sub-Fund if the request to redeem a holding of Units in the Sub-Fund would cause that holding in the Sub-Fund to fall below the Minimum Holding.

**Redemptions will be effected on a “First In, First Out” basis, i.e. the first Unit to be redeemed will be the Unit which was first subscribed. The Manager considers that the treatment of redemptions on a “First In, First Out” basis is fair and equitable to Unitholders as the Trustee will be bound to effect redemptions of Units in accordance with the order of subscription.**

#### **PAYMENT OF REDEPMTION PROCEEDS**

The redemption price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of a Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the redemption request is received by the Trustee by the number of Units in respect of such Sub-Fund then in issue rounded to the nearest 2 decimal places, or in such manner and to such other number of decimal places as the Manager may determine from time to time in consultation with the Trustee (the “**Redemption Price**”). Any rounding adjustment as a result of determining the Redemption Price will be charged to or retained for the relevant Sub-Fund.

The Redemption Price will be calculated in the base currency of a Sub-Fund and quoted by the Manager in the base currency.

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

The amount due to a Unitholder on the redemption of a Unit pursuant to the paragraphs above is the Redemption Price, less any redemption fee, any fiscal and sales charges imposed by the Manager. All bank charges and costs incurred in the payment of the redemption proceeds to the Unitholder will be borne by the relevant Unitholder and deducted from the redemption proceeds. The redemption fee will be retained by the Sub-Fund.

Redemption proceeds will not be paid to any redeeming Unitholder (a) unless otherwise agreed by the Trustee, the written original of the redemption request duly signed by the Unitholder has been received by the Trustee; and (b) where redemption proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee. No third party payment will be made.

Subject as mentioned above and so long as relevant account details have been provided and a properly documented redemption request has been accepted by the Trustee, redemption proceeds will be paid in the base currency of the Sub-Fund by telegraphic transfer, normally within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day, or (if later), receipt of a properly documented redemption request. If relevant account details are not provided, redemption proceeds will be paid to the redeeming Unitholder (or to the first-named of joint Unitholders) at the Unitholder’s risk by cheque in the base currency of the Sub-Fund.

Redemption proceeds can be paid in a currency other than the base currency of a Sub-Fund at the request and expense of the Unitholder. In such circumstances, the Trustee will use such currency exchange rates as it may from time to time determine.

### **Restrictions on Redemption**

The Manager may, after consultation with the Trustee and having regard to the best interests of Unitholders, suspend the redemption of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of a Sub-Fund is suspended (for details see “**Suspension of Calculation of Net Asset Value**” below).

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

### **CONVERSION BETWEEN SUB-FUNDS**

Subject to the consent of the Manager, Unitholders have the right (subject to any suspension in the determination of the Net Asset Value of any relevant Sub-Fund) to convert all or part of their Units of any Class relating to a Sub-Fund into Units of the same Class relating to another Sub-Fund by giving notice in writing or by facsimile to the Manager or the Trustee.

Conversion notices received by the Manager and the Trustee prior to 4:00 p.m. (Hong Kong time) on a Dealing Day will be dealt with on that Dealing Day. Conversion notices received after such time or on a day which is not a Dealing Day will be carried forward and dealt with on the next Dealing Day. Where a Conversion Notice is made by facsimile, neither the Manager nor the Trustee is responsible to any Unitholder for any loss resulting from the non-receipt of such Conversion Notice.

The price at which the whole or any part of a holding of Units of a Class relating to a Sub-Fund (the “**Current Class**”) will be converted on any Dealing Day into Units of the same Class relating to another Sub-Fund (the “**New Class**”) will be determined by reference to the Redemption Price of the Current Class and Subscription Price of the New Class on the relevant Dealing Day. Unless otherwise specified in this Explanatory Memorandum, no subscription fee or redemption fee will be levied in the case of such conversion.

The Manager is entitled to levy a conversion fee expressed as a percentage of the issue price per Unit of the New Class to be issued. The conversion fee will be deducted from the amount re-invested into the New Class of Units. The amount of the conversion fee is set out in the section headed “**Expenses and Charges**” below, unless otherwise specified in the Appendix of the original Sub-Fund.

No conversion will be allowed during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended (for further details, see “**Suspension of Calculation of Net Asset Value**”). Unitholders should also note that the requirements on:

- minimum subscription;
- minimum holding; and
- minimum redemption amount;

as set out in the Appendix of the original Sub-Fund, are also applicable in the case of conversion.

## General

The Manager has an absolute discretion to accept or reject in whole or in part any application for Units. If an application is rejected, subscription monies will be returned without interest by cheque through the post at the risk of the applicant.

Fractions of Units may be issued rounded to the nearest 2 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the Sub-Fund.

All holdings will be registered and certificates will not be issued. Evidence of title will be the entry on the register of Unitholders. No bearer units will be issued. A maximum of 4 persons may be registered as joint Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details.

## VALUATION

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies and subject as provided in paragraphs (c) and (f) below, all calculations based on the value of securities quoted, listed, traded or dealt in on any securities market shall be made by reference to the last traded price on the principal stock exchange as at the close of business in such place or if the last traded prices on the market are not available, the value of the securities shall be certified by such person, firm or institution dealing in or making a market in such securities as may be appointed for such purpose by the Trustee or, if the Manager so requires, by the Trustee after consultation with the Manager. In determining such prices the Manager and the Trustee are entitled to use and rely on electronic price feeds from such source or sources as they may determine from time to time;
- (b) subject as provided in paragraphs (c) and (f) below, the value of each interest in any collective investment scheme will be the latest available net asset value per Unit in such collective investment scheme whether or not published or (if the same is not available) the last available bid price for such Unit or share or other interest;
- (c) the value of any investment which is not listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (d) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Trustee following consultation with the Manager, any adjustment should be made to reflect the value thereof;
- (e) notwithstanding the foregoing, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment provided always that the accounting standards under the relevant jurisdiction are being complied with; and

For instance, where the market value of an investment is unavailable or where the Manager reasonably believes that no reliable price exists or the most recent price available does not reflect a price the relevant Sub-Fund would expect to receive upon the current sale of the investment, the Manager may value the investment at a price which the Manager believes reflects a fair and reasonable price for that investment in the prevailing circumstances. The Manager shall conduct such adjustments with due skill, care and diligence, and in good faith.

- (f) the value of any investment (whether of a security or cash) otherwise than in the base currency of the relevant Sub-Fund will be converted into such base currency at the rate (whether official or otherwise) which the Manager believes appropriate in the circumstances, having regard to any premium or discount which may be relevant and to costs of exchange.

The Net Asset Value shall be calculated by determining the value of the assets attributable to the Fund, including accrued income, and deducting all its liabilities. The resultant sum is divided by the total number of Units in issue at that time to give the Net Asset Value per Unit and adjusting the resultant sum to the nearest 2 decimal places.

Where a third party is engaged in the valuation of a Sub-Fund, the Manager shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such third party in ensuring such entity possesses the appropriate level of knowledge, experience and resources that commensurate with the appropriate valuation policies and procedures for such Sub-Fund. The valuation activities of such third party should be subject to ongoing supervision and periodic review by the Manager.

### **Suspension of Calculation of Net Asset Value**

The Manager may, after consultation with the Trustee and having regard to the best interests of the Unitholders, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) any period when any Market on which a substantial part of the securities or other property for the time being comprised in the relevant Sub-Fund (being the Sub-Fund to which that Class of Units relates) is quoted, listed or dealt in is closed otherwise than for ordinary holidays;
- (b) any period when dealings on any such Market are restricted or suspended;
- (c) during the existence of any state of affairs as a result of which disposal of any of the securities or other property for the time being comprised in the relevant Sub-Fund cannot, in the opinion of the Manager, be effected normally or without seriously prejudicing the interests of Unitholders of the relevant Sub-Fund;
- (d) during any breakdown in the means of communications normally employed in determining the Net Asset Value of the relevant Sub-Fund or when for any other reason the value of any securities or other property for the time being comprised in the relevant Sub-Fund cannot be promptly and accurately ascertained;
- (e) any period when the redemption of securities or other property for the time being comprised in the relevant Sub-Fund or the transfer of funds involved in such realisation cannot, in the opinion of the Manager, be effected at normal prices or normal rates of exchange; and
- (f) any period when the payment or receipt of the proceeds of the realisation of any of the securities or other property comprised in the relevant Sub-Fund is the subject of delay due to exceptional circumstances.

Such suspension will take effect immediately upon the Manager's declaration, after consultation with the Trustee and having regard to the best interests of the Unitholders. Thereafter there will be no determination of the Net Asset Value of the Sub-Fund until the Manager declares the suspension at an end, except that the suspension will terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension has ceased to exist; and (ii) no other condition under which suspension is authorised exists.

Whenever the Manager declares such a suspension it shall (i) immediately after any such declaration, notify the SFC of such suspension and (ii) immediately after any such declaration and at least once a month during the period of such suspension, publish a notice of suspension on the Manager's website <http://www.gtja.com.hk> (this website has not been reviewed by the SFC).

No Units in a Sub-Fund may be issued, redeemed or converted during a period of suspension. For the avoidance of doubt, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements, redemption proceeds will, in any event, be paid within one calendar month of the relevant Dealing Day, or (if later), receipt of a properly documented redemption request.

### **DISTRIBUTION POLICY**

Please refer to the Appendix in respect of the distribution policy of the relevant Sub-Fund.

### **EXPENSES AND CHARGES**

The current fees of the Sub-Fund are set out in the relevant Appendix. Unless otherwise disclosed in the Appendix, the types of fees and maximum level of fees are set out below:

<b>Types of Fees*</b>	<b>Level of Fees per Annum</b>
management fee	Up to 3%
trustee fee	0.14%^
subscription fee	5%
redemption fee	3%
conversion fee	3%

^ Percentage of trustee fee excludes transaction fee, out-of-pocket expenses and sub-custodian fees and will be subject to a minimum annual fee as agreed between the relevant Sub-Fund and the Trustee.

\* All fees are expressed as a percentage of the Net Asset Value of the Sub-Fund as at the relevant Valuation Point, with the exception of the basis for calculation of the subscription fee and unless otherwise stated in the Appendix of the relevant Sub-Fund. The subscription fees payable will be calculated based on the total value of Units subscribed for by the investor or Unitholder.

In the event that the Fund invests in other collective investment schemes managed by the Manager or its connected persons, the Unitholders or the Fund will not bear any increase in the Management Fee or any costs and charges payable to the Manager or any of its connected persons.

Unless otherwise disclosed in the Appendix, the Manager will give 3 month's prior notice to Unitholders should there be any increase of the fees from the current level up to the specified maximum level.

The Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to the Sub-Fund, the Sub-Fund will bear such costs in proportion to its respective Net Asset Value or in such other manner as the Manager shall consider appropriate. Such costs include but are not limited to the costs incurred in the establishment, management and administration of the Fund and the Sub-Fund, the costs of investing and realising the investments of the Sub-Fund, the fees and expenses of custodians of the assets of the Fund, the fees and expenses of the auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in preparing and printing any explanatory memorandum and any audited annual reports or interim reports which are sent to the Unitholders.

The costs of establishment of the Fund and the initial Sub-Fund Guotai Junan Greater China Growth Fund were approximately HK\$1,300,000. These costs were charged to the accounts of Guotai Junan Greater China Growth Fund. The Manager had amortised the establishment expenses of the Fund and the initial Sub-Fund over a 12 month period.

If further Sub-Funds are launched, the establishment costs will be allocated to the respective Sub-Funds, except for those costs which the Manager decides to pay out of its own resources.

The first accounting period of the initial Sub-Fund was from the close of the Initial Offer Period to 31 December 2008. Subsequent accounting periods of the initial Sub-Fund are from 1 January of each year to 31 December of the same year.

In addition to the above, Unitholders may be required to pay any requisite governmental tax, stamp duty, registration fee, custody and nominee charges as may be required in the purchase or sale of the Units under the Fund.

### **Transactions with Connected Persons**

Cash forming part of the property of the Fund may be placed on deposit with the Manager, the Trustee or with any of their connected persons (being an institution licensed to accept deposits) so long as cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the relevant Sub-Fund, having regard to the prevailing rate for a deposit of similar type, size and term, negotiated at arm's length in accordance with the ordinary and normal course of business.

Unless otherwise provided in the Trust Deed, any transactions between the Fund and the Manager, directors of the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee.

All transactions carried out by or on behalf of the Fund or the Sub-Fund must be executed at arm's length, on the best available terms and in the best interests of the Unitholders.

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

Transactions with brokers or dealers connected to the Manager or directors of the Manager or any of their connected persons may not in aggregate account for more than 50% of the Fund's transactions in value in any one financial year of the Fund. Brokerage rates will not be in excess of customary institutional full-service brokerage rates.

All connected party transactions and soft dollar practices (if any) will be disclosed in the Fund's audited annual financial report.

## **RISK FACTORS**

### **Importance of the Manager**

The Fund must rely on the ability of the Manager to manage the Fund's trading and investment program and the continued availability of the Manager's services to it. The Manager, in turn, depends on the services of certain key personnel, and the loss of the services of one or more of such professionals could impair the ability of the Manager to provide services to the Fund and be material and adverse to the Fund and each of the Sub-Funds.

## **General Market Risk**

The Fund's investment strategy is subject to some dimension of market risk: directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, investors moving their investments from riskier investments to safer investment vehicles ("flights to quality"), and difficulty in borrowing ("credit squeezes"), etc.

The particular or general types of market conditions in which the Sub-Fund may incur losses or experience unexpected performance volatility cannot be predicted, and the Sub-Fund may materially underperform other investment funds with substantially similar investment objectives and approaches.

## **Segregation of Assets and Liabilities between Sub-Funds**

All Sub-Funds will be established as separate and distinct trusts pursuant their respective supplemental trust deed to the Trust Deed. Accordingly, the assets of each Sub-Fund should be effectively segregated from each other and none of them may be used to discharge the liabilities of or claims against any other Sub-Fund. Notwithstanding the aforesaid, in the event that the assets of any Sub-Fund are held by any court of competent jurisdiction not to be effectively segregated, each Sub-Fund bears the risks of having its assets used to discharge the liabilities of or claims against any other Sub-Fund. Where practicable, the Manager will seek to advise potential creditors of a particular Sub-Fund that recourse is only to the assets of such Sub-Fund and not to all Sub-Funds as a whole or the personal assets of the Trustee and will use reasonable efforts to include reference to this effect in any related documentation.

## **Risk of Loss; Past Performance**

Investors may lose all or substantially all of their investment in the Fund. There can be no assurance the relevant Sub-Fund will achieve its objective. Past performance of each Sub-Fund is available upon request but is not necessarily indicative of future results. The markets in which the Fund operates have been severely disrupted over the past few years, so results observed in earlier periods may have little relevance to the results observable in the current or future environment.

## **Possible Tax Impact**

The Manager's investment decisions will be based primarily upon economic, not tax, considerations, and could impact some or all investors from a tax perspective.

## **Possibility of Additional Government or Market Regulation**

There have recently been certain well-publicised incidents of regulators unexpectedly announcing regulatory changes or interpretations that prohibited strategies that had been implemented in a variety of formats for many years. For instance, in September 2008 various regulatory bodies imposed temporary bans on short-selling in a variety of stocks, and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as disrupting market fundamentals and causing unexpected and volatile increases in the stock prices of a variety of issuers, as short sellers closed out their positions by buying securities. Market disruptions like those experienced in the credit-driven equity market collapse in 2008 has led to increased governmental scrutiny of the investment fund industry in general. Increased governmental as well as self-regulatory scrutiny of mutual and other forms of retail funds cannot be discounted.

## **Risk of Early Termination**

The Fund and/or any of its Sub-Funds may be terminated early upon the occurrence of certain events as set out in the section headed “**Termination of the Fund or any Sub-Fund**” in this Explanatory Memorandum. In particular, the Manager may, in its absolute discretion, decide to terminate a Sub-Fund at any time if any of the following circumstances occur: (i) the average Net Asset Value of a Sub-Fund falls under HK\$39,000,000 over 12 consecutive calendar months, and in the case of having any fixed term fund operating in the Fund, the Unitholders of such Sub-Fund pass an Extraordinary Resolution approving the termination of the relevant Sub-Fund; (ii) it becomes illegal or in the opinion of the Manager impracticable or inadvisable to continue the relevant Sub-Fund; or (iii) the relevant Sub-Fund ceases to be authorised or otherwise officially approved by the SFC. If the Manager decides to terminate a Sub-Fund, the Manager will give at least three months’ notice to the Unitholders outlining the reasons for the termination, alternatives available to Unitholders and the expected costs involved in terminating the relevant Sub-Fund.

## **Risk relating to Foreign Account Tax Compliance Act (“FATCA”)**

Sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended (commonly known as the Foreign Account Tax Compliance Act or “FATCA”) provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Fund and each Sub-Fund, including interests and dividends from securities of U.S. issuers, unless the Fund or the relevant Sub-Fund discloses the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the relevant Sub-Fund, as well as certain other information relating to any such interest.

Although the Fund and each Sub-Fund will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA withholding, no assurance can be given that the Fund and/or any Sub-Fund will be able to achieve this and/or satisfy such FATCA obligations. If a Sub-Fund becomes subject to a 30% FATCA penalty withholding on most types of income from US investments (further described under the sub-heading “FATCA”) as a result of the FATCA regime, the value of the Units held by Unitholders in the relevant Sub-Fund may suffer material losses.

The Fund and the Sub-Funds’ ability to comply with FATCA will depend on each Unitholder providing the Fund or the relevant Sub-Fund with information that the Fund or the relevant Sub-Fund requests concerning the Unitholder or its direct and/or indirect owners. If a Unitholder fails to provide the Fund or the relevant Sub-Fund with any information the Fund or the relevant Sub-Fund requests, the Fund or the relevant Sub-Fund may exercise its right to request a transfer of Units to another person or to compulsorily redeem such Unitholder. Any such transfer or compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

All prospective investors and Unitholders should consult with their own tax advisors regarding the possible implications of FATCA and the tax consequences on their investments in a Sub-Fund. Unitholders who hold their Units through intermediaries should also confirm the FATCA compliance status of those intermediaries.

## **Other Risks**

Other risk factors specific to a Sub-Fund are set out in the relevant Appendix.

## **TAXATION**

This summary of certain tax considerations is considered to be a correct interpretation of existing laws and regulations in force on the date of this Explanatory Memorandum. No assurance can be given that changes in existing laws or regulations or their interpretation will not occur after the date of this Explanatory Memorandum.

Each prospective Unitholder should become informed of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and redemption of Units held under the laws of the places of the Unitholder’s citizenship, residence and domicile.

## Hong Kong

The Fund is exempted from profits tax in Hong Kong during the period it is authorised by the SFC as a collective investment scheme pursuant to Section 104 of the SFO.

Dividends or other income distributions which the Fund may pay on its Units will not be taxable in Hong Kong (whether by way of withholding or otherwise) under current legislation and practice.

Hong Kong does not tax capital gains arising from the sale or other disposal of Units by Unitholders except for the case where certain Unitholders are carrying on a trade or business in Hong Kong and who also invest in securities for trading purposes (e.g. dealers in securities, financial institutions and insurance companies). Such gains may be considered to be part of the Unitholder's normal business profits and in such circumstances will be subject to Hong Kong profits tax (which is currently charged at the rate of 16.5% for corporations, and 15% for others) if the gains in question arise in or are derived from Hong Kong.

No Hong Kong stamp duty should be payable in relation to the issue of the Units and/or on the redemption of the Units. No Hong Kong stamp duty is payable where the sale or transfer of Units in that Sub-Fund is effected by selling the relevant Units back to the Manager, who then either extinguish the Units or re-sells the Units to another person within two months thereof. However, other types of sales or purchases or transfers of Units by the Unitholders should be liable to Hong Kong stamp duty at 0.2% (normally borne by the buyer and the seller in equal share) on the higher of the consideration amount or market value.

### Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the “**Ordinance**”) came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (“**AEOI**”). The AEOI requires financial institutions (“**FI**”) in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with Hong Kong FIs, and exchange such information with the jurisdiction(s) in which that account holder is tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement (“**CAA**”); however, the Fund, the Sub-Funds and/or their agents may further collect information relating to tax residents of other jurisdictions.

The Fund and each Sub-Fund are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund, the Sub-Funds and/or its agents shall collect and provide to the Hong Kong Inland Revenue Department (“**IRD**”) tax information relating to Unitholders and prospective investors.

The AEOI rules as implemented by Hong Kong require the Fund and/or each Sub-Fund to, amongst other things: (i) register the Fund's status as a “Reporting Financial Institution” with the IRD; (ii) conduct due diligence on its accounts (i.e., Unitholders) to identify whether any such accounts are considered “Reportable Accounts” for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis commencing from the year 2018 to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) certain entities controlled by individuals who are tax resident in such other jurisdiction. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, jurisdiction of birth, address, tax residence, Taxpayers Identification Number (“**TIN**”), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

By investing in the relevant Sub-Fund and/or continuing to invest in the relevant Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Fund and/or the relevant Sub-Fund, the Manager and/or the Fund's or the relevant Sub-Fund's agents in order for the Fund and/or the relevant Sub-Fund to comply with AEOI. The Unitholder's information and information pertaining to Controlling Persons, as defined in the Ordinance, of a Unitholder that is not a natural person, may be communicated by the IRD to authorities in other jurisdictions.

Each Unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the relevant Sub-Fund.

## **PRC**

By investing in securities (e.g. shares) issued by Chinese tax resident enterprises (i.e. companies incorporated in mainland China or incorporated elsewhere but with their effective management located in mainland China), irrespective of whether such securities are issued or distributed onshore (“**onshore PRC securities**”) or offshore (“**offshore PRC securities**”, and together with onshore PRC securities, the “**PRC Securities**”), the Fund may be subject to PRC taxes.

### **Enterprise Income Tax (“EIT”)**

Pursuant to the PRC EIT Law and its implementation rules, if the Fund is considered as a PRC tax resident, it will be subject to PRC EIT at 25% on its worldwide taxable income. If the Fund is considered as a non-tax resident enterprise but has a permanent establishment (a “**PE**”) in the PRC, the profits attributable to that PE would be subject to EIT at 25%.

The Manager intends to manage and operate the Fund in such a manner that the Fund should not be treated as tax resident enterprise of the PRC or non-tax resident enterprise with a PE in the PRC for PRC EIT purposes, although this cannot be guaranteed. If the Fund is a non-tax resident in the PRC and has no PE in the PRC, the Fund should technically be subject to PRC withholding income tax (“**WIT**”) of 10% on PRC sourced income (e.g. dividend or capital gains from shares issued by PRC enterprises). The WIT rate may be reduced or exempt by relevant double tax agreements/arrangements (“**DTA**”).

#### *Dividend income*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-PRC tax resident enterprises without PE in the PRC are subject to EIT on a withholding basis, generally at a rate of 10%, to the extent it directly derives PRC-sourced passive income (including dividends from shares issued by PRC enterprises). Accordingly, the Fund may be subject to WIT and/or other PRC taxes on any dividends it receives from its investment in PRC Securities.

The SAT issued the circular Guoshuihan [2009] 394 to clarify that dividends from H-shares distributed from profits of year 2008 and subsequent years should be subject to WIT at 10% or a reduced rate pursuant to any applicable DTA. At present, a 10% PRC WIT is withheld at source for dividend income from H-shares for non-resident enterprises (including the Fund) by the entity distributing such dividend income. Dividend income distributed from the Red Chips should generally not be treated as PRC sourced income and should not be subject to PRC WIT. If the listed company of the Red Chip is recognized as a PRC tax resident, the dividend income distributed from the Red Chips should be subject to WIT.

#### *Capital gains*

For capital gains on the trading of H-shares derived by non-resident enterprises in the stock exchange, technically, such gains should be subject to WIT at 10%, which may be reduced or exempt under the relevant DTA. However, no WIT on capital gains is being imposed in practice provided that both the purchase and sale of H-shares are conducted on the public stock exchange. Provided that both the purchase and sale of shares in Red Chip companies which are not deemed as PRC tax resident enterprises are conducted on overseas public exchange, capital gains realized from the trading of shares in such Red Chip companies should generally not be treated as PRC sourced income and should not be subject to PRC WIT pursuant to the safe harbour provision prescribed in Bulletin [2015] 7. If the listed company of Red Chips is recognized as a PRC tax resident, technically, the capital gains should be considered as PRC sourced income and should be subject to PRC WIT at 10%, which may be reduced or exempt under the relevant DTA. However, no WIT on capital gains is being imposed in practice under such a circumstance where both the sale and purchase are conducted in the stock exchange.

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. If the Fund is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of the Fund may be lowered, as the Fund will have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the Fund.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

#### Value Added Tax (“VAT”) and other surtaxes

The Ministry of Finance (“MOF”), the State Administration of Taxation (“SAT”) jointly issued “Notice on the Comprehensive Roll-out of the Business Tax to Value Added Tax Transformation Pilot Program Circular” (Caishui [2016] No. 36) (“Notice 36”) on 23 March 2016, which provides the detailed implementation guidance on the further rollout of the VAT reform to sectors such as construction, real estate, financial services and lifestyle services, as well as modifications to the current VAT rules for transportation services, modern services, postal and telecommunication services. Accordingly, all incomes that were subject to business tax are now subject to VAT after Notice 36 became effective on 1 May 2016.

Dividend income or profit distributions on equity investment derived from China are not included in the taxable scope of VAT, and thus dividends from H-shares are not subject to VAT. There is a lack of guidance on whether gains derived from the trading of PRC shares (e.g. H-shares) in overseas public stock exchange should be subject to VAT. In practice, the PRC tax authorities have not pursued VAT on such gains.

#### Stamp Duty (“SD”)

SD is levied on certain taxable documents executed or used in the PRC, such as documentation effecting the transfer of equity interests in Chinese companies, the purchase and sale of goods, contract documents issued for process contracting, construction contracting, property leasing, and other documents listed in the SD Regulations.

Currently, a SD at the tax rate of 0.1% of the total sales value is levied on the sale transactions of onshore listed shares (e.g. A-shares and B-shares) on the sellers. It is unclear whether PRC SD would similarly apply to the buy and/or sale transactions of H-shares by non-PRC investors outside the PRC. That said, PRC SD is generally not imposed for trading of H shares in practice.

#### General

Furthermore, there is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Fund. Unitholders should seek their own tax advice on their tax position with regard to their investment in the Fund.

## FATCA

### (a) **General Information**

Foreign Account Tax Compliance Act (commonly known as “FATCA”) – Sections 1471 – 1474 of the US Internal Revenue Code of 1986, as amended (the “IRS Code”) provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Fund and/or the Sub-Funds, including interests and dividends from securities of US issuers, unless the Fund and/or the Sub-Funds comply with FATCA. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (the “IRS”) to identify United States persons (within the meaning of the IRS Code as set out in the paragraph below) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an “FFI”), such as the Fund and/or the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an “FFI Agreement”) with the IRS under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the IRS.

For the purpose of this section, a United States person is defined under the IRS Code – Section 7701 (a)(30) as:

- (A) an individual who is a U.S citizen or U.S. resident alien (e.g. green card holder or meets substantial presence test);
- (B) a partnership, corporation, or association created or organized in the U.S. or under the laws of the U.S;
- (C) a foreign estate; or
- (D) a trust where a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

In general, an FFI which does not sign an FFI Agreement or is not otherwise exempt will face a punitive 30% withholding tax on all “withholdable payments” derived from US sources, including dividends, interest and certain derivative payments with effect from 1 July 2014.

The Hong Kong government signed an intergovernmental agreement with the US (“IGA”) for the implementation of FATCA on 13 November 2014, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund and/or the Sub-Funds) would be required to enter into the FFI Agreement with the IRS, register with the IRS and comply with the terms of FFI Agreement. Otherwise they will be subject to a 30% withholding tax on “withholdable payments”.

As an IGA has been signed between Hong Kong and the US, FFIs in Hong Kong (such as the Fund and/or the Sub-Funds) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to non-consenting accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close those non-consenting accounts (provided that information regarding such non-consenting account holders is reported to the IRS), but may be required to withhold tax on payments made to non-compliant FFIs.

### (b) **FATCA Registration Status**

The Sub-Funds have registered with the IRS as reporting FFIs and have obtained Global Intermediary Identification Numbers (“GIIN”) within the time prescribed by FATCA. The GIINs for each Sub-Fund are as follows:

Guotai Junan Greater China Growth Fund    GIIN No. 1N79Z3.99999.SL.344

**(c) *Impact to the Sub-Funds and Unitholders***

Unitholders will be required to furnish appropriate documentation certifying as to their U.S. or non-U.S. tax status, together with such additional tax information as the Manager or its agents may from time to time request.

Each Unitholder shall also be required to: (a) inform the Fund, the Sub-Funds, the Manager or its agents as soon as possible of any change in any information provided in relation to its U.S. or non-U.S. tax status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) subject to the Unitholder's express consent, waive any and all rights of such Unitholder under any relevant law or regulation in any applicable jurisdiction that would prevent the Fund, the Sub-Funds, the Manager or its agents from meeting applicable regulatory and legal requirements. The Fund, the Sub-Funds, the Manager or its agents may, acting in good faith and on reasonable grounds as permitted under applicable laws and regulations, request a transfer of Units to another person or to or compulsorily redeem the Units held by such Unitholder, if such Unitholder fails to provide any information requested or contests the waiver provided above.

Nothing in this section constitutes or purports to constitute tax advice and Unitholder should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. Investors should consult their own tax advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, investors who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

Although the Fund and the Sub-Funds will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund and the Sub-Funds will be able to satisfy these obligations. If the Fund or any Sub-Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

**The foregoing is a summary of some of the important tax rules and considerations affecting the Unitholders, the Fund, and the Fund's proposed operations and does not purport to be a complete analysis of all relevant tax rules and considerations, nor does it purport to be a comprehensive coverage of all potential tax risks inherent in purchasing or holding Units in the Fund. Prospective investors in the Fund are urged to consult their own tax advisers on the tax consequences to them of acquiring, holding, realising, transferring or redeeming Units in the Fund under the relevant laws of the jurisdictions to which they are subject, including any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to Unitholders will vary with the law and practice of the Unitholders' country of citizenship, residence, domicile or incorporation and their personal circumstances.**

## **FINANCIAL REPORTS**

The Fund's financial year end is on 31st December in each year. English audited annual financial reports in each Sub-Fund's Base Currency will be sent to Unitholders as soon as possible, and in any event within four months, after the end of the financial year.

The Manager also sends English unaudited interim financial reports to Unitholders within two months after 30 June in each year. Such reports contain a statement of the Net Asset Value of the Sub-Fund and of the investments comprising its portfolio. Once issued, the reports will be available for inspection at the Manager's office free of charge during normal working hours.

The Fund's first audited annual financial reports were made up to the period ended 31st December 2008.

The Manager may elect to deliver or make available all such reports and other communications with Unitholders via electronic mail or an internet site established by or on its behalf, if Unitholders consent to electronic delivery of such information, as provided in the application form of a Sub-Fund.

The annual financial reports of the Fund are drawn up in accordance with HKFRS and the interim financial reports will apply the same accounting policies and method of computation as are applied in the annual financial reports of the Fund. The Manager has determined to amortise the establishment costs over a period of 12 months or such other period as the Manager may in its discretion consider appropriate. The Manager believes that such treatment is more equitable to the initial investors of a Sub-Fund than expensing the entire amount as this is incurred.

To the extent that the valuation basis adopted by the Fund deviates from HKFRS, the Fund's audited financial reports will include a reconciliation note to reconcile values arrived at by applying the Fund's valuation rules.

## **PUBLICATION OF PRICES**

The Net Asset Value per Unit of a Sub-Fund will be published daily in Hong Kong in the South China Morning Post and in the Hong Kong Economic Times and/or any other newspapers which the Manager may from time to time determine and notify the Unitholders. The Net Asset Value per Unit of a Sub-Fund will also be available on the Manager's website <http://www.gtja.com.hk> (this website has not been reviewed by the SFC). The prices are expressed exclusive of any initial charge or redemption charge which may be payable on subscription or redemption.

## **VOTING RIGHTS**

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting. If a situation gives rise to potential conflict of interest between different Classes of Unitholders, Class meetings shall be held in accordance with the provisions of the Trust Deed.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% or more of the Units for the time being in issue except for the purpose of passing an Extraordinary Resolution. The quorum for passing an Extraordinary Resolution is those Unitholders present in person or by proxy representing 25% or more of the Units in issue. If a quorum is not present within half an hour from the appointed meeting time, the meeting will be adjourned for not less than 15 days. In the case of an adjourned meeting, of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the register of Unitholders.

An Extraordinary General Meeting should be called for the following purposes:

- (i) to modify, alter or add to the Trust Deed;
- (ii) to terminate the Fund, or any Sub-Fund in accordance with the Trust Deed;
- (iii) to increase the maximum fees paid to the Manager and/or Trustee; or
- (iv) to impose other types of fees.

The Trustee, the Manager and their connected persons are prohibited from voting their beneficially owned Units at, or being counted in the quorum for, a meeting at which they have a material interest in the business to be contracted by the Fund and/or any Sub-Fund.

### **TRANSFER OF UNITS**

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

### **TRUST DEED**

The Fund was originally constituted as an umbrella unit trust established under the laws of the Cayman Islands between Guotai Junan Assets (Asia) Limited as Manager and HSBC Trustee (Cayman) Limited as Trustee. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 26 October 2016, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited with effect on and from 18 November 2016. The Trust Deed is currently governed by the laws of Hong Kong.

The Trust Deed contains provisions for:

- (a) the indemnification of the Manager and Trustee in certain circumstances in the absence of any fraud, bad faith negligence, default or breach of duty or trust on the part of the Manager or the Trustee (as the case may be);
- (b) the exculpation of liability of the Manager and the Trustee in certain circumstances, and generally for anything done or suffered in good faith under the provisions of the Trust Deed in the absence of fraud, bad faith, wilful default or negligence on the part of the Manager or the Trustee (as the case may be); and
- (c) the circumstances as to when the removal and retirement of the Trustee and Manager may be effected.

Nothing in the Trust Deed provides that the Trustee or the Manager be exempted from any liability to Unitholders imposed under Hong Kong law (including in the case of the Trustee, under the Trustee Ordinance) or for breach of trust through fraud or negligence for which they may be liable in relation to their duties and neither the Trustee nor the Manager may be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. Copies of the Trust Deed (together with any undertakings given to the SFC) as for the time being in force may be obtained from the Manager at a cost of HK\$300 each and may be inspected during normal working hours at the offices of the Manager and the Trustee free of charge.

## REMOVAL AND RETIREMENT OF THE TRUSTEE AND THE MANAGER

### The Trustee

Subject to the prior approval of the SFC:

1. the Trustee may retire voluntarily if a new trustee has been appointed by the Manager and adequate arrangements have been made for the new trustee to assume the responsibility for administration of the Fund and for the Trustee's interest in the Fund to be transferred to the new trustee; and
2. the Manager may remove the Trustee by giving not less than 3 months' prior notice in writing to the Trustee and appoint any other qualified company to act as the trustee of the Fund.

### The Manager

Subject to the prior approval of the SFC, the Manager may be subject to removal by the Trustee if:

1. the Manager commences liquidation or has gone into receivership; or
2. for good and sufficient reason, the Trustee states in writing to the Manager that a change of the Manager is desirable in the interest of the Unitholders provided that not less than 6 months' prior written notice is given to the Manager; or
3. the Unitholders holding in aggregate 50% or more of the Units of each Class then in issue (other than those held or deemed to be held by the Manager) deliver to the Trustee a written request that the Manager should retire and the Trustee provides not less than 6 months' prior written notice to the Manager.

If the SFC withdraws the authorisation of the Manager to act as investment manager of the Fund, the Manager's appointment under the Fund will terminate as at the date on which the SFC's withdrawal becomes effective.

Apart from the above, the Manager may also retire voluntarily in favour of some other qualified company approved by the Trustee.

## MODIFICATION OF TRUST DEED

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification:

- (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Fund; or
- (ii) is necessary in order to comply with any fiscal, statutory, regulatory or official requirement; or
- (iii) is made to correct a manifest error.

In all other cases involving any material changes, any modifications to the Trust Deed will require the sanction of any Extraordinary Resolution of the Unitholders affected and/or the prior approval of the SFC (if required by the Code).

## TERMINATION OF THE FUND OR ANY SUB-FUND

The Fund will continue for a period of 80 years from the date of the Trust Deed (i.e. 29 August 2007) or until it is terminated in one of the ways set out below.

The Trustee may terminate the Fund in the following events (provided that the Trustee certifies that in its opinion, the proposed termination is in the interest of Unitholders), namely if:

- (a) within 30 days of the Manager leaving office, no new manager is appointed; or
- (b) if in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily; or
- (c) if the Manager goes into liquidation; or
- (d) if the Trustee desires to retire and the Manager fails to find a new trustee qualified to act as trustee in the place of the retiring Trustee within 3 months from the date of retirement of the Trustee.

The Trustee may also terminate the Fund if any law is passed which renders it illegal, or in the opinion of the Trustee, impracticable or inadvisable to continue the Fund.

The Manager may terminate the Fund or any Sub-Fund:

- (a) if, in relation to any Sub-Fund, the average net asset value of the Units outstanding in respect of such Sub-Fund is less than HK\$39,000,000 over 12 consecutive calendar months, and in the case of having any fixed term fund operating in the Fund, Unitholders of such Sub-Fund pass an Extraordinary Resolution approving the termination of the Sub-Fund in such circumstances; or
- (b) if any law is passed which renders it illegal or, in the opinion of the Manager, impracticable or inadvisable to continue the Fund or a Sub-Fund; or
- (c) if the Fund and/or any Sub-Fund (as the case may be) ceases to be authorised or otherwise officially approved by the SFC.

Three months' notice of any termination will be given to Unitholders. Such notice will be submitted to the SFC for prior approval and will contain the reasons for the termination, alternatives available to Unitholders and the expected costs involved.

Further, at any time the Unitholders of a Sub-Fund may authorise termination of the Sub-Fund by Extraordinary Resolution.

Any unclaimed proceeds or other cash held by the Trustee upon termination of the Fund and/or any Sub-Fund (as the case may be) may at the expiration of 12 months from the date upon which the same were payable be paid into court subject to the right of the Trustee to deduct any expenses it may incur in making such payment.

#### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Trust Deed and the latest audited annual financial reports and unaudited interim financial reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong. Copies of the Trust Deed can be purchased from the Manager on payment of a reasonable fee.

#### **ANTI-MONEY LAUNDERING REGULATIONS**

As part of the Trustee and the Manager's responsibility for the prevention of money laundering, the Trustee and/or the Manager (including its affiliates, subsidiaries or associates) require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:–

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

However, the above exceptions will only apply if the applicant or intermediary is operating in a country recognised as having sufficient anti-money laundering legislation and provided that any redemption proceeds or other distributions by the Fund are paid back to the applicant and not to third parties.

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

### **SOFT COMMISSIONS REBATE**

The Manager may retain soft commission rebates from a broker or dealer in consideration of directing transactions to them provided that the soft commission is in the form of goods and services of demonstrable benefit to the Unitholders, the transaction execution is consistent with best execution standards and the brokerage rates are not in excess of customary full-service brokerage rates, as required by paragraph 10.12 of the Code. Details of soft commission arrangements will be disclosed in the Fund's audited annual financial reports.

### **CONFLICTS OF INTEREST**

The Manager and the Trustee and their respective connected persons may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest. If conflicts arise, each of the Manager and the Trustee will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are managed and minimized so far as reasonably practicable and that measures are adopted that seek to ensure such conflicts are resolved fairly, taking into account the best interests of the Unitholders of the relevant Sub-Fund as a whole. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated and all transactions are effected in good faith at arm's length and in the best interests of the relevant Sub-Fund on normal commercial terms.

### **CERTIFICATION FOR COMPLIANCE WITH FATCA, AEOI OR OTHER APPLICABLE LAWS**

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund or the relevant Sub-Funds receives payments and/or (B) to satisfy reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong (including any law, rule and requirement relating to AEOI) or any other jurisdiction, including reporting obligations that may be imposed by future legislation.

## **POWER TO DISCLOSE INFORMATION TO TAX AUTHORITIES**

Subject to applicable laws and regulations in Hong Kong, the Fund, the relevant Sub-Funds, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the IRS and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, jurisdiction of birth, tax residence, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, account balance/value, and income or sale or redemption proceeds, to enable the Fund or the relevant Sub-Funds to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

## **PERSONAL DATA**

Personal data provided by the Unitholder on the application form, and details of transactions or dealings between Unitholders and the Fund will be used, stored, disclosed and transferred (in and outside Hong Kong) to such persons as the Fund considers necessary for any purpose in connection with the services the Fund may provide to a Unitholder and/or in connection with matching and for whatever purpose with other personal data concerning a Unitholder.

A Unitholder has the right to request access to and correction of any personal data.

## **SCHEDULE 1 – INVESTMENT AND BORROWING RESTRICTIONS**

### **1. Investment limitations applicable to each Sub-Fund**

No holding of any security may be acquired for or added to a Sub-Fund which would be inconsistent with achieving the investment objective of the Sub-Fund or which would result in:–

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the relevant Sub-Fund:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1.

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund:
- (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "entities within the same group" means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1.

- (c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund provided that the 20% limit may be exceeded in the following circumstances:
- (i) cash held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (ii) cash proceeds from liquidation of investments prior to the merger or termination of the Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions would be unduly burdensome and the cash deposits arrangement would not compromise investors' interests.

For the purposes of this sub-paragraph 1(c), "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by the Sub-Fund and not referable to provision of property or services.

- (d) the Sub-Fund's holding of any ordinary shares (when aggregated with all other Sub-Funds' holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Sub-Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available Net Asset Value of such Sub-Fund.
- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of such Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

(g) (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "underlying schemes") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and

(ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of that Sub-Fund, provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, a Sub-Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its Connected Persons; and
- (E) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by a Sub-Fund;
- (bb) unless otherwise disclosed in the Appendix of a Sub-Fund, the investment by a Sub-Fund in a Qualified Exchange Traded Fund will be considered and treated as listed securities for the purposes of and subject to the requirements in sub-paragraphs 1(a), (b) and (d) of this Schedule 1. Notwithstanding the aforesaid, the investments by a Sub-Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by a Sub-Fund shall be consistently applied;

- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where a Sub-Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

## **2. Investment prohibitions applicable to each Sub-Fund**

The Manager shall not, unless otherwise specifically provided for in the Code, on behalf of any Sub-Fund:–

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights, but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;
- (g) 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%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash by the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### **3. Feeder Funds**

A Sub-Fund which is a feeder fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme (“underlying scheme”) in accordance with the following provisions:

- (a) such underlying scheme (“master fund”) must be authorized by the SFC;
- (b) the explanatory memorandum of such Sub-Fund must state that:
  - (i) the feeder fund is a feeder fund into the master fund;
  - (ii) for the purpose of complying with the investment restrictions, the feeder fund and the master fund will be deemed to be a single entity;
  - (iii) the feeder fund’s annual report must include the investment portfolio of the master fund as at the financial year end date; and
  - (iv) the aggregate amount of all the fees and charges of the feeder fund and its master fund must be clearly disclosed;
- (c) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager;
- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A), (B) and (C) to sub-paragraph 1(g) of this Schedule 1.

### **4. Use of financial derivative instruments**

4.1 A Sub-Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Manager, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned, with due consideration on the fees, expenses and costs, to enable the relevant Sub-Fund to meet its hedging objective in stressed or extreme market conditions.

- 4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“investment purposes”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“net derivative exposure”) does not exceed 50% of its latest available Net Asset Value provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.
- 4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, a Sub-Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.
- 4.4 The financial derivative instruments invested by a Sub-Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:
- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies;
  - (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
  - (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, a Sub-Fund’s net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
  - (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund’s initiative. Further, calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

- 4.5 A Sub-Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of a Sub-Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 4.5, assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.
- 4.6 Subject to sub-paragraph 4.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of a Sub-Fund shall be covered as follows:
- (a) in the case of financial derivative instruments transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
  - (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Sub-Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Sub-Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.
- 4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an "embedded financial derivative" is a financial derivative instrument that is embedded in another security.

## **5. Securities financing transactions**

- 5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.
- 5.2 A Sub-Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.
- 5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Sub-Fund.
- 5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction(s) or terminate the securities financing transaction(s) into which it has entered.

## 6. Collateral

In order to limit the exposure to each counterparty as set out in sub-paragraphs 4.4(c) and 5.2 of this Schedule 1, a Sub-Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

- (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
  - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
  - (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## 7. Money Market Funds

In the exercise of its investment powers in relation to a Sub-Fund which is a money market fund (“Money Market Fund”) authorised by the SFC under Chapter 8.2 of the Code, the Manager shall ensure that the core requirements as set out in paragraphs 1, 2, 4, 5, 6, 9, 10.1 and 10.2 of this Schedule 1 shall apply with the following modifications, exemptions or additional requirements:–

- (a) subject to the provisions set out below, a Money Market Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers’ acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC;
- (b) a Money Market Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein;
  - (i) “weighted average maturity” is a measure of the average length of time to maturity of all the underlying securities in a Money Market Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Money Market Fund to changing money market interest rates; and
  - (ii) “weighted average life” is the weighted average of the remaining life of each security held in a Money Market Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund’s holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available Net Asset Value of such Money Market Fund except:–

- (i) the value of a Money Market Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available Net Asset Value of such Money Market Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves; or
  - (ii) up to 30% of a Money Market Fund's latest available Net Asset Value may be invested in Government and other public securities of the same issue; or
  - (iii) in respect of any deposit of less than HK\$8,000,000 or its equivalent in the Base Currency of the relevant Money Market Fund where such Money Market Fund cannot otherwise diversify as a result of its size;
- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available Net Asset Value provided that:
- (i) the aforesaid limit will not apply in respect of cash deposit of less than HK\$8,000,000 or its equivalent in the Base Currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size;
  - (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (e) the value of a Money Market Fund's holding of money market funds that are authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC may not in aggregate exceed 10% of its latest available Net Asset Value;
- (f) the value of a Money Market Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available Net Asset Value;
- (g) subject to paragraphs 5 and 6 of this Schedule 1, a Money Market Fund may engage in sale and repurchase transactions, and reverse repurchase transactions in compliance with the following additional requirements:
- (i) the amount of cash received by the Money Market Fund under sale and repurchase transactions may not in aggregate exceed 10% of its latest available Net Asset Value;
  - (ii) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the latest available Net Asset Value of the Money Market Fund;
  - (iii) collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
  - (iv) the holding of collateral, together with other investments of the Money Market Fund, must not contravene the investment limitations and requirements set out in the other provisions of this paragraph 7 of this Schedule 1;
- (h) a Money Market Fund may use financial derivative instruments for hedging purposes only;

- (i) the currency risk of an Money Market Fund should be appropriately managed and any material currency risk that arises from investments of the Money Market Fund that are not denominated in its Base Currency shall be appropriately hedged;
- (j) a Money Market Fund must hold at least 7.5% of its latest available Net Asset Value in daily liquid assets and at least 15% of its latest available Net Asset Value in weekly liquid assets. For the purposes herein:
  - (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
  - (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities.
- (k) the Manager shall carry out periodic stress testing of the assets of a Money Market Fund in order to monitor the liquidity of the Money Market Fund.

## **8. Index Funds**

- 8.1 In the exercise of its investment powers in relation to a Sub-Fund the principal objective of which is to track, replicate or correspond to a financial index or benchmark (“Underlying Index”), with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the Underlying Index (“Index Fund”), the Manager shall ensure that the core requirements in paragraphs 1, 2, 4, 5, 6, 9.1, 10.1 and 10.3 of this Schedule 1 shall apply with the modifications or exceptions as set out in sub-paragraphs 8.2 to 8.4 below.
- 8.2 Notwithstanding sub-paragraph 1(a) of this Schedule 1, more than 10% of the latest available Net Asset Value of an Index Fund may be invested in constituent securities issued by a single entity provided that:–
  - (a) it is limited to any constituent securities that each accounts for more than 10% of the weighting of the Underlying Index; and
  - (b) the Index Fund’s holding of any such constituent securities may not exceed their respective weightings in the Underlying Index, except where weightings are exceeded as a result of changes in the composition of the Underlying Index and the excess is only transitional and temporary in nature,
- 8.3 Investment restrictions in sub-paragraphs 8.2(a) and (b) of this Schedule 1 do not apply if:
  - (a) an Index Fund adopts a representative sampling strategy which does not involve the full replication of the constituent securities of the Underlying Index in the exact weightings of such Underlying Index;
  - (b) the strategy is clearly disclosed in the relevant Appendix of the Index Fund;
  - (c) the excess of the weightings of the constituent securities held by the Index Fund over the weightings in the Underlying Index is caused by the implementation of the representative sampling strategy;

- (d) any excess weightings of the Index Fund's holdings over the weightings in the Underlying Index must be subject to a maximum limit reasonably determined by the Index Fund after consultation with the SFC. In determining this limit, the Index Fund must consider the characteristics of the underlying constituent securities, their weightings and the investment objectives of the Underlying Index and any other suitable factors;
  - (e) limits laid down for the Index Fund pursuant to sub-paragraph 8.3(d) of this Schedule 1 must be disclosed in the relevant Appendix of the Index Fund; and
  - (f) disclosure must be made in the Index Fund's interim and annual financial reports as to whether the limits imposed for the Index Fund itself pursuant to sub-paragraph 8.3(d) of this Schedule 1 have been complied with in full.
- 8.4 Subject to approval of the SFC, the investment restrictions in sub-paragraphs 1(b) and (c) of this Schedule 1 may be modified and the 30% limit in sub-paragraph 1(f) of this Schedule 1 may be exceeded, and an Index Fund may invest all of its assets in Government and other public securities in any number of different issues despite sub-paragraph 1(f) of this Schedule 1.

## **9. Borrowing and Leverage**

The expected maximum level of leverage of each Sub-Fund is as follows:

### ***Cash borrowing***

- 9.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 9.1.
- 9.2 Notwithstanding sub-paragraph 9.1 of this Schedule 1, a Money Market Fund may borrow only on a temporary basis for the purposes of meeting redemption requests or defraying operating expenses.

### ***Leverage from the use of financial derivative instruments***

- 9.3 A Sub-Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the relevant Appendix.
- 9.4 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 9.5 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

## 10. Name of Sub-Fund

- 10.1 If the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.
- 10.2 The name of a Money Market Fund must not appear to draw a parallel between the Money Market Fund and the placement of cash on deposit.
- 10.3 The name of an Index Fund must reflect the nature of an index fund.

### APPENDIX A

#### GUOTAI JUNAN GREATER CHINA GROWTH FUND

#### DEFINITIONS

Save as provided below, the defined terms used in the Explanatory Memorandum have the same meaning in this Appendix A. In this Appendix A, the following expressions have the following meanings:–

<b>“Accounting Period”</b>	a 12-month period ending on 31 December of each calendar year, unless the Manager determines otherwise with the approval of the Trustee
<b>“Base Currency”</b>	Hong Kong Dollar or HK\$ or HKD
<b>“Class A Units”</b>	Units designated as Class A Units and having the specific features as set out more particularly in this Appendix A
<b>“Class M Units”</b>	Units designated as Class M Units which will be available for investment to investors in the PRC only
<b>“Dealing Day”</b>	each Hong Kong Business Day
<b>“Dealing Deadline”</b>	4:00 p.m. (Hong Kong time) on the relevant Dealing Day
<b>“Greater China”</b>	includes the PRC, the Special Administrative Regions of Hong Kong, Macau and Taiwan
<b>“PRC”</b>	the People’s Republic of China
<b>“RMB” or “Renminbi”</b>	renminbi, the lawful currency of the PRC
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“Sub-Fund”</b>	Guotai Junan Greater China Growth Fund
<b>“Unit”</b>	a unit in the Sub-Fund
<b>“Valuation Day”</b>	each Dealing Day

#### INTRODUCTION

This Appendix A relates solely to Guotai Junan Greater China Growth Fund.

## INVESTMENT CONSIDERATIONS

### Investment Objective

The Guotai Junan Greater China Growth Fund seeks to provide investors with medium to long term capital appreciation over time.

### Investment Strategy

The Manager intends to make investments primarily through a portfolio consisting of listed securities of companies that derive or are expected to derive a significant portion of their revenues from goods produced or sold, investments made or services performed in Greater China, which includes the People's Republic of China (PRC), the Special Administrative Regions of Hong Kong and Macau and Taiwan. The Manager believes that the value of these companies would increase through benefiting from the economic growth of the Greater China region.

The Sub-Fund will be managed based on a value-oriented investment strategy, which means that the Manager will invest in assets which are considered to be undervalued, compared to their intrinsic value.

### Investment Portfolio

The investment portfolio of the Sub-Fund may include shares listed in the PRC, Hong Kong, Macau, Taiwan or elsewhere (please refer to the table below) of companies whose majority of their assets are situated in, or the majority of their incomes are derived from operation, investment made or services performed in Greater China. In addition, the Sub-Fund may invest in the above investment companies through Global Depository Receipts, American Depository Receipts, Chinese Depository Receipts for exposure and may invest in warrants, options or equity index futures for hedging purposes, subject to the investment restrictions set out in Schedule 1 to this Explanatory Memorandum. The Sub-Fund may have limited exposure to investments denominated in RMB.

Listed Shares/ Investment	Nature	Sub-Fund's percentage allocation
A Shares	<ul style="list-style-type: none"><li>quoted in Renminbi</li><li>listed on the Shanghai Securities Exchange and Shenzhen Stock Exchange</li></ul>	0% – 20% <sup>#</sup>
HK Shares, H shares or Red Chips	<ul style="list-style-type: none"><li>quoted in Hong Kong Dollars</li><li>listed on the Hong Kong Stock Exchange</li></ul>	0% – 100%
Taiwan Shares & Other China Related Stocks	<ul style="list-style-type: none"><li>quoted in Taiwan Dollars</li><li>listed on the Taiwan Stock Exchange</li><li>quoted in non Hong Kong Dollars</li><li>listed on other Exchanges</li></ul>	0% – 50%
Depository Receipts	Global Depository Receipts, American Depository Receipts, Chinese Depository Receipts	0% – 15%

\* The Manager has absolute discretion to vary the percentage allocation of assets in the Sub-Fund to be invested into different types of listed shares.

<sup>#</sup> The Sub-Fund currently does not intend to invest in A Shares.

### **Access to A Share Market**

Under prevailing regulations in the PRC, foreign investors can invest in the A Share market as Qualified Foreign Institutional Investors (“QFII”). Renminbi Qualified Foreign Institutional Investors (“RQFII”) or invest in certain eligible A Shares listed on the Shanghai Stock Exchange through Shanghai-Hong Kong Stock Connect. Currently, the Manager has QFII status in the PRC. Notwithstanding the availability of Shanghai-Hong Kong Stock Connect and the Manager’s QFII status, the Sub-Fund currently does not intend to invest in A Shares. If the Sub-Fund will invest in A Shares, the Manager will have to obtain the SFC’s approval and provide one month’s prior notification to investors.

### **Geographical Concentration**

The Sub-Fund will focus primarily on investment into the Greater China region and at least 70% of the Sub-Fund’s non-cash assets will be invested into Greater China-related financial instruments and companies. However, this will not preclude the Sub-Fund from investing in other markets where opportunities can be identified.

The Manager has no intention to prescribe limits in respect of the Sub-Fund’s exposure to any sector or industry. The Sub-Fund may invest in securities issued by companies of any market size and in such proportions as the Manager deems appropriate.

Subject to the investment restrictions set out in Schedule 1 to this Explanatory Memorandum, the Manager may apply any investment strategy (including hedging, leveraging, and other strategies) it deems appropriate under the prevailing economic and market conditions in order to achieve the investment objective and strategy of the Sub-Fund.

In addition, the Manager may hold cash, deposits, short-term papers such as treasury bills, certificates of deposit, bankers’ acceptances, short-term commercial papers and other fixed income instruments for the account of the Sub-Fund. In times of extreme volatility of the markets or during severe adverse market conditions, the Manager may hold temporarily up to 100% of the Sub-Fund’s Net Asset Value in cash or cash equivalents, or invest in short-term money market instruments to preserve the value of the assets in the investment portfolio of the Sub-Fund.

The value of Units may fall as well as rise, given that the Sub-Fund invests in a basket of underlying securities.

### **Use of Derivatives**

The Sub-Fund may acquire financial derivative instruments for hedging purposes only. The Sub-Fund’s net derivative exposure may be up to 50% of its latest available Net Asset Value.

## **EXPENSES AND CHARGES**

### **Subscription Fee**

The Manager may charge Unitholders a subscription fee of up to 5% of the total value of the Units subscribed for by the investor or Unitholder. Subject to the maximum level of 5%, the Manager may change the level of subscription fee from time to time on 3 months’ prior notice to Unitholders.

The current Subscription Fee is 5% of the total value of the Class A Units subscribed for by the investor or Unitholder.

The Manager may share its fees with any persons who distribute Units or otherwise procure subscriptions to the Sub-Fund.

### **Redemption Fee**

The Manager may charge redeeming Unitholders a redemption fee of up to 3% of the Net Asset Value calculated as at the most recent Valuation Day upon receipt of the redemption request. Subject to the maximum level of 3%, the Manager may change the level of redemption fee from time to time with 1 month’s prior notice to Unitholders.

The following redemption fee will be imposed on the Unitholders who make subscriptions on or after 1 April 2010:

<b>Holding period</b>	<b>Redemption Fee</b>
Less than 6 months	1.00% of redeemed value
6 months or exceeding 6 months but less than 12 months	0.75% of redeemed value
12 months or exceeding 12 months but less than 18 months	0.50% of redeemed value
18 months or exceeding 18 months but less than 24 months	0.25% of redeemed value
24 months or exceeding 24 months	waived

The Manager shall have an absolute discretion to waive the redemption fee as set out in this section.

### **Conversion Fee**

The Manager may charge a Unitholder wishing to convert its Units into a new Class of the same Sub-Fund or into Units of another Sub-Fund a conversion fee of up to 3% of the issue price per Unit of the new Sub-Fund. Subject to the maximum level of 3%, the Manager may change the level of conversion fee from time to time. No redemption fees and subscription fees will be payable by a Unitholder with respect to converting Units from this Sub-Fund to another Sub-Fund.

### **Management Fee**

The Manager will be paid a management fee by the Sub-Fund equal to 1.5% per annum of the Net Asset Value calculated on a daily basis and accrued on each Valuation Day and payable monthly in arrears in relation to the relevant Class of Units, namely Class A Units of the Sub-Fund.

### **Trustee Fee**

The Trustee is entitled to receive from the Sub-Fund, an annual fee at a sliding scale with a maximum rate of 0.14% per annum of the Net Asset Value of the Sub-Fund as at the relevant Valuation Point subject to a minimum annual fee of HK\$412,000, in relation to the Sub-Fund. This fee will be calculated and accrued on each Valuation Day and be paid monthly in arrears. The Trustee fee described above represents the current and maximum fee rates applicable to the Sub-Fund and does not include the fees payable for the services of any sub-custodians appointed by the Trustee.

In addition, the Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager.

### **Registrar Fee**

The Trustee will receive a fee for services in its capacity as Registrar which will be fixed at HK\$39,000 per annum initially. Such fee may vary depending on the number of Unitholders in the Sub-Fund and will be calculated and paid quarterly in arrears to the Trustee. There is no maximum amount applicable to the Registrar Fees.

Further, the Trustee may appoint sub-custodians to safe-keep the assets of the Sub-Fund outside of the PRC. All sub-custodian fees will be charged to the relevant Sub-Fund and are calculated and paid monthly in arrears, in addition to any fees and expenses payable to the Trustee. The sub-custodian is entitled to recover all out-of-pocket expenses, including telephone, photocopying and courier fees incurred in the performance of its duties in connection with the relevant Sub-Fund.

The Trustee Fee and Registrar Fee may be varied by agreement in writing between the Manager and the Trustee. The Manager will give Unitholders at least three months prior notice with respect to any proposal to increase the Trustee Fee up to the maximum level as set out in the Trust Deed.

The Trust Deed provides that sanction of Unitholders by means of an Extraordinary Resolution is required should there be any increase of (i) the management fee from the current level beyond the maximum level stated in the Trust Deed and/or (ii) the trustee fee beyond the maximum level stated in the Trust Deed. Investors should note that at present there is no intention to increase these fees.

### SUBSCRIPTION DETAILS

Minimum Subscription Amount	Class A Units: HK\$10,000
Minimum Subsequent Subscription Amount	Class A Units: HK\$10,000
Minimum Holding Amount	Class A Units: HK\$10,000

The Manager intends to create a new Class of Units, namely Class M Units, which are available to investors in the PRC only for subscription as from the date on or after which the Sub-Fund obtains the approval of and is registered with the CSRC for distribution in the PRC under the Mainland-Hong Kong Mutual Recognition of Funds initiative and will not be offered in Hong Kong. Details relating to Class M Units will be outlined in the supplementary offering document of the Fund distributed in the PRC.

Subject as otherwise provided, Units in the Sub-Fund will be issued on the relevant Dealing Day in respect of applications. Cleared application monies must be received by the Trustee prior to 4:00p.m. (Hong Kong time) on the relevant Subscription Monies Deadline. Investors should confirm the relevant cut-off times with their distributor.

For details regarding the procedure for the subscriptions, please refer to the main body of the Explanatory Memorandum under the section headed “**Purchase of Units**”.

### SUBSCRIPTION OF UNITS

The Manager has the exclusive right to offer and issue Units and has complete discretion to accept or reject any subscription for Units. Applications for subscription of Units may be made on each Dealing Day.

Written applications for subscription of Units must be forwarded to, and received by, the Trustee (via distributors) by no later than the Dealing Deadline. Applications received after this deadline will be processed for subscription on the next Dealing Day.

The Subscription Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the application form is received by the Trustee by the number of Units then in issue, rounded to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may from time to time be determine after consulting the Trustee.

The subscription amount payable for the number of Unit subscribed by a subscriber, in respect of any Dealing Day, is due and must be cleared no later than the Subscription Monies Deadline.

#### Minimum Subscription

The minimum subscription and minimum subsequent subscription per investor for each Class of Units are set out under the section headed “**Subscription Details**” above.

The Manager has absolute discretion to determine the number of applications for Units that will be accepted and whether or not to accept applications from any subscriber for less than the Minimum Subscription.

The Trustee will send contract note confirming to each subscriber no later than 2 Business Days after the availability of the price per Unit, as is applicable, and as to whether the subscriber’s application for Unit has been successful, either in whole or in part.

## Confirmation of Subscription

If the relevant application form and/or subscription monies is/are not received by the times stated above, the application will be held over to the next Dealing Day and Units will be issued at the relevant Subscription Price on that Dealing Day.

The Manager reserves the right to reject any application in whole or in part at its absolute discretion, in which event the amount paid on application or the balance thereof (as the case may be) will be returned (without interest) as soon as practicable in the same currency paid on application at the risk and cost of the applicant.

Applications for Units will not be dealt with and Units will not be issued until receipt of the application form and other relevant documents by the Trustee (via distributors) no later than 4:00 p.m. (Hong Kong time) on the relevant Dealing Day. Shares are deemed to be issued on the relevant Dealing Day after receipt of the application form and other relevant documents on such Dealing Day. If the subscription monies are not cleared on or before the Subscription Monies Deadline in respect of such Dealing Day, the Trustee reserves the right to cancel the issued Units.

Investors should confirm the relevant cut-off times with their distributor. Application forms and cleared monies received after their respective deadlines will be deemed to have been received on the next Business Day and will be dealt with accordingly, unless specifically approved by the Manager.

## REDEMPTION OF UNITS

The procedures regarding the redemption of Units are described in the main part of this Explanatory Memorandum under "**Redemption of Units**".

In order to be dealt with on a particular Dealing Day, a redemption request must be received by the Trustee before the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor. Redemption requests received after such time will be deemed to have been received on the next Business Day and will be dealt with accordingly. Unless the Manager in any particular case or generally otherwise agrees, a Unitholder shall not be entitled to redeem Units in amounts of less than the following:

Minimum Redemption: Class A Units: HK\$10,000

The Redemption Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the Sub-Fund as at the Valuation Point in respect of the Dealing Day on which the redemption request is received by the Trustee by the number of Units in respect of such Sub-Fund then in issue, rounded to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may determine from time to time after consulting the Trustee.

Unitholders may redeem their Units on any Dealing Day, in whole or in part provided that the Manager may refuse a request for a partial redemption which would result in the Unitholder's falling below Minimum Holding in relation to the relevant Class, namely Class A Units, and in such a situation, the Manager may require the Unitholder to redeem his holdings in full. The Trustee will send a contract note to each redeeming Unitholder no later than 2 Business Days after the availability of the price per Unit.

Redemption proceeds will normally be paid in the base currency of the Sub-Fund (unless the Unitholder requests another currency, in which case, the Unitholder will bear any exchange costs) within a period of maximum 7 Business Days from the day a properly documented original request for redemption of Units is accepted by the Trustee and the Manager has not exercised any of its powers described in the section headed "**Suspension of Calculation of Net Asset Value**". In any event, redemption proceeds will be paid no later than one calendar month from the relevant Dealing Day. Any redemption money unclaimed after six years from the date of payment shall become part of the assets of the Sub-Fund.

All bank charges and costs incurred in the payment of the redemption proceeds to the Unitholder will be borne by the relevant Unitholder and deducted from the redemption proceeds. Any risks arising from delay in clearance of funds by banks will be borne by the relevant Unitholder.

No payments shall be made to a person other than the registered Unitholders.

## DISTRIBUTION

The Manager has the sole discretion to determine whether a distribution will be made and the rate and frequency of distribution to be made. The Manager may at its discretion make a cash distribution in Hong Kong Dollars on a semi-annual basis (i.e. June and December of each year). The distributions are not guaranteed by the Manager. If there is a distribution, the Manager will not guarantee the amount of the distribution.

The Manager may, at its discretion, pay distributions out of capital of the Sub-Fund. The Manager may also, at its discretion, pay distributions out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund may effectively pay distributions out of capital. Payment of a distribution out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of a distribution out of capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit.

Unless Unitholders have indicated otherwise to the Manager (either on the application form for subscription of Units or through such other means as the Manager may determine), any distributions payable will automatically be reinvested for the subscription of additional Units in the Sub-Fund (no subscription fee will be charged) on the date on which the distribution is paid ("**Distribution Date**") at the prevailing Subscription Price applicable on the relevant Distribution Date.

Unitholders may indicate (either on the application form for subscription or through such other means as the Manager may determine) that they wish to receive a cash distribution if a distribution is declared by the Manager, provided that distributions will automatically be reinvested and not paid in cash if the amount of the distribution for the relevant Unitholder amounts to less than HK\$1,000 (or its equivalent in the class currency of the relevant Class of Units) ("**Minimum Distribution Amount**") or such other amount determined by the Manager from time to time on 1 month's notice to Unitholders. If Unitholders do not request cash distributions or if the amount of the distribution payable to the relevant Unitholder is less than the Minimum Distribution Amount, the distribution to which the Unitholder is entitled will be reinvested in the Sub-Fund and will be treated as a request for subscription of additional Units to be issued at the prevailing Subscription Price applicable on the relevant Distribution Date.

The compositions of the distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital for the last rolling 12-month period starting from the date on which payment of dividends is being made out of or effectively out of capital) are available from the Manager on request and on the website <http://www.gtja.com.hk> (this website has not been reviewed by the SFC). The Manager may amend the policy regarding paying a distribution out of capital or effectively out of capital subject to the SFC's prior approval and by giving not less than 1 month's advance notice to Unitholders.

**Investors should note that the payment of distributions will have the effect of reducing the Net Asset Value of the Sub-Fund.**

## RISK FACTORS

Investment in the Sub-Fund involves risks. Please refer to the relevant risks under the section headed "Risk Factors" in the main part of the Explanatory Memorandum and the following risk factors in relation to the investments in the Sub-Fund.

The Sub-Fund may be affected by the following risks, among others:

**Principal Risk Factor(s):** Investors should note that investments in the Sub-Fund are exposed to the financial and market risks that accompany investments in equities and these have been set out in greater detail below. While equities may offer the potential for greater long-term growth than most debt securities, equities generally have higher volatility.

### **Investment Risk**

The Sub-Fund's investment portfolio may fall in value due to any of the key risk factors listed below and therefore your investment in the Sub-Fund may suffer losses. There is no guarantee of the repayment of principal.

### **Equity Market Risk**

The Sub-Fund's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

### **Risk associated with small-capitalisation/mid-capitalisation companies**

The stock of small-capitalisation/mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

### **PRC Market Risk**

Investing in the securities markets in the PRC is subject to the risks of investing in emerging markets generally and the risks specific to the China market in particular.

Investors should be aware that for more than 50 years, the Chinese government has adopted a planned economic system. Since 1978, the Chinese government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Chinese economy. Such reforms have resulted in significant economic growth and social progress.

Many of the economic reforms in the PRC are unprecedented or experimental and are subject to adjustment and modification, and such adjustment and modification may not always have a positive effect on foreign investment in joint stock limited companies in the PRC or in H shares.

The national regulatory and legal framework for capital markets and joint stock companies in the PRC is not well developed when compared with those of developed countries.

Companies in the PRC are required to follow the Chinese accounting standards and practice which, to a certain extent, follow international accounting standards. However, there may be significant differences between financial statements prepared by accountants following the Chinese accounting standards and practice and those prepared in accordance with international accounting standards.

Under the prevailing tax policy in the PRC, there are certain tax incentives available to foreign investment. There can be no assurance, however, that the aforesaid tax incentives will not be abolished in the future.

Investments in the PRC will be sensitive to any significant change in political, social or economic policy in the PRC. Such sensitivity may, for the reasons specified above, adversely affect the capital growth and thus the performance of these investments.

The PRC government's control of currency conversion and future movements in exchange rates may adversely affect the operations and financial results of the companies invested in by the Sub-Fund.

## **Investment in Publicly Traded Securities**

Some of the markets in which the Sub-Fund may invest are emerging markets, and as a consequence tend to be substantially smaller, less liquid, less regulated and more volatile than major securities markets, such as those in more developed economies. The limited liquidity of securities in some emerging countries could also affect the Fund's ability to acquire or dispose of securities at the price and at the time it wishes to do so.

## **Risk Relating to Distributions**

Investors should be aware that the Manager may make distributions from both the capital or the income of the Sub-Fund. If the Manager determines to make a distribution from the capital (or effectively out of capital) of the Sub-Fund investors should be aware that any distributions made from the capital (or effectively out of capital) of the Sub-Fund amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment and may result in an immediate reduction in the Net Asset Value of the Sub-Fund.

Investors should also understand that any declaration of a distribution may not indicate whether the Sub-Fund has made profit (whether of a capital or income nature).

## **Political and/or Regulatory Risks**

The value of the Sub-Fund's investments may be affected by uncertainties such as international political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Furthermore, the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made may not provide the same degree of investor protection or information to investors as would generally apply in major securities markets. Foreign ownership restrictions in some markets may mean that corporate actions entitlements in relation to any collective investment schemes or other investments the Fund is invested into may not always be secured or may be restricted.

## **Portfolio Management Risk**

The Manager may engage in various portfolio strategies on behalf of the Sub-Fund by the use of futures and options for hedging purposes only. Due to the nature of futures, cash to meet initial and future margin deposits may be held by a broker with whom the Sub-Fund has an open position. On execution of the option the Sub-Fund may pay a premium to a counterparty. In the event of bankruptcy of the counterparty the option premium may be lost in addition to any unrealised gains where the contract is "in the money".

## **Foreign Exchange/Currency Risk**

The Sub-Fund may invest its assets in securities denominated in a wide range of currencies, some of which may be denominated in currencies other than the Base Currency and/or may not be freely convertible. The Net Asset Value of the investments of the Sub-Fund as expressed in HKD will fluctuate in accordance with the changes in the foreign exchange rate between the HKD and the currencies in which the Sub-Fund's investments are denominated. The Sub-Fund may therefore be exposed to a foreign exchange/currency risk. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and HKD and by changes in exchange rate controls. It may not be possible or practicable to hedge against the consequent foreign exchange/currency risk exposure.

## **Risks associated with investments/exposure to RMB currency**

The Sub-Fund may have limited exposure to investments denominated in RMB. RMB is currently not freely convertible and is subject to exchange controls and restrictions. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

## **Premium Risk**

Where the Sub-Fund acquires or values securities in the over-the-counter market, there is no guarantee that the Sub-Fund will be able to realise such securities at a premium due to the nature of over-the-counter market. Subject to the interests of investors and/or the Sub-Fund, the Manager shall make reasonable efforts to reduce the Sub-Fund's exposure to such premium risk.

## **Counterparty and Settlement Considerations**

The Sub-Fund will be exposed to credit risk on the counterparties with which it trades particularly in relation to options, futures, contracts and other derivative financial instruments that are not traded on a recognised market. Such instruments are not afforded the same protections as may apply to participants trading futures or options on organised exchanges, such as the performance guarantee of an exchange clearing house. The Sub-Fund will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Sub-Fund trades, which could result in substantial losses to the Sub-Fund.

The Sub-Fund will also be exposed to a credit risk on parties with whom it trades securities, and may also bear the risk of settlement default, in particular in relation to debt securities such as bonds, notes and similar debt obligations or instruments. Investors should also note that settlement mechanisms in emerging markets are generally less developed and reliable than those in more developed countries and that this therefore increases the risk of settlement default, which could result in substantial losses for the Sub-Fund in respect to investments in emerging markets. Investors should also note that the securities of companies domiciled in emerging markets are less liquid and more volatile than more developed stock markets and this may result in fluctuations in the price of the Units.

## **Credit Analysis and Credit Risk**

The investment strategy to be utilised by the Manager may require accurate and detailed credit analysis of issuers. There can be no assurance that the Manager's analysis will be accurate or complete. The Sub-Fund may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in its portfolio.

## **Emerging Markets Risk**

The Sub-Fund may invest in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk, regulatory risk and the likelihood of a high degree of volatility. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital.

## **Price Volatility**

The value of the Sub-Fund changes as the prices of its investments fluctuate and go up and down resulting from high market volatility and potential settlement difficulties. Equity securities face market, issuer and other risks, and their values may go up or down, sometimes rapidly and unpredictably. Market risk is the risk that securities may decline in value due to factors affecting securities market generally or particular industries. Issuer risk is the risk that the value of a security may decline for reasons relating to the issuer, such as changes in the financial condition of the issuer. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility.

## **Market Trend**

From time to time, the stock market may not favour the securities in which the Sub-Fund invests. Rather, the market could favour stocks in industries to which the Sub-Fund is not exposed, or may not favour equities at all.

## **Concentration Risk**

The Sub-Fund's investments are concentrated in the Greater China region. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

The value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Greater China region.

## **Risk associated with Derivative Contracts**

The Sub-Fund may use derivative contracts for hedging purposes. Risks associated with derivative contracts include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a derivative contract can result in a loss significantly greater than the amount invested in the derivative contract by the Sub-Fund. Exposure to derivative contracts may lead to a high risk of significant loss by the Sub-Fund.

While the hedging strategy adopted by the Manager is intended to protect investors against a decline in the value of the Sub-Fund's assets, there is no guarantee that the hedging strategy will be effective and investors may still be subject to the risk of suffering losses.

## **Liquidity Risk**

Liquidity relates to the ability of the Manager to sell an investment in a timely manner at a price around the prevailing market rates. The market for some securities in which the Sub-Fund may invest may be relatively illiquid. The liquidity of the markets in which the Sub-Fund may invest has the potential to fluctuate substantially over time. The market for relatively illiquid securities tends to be more volatile than the market for more liquid securities. Investment of the Sub-Fund's assets in relatively illiquid securities may restrict the ability of the Manager to dispose of those investments at a price and time that it wishes to do so. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market in such transactions, and the bid and offer prices will be established solely by dealers in these transactions.

If sizeable redemption requests are received, the Sub-Fund may need to liquidate investments at a substantial discount in order to satisfy such requests. Therefore, absence of liquidity may cause loss to the value of its investments.

The Sub-Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by factors such as adverse publicity and investor perceptions.

## **Custody Risk**

Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where a Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Sub-Fund may even be unable to recover all of its assets. The costs borne by the Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.

***Potential investors should consider the above risks before investing into the Sub-Fund. If investors have any doubt as to whether or not the Sub-Fund is suitable for them, they should consult their financial adviser, banker, accountant or lawyer.***

## **GENERAL INFORMATION**

Investors may obtain publication of the Sub-Fund's offering document, circulars, notices, announcements, financial reports and the latest available offer and redemption prices or net asset value in the Assets Management section of the Manager's website: <http://www.gtja.com.hk>. The contents of the above website have not been reviewed by the SFC. Investors should exercise caution accordingly.

