

April 2022



**TEMPLETON CHINA OPPORTUNITIES FUND**  
A SUB-FUND OF FRANKLIN TEMPLETON FUND SERIES

**TEMPLETON CHINA OPPORTUNITIES FUND**

**a Sub-Fund of**

**FRANKLIN TEMPLETON FUND SERIES**

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**EXPLANATORY MEMORANDUM**

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April 2022

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## **IMPORTANT INFORMATION FOR INVESTORS**

This Explanatory Memorandum and the Product Key Facts Statement (the “Offering Document”) contain information in relation to Franklin Templeton Fund Series (the “Umbrella Fund”), a Hong Kong-domiciled umbrella fund, and Templeton China Opportunities Fund (the “Fund”), a sub-fund of the Umbrella Fund.

The Manager and its directors accept full responsibility for the accuracy of the information contained in the Offering Document as being accurate at the date of its publication 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. However, neither the delivery of the Offering Document nor the offer or issue of units in the Fund (“Units”) shall under any circumstances constitute a representation that the information contained in the Offering Document is correct as of any time subsequent to the publication date. The Offering Document may be updated from time to time.

Distribution of the Offering Document should be accompanied by a copy of the latest annual report and accounts of the Fund (if available) and any subsequent interim report. The financial year end of the Fund is 31 December. Units are offered on the basis only of the information contained in the Offering Document and (where applicable) the above mentioned annual reports and accounts and interim reports. Any information given or representations made by any dealer, distributor, salesman or other person and (in either case) not contained in the Offering Document should be regarded as unauthorized and accordingly must not be relied upon.

The Umbrella Fund and the Fund have been authorized by the SFC in Hong Kong. SFC authorization is not a recommendation or endorsement of the Umbrella Fund and the Fund nor does it guarantee the commercial merits of the Umbrella Fund and the Fund or their performance. It does not mean the Umbrella Fund and the Fund are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors. The Fund’s portfolio is subject to market fluctuations and exchange rate fluctuations and to the risks inherent in all investments. Therefore, the value of the Fund may go down as well as up.

No action has been taken to permit an offering of Units or the distribution of the Offering Document in any jurisdiction except where such offering or distribution complies with the applicable laws and regulations of such jurisdiction. Accordingly, the Offering Document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which an offer or solicitation is not authorized.

Units in the Fund have not been and will not be registered in the United States of America under the Investment Company Act of 1940. Units in the Fund have also not been registered under the United States Securities Act of 1933 and 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 to or for the benefit of nationals or residents thereof unless pursuant to an exemption from registration requirements available under the US law, any applicable statute, rule or interpretation. No application may be made by or on behalf of any US Person or any resident, corporation or partnership of Canada. The Manager reserves the right to reject any

application or ask for additional information and documentation as may be required to comply with any applicable laws and regulations. Failure to provide documentation may result in delay in investment or the withholding of redemption proceeds.

## INTRODUCTION

### FRANKLIN TEMPLETON

Franklin Resources, Inc. [NYSE:BEN] is a global investment management organization with subsidiaries operating as Franklin Templeton and serving clients in over 155 countries. Franklin Templeton's mission is to help clients achieve better outcomes through investment management expertise, wealth management and technology solutions. Through its specialist investment managers, the organization brings extensive capabilities in equity, fixed income, multi-asset solutions and alternatives. With offices in more than 30 countries and approximately 1,300 investment professionals, the California-based company has more than 70 years of investment experience and approximately USD 1.5 trillion in assets under management as of 31 December 2021. For more information, please visit [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*

### IMPORTANT NUMBERS AND CONTACT DETAILS

#### Manager Information

<b>Investor Hotline</b>	:	<b>Tel +852 2805-0111</b>
<b>Investor Service &amp; Information</b>	:	<b>Tel +852 2877-7733</b>
<b>Website of the Manager</b>	:	<a href="http://www.franklintempleton.com.hk">http://www.franklintempleton.com.hk</a> *
<b>Email Address of the Manager</b>	:	<a href="mailto:fti-hk@templeton.com">fti-hk@templeton.com</a>

#### Registrar Information

<b>Fund Dealing Fax Number</b>	:	<b>Fax +852 3141-4182</b>
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**Your attention is drawn to the statements under “Important Information for Investors” on the preceding pages. If you are in any doubt about the contents of the Offering Document, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other financial adviser.**

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\* This website has not been reviewed by the SFC.

## DEFINITIONS

- “ADRs”** means American depositary receipts, which are negotiable instruments evidencing ownership of shares in a non-US company issued by a depositary bank in the US and traded in USD in the US securities market.
- “A-Shares”** means shares denominated in RMB, issued by companies incorporated in China and listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange in the PRC.
- “B-Shares”** means shares issued by companies incorporated in China and listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange in the PRC, which are traded in foreign currencies.
- “Business Day”** means a full day (except Saturdays, Sundays and public holidays in Hong Kong or the PRC) on which banks are open for business in both Hong Kong and the PRC, or such other day as the Trustee and the Manager may agree upon from time to time; provided that where, as a result of a number 8 typhoon signal, black rain storm warning or other similar event, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day, unless the Trustee and the Manager determine otherwise.
- “China”, “Mainland China” or “PRC”** means the People’s Republic of China (excluding the Hong Kong and Macau Special Administrative Regions and Taiwan) and the term “Chinese” shall be construed accordingly.
- “China A Shares Fund”** means Templeton China A Shares Fund, a Hong Kong-domiciled fund established as a unit trust and governed by the laws of Hong Kong. The Fund invests into the China A Shares Fund, which has been authorized\* as a collective investment scheme in the form of a unit trust by the SFC under Section 104 of the SFO and the Code. It is not the current intention to market the China A Shares Fund to retail investors in Hong Kong or elsewhere.

\* SFC authorization is not a recommendation or endorsement of the China A Shares Fund nor does it guarantee the commercial merits of the China A Shares Fund or its performance. It does not mean the China A Shares Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

<b>“CITL”</b>	means the Corporate Income Tax Law of the PRC.
<b>“Code”</b>	means the Code on Unit Trusts and Mutual Funds.
<b>“CSRC”</b>	means the China Securities Regulatory Commission.
<b>“Dealing Day”</b>	means a Business Day which is also a Valuation Day, or such other day as the Trustee and the Manager may agree upon from time to time.
<b>“Dealing Deadline”</b>	means 4:00 p.m. (Hong Kong time), or such other time as the Manager may determine from time to time on each Dealing Day.
<b>“DTA”</b>	means Double Taxation Agreement.
<b>“First Dealing Day”</b>	means 3 December 2012, or such other day as the Manager may determine at its absolute discretion, as the first Dealing Day.
<b>“Fund”</b>	means Templeton China Opportunities Fund, a sub-fund of Franklin Templeton Fund Series.
<b>“GDRs”</b>	means global depositary receipts, which are negotiable instruments evidencing ownership of shares in a non-US company issued by a depositary bank in international markets (e.g. in Europe) and made generally available to institutional investors.
<b>“Government and other public securities”</b>	means 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>“H-Shares”</b>	means shares denominated in Hong Kong dollars issued by companies incorporated in PRC and listed and traded on the Stock Exchange of Hong Kong.
<b>“HKD” or “HK Dollars”</b>	means the lawful currency of Hong Kong.
<b>“Investment Manager”</b>	means Templeton Asset Management Ltd., a company incorporated with limited liability in Singapore with a branch in Hong Kong and holding a Type 9 (Asset Management) licence issued by the SFC.
<b>“Manager”</b>	means Franklin Templeton Investments (Asia) Limited, a company incorporated with limited liability in Hong Kong holding Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) licences issued by the SFC.
<b>“PRC Broker”</b>	means, in relation to the China A Shares Fund, a Mainland China broker selected by the QFI Holder.
<b>“PRC Securities”</b>	means A-Shares, B-Shares and shares issued by PRC resident enterprises on overseas stock exchanges (e.g. H-Shares).
<b>“QFI”</b>	means a qualified foreign investor (including qualified foreign institutional investors (“QFII”) and Renminbi qualified foreign institutional investors (“RQFII”)) approved pursuant to the relevant Chinese laws and regulations, as may be promulgated and/or amended from time to time.
<b>“QFI Holder”</b>	means, in relation to the China A Shares Fund, Templeton Investment Counsel, LLC, a company incorporated with limited liability in the US and registered as an investment adviser with the US Securities and Exchange Commission.
<b>“QFI Local Custodian”</b>	means, in relation to the China A Shares Fund, the Mainland China custodian appointed by the QFI Holder.

**“Qualified Exchange Traded Funds”**

means exchange traded funds that are:

- (a) authorised by the SFC under 8.6 or 8.10 of the Code; or
- (b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (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.

**“Recognised Exchange”**

means a stock exchange, over-the-counter market or other organised securities market which is open to the public and on which securities are regularly traded and which is approved by the Manager.

**“Red Chips”**

means the shares of companies incorporated outside of the PRC, generating a predominant proportion of their sales and/or profits from the PRC (by having its base in PRC) and listed on the Hong Kong Stock Exchange and the term “Red Chip Company” shall be construed accordingly.

**“Registrar”**

means Citicorp Financial Services Limited, a company incorporated with limited liability in Hong Kong.

**“REITs”**

means real estate investment trusts.

**“reverse repurchase transactions”**

means transactions whereby the 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.

**“RMB”**

means Renminbi, the lawful currency of the PRC.

<b>“SAFE”</b>	means the State Administration of Foreign Exchange of the PRC.
<b>“sale and repurchase transactions”</b>	means transactions whereby the 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>“SAT”</b>	means the PRC State Administration of Taxation.
<b>“securities financing transactions”</b>	means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.
<b>“securities lending transactions”</b>	means transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee.
<b>“SFC”</b>	means the Securities and Futures Commission of Hong Kong.
<b>“SFO”</b>	means the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong).
<b>“substantial financial institution”</b>	means an authorised 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 HKD 2 billion or its equivalent in foreign currency.
<b>“Trust”</b>	means Franklin Templeton Fund Series, a unit trust established as an umbrella fund and governed by the laws of Hong Kong.
<b>“Trust Deed”</b>	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 1 November 2012 as amended by supplemental deeds from time to time.
<b>“Trustee”</b>	means Cititrust Limited, a company incorporated in Hong Kong and registered as a trust company under the Trustee Ordinance (Cap. 29 of the laws of Hong Kong).

<b>“Umbrella Fund”</b>	means the Trust.
<b>“Unit”</b>	means one undivided share in the Fund.
<b>“Unitholder”</b>	means the person for the time being entered on the register listing the holders of units in the Fund as the holder of a Unit including (where the context so admits) persons jointly so registered.
<b>“US”</b>	means the United States.
<b>“USD” or “US Dollars”</b>	means the lawful currency of the United States.
<b>“US Person”</b>	means any person that is a United States person within the meaning of Regulation S under the United States Securities Act of 1933 or as defined by the US Commodity Futures Trading Commission for this purpose, as the definition of such term may be changed from time to time by legislation, rules, regulations or judicial or administrative agency interpretations.
<b>“Valuation Day”</b>	means a Business Day on which the stock exchanges in both Hong Kong and the PRC are open, or such other day as the Trustee and the Manager may agree upon from time to time; provided that such day shall not be a Valuation Day if it falls within any of the periods during which there is a suspension of dealing, unless the Trustee and the Manager determine otherwise.
<b>“Valuation Point”</b>	means the close of business of the Stock Exchange of Hong Kong, or such other time on the relevant Valuation Day as the Trustee and the Manager may agree upon from time to time.

Words implying the singular shall, where the context permits, include the plural and vice versa.

## **FRANKLIN TEMPLETON FUND SERIES**

### **INTRODUCTION**

Franklin Templeton Fund Series (the “Trust” or “Umbrella Fund”) is a unit trust established as an umbrella fund by the Trust Deed and governed by the laws of Hong Kong. The Umbrella Fund has been authorized as a collective investment scheme in the form of a unit trust by the SFC under Section 104 of the SFO and the Code. SFC authorization is not a recommendation or endorsement of the Umbrella Fund nor does it guarantee the commercial merits of the Umbrella Fund or its performance. It does not mean the Umbrella Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

The Umbrella Fund currently offers one sub-fund, namely Templeton China Opportunities Fund (the “Fund”).

### **FUND PARTIES**

The Fund is managed by the Manager, with day-to-day investment management of the Fund delegated to the Investment Manager. The Manager is a company incorporated with limited liability in Hong Kong and licensed by the SFC in Hong Kong for Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities with CE Number ABY530. The Manager’s SFC licence is subject to the condition that it cannot hold client securities and in respect of its Type 4 licence, the Manager shall only provide services to professional investors as defined under the SFO. Both the Manager and Investment Manager are wholly-owned subsidiaries of Franklin Resources, Inc.

The Trustee of the Fund is Cititrust Limited, which is a registered trust company in Hong Kong. Cititrust Limited is a wholly-owned subsidiary of Citigroup Inc. (“Citigroup”). Under the Trust Deed, the Trustee is responsible for the safe-keeping of the Fund’s assets and shall take into custody or under its control all the Fund’s assets, cash and other property forming part of the Fund and hold them in trust for the Unitholders of the Fund in accordance with the provisions of the Trust Deed, including any documents of title to any investments forming part of the Fund’s assets, and to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and such assets, cash and other property forming part of the Fund shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereto (including, but not limited to, being deposited with the custodian for safe keeping). The Trustee shall, in respect of any investments forming part of the Fund’s assets, which by nature cannot be held in custody, maintain a proper record of the Fund’s assets or other property in its books under the name of the Fund, and if capable of registration shall, as soon as reasonably practicable after receipt of the necessary documents by the Trustee, be registered in the name of the Trustee or the custodian or a correspondent of the Trustee or custodian and shall remain so registered until disposed of pursuant to the provisions of the Trust Deed.

Citibank N.A. (Hong Kong Branch), a Hong Kong branch of a banking company incorporated in the US and holding a full banking licence in Hong Kong, has been appointed to act as the custodian of the Fund. As custodian, Citibank N.A. (Hong Kong Branch) is responsible for the custody of the assets of the Fund. The custodian may act through any agents, nominees,

delegates or sub-custodians. The custodian shall (i) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such agents, nominees, delegates or sub-custodians appointed for the custody and/or safekeeping of the Fund's assets, cash or other property comprised in the Fund; and (ii) be satisfied that such agents, nominees, delegates or sub-custodians retained remain suitably qualified and competent on an ongoing basis to provide the relevant services.

The Registrar is the registrar and transfer agent of the Fund, and is responsible for keeping the register of Unitholders and processing the issue and redemption of Units.

The Trustee and Citibank N.A. (Hong Kong Branch) and the Registrar belong to the same group of companies.

## INVESTMENT OBJECTIVE AND POLICY

### Investment Objective and Policy of the Fund

The investment objective and policy of the Fund is to achieve long-term capital appreciation by investing, directly or indirectly, in A-Shares and equity securities of Chinese companies listed in China or foreign Recognised Exchanges, or companies or issuers which derive the principal portion of their revenues from the Chinese economies or have the principal portion of their assets in the Chinese economies. These equity securities include, but are not limited to, A-Shares through the China A Shares Fund (please refer to the sub-section headed “Information on Templeton China A Shares Fund” under the section headed “Investment Objective and Policy” for further details) and/or directly through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect (“Stock Connect”) (please refer to the sub-section headed “Information on the Stock Connect” under the section headed “Investment Objective and Policy” for further details) and/or any permissible means available to the Fund under prevailing laws and regulations, B-Shares, H-Shares and Red Chips.

Under normal market conditions, at least 70% of the Fund’s total net assets will be invested in domestic A-Shares equity securities indirectly through the China A Shares Fund and/or directly through the Stock Connect and/or any permissible means available to the Fund under prevailing laws and regulations.

The Fund may also invest in other types of investments including, but not limited to, securities denominated in RMB issued or listed in or outside the PRC, ADRs and GDRs.

As a general illustration, the Fund’s indicative investment mix (as a percentage of the Fund’s total net assets) would approximately be as follows:

- *at least 70% in A-Shares (through the China A Shares Fund and/or directly through the Stock Connect and/or any permissible means available to the Fund under prevailing laws and regulations);*
- *up to 30% in shares of Chinese companies listed overseas (including but not limited to H-Shares, Red Chips, B-Shares); and*
- *up to 7% in cash and/or other types of investments.*

The Fund may not invest more than 10% of its total net asset value in each of the following types of investments:

- (1) asset-backed securities (including asset backed commercial papers);
- (2) bonds which are rated below investment grade by international credit rating agencies or designated a rating of BB+ or below by credit rating agencies in the PRC or unrated bonds; and
- (3) urban investment bonds\*.

\*Urban investment bonds are debt instruments issued by local government financing vehicles (“LGFVs”) in the Mainland listed bond and interbank bond-market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.

The Fund will not invest in structured products.

The base currency of the Fund is US Dollars.

Use of derivatives / investment in derivatives

The Fund currently does not invest in financial derivative instruments for any purposes.

Securities lending transactions, sale and repurchase transactions or reverse repurchase transactions

The Manager currently does not intend to enter into any securities lending transactions, sale and repurchase transactions or reverse repurchase transactions in respect of the Fund or to leverage the Fund.

***Information on Templeton China A Shares Fund***

*The Fund will invest in the China A Shares Fund, which is a unit trust established by a trust deed governed by the laws of Hong Kong and denominated in USD (and not in RMB).*

*The investment objective of the China A Shares Fund is to achieve long-term capital appreciation by investing at least 70% of its total net asset in A-Shares (i.e. shares denominated in RMB issued by companies incorporated in China and listed on the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange).*

*The China A Shares Fund may invest up to 30% of its net assets in aggregate in listed securities and other permitted PRC financial instruments, namely shares and bonds listed on the stock exchange(s) in the PRC, and in other liquid assets, such as cash, cash deposits, short-term paper and money market instruments. In particular, the China A Shares Fund may invest up to 5% of its net assets in cash deposits and up to 10% in bonds listed on the stock exchange(s) in the PRC.*

*The China A Shares Fund will seek to achieve its investment objective primarily through investments in A-Shares directly using the QFI status of the QFI Holder, Templeton Investment Counsel, LLC, approved by authorities in the PRC pursuant to the relevant regulations. The China A Shares Fund will seek to invest primarily in equity securities of companies in different industry sectors with any ranges of market capitalization which have substantial exposure to Mainland China market.*

*The China A Shares Fund is managed by the QFI Holder. The QFI Holder is a QFI approved by the CSRC for investing in the securities market of the PRC.*

*The China A Shares Fund may not invest more than 10% of its total net asset value in each of the following types of investments:*

- (1) asset-backed securities (including asset backed commercial papers);*
- (2) bonds which are rated below investment grade by international credit rating agencies or designated a rating of BB+ or below by credit rating agencies in the PRC or unrated bonds; and*
- (3) urban investment bonds\*.*



*\*Urban investment bonds are debt instruments issued by local government financing vehicles (“LGFVs”) in the Mainland listed bond and interbank bond-market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.*

*The China A Shares Fund will not invest in structured products.*

*The base currency of the China A Shares Fund is US Dollars.*

*Use of derivatives / investment in derivatives*

*The China A Shares Fund does not invest in financial derivative instruments for any purposes.*

*Securities lending transactions, sale and repurchase transactions or reverse repurchase transactions*

*The manager of the China A Shares Fund currently does not intend to enter into any securities lending transactions, sale and repurchase transactions or reverse repurchase transactions in respect of the China A Shares Fund or to leverage the China A Shares Fund.*

*Copies of the Hong Kong Offering Document, latest annual and semi-annual reports of the China A Shares Fund may be obtained at a reasonable cost, or may be inspected free of charge, during normal working hours at the offices of the Manager. The net asset value per unit of the China A Shares Fund is normally published in the South China Morning Post and the Hong Kong Economic Times at least once a month and is also available on the website [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk).\**

The investment objective, policy, restrictions and guidelines of the Fund or the China A Shares Fund may, subject to the prior approval of the Trustee and/or the SFC (as applicable), vary from time to time as the Manager or the manager of the China A Shares Fund (as the case may be) considers appropriate in the circumstances.

Any material changes in the investment objective and policy of the Fund or the China A Shares Fund (as the case may be) will be notified to the Unitholders by at least one (1) month’s prior notice (or such other notice period as agreed with the Trustee and the SFC).

There can be no assurance that the Fund or the China A Shares Fund (as the case may be) will achieve its investment objective. Investors should carefully assess the risks associated with an investment in the Fund. Please refer to the section headed “Risk Considerations of Investing in Templeton China Opportunities Fund” for further details.

In relation to the assets of the China A Shares Fund held in the accounts maintained by the QFI Local Custodian, namely HSBC Bank (China) Company Limited, the manager of the China A Shares Fund (as the QFI Holder), namely Templeton Investment Counsel, LLC, has obtained an opinion from PRC legal counsel to the effect that, as a matter of PRC laws:

(1) a securities account (“Securities Account”) shall be opened with the China Securities Depository and Clearing Corporation Limited in the joint names “Templeton Investment

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\* This website has not been reviewed by the SFC.

Counsel, LLC – Templeton China A Shares Fund” pursuant to the applicable PRC laws and regulations with approvals from the relevant competent PRC authorities;

(2) a special RMB account (“Cash Account”) shall be opened and maintained with the QFI Local Custodian in the joint names “Templeton Investment Counsel, LLC – Templeton China A Shares Fund” pursuant to the applicable PRC laws and regulations with approvals from the relevant competent PRC authorities;

(3) the ownership of assets held and/or credited in the Securities Account and/or the Cash Account (as the case may be) belongs solely to the China A Shares Fund;

(4) the assets held and/or credited in the Securities Account and/or the Cash Account (as the case may be) are segregated and independent from the proprietary assets of the manager of the China A Shares Fund (as the QFI Holder), the QFI Local Custodian, the PRC Broker(s), and the assets of the other clients of the manager of the China A Shares Fund (as the QFI Holder), the QFI Local Custodian, the PRC Broker(s);

(5) If the manager of the China A Shares Fund (as the QFI Holder) is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the manager of the China A Shares Fund (as the QFI Holder) in liquidation in the PRC;

(6) If the QFI Local Custodian is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the QFI Local Custodian in liquidation in the PRC;

(7) If the PRC Broker is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the PRC Broker in liquidation in the PRC; and

(8) The trustee acting for and on behalf of the China A Shares Fund, namely Cititrust Limited, is the only entity which has a valid claim of ownership over the assets in the Securities Account and the Cash Account of the China A Shares Fund.

Further, the trustee of the China A Shares Fund has put in place proper arrangements to ensure that:

(1) The assets of the China A Shares Fund, including assets deposited in the Securities Account and the Cash Account with the QFI Local Custodian, are held on trust for the unitholders of the China A Shares Fund and will remain indirectly under its control;

(2) The trustee of the China A Shares Fund registers the assets of the China A Shares Fund, including assets deposited in the Securities Account and the Cash Account with the QFI Local Custodian, to the order of the trustee of the China A Shares Fund; and

(3) The QFI Local Custodian will look to the trustee of the China A Shares Fund (via the custodian of the China A Shares Fund, namely Citibank N.A. (Hong Kong Branch)) for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

### ***Information on the Stock Connect***

The Fund may invest in A-Shares via the Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect (together referred to as “Stock Connect”).

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing linked program developed by Hong Kong Exchanges and Clearing Limited (“HKEx”), Shanghai Stock Exchange (“SSE”) and China Securities Depository and Clearing Corporation Limited (“ChinaClear”). The Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links program developed by HKEx, Shenzhen Stock Exchange (“SZSE”) and ChinaClear. The aim of Stock Connect is to achieve mutual stock market access between Mainland China and Hong Kong.

The Stock Connect comprises two Northbound Trading Links, one between SSE and Stock Exchange of Hong Kong Limited (“SEHK”), and the other between SZSE and SEHK, by which the Fund may be able to place orders to trade eligible A-Shares listed on the SSE (“SSE Securities”) or on the SZSE (“SZSE Securities”) (the SSE Securities and SZSE Securities collectively referred to as the “Stock Connect Securities”) through their Hong Kong based brokers.

The SSE Securities include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-Shares listed on the SEHK, except (i) those SSE-listed shares which are not traded in RMB and (ii) those SSE-listed shares which are included in the “risk alert board”. The list of eligible securities may be changed subject to the review and approval by the relevant Mainland China regulators from time to time.

The SZSE Securities include all the constituent stocks from time to time of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalization of at least RMB 6 billion, and all the SZSE-listed A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-Shares listed on SEHK, except those SZSE-listed shares (i) which are not quoted and traded in RMB, (ii) which are included in the “risk alert board”; (iii) which have been suspended from listing by the SZSE; and (iv) which are in the pre-delisting period. At the initial stage of Shenzhen-Hong Kong Stock Connect, shares listed on the ChiNext Board of SZSE under Northbound Trading Link will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares. The list of eligible securities may be changed subject to the review and approval by the relevant Mainland China regulators from time to time.

*Trading day* – Investors (including the Fund) will only be allowed to trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days.

*Trading quota* – Trading under the Stock Connect will be subject to a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Fund and are utilised on a first-come-first-serve basis. The SEHK will monitor the quota and publish the remaining balance of the Northbound Daily Quota at scheduled times on the HKEx’s website. The Daily Quota may change in future. The

Manager will not notify investors in case of a change of quota.

*Settlement and Custody* – The HKSCC is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

*Corporate actions and shareholders' meetings* – Under the Shanghai-Hong Kong Stock Connect, notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the ChinaClear, ChinaClear as the share registrar for SSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them. The same arrangement is applicable to SZSE Securities under the Shenzhen-Hong Kong Stock Connect.

*Currency* – Hong Kong and overseas investors (including the Fund) will trade and settle SSE Securities and SZSE Securities in RMB only.

*Trading fees* – In addition to paying trading fees and stamp duties in connection with A-Share trading, the Fund may be subject to other fees and taxes concerned with income arising from stock transfers which are determined by the relevant authorities.

*Coverage of Investor Compensation Fund* – The Fund's investments through Northbound trading under Stock Connect is not covered by Hong Kong's Investor Compensation Fund. Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default in Northbound trading via Stock Connect do not involve products listed or traded in the SEHK or the Hong Kong Futures Exchanges Limited, such trading is not covered by Hong Kong's Investor Compensation Fund. On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, such trading is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the PRC.

Further information about the Stock Connect is available online at the website:

[www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ/Information-Book-for-Investors/Investor\\_Book\\_En-v2.pdf](http://www.hkex.com.hk/-/media/HKEX-Market/Mutual-Market/Stock-Connect/Getting-Started/Information-Booklet-and-FAQ/Information-Book-for-Investors/Investor_Book_En-v2.pdf)

## INVESTMENT RESTRICTIONS AND GUIDELINES

### Investments Restrictions

The Umbrella Fund and each sub-fund under the Umbrella Fund (including the Fund) are subject to the investment limitations and prohibitions set out in the Code, a summary of which is set out in Schedule 1.

The Fund's powers of investment are subject to the applicable provisions of Schedule 1, and the additional investment restrictions below:

- (1) the Fund may not invest through a wholly-owned subsidiary company;
- (2) the Fund may not invest in options and/or warrants for any purposes;
- (3) the writing of uncovered options by the Fund is prohibited;
- (4) the writing of call options by the Fund is prohibited;
- (5) the Fund may not enter into financial futures contracts for any purposes;
- (6) the Fund may not invest in any other collective investment schemes (collectively, "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;
- (7) the Fund may not invest all of its assets in a single collective investment scheme;
- (8) the Fund may not engage in short selling of securities for any purposes; and
- (9) the Fund will not invest more than 10% of its net asset value in securities issued by or guaranteed by any single country (including the country, the government of that country, and/or any public or local authority or nationalized industry of that country) with a credit rating below investment grade.

If the investment restrictions and/or limits set out above are breached, the Manager will take as a priority objective all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the Unitholders.

### Liquidity Risk Management

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Fund and to ensure that the liquidity profile of the investments of the Fund will facilitate compliance with the Fund's obligation to meet redemption requests. Such policy, combined with the liquidity management tools that may be employed by the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The liquidity risk management of the Fund is carried out by the Investment Risk Management Group within the Franklin Templeton organisation which is a team of risk professionals

functionally independent from the portfolio investment function. The oversight of the liquidity risk management work carried out by the Investment Risk Management Group is performed by a dedicated Investment Liquidity Committee consisting of members of senior management. The committee meets on a monthly basis.

The Manager will regularly assess the liquidity of the Fund's assets under normal and stressed market conditions. Liquidity is assessed for both the asset and liability sides.

Asset side liquidity risk refers to the risk that positions cannot be traded at the quoted prices due to such factors as the size of the trade desired in relation to normal trading lot sizes or the sudden lack of demand for the position due to changes in the creditworthiness of the issue and/or the counterparty involved in the trade. Issues with respect to asset side liquidity include how much of an asset can be liquidated without adversely affecting the price, market conditions either for the specific asset or generally for all assets, daily trading volume and the degree to which it fluctuates over time, and the bid-ask spread and the variability in that spread depending on market conditions.

Liability side liquidity risk refers to the risk that the Fund cannot meet redemption requests or is only able to do so in a manner that has adverse consequences for the Unitholders of the Fund. Factors here include the number of Units outstanding for the Fund in comparison to normal subscription / redemption activity, volatility in the NAV of the Fund which can trigger sudden requests for redemptions, and the degree to which the Fund may be exposed to common factors across all the positions in the portfolio.

Liquidity reports are generated on a monthly basis and reviewed for each collective investment scheme managed by the Manager. The Manager may also set an internal limit as to each individual investment that may be held by the Fund. Shortcomings in the liquidity profile of the Fund are escalated to the local risk management committee consisting of responsible officers and senior staff such as the compliance officer, head of investments, head of operations and risk manager.

The Manager may also be in regular communication with distributors and substantial investors of the Fund in order to receive updates on investor profile and their historical and expected redemption patterns. Through such communication, the Manager can make better assessment as to the expected redemptions (especially substantial redemptions) from the Fund in the future.

The Manager will also perform liquidity stress testing on the Fund on an ongoing basis; normally on a monthly basis but in times of adverse market conditions or during the period where there are large redemption requests, the stress tests will be performed more frequently, as deemed necessary.

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

- the Manager may limit the number of Units of the Fund redeemed on any Dealing Day to 10% of the total number of Units of the Fund in issue (subject to the conditions under the heading entitled "***Redemption of Units***"). If such limitation is imposed, this would restrict the ability of a Unitholder to redeem in full the Units he intends to redeem on a particular Dealing Day;

- subject to the restrictions in Schedule 1, the Manager may borrow in respect of the Fund to meet redemption requests;
- the Manager may suspend redemption under exceptional circumstances as set out under the heading entitled “***Suspension of Dealing***”. During such period of suspension, Unitholders would not be able to redeem their investments in the Fund; and
- the Manager may, in calculation of the subscription price and the redemption price, add fiscal and purchase charges (please refer to the heading entitled “***Purchase of Units***”) or deduct fiscal and sales charges (please refer to the heading entitled “***Redemption of Units***”), to protect the interest of remaining Unitholders. Please refer to the heading entitled “***Bases of Valuation***” for details. As a result of such adjustment, the subscription price or the redemption price, (as the case may be) will be higher or lower than the subscription price or the redemption price (as the case may be) which otherwise would be if such adjustment has not been made.

In practice, the Manager will consult the Trustee before the use of any liquidity risk management tools. Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risks.

## PRC TAX PROVISIONS

Investors should refer to the sections headed “Risk Considerations of Investing in Templeton China Opportunities Fund – Mainland China Tax Risk”, “Risk Considerations of Investing in Templeton China Opportunities Fund – Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect risk – Mainland China tax consideration” and “Tax Notes” in respect of the tax obligations of the Fund.

Pursuant to the “Notice about the tax policies related to Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) and “Notice about the tax policies related to Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) jointly promulgated by the Ministry of Finance, State of Administration of Taxation and CSRC, corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A-Shares through the Stock Connect.

To the extent that the exemption from capital gains tax on the trading of A-Shares through the Stock Connect remains in force, no tax provision will be made on the capital gains, realized or unrealized, arising from the Fund’s investments via the Stock Connect.

Although the 10% PRC Withholding Income Tax (“WHT”) liability on capital gains derived by non-resident enterprises from B-Shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises is technically due (subject to treaty relief under the terms and conditions of a DTA if applicable), in practice, the PRC tax authority have not yet actively enforced the collection of PRC WHT on capital gains derived by non-resident enterprises from the trading of the above listed securities where both the sale and purchase of the listed securities are conducted on public stock exchanges. Therefore, there is uncertainty on the PRC tax treatments in respect of the capital gains derived by non-resident enterprises on the above listed securities issued by PRC companies.

Based on professional and independent tax advice, pending any changes to the tax law or administrative practice in China, the Manager will not make provisions for any PRC taxes payable by the Fund on capital gains derived from the sale of B-Shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises and Red Chips, provided that both the purchase and sale of such shares are conducted on public stock exchanges.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, any sums withheld in excess of the tax liability incurred or expected to be incurred by the Fund shall be released and transferred to the Fund’s accounts forming part of the Fund’s assets. On the other hand, where the amount of such provisions is not sufficient to meet the actual tax liabilities, any shortfall will be debited from the Fund’s assets. The Fund’s asset value will be adversely affected as the Fund will have to bear the additional tax liabilities.

### China A Shares Fund

On 14 November 2014, the SAT and the CSRC jointly issued the “Circular Concerning the Temporary Exemption of the Enterprise Income Tax for Gains Earned by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China” Caishui [2014] No.79 (“**Circular No.79**”).



Circular No.79 states, amongst other things, that:

- (i) QFIs without an establishment or place in the PRC are, with effect from 17 November 2014, temporarily exempt from PRC enterprise income tax on gains derived from the transfer of domestic shares and other equity interest investment in the PRC; and
- (ii) enterprise income tax shall be imposed on such gains earned by QFIs before 17 November 2014 in accordance with the tax laws.

Prior to the issuance of Circular No.79 on 14 November 2014, the China A Shares Fund had made daily provisions for tax liabilities in respect of its realised and unrealised gains respectively from trading of A-Shares investments at a rate of 10%.

In view of the issuance of Circular No.79, the manager of the China A Shares Fund had, after considering independent professional external tax advice, ceased to make additional provision for tax liabilities in relation to realised and unrealised gains from trading of A-Shares from 17 November 2014 onwards. No provisions for PRC capital gains taxes on realized gains and unrealized gains on A-Shares will be made by the Manager while the exemption remains in effect.

## **PURCHASE OF UNITS**

### **Fund Classes Available**

Units of the Fund will be available for subscription in two classes of Units: A (acc) USD class and A (acc) HKD class.

### **Issue of Units**

Subscription applications for Units will, if received by the Registrar at or prior to the Dealing Deadline (i.e. 4:00 p.m. (Hong Kong time) or such other time as the Manager may determine from time to time) on a Dealing Day, be processed on that Dealing Day. Subscription applications for Units received after the Dealing Deadline shall be dealt with on the next Dealing Day.

Payment in full in cleared funds must be received by the Registrar within three (3) Business Days following the Dealing Day on which the relevant Units are issued. Purchases will usually be dealt with immediately, but the Manager reserves its right to defer the acceptance of a subscription application until cleared monies are received.

### **Discretion of the Manager**

The Manager may allot Units at its absolute discretion. The number of Units allotted shall be calculated and rounded to the nearest three decimal places.

The Manager may exercise its absolute discretion to close subscriptions to the Units without prior notice if the total subscription monies received reach USD100 million. The Manager may, at its absolute discretion, invite further subscription applications after exercising its discretion to close subscriptions to the Units for limited offer periods from time to time without prior notice.

The Manager has the absolute discretion (a) not to accept any subscription instructions in the Units (including, but not limited to, applications or instructions for the issue of Units) and/or (b) to discontinue the issue of Units pursuant to the Offering Document without notice.

If payment in full in cleared funds shall not have been received from an applicant by the Registrar within the prescribed period of three (3) Business Days, the Manager may cancel the issue of the relevant Units. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right or claim in respect of such cancellation against the Manager and/or the Trustee. In addition, the Manager may charge the applicant any reasonable duties, charges and/or fees representing the administration costs involved in the processing of the corresponding application for the account of the Fund. The Manager may also require the applicant to pay to the Trustee for the account of the Fund any market value adjustment in respect of each Unit so cancelled should the corresponding subscription price exceed the corresponding redemption price as part of the cancellation process.

### **Minimum Investment Amount**

The minimum initial investment amount for the Fund is USD1,000 (or HKD equivalent) and the minimum subsequent subscription amount is USD500 (or HKD equivalent). Both minimum initial investment amount and the minimum subsequent subscription amount may be waived in whole or in part by the Manager. Purchases may be made in USD or HKD.

### **Application Forms Sent by Facsimile**

Application forms sent by facsimile should be followed by the properly completed original version. Investors should be reminded that if they choose to send application forms by facsimile, they bear their own risk of the instructions not being received by the Registrar. Investors should therefore for their own benefit confirm with the Registrar the receipt of their application forms. None of the Manager, the Trustee or the Registrar shall be responsible to any investors for any losses resulting from non-receipt or illegibility of any application forms sent by facsimile or for any losses caused in respect of any actions taken as a consequence of such facsimiles believed in good faith to have originated from properly authorized persons. This is notwithstanding the fact that a facsimile transmission report produced by the transmission originator discloses that such transmission has been sent.

### **Price and Charges**

The net asset value of each Unit of the Fund shall be calculated and rounded to the nearest two decimal places and the purchase price will comprise the net asset value calculated at the Valuation Point plus an initial charge which will not exceed 5% of the amount of the transaction.

### **Payment by Cheque or Bank Draft**

Payments in USD or HKD can be made by cheque drawn on a bank in Hong Kong and made payable to the Registrar, namely “Cititrust Limited as Trustee for Templeton China Opportunities Fund - subscription”, (crossed “A/C payee only, not negotiable”). No post-dated cheques will be accepted.

Cleared monies are invested net of any bank charges. No money should be paid to any intermediary in Hong Kong that is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the SFO in Hong Kong. The Manager reserves the right to accept any application in whole or in part. Any application monies in respect of applications not accepted will be returned to the applicants at their own risk, and without interest.

### **Payment by Telegraphic Transfer**

Payment can be made by telegraphic transfer (or bank wire). If payment is made by telegraphic transfer, a copy of the remittance instruction should be enclosed with the application. The applicant should also instruct the applicant’s bank to advise the Registrar of the remittance of the funds, and indicate the full name of the investor on whose behalf the payment is made. No responsibility will be accepted by the Manager for reconciling investor’s remittances where problems occur in the transmission or as a result of inadequate details of the transfer.

Investors should note that bank charges in connection with the telegraphic transfer may be deducted from the proceeds of the transfer by the remitting bank. Correspondents, agents or sub-agents of the receiving bank may also deduct bank charges from the remittance. The amount invested will therefore be the amount of money actually received for investment. Payments can be made directly into the bank accounts specified in the application form in USD. Investors should enclose a copy of the bank pay-in slip with their application form.

### **Additional Information**

Investors should note that subscription applications for Units must be settled in the Fund's respective currency of the Unit class.

Investors should also note that unrelated third-party payments will not be accepted.

All Units are issued in registered form only and certificates will not be issued.

Neither the Manager nor the Registrar shall be responsible or liable to any applicants or Unitholders for any losses resulting from the non-receipt of any application forms, by whichever delivery method (including non-receipt of facsimile application forms).

The Trust Deed allows the Trustee to exclude or restrict the holding of Units by any person. The beneficial ownership of Units in the Fund by US Persons is thus excluded. The offer of Units to or on behalf of any persons in any other jurisdictions is excluded except where such offer complies with the applicable laws and regulations of such jurisdictions. The Trustee and/or the Registrar is/are entitled to require any persons applying for, or claiming ownership rights in, any Units to provide satisfactory information to establish the nationality and country of residence of such persons.

### **Market Timing**

The Manager does not permit investments by market timers. In general, market timers include any person or group that uses market timing or asset allocation services, accounts administered so as to buy, sell or exchange Units based on predetermined market indicators, or any person or group whose transactions seem to follow a timing pattern or whose transactions include frequent or large exchanges. The Manager will combine Units under common ownership or control for purposes of ascertaining whether a person or group constitutes a market timer. To that end, the Manager reserves the right to refuse to issue Units to investors whom it considers market timers.

### **Investing through Selected Intermediaries and/or Distributors**

Investors investing through selected intermediaries and/or distributors should note that an earlier dealing cut-off time may be imposed by the intermediaries and/or distributors before the Dealing Deadline for receiving dealing instructions. Investors should confirm the corresponding dealing arrangements and procedures with the intermediaries and/or distributors.

## REDEMPTION OF UNITS

### Instructions and Payments

An investor wishing to redeem Units should complete a redemption form and send it to the Registrar. Redemption instructions must be received by the Registrar at or prior to the Dealing Deadline (i.e. 4:00 p.m. (Hong Kong time) or such other time as the Manager may determine from time to time) on a Dealing Day. Redemption instructions received after the Dealing Deadline shall be dealt with on the next Dealing Day.

Following the receipt of the original completed redemption form by the Registrar from an investor, the proceeds will normally be paid to the investor's bank account by telegraphic transfer in USD or HKD within five (5) Business Days, in any event no later than one (1) calendar month, after the relevant Dealing Day.

In the event that the Manager, the Fund, the manager of the China A Shares Fund or the China A Shares Fund is subject, directly or indirectly, to certain legal and/or regulatory requirements (such as constraints on the repatriation of capital or foreign currency controls), the time frame for the payment of redemption proceeds will be further extended taking into account the additional time needed to address such legal and/or regulatory requirements. The extended time frame for the payment of redemption proceeds will be within seven (7) Business Days after the completion of the corresponding repatriation process. In the event that the aforesaid time frame of seven (7) Business Days includes a day or days in which banks in the US are closed for business ("US Currency Holiday(s)"), such time frame will be further extended to the extent of the occurrence of such US Currency Holiday(s).

Payments are usually shown on investors' bank accounts on the date following the settlement date. Investors should note that bank charges may be deducted by the receiving bank or the bank's correspondents, agents or sub-agents. The Manager will only make payments to bank accounts in the name of the registered holder(s). In order to protect the investors, the Manager or the Registrar will not accept instructions to pay to third parties. Any Units for which payment in full has not been received cannot be redeemed.

In the case of a partial redemption of a holding, the minimum value of a holding remaining after such a partial redemption must amount to not less than USD1,000 (or HKD equivalent). Otherwise, the Manager may, in its absolute discretion, redeem the remaining balance of Units. The Manager may also, in its absolute discretion, waive such minimum value in whole or in part.

The Manager reserves the right not to be bound to redeem on any one Dealing Day more than 10% of the total number of Units in issue. Where redemption requests on any one Dealing Day exceed 10% of the total number of units in issue, the Manager may declare that part or all of such Units for redemption will be deferred to the next Dealing Day and will be valued at the relevant net asset value per Unit determined on the Dealing Day on which Units are redeemed. On such Dealing Day(s), these requests for redemption will be complied with in priority to later requests.

No redemption instructions may be made until the initial subscription transaction has been completed.

## **Redemption Instructions Sent by Facsimile**

Redemption instructions sent by facsimile should be followed by the properly completed original version. Investors should be reminded that if they choose to send redemption instructions by facsimile, they bear their own risk of the instructions not being received by the Registrar. Investors should therefore for their own benefit confirm with the Registrar the receipt of their redemption instructions. None of the Manager, the Trustee or the Registrar shall be responsible to any investors for any losses resulting from non-receipt or illegibility of any redemption instructions sent by facsimile or for any losses caused in respect of any actions taken as a consequence of such facsimiles believed in good faith to have originated from properly authorized persons. This is notwithstanding the fact that a facsimile transmission report produced by the transmission originator discloses that such transmission has been sent.

## **Redeeming through Selected Intermediaries and/or Distributors**

Investors redeeming through selected intermediaries and/or distributors should note that an earlier dealing cut-off time may be imposed by the intermediaries and/or distributors before the Dealing Deadline for receiving redemption instructions. Investors should confirm the corresponding redemption arrangements and procedures with the intermediaries and/or distributors.

## **Redemption Fee**

No redemption fee will be imposed for redemption requests. All the relevant fees and charges imposed under the Fund are set out in the section headed “Fees and Charges”.

## **Restrictions on ownership of Units by “Restricted Persons”**

The Manager may restrict or prevent the direct or indirect ownership of Units by any US Person or any person in breach of the law or requirements of any country or governmental authority. Such persons are herein referred to as “Restricted Persons”. The actions that the Manager may take in order to restrict or prevent the ownership of Units by Restricted Persons include:

- 1) declining to issue and/or register transfers of Units;
- 2) requiring the furnishing of certifications, representations and warranties and/or information, supported by affidavit;
- 3) requiring the transfer of all or part of the Units held by a relevant Unitholder; and
- 4) redeeming all or part of the Units held by a relevant Unitholder.

## **SWITCHING OF UNITS**

No switching may be made between different classes of Units of the Fund.

## SUSPENSION OF DEALING

The Manager may, after consultation with the Trustee, having regard to the best interests of the Unitholders, at any time declare a suspension of the right of Unitholders to require the redemption of Units of the Fund during any of the following periods:

- (1) if applicable, where one or more Recognised Exchanges on which a significant portion of the assets of the Fund is listed, quoted, traded or dealt in are closed (other than a customary weekend and holiday closing) or trading in any such Recognised Exchanges is restricted or suspended;
- (2) the existence of any state of affairs as a result of which when payment of proceeds or disposal of a substantial portion of investments for the Fund for the time being comprised in the assets of the Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders;
- (3) any period when funds cannot, in the opinion of the Manager, be normally remitted from the assets of the Fund without prejudicing the interests of Unitholders;
- (4) any breakdown in the means normally employed in determining the value of the assets or the liabilities of the Fund or when for any other reason the value of any investments or other property for the time being comprised in the assets or liabilities of the Fund or the assets or liabilities of the Umbrella Fund cannot be promptly and accurately ascertained;
- (5) any period when the dealing of Units is suspended pursuant to any order or direction issued by the SFC;
- (6) any period when the business operations of the Manager or the Trustee in relation to the operation of the Umbrella Fund or the Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riots, strikes or acts of God; or
- (7) any period following changes in any laws, rules, and regulations imposed by any regulatory or supervisory, governmental or quasi-governmental authority, any fiscal body or self-regulatory organisation (whether of a governmental nature or otherwise) as a result of which payment of proceeds or disposal of a substantial portion of investments for the Fund for the time being comprised in the assets of the Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders.

The Manager shall immediately notify the SFC if dealing in Units ceases or is suspended.

Whenever the Manager declares a suspension it shall, immediately after any declaration and at least once a month during the period of the suspension, publish a notice on its website at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*. The Manager shall regularly review any prolonged suspension of dealings and take all necessary steps to resume normal operations as soon as practicable.

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\* This website has not been reviewed by the SFC.



## **FEES AND CHARGES**

### **Initial Charge**

The Manager may impose an initial charge of up to 5% of the net asset value per Unit on the issue of Units.

### **Management Fee**

The Manager is entitled to receive a management fee of 1.25% per annum of the net asset value of the Fund. This fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears. The Investment Manager will be reimbursed out of the Manager's management fee. If the assets of the Fund include interests in any unit trust or other collective investment scheme managed by the Manager or its connected persons, the fee of the Manager will be reduced to take account of the management fee levied in respect of such unit trust or collective investment scheme to the extent attributable to the Fund's interest in such unit trust or collective investment scheme.

### **Maintenance Charge**

A maintenance charge of 0.5% per annum of the net asset value of the Fund is deducted and paid to the Manager in order to compensate the Manager for any expenses incurred by it in connection with investor liaison and administration of the Units. The charge is accrued daily based on the net asset value of the Fund and shall be payable monthly in arrears.

### **Fund Administration Fee**

The Manager is entitled to receive a fund administration fee of 0.20% per annum of the Fund's net asset value. The fund administration fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

### **Trustee Fee**

The Trustee is entitled to receive a fee at the maximum rate of 0.04% per annum of the Fund's net asset value.

The Trustee may only increase the level of its fee up to the maximum as stated in the Trust Deed and by giving to the Unitholders not less than one (1) month's notice of the increased level of trustee fee. The trustee fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

### **Custodian Fee**

The custodian of the Fund is entitled to receive a fee at the maximum rate of 0.025% per annum of the Fund's net asset value for the custody of the assets of the Fund.

The custodian of the Fund may only increase the level of its fee up to the maximum as stated in the Offering Document and by giving to the Unitholders not less than one (1) month's notice

of the increased level of custodian fee. The custodian fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

### **Registrar and Transfer Agent Fee**

The Registrar is entitled to receive an estimated fee of 0.20% per annum of the Fund's net asset value, with the actual fee subject to certain variables, and subject always to a minimum of US\$72,000 per annum. The fee shall be payable monthly in arrears.

### **Redemption Fee**

No redemption fee will be imposed for redemption requests.

### **Other Fees**

The Fund will bear its other operational costs including, but not limited to, costs, charges and expenses payable in respect of the acquisition, holding and realisation of any investments and other property, the costs of the registrar, the costs of preparing the Trust Deed, the Offering Document and any amendments thereto, legal or other professional and expert charges and auditing fees, interest charges, reporting and publication expenses, postage, telephone and facsimile expenses. All expenses are estimated and accrued daily in the calculation of the net asset value of the Fund.

## **DIVIDENDS**

No distribution of dividends shall be made, but the net income attributable will be reflected in the increased value of the Units.

## **BASES OF VALUATIONS**

The method of establishing the net asset value of the Fund is set out in the Trust Deed.

The net asset value per Unit is calculated by dividing the value of the assets of the Fund, less its liabilities, by the total number of Units in issue at the Valuation Point (i.e. currently 4:00 p.m. (Hong Kong time)) on the Valuation Day or such other day or time as the Trustee and the Manager may agree upon from time to time. Any rounding adjustment arising in respect thereof will be retained by the Fund.

In general, quoted investments are valued at their latest available price and unquoted investments are valued at cost or in accordance with the most recent revaluation made by a professional person approved by the Trustee to value such investments and such professional person may, with the approval of the Trustee, be the Manager. Interest and other income and liabilities are, where practicable, accrued from day to day. Such valuations will be expressed in US Dollars. The Manager may, in consultation with the Trustee, adjust the value of any investment if it considers that such adjustment is required to reflect more accurately the fair value of the relevant investment.

For securities that are (a) not quoted or dealt with on a stock exchange or an organised market and/or (b) quoted or dealt with on a stock exchange or an organised market but in respect of which no price quotation is available or the price quoted is not representative of the securities' fair market value, the value of such securities shall be determined under the direction of the Manager in consultation with the Trustee.

Since the Fund may, in accordance with its investment restrictions, invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. There are procedures adopted by the Manager, in consultation with the Trustee, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Manager could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Manager determines its net asset value per Unit.

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

The Manager may, after consultation with the Trustee, having regard to the best interests of the Unitholders, declare a suspension of the determination of the net asset value of the Fund and/or each Unit during any of the periods set out in the section "Suspension of Dealing". The Manager shall immediately notify the SFC if the determination of the net asset value of the Fund and/or each Unit is suspended. During any such suspension, the Manager shall be under

no obligation to rebalance or adjust the assets of the Fund.

Whenever the Manager declares a suspension it shall, immediately after any declaration and at least once a month during the period of the suspension, publish a notice on its website at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*

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\* This website has not been reviewed by the SFC.

## CONFLICTS OF INTEREST

No connected person of the Fund is entitled to brokerage or other transaction benefits. Moreover, neither the Fund nor any of its connected persons may retain cash or other rebates from a broker or dealer. The Manager may receive goods and services from brokers or dealers as and when it is (a) appropriate under its discretionary authority and (b) consistent with the terms of the Trust Deed and applicable laws. In any event, the Fund, the Manager, Investment Manager and any of their connected persons do not retain any cash rebates from any brokers or dealers.

Consistent with the Trust Deed and applicable laws, brokerage commissions on portfolio transactions for the Fund may be directed by the Manager, the Investment Manager or any of their connected persons to brokers or dealers in recognition of research services furnished by them as well as for services rendered in the execution of orders by such brokers or dealers. Any such brokerage commissions must comply with the following: (i) any goods and services received will be of demonstrable benefit to the relevant Unitholders (taken as a body and in their capacity as such) whether by assisting the Manager, the Investment Manager and/or Franklin Templeton Investments in their ability to manage the Fund or otherwise; (ii) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the Investment Manager, including a description of the goods and services received by them; and (iv) the availability of the soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer.

Examples of goods and services of demonstrable benefit that may be received include the following: 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. Such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries, or direct money payments.

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds (including the China A Shares Fund) and clients which have similar investment objectives to that of the Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly. Compliance procedures and measures, such as segregation of duties and responsibilities, together with different reporting lines have been put in place by the Manager to minimize potential conflicts of interest. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

The Manager may, from time to time, pay a part of the management fee to intermediaries and/or distributors as compensation for rendering services to Unitholders who are clients of such intermediaries and/or distributors.

## **REPORTS AND ACCOUNTS**

The financial year-end of the Fund is 31 December each year. The audited annual report and semi-annual unaudited financial report of the Fund are available on the website of the Manager at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*, within four (4) months and two (2) months respectively after the end of the period covered.

These reports are available in English only, and are also available free of charge at the office of the Manager. The reports will be prepared in accordance with the applicable requirements of the Code.

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\* This website has not been reviewed by the SFC.

## GENERAL

### Price Information

The net asset value per unit is normally published in the South China Morning Post and the Hong Kong Economic Times on each Dealing Day and is also available on the website [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)\*.

### Trust Deed

Unitholders are advised to review the terms of the Trust Deed where all key items are generally set out below.

Copies of the Trust Deed and investment management agreement for the Fund may be obtained at a reasonable cost, or may be inspected free of charge, during normal working hours at the offices of the Manager.

The Trustee and the Manager may agree to modify, alter or add to the provisions of the Trust Deed by supplemental deeds, provided that the Trustee certifies in writing that in its opinion such modification:

- (1) does not materially prejudice the interests of Unitholders, does not to any material extent release the Trustee, the Manager or any other person from any liability to Unitholders and does not increase the costs and charges payable from the Fund's assets;
- (2) is necessary in order to comply with any fiscal, statutory, regulatory or official requirements of any country or authority; and/or
- (3) is necessary to correct a manifest error.

In all other cases, modifications, alteration or addition involving any material changes to the provisions of the Trust Deed shall be made with the approval of the SFC (but only to the extent that the SFC's approval is required in respect of such modification, alteration or addition under the Code) or the sanction of an extraordinary resolution. No such modification, alteration, or addition (whether or not approved by an Extraordinary Resolution (as defined in the Trust Deed) shall impose upon any Unitholder any obligation to make any further payment in respect of the Unitholder's Unit or to accept any liability in respect thereof.

### Joint Holders

Not more than four (4) persons may be registered as the joint holders of any Unit. The Trustee and the Manager may require any redemption request or other instruction in relation to any joint holding to be signed by all the registered joint holders or may rely on any redemption request or other instruction signed by or otherwise received from any one of the registered joint holders.

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\* This website has not been reviewed by the SFC.



## **Transfer of Units and Transmission of Units**

Units in the Fund are transferable by instrument in writing executed by or on behalf of the transferor, except that no transfer will be registered without the approval of the Manager which would result in either the transferor or the transferee holding units having an aggregate value of less than normally USD1,000 (or HKD equivalent) on the Valuation Day on which the transaction is to be registered. Instruments of transfer should be sent to the Registrar, and the cost of stamping, if any, shall be borne by Unitholders.

The Trust Deed contains provisions relating to the transmission of Units. Any costs incurred upon the transmission of Units and in relation to the grant of probate, or equivalent and the re-sealing by the courts will be borne by the Unitholder. Any person becoming entitled to a Unit in consequence of the death, bankruptcy, insolvency or liquidation of any sole Unitholder or of the survivor of joint Unitholders shall subject as provided in the Trust Deed, upon producing such evidence as to his/her title as the Trustee or the Registrar shall think sufficient either be registered himself/herself as Unitholder of such Unit upon giving to the Registrar notice in writing of such desire or transfer such Unit to some other person. The Manager's only obligation in these circumstances will be to forward any information received in writing from or on behalf of the Unitholder to the Trustee.

## **Cancellation of Units**

The Manager shall have the exclusive right at any time, and from time to time by notice in writing to the Trustee, to effect reductions of the Fund on any Dealing Day, by requiring the Trustee to cancel the number of Units specified in such notice following the receipt of a redemption request in accordance with the provisions of the Trust Deed.

## **Notices and Meetings of Unitholders**

The Trust Deed provides for meetings of Unitholders to be convened by the Trustee or the Manager by giving at least twenty-one (21) days' notice. The Trustee is obliged to convene a meeting if requested in writing by the Unitholders of not less than one-tenth of the Units in issue. Notices of meetings of Unitholders will be posted to Unitholders at their registered addresses.

The quorum for Unitholders' meetings dealing with ordinary business is one (1) or more Unitholders present in person or by proxy, holding in aggregate at least one-tenth of the Units for the time being in issue. If a meeting is convened at which an Extraordinary Resolution (as defined in the Trust Deed) is to be proposed, the quorum is one (1) or more Unitholders present in person or by proxy holding at least one-quarter of the Units for the time being in issue. If a quorum is not present within half an hour from the time appointed for the meeting, the meeting will be adjourned for not less than fifteen (15) clear days. Separate notice of any adjourned meeting will be given, and at an adjourned meeting a Unitholder (regardless of the number of Units held) will form a quorum. At any meeting, any resolution put to the vote of the meeting shall be decided on a poll. An Extraordinary Resolution is defined in the Trust Deed as a resolution proposed as such and passed by a 75% majority of the votes cast in relation to such resolution.

## **Duties, Indemnities and Covenants of Trustee and Manager**

If for any reason it becomes impossible or impracticable to carry out the provisions of the Trust Deed, neither the Trustee nor the Manager shall be under any liability therefor or thereby, and except for any liability to Unitholders imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) and/or any breaches of trust through fraud or negligence, neither the Trustee nor the Manager shall incur any liability by reason of any error of law or any matter or thing done or suffered or omitted to be done by them in good faith hereunder.

The Manager shall not be under any liability except such liability as may be expressly assumed by it under the Trust Deed, nor shall the Manager (save as herein otherwise appears) be liable for any act, omission, misconduct, mistake, oversight or want of prudence on the part of the Trustee or any person acting as agent of or adviser to the Trustee. The Trustee shall not (save as herein otherwise appears) be liable for any act, omission, misconduct, mistake, oversight or want of prudence on the part of the Manager or any person acting as agent of or adviser to the Manager.

The Manager (and its directors, officers and employees) shall, except for any liability to Unitholders imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) and/or any breaches of trust through fraud or negligence on its (or their) part, be indemnified and held harmless out of the assets of the Fund in respect of (in addition to any right of indemnity given by law) any action, costs, claims, expenses, damages or liabilities to which it (or they) may be put or which it (or they) may incur as a result of the Manager acting as manager of the Fund, managing and administering the Fund under the Trust Deed or in the exercise of any powers, authorities or discretions vested in the Manager under the Trust Deed, and the Manager shall for such purpose have recourse to the Deposited Property and/or the Income Property (each as defined in the Trust Deed) or any part thereof. Subject to the foregoing and as otherwise provided in the Trust Deed, the Manager shall in the exercise of the powers, authorities and discretions vested in it act in the exclusive interests of Unitholders.

Neither the Manager nor the Trustee shall be responsible for the authenticity of any signature on or any seal affixed to any instrument of transfer, form of application or other document affecting the title to or transmission of Units or of Investments (as defined in the Trust Deed) or be in any way liable for any forged or unauthorized signature on or seal affixed to such endorsement transfer or other document or for acting on or giving effect to any such forged or unauthorized signature or seal.

Neither the Manager nor the Trustee shall be responsible for loss of or damage to any documents in its possession or for any failure to fulfil its duties hereunder caused by or directly or indirectly due to the act of any government or other competent authority, hostilities (whether war be declared or not), riot, civil commotion, rebellion, storm, tempest, flood, typhoon, earthquake, accident, fire, explosion, toxicity, radioactivity, third party electronic transmission or other electronic systems disruption or failure or other cause, whether similar or not, which is beyond the control of the Manager or the Trustee provided that the Manager and the Trustee shall have taken all such steps and done all such things as a professional manager or trustee (as the case may be) would reasonably be expected to have taken or done to prevent or mitigate any loss, damage or failure arising out of such circumstances.

While the Trust Deed provides for various exclusions of liabilities and/or indemnities for the Trustee and/or the Manager, there is nothing in the Trust Deed which exempts the Trustee

and/or the Manager (as the case may be) from any liability to Unitholders imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) or breaches of trust through fraud or negligence on its (or their) part. In addition, under the Trust Deed, the Trustee and/or the Manager (as the case may be) shall not be indemnified against any liability imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) or breaches of trust through fraud or negligence on its (or their) part by Unitholders or at the Unitholders' expense.

### **Borrowing**

The Trust Deed contains provisions setting out the requirements and restrictions that the Trustee may, at the request of the Manager, borrow money for the account of the Fund. In particular, the purpose of each borrowing shall be for the purposes of meeting redemptions and short-term (not more than four weeks) bridging requirements which may be related to any one or more of the following:

- (1) to pay the redemption proceeds on a redemption of Units;
- (2) to meet the fees, expenses and liabilities of the Fund (excluding the management fee or the trustee fee); or
- (3) to pay distributions of income in accordance with the provision of the Trust Deed.

### **Retirement and Removal of the Trustee and the Manager**

The Trust Deed contains provisions governing the responsibilities of the Trustee and the Manager and providing for their indemnification in certain circumstances. The Trustee or the Manager may, subject to the prior approval of the SFC, retire upon the appointment of a successor in accordance with the provisions of the Trust Deed. The Manager may, subject to the prior approval of the SFC, remove the Trustee by giving at least one month's notice (or any other notice period as approved by the SFC) and appointing as a replacement another qualified trust corporation. In addition, the Manager may be removed in certain circumstances by the Trustee or at any time by the Unitholders of not less than 50% in aggregate in value of the Units of the Fund for the time being in issue.

Any change of the Trustee or the Manager will be notified to Unitholders of the Fund.

### **Termination of the Umbrella Fund and/or the Fund**

With the prior approval of the Manager (except in the case of paragraphs (1) to (3) and (5) immediately below) and the SFC, the Trustee may terminate the Umbrella Fund and/or the Fund by giving not less than one (1) month's prior notice (or such other notice period as approved by the SFC) to the Unitholders:

- (1) if the Manager goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or shall be adjudged a bankrupt or insolvent or appoints liquidators or if a receiver shall be appointed in respect of the property or undertaking of the Manager or any part thereof or the Manager is the subject of any analogous proceedings or procedure in each case under the law of Hong Kong or such other law as may be applicable in the circumstances where, after the expiration of a period of three months, the Trustee has not appointed a new Manager;

(2) if on the expiration of three (3) months after notifying the Manager that in the Trustee's opinion a change of Manager is desirable in the interests of the Unitholders, the Trustee has not found another company ready to accept the office of Manager of the Umbrella Fund and/or the Fund (as the case may be) of which the Trustee and the SFC shall approve;

(3) if, in the reasonable opinion of the Trustee, the Manager shall be incapable of performing its duties properly or shall do any other thing which in the reasonable opinion of the Trustee is calculated to bring the Umbrella Fund and/or the Fund (as the case may be) into disrepute or to be harmful to the interests of Unitholders, provided that the Trustee shall certify that in its reasonable opinion the proposed termination on this ground is in the overall interests of the Unitholders as a whole;

(4) if any laws, rules and regulations imposed by any regulatory or supervisory, governmental, or quasi-governmental authority, any fiscal body or self-regulatory organisation (whether of a governmental nature or otherwise) shall be passed which renders it illegal or in the reasonable opinion of the Trustee (in consultation with the Manager and if the Trustee deems necessary, upon advice from legal counsel) impracticable or inadvisable to continue the Umbrella Fund and/or the Fund (as the case may be);

(5) if the Manager shall have committed a material breach of any of the terms of the Trust Deed and shall have failed to remedy such breach within thirty (30) days after service of a notice by the Trustee requiring such breach to be remedied, provided that the Trustee shall certify that in its reasonable opinion the proposed termination is necessary having regard to the interests of Unitholders; or

(6) if the SFC directs under the SFO that the authorization of the Umbrella Fund and/or the Fund (as the case may be) be withdrawn.

The Umbrella Fund and/or the Fund may be terminated by the Manager if the Manager considers it to be in the best interests of Unitholders to terminate the Umbrella Fund and/or the Fund (as the case may be) and, with the approval of the SFC and the Trustee, gives written notice to the Trustee and not less than one (1) month's prior notice (or such other notice period as agreed with the Trustee and/or the SFC) to the Unitholders of its intention to terminate the Umbrella Fund and/or the Fund (as the case may be).

In particular, the Umbrella Fund and/or the Fund and the class or classes of Units relating thereto may, subject to the prior approval of the SFC and the Trustee, be terminated by the Manager in its absolute discretion where:

(1) the Manager is of the opinion that it is not economically viable to continue the Umbrella Fund and/or the Fund (as the case may be) or the class or classes of Units relating thereto (as the case may be);

(2) the Umbrella Fund and/or the Fund (as the case may be) shall not be or cease to be authorised or otherwise officially approved pursuant to the SFO; or

(3) any law shall be passed, or any other regulatory changes or administrative decisions shall be made by a competent PRC regulator or authority, which shall render the Umbrella Fund and/or the Fund (as the case may be) illegal or in the opinion of the Manager impracticable or inadvisable to continue the Umbrella Fund and/or the Fund.

The Umbrella Fund and/or the Fund (as the case may be) may be terminated at any time by Extraordinary Resolution (as defined in the Trust Deed) of Unitholders and such termination shall take effect from the date on which such Extraordinary Resolution is passed or such later date (if any) as the Extraordinary Resolution may provide.

Any unclaimed securities held by the Trustee under the Trust Deed may at any time after the expiration of 12 months from the date on which the same were to be distributed under the Trust Deed be sold by the Trustee and the net proceeds together with any unclaimed cash held by the Trustee at such time be paid into court subject to the right of the Trustee to deduct therefrom any expenses it may incur in carrying such payment.

### **Complaints and Enquiries Handling**

Investors who wish to make an enquiry or complaint in relation to the Umbrella Fund and/or the Fund may contact or write to the Manager as provided below:

Registered office: 17<sup>th</sup> Floor, Chater House, 8 Connaught Road Central, Hong Kong  
Investor Hotline: +852 2805-0111  
Facsimile: +852 2877-5401

The Manager may address any enquiry or complaint verbally or in writing, depending on the nature of such enquiry or complaint, and shall respond as appropriate as soon as reasonably practicable.

## **RISK CONSIDERATIONS OF INVESTING IN TEMPLETON CHINA OPPORTUNITIES FUND**

*Investors are strongly recommended to read this section carefully before making any investment decision in respect of the Fund.*

### **Concentration Risk**

The Fund invests only in Mainland China. Investors should be aware that the Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as it is more susceptible to fluctuations in value resulting from limited number of holdings or from adverse conditions in the single country which it invests.

### **Counterparty Risk**

The Manager intends that the counterparties with which it deals on behalf of the Fund shall have reasonable financial soundness at the time of entering into the relevant transaction. Counterparties are assessed based on the risk management policies that the counterparties' default risk should both be diversified and minimized, and that the counterparties' performance does not adversely impact the Unitholders. Only counterparties which professional reputations are of high caliber and who are members in good standing with their respective industry associations and regulatory bodies would be approved for use by the Manager. Annual review for the appropriateness of the approved counterparties is also performed to ensure that they continue to meet the aforesaid selection criteria.

However, in the event of bankruptcy or insolvency of any of its counterparties, the Fund may experience delays in liquidating its positions and may, thereby, incur significant losses (including declines in the value of its investment) or the inability to redeem any gains on investment during the period in which the Fund seeks to enforce its rights, and fees and expenses incurred in enforcing its rights.

There is also the possibility that such transactions will be terminated due, for instance, to counterparty bankruptcy.

### **Custodial, Clearance and Settlement Risks**

The lack of adequate custodial, clearance and settlement systems may prevent partial investment or may require the China A Shares Fund and/or the Fund to accept greater custodial, clearance and/or settlement risks in order to make any such investment. There are risks arising from the inadequacy of systems to ensure the transfer, evaluation, compensation and/or recording of securities, the procedure for registering securities, the custody of securities and liquidation of transactions. These risks do not occur as frequently in more developed economies or markets.

The clearance and settlement systems available to effect trades on certain emerging or developing economies or markets as well as the local banking and telecommunications systems or markets may be significantly less developed than those in more developed economies or markets, which may result in delays and other material difficulties in settling trades and in registering transfers of securities. Since the local postal and banking systems may not meet the same standards as those of more developed economies or markets, no guarantee can be given that all entitlements attaching to securities acquired by the China A Shares Fund and/or the Fund can be realized. There is the risk that payment of interest or other distributions by bank

wire or by cheque sent through the mail could be delayed or lost. In addition, there is risk of loss in connection with the insolvency of an issuer's bank, particularly because these institutions may not be guaranteed by the local government.

There may be instances when clearance and settlements may not be able to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Problems with clearance and settlement may affect the value and liquidity of the China A Shares Fund and/or the Fund. The inability of the China A Shares Fund and/or the Fund to make intended securities purchases due to clearance and settlement problems could cause the China A Shares Fund and/or the Fund to miss attractive investment opportunities. Inability to dispose of a portfolio security caused by such problems could result either in losses to the China A Shares Fund and/or the Fund due to subsequent declines in value of the portfolio security or, if the China A Shares Fund and/or the Fund has entered into a contract to sell security, could result in potential liability to the purchaser.

In addition, clearance and settlement procedures may be less developed. The China A Shares Fund and/or the Fund will be exposed to credit risks of parties with or through whom it trades and will also bear the risk of settlement default. Market practice in relation to the clearance and settlement of securities transactions, may increase such risk. In Mainland China, securities transactions may not be executed or settled only upon receipt or delivery of the relevant payment or securities, as a result of which there may be a difference in settlement dates for cash and securities, which creates counterparty risks.

#### **Debt Securities Risk**

There is no assurance that losses will not occur with respect to investment in debt securities (such as bonds). A default on interest or principal by the counterparty may adversely affect the performance of the China A Shares Fund and the Fund. The China A Shares Fund may invest in non-rated and/or lower rated bonds where the risk of failure to pay interest and/or principal is greater when compared to higher rated bonds, exposing the China A Shares Fund and, thus, the Fund to potential losses. Bonds are also exposed to the risk of being downgraded, which can cause a significant drop in the value of the China A Shares Fund and, thus, the Fund.

#### **Early Termination Risk**

Investors should note that the Fund may not continue for an indefinite period of time. The Fund may be terminated by either the Trustee or the Manager. Investors may not get back their original investment. Please refer to the sub-section headed "Termination of the Umbrella Fund and/or the Fund" under the section headed "General" as well as "Risks associated with suspension of dealings, limited investment capabilities and fund termination" under "QFI Regime Risks" for further information.

#### **Foreign Currency, Exchange Control and Multi-Conversion Risks**

There is foreign currency and exchange control risk at the level of the Fund and the China A Shares Fund.

The Fund may be invested in assets quoted in currencies (e.g. RMB or HKD) other than its base currency. The performance of the Fund will therefore be affected by movements in the exchange rate between the currencies in which the assets are denominated and its base currency.

The Fund will be invested in domestic A-Shares equity securities directly through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect and indirectly through the

China A Shares Fund, which uses the QFI status of the QFI Holder to invest primarily in the Mainland China A-Share market.

The base currency of the China A Shares Fund is denominated in USD, while its investments and income derives from such investments (if any) are denominated in currencies other than USD and primarily in RMB (which is currently not a freely convertible currency and is subject to exchange controls and restrictions). As a result, the China A Shares Fund is exposed to incurring transactions costs associated with currency conversion (i.e. from USD subscription monies to RMB for the China A Shares Fund to invest in RMB-denominated investments and from RMB sale proceeds (after the China A Shares Fund has disposed of the RMB-denominated investments) to USD to meet with redemption requests as and when necessary). In addition, investment in the China A Shares Fund will be subject to fluctuations between USD and other currencies, including RMB. There can be no assurance that the RMB will not be subject to devaluation or revaluation or that shortages in the availability of foreign currency will not develop.

### **RMB Currency and Conversion Risks**

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors, such as the Fund are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the fund. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors. Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

### **Interest Rate Risk**

Changes in interest rates may affect the value of a security as well as the financial markets in general. Debt securities (such as bonds) are more susceptible to fluctuations in interest rates. Generally, the price of debt securities will fall when interest rates rise, adversely affecting the value of the China A Shares Fund and, thus, the Fund, whereas the price will rise when interest rates fall. Longer term debt securities are usually more sensitive to interest rate changes than shorter term securities. If the debt securities held by the Fund fall in value, the Fund's value will also be adversely affected.

### **Investment Risk**

Whilst the Manager believes that its investment objectives and strategies for the China A Shares Fund and the Fund will be effective and that investment in the China A Shares Fund may be rewarding, it should be appreciated that, in certain market conditions, the value of the Units may fall. The Manager cannot guarantee that the investment objectives of the China A Shares Fund and the Fund will be achieved. The China A Shares Fund and the Fund therefore carry a risk of loss of capital. Investment in the Fund is suitable only for those investors who can afford the risks involved.

### **Liquidity Risk**

The liquidity of the Fund will be affected by the liquidity of its investments, including its investments in the China A Shares Fund. The liquidity of the Fund and/or the China A Shares Fund may be subject, directly or indirectly, to restrictions imposed under Chinese regulations



on repatriation of principal or profits in respect of investments held through QFIs. This will in turn affect the liquidity of the Fund. In addition, the market value for certain PRC Securities such as B-Shares is relatively small compared to more developed markets, making such securities less liquid and more difficult to trade. Increased liquidity risk may also be associated with investing in other securities that the Fund may invest in, including H-Shares and Red Chips. The Manager also has the power to impose restrictions on the redemption of Units as described in the section headed “Suspension of Dealing”.

### **Mainland China Investment Risk**

An investment in the Fund with exposure to Mainland China’s markets involves certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater government control over the economy, political and legal uncertainty, currency fluctuations or blockage, the risk that Mainland China’s government may decide not to continue to support economic reform programs, the risk of nationalization or expropriation of assets, tax and foreign exchange risk, as well as regulatory risk, legal risk and accounting risk. Additionally, Mainland China’s securities markets are emerging markets characterized by relatively low trading volume, resulting in substantially less liquidity and greater price volatility. These risks may be more pronounced for the A-Share market than for Mainland China’s securities markets generally because the A-Share market is subject to greater government restrictions and control. Moreover, information available about Mainland China companies may not be as complete, accurate or timely as information about listed companies in other more developed economies or markets.

Investors should note that the stock exchanges in Mainland China on which A-Shares and B-Shares are traded are at a developing stage and the market capitalization and trading volume may be lower than those in more developed financial markets. Market volatility and potential lack of liquidity in the A-Share and B-Share markets may result in prices of securities traded on such markets fluctuating significantly, and may result in substantial changes in the net asset value of the Fund and/or the China A Shares Fund.

The national regulatory and legal framework for capital markets in Mainland China is still developing when compared with those of developed countries. The Fund may encounter difficulties or delays in enforcing its rights or judgment in Mainland China. The accounting, auditing and financial reporting standards and practices in the PRC may not be equivalent to international standards and practices. The disclosure requirements in the PRC may also differ from those applicable in developed countries, for example, less information is available to investors and such information may be out of date. In addition, the settlement and clearing systems of the Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency. The effects of such development on the A-Share market as a whole remain to be seen.

### **Mainland China Tax Risk**

In view of the issuance of Circular No.79, the manager of the China A Shares Fund had, after considering independent professional external tax advice, ceased to make additional provision for tax liabilities in relation to realised gains from trading of A-Shares from 17 November 2014 onwards.

As for a Red Chip Company, it should be treated as an offshore company for CITL purposes unless it is confirmed by the SAT as a PRC tax resident enterprise (“TRE”) either through self-application or deemed by the local tax authority. Therefore, dividends distributed by the Red Chip Company, which has not been confirmed as a TRE by the SAT, to non-resident enterprises

(assuming that the non-resident enterprises have no permanent establishment and are themselves not TREs in the PRC) and capital gains derived by the non-resident enterprises from the disposal of equity interest in the Red Chip Company should not be subject to PRC withholding income tax unless the Red Chip Company is confirmed by the SAT as a TRE in the PRC. If the Red Chip Company is confirmed by the SAT as a TRE, dividends received from the Red Chip Company by non-resident enterprises (assuming that they have no permanent establishments and are themselves not TREs in the PRC) are considered as PRC-sourced income and subject to 10% withholding income tax, which may be reduced by treaty relief. Capital gains derived by non-resident enterprises from the transfer of shares in a Red Chip Company, which has been confirmed by the SAT as a TRE should technically be subject to 10% withholding income tax (which may be reduced by treaty relief), though it is currently not collected by the SAT in practice where both the sale and purchase of the PRC Securities are conducted on public stock exchanges. At the Red Chip Company level, dividends received from the PRC investees should generally be exempted from CITL while capital gains arising from the disposal of PRC investees' equity interest should be subject to 25% CITL.

Based on independent tax advice, the Manager will not make provisions for any PRC taxes payable by the Fund on capital gains derived from the sale of B-shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises and Red Chips, on the basis that both the sale and purchase of the listed securities are conducted on public stock exchanges.

The tax law and regulations of Mainland China are constantly changing, and they may be changed with retrospective effect to the advantage or disadvantage of Unitholders. The interpretation and applicability of the tax law and regulations by tax authorities may not be as consistent and transparent as those of more developed nations, and may vary from region to region. It should also be noted that any provision for taxation made by the Manager may be excessive or inadequate to meet final Mainland China tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units in/from the Fund. Any sums withheld in excess of the tax liability incurred or is expected to be incurred by the Fund shall be released and transferred to the Fund's accounts forming part of the Fund's assets. On the other hand, where the amount of such provisions is not sufficient to meet the actual tax liabilities, any shortfall will be debited from the Fund's assets. The Fund's asset value will be adversely affected as the Fund will have to bear the additional tax liabilities.

Please refer to the section headed "Risk Considerations of Investing in Templeton China Opportunities Fund – Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect risk – Mainland China tax consideration" and the section headed "Tax Notes" for further information.

#### **Additional Mainland China tax risks for the China A Shares Fund**

The tax assessment disclosed under "Tax Notes" was made in accordance with the enterprise income tax law, the implementation rules and practices adopted by the SAT. The net asset value of the China A Shares Fund may require further adjustments to take into account any retrospective application of tax regulations and developments, including changes in interpretation of the relevant regulations and practices adopted by the relevant PRC tax authorities. As the Fund's investments in A-Shares are primarily through the China A Shares Fund, the net asset value of the Fund may be impacted due to the adjustments to the net asset value of the China A Shares Fund.

Investors should also note that Circular No.79 states that the exemption of taxation on gains only applies on a temporary basis. There may be significant impact on the China A Shares Fund (and consequently the Fund) if and when the relevant PRC authorities announce the termination of the exemption. Any future clarification or cessation of exemption of tax on gains, and guidance on the assessment and collection of the amount of tax payable upon the termination of the temporary tax exemption may substantially impact the China A Shares Fund (and consequently the Fund) negatively or positively. There is also a possibility of the PRC tax regulations and practices being changed and taxes being applied to the China A Shares Fund retrospectively, which may consequently impact the Fund.

In view of the above uncertainties, investors should note that any level of provision (or no provision) may be excessive or may be inadequate to meet the actual PRC tax liabilities on the investments made by the China A Shares Fund. Consequently, the Fund and its Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities and the level of provision by the China A Shares Fund, and when the Fund and its Unitholders subscribed and/or redeemed units in the China A Shares Fund and the Fund respectively. If no provision is made by the manager of the China A Shares Fund in relation to all or part of the actual tax to be levied by the relevant PRC tax authorities in future, investors of the Fund should note that the net asset value of the China A Shares Fund (and consequently the Fund) may be lowered, as the China A Shares Fund (and consequently the Fund) will ultimately have to bear the cost of the full amount of the PRC tax liabilities. In such an event, the additional PRC tax liabilities on the China A Shares Fund will impact the Fund and the Units of the Fund in issue at the relevant time, and the existing Unitholders at that time and subsequent Unitholders will be disadvantaged as they will bear, through the Fund's investment in the China A Shares Fund, a disproportionately higher amount of PRC tax liabilities as compared to investors who had redeemed units in the Fund prior to the recognition of the additional PRC tax liabilities by the China A Shares Fund.

Investors are reminded that any further changes to the applicable PRC taxation laws and regulations relevant to the China A Shares Fund may result in a further and possible substantial loss to the China A Shares Fund, and consequently affect the Fund, if or to the extent that such liabilities are not already provisioned for, or withheld upon by the China A Shares Fund, notwithstanding the manager of the China A Shares Fund's reasonable assessment on the likelihood of such tax exposure and best estimate on the amount of tax provision required. The manager of the China A Shares Fund has informed the Fund that it will assess the impact of any further guidance provided by the relevant PRC tax authorities and make adjustments to the tax provision of the China A Shares Fund accordingly, where required, based on the manager of the China A Shares Fund's reasonable assessment on the likelihood of such tax exposure and best estimate on the amount of tax provision required.

**Unitholders of the Fund may be advantaged or disadvantaged depending upon the final tax liabilities of the China A Shares Fund settled with the relevant PRC tax authority, the level of provision by the China A Shares Fund and when the Fund subscribed and/or redeemed units in the China A Shares Fund. Any tax provision, if made by or reversed by the manager of the China A Shares Fund for the China A Shares Fund, will be reflected in the net asset value of the China A Shares Fund at the time the provision is booked or when the provision is reversed and thus will only have impact on the Fund and Unitholders who remain invested in the Fund at that time. Unitholders of the Fund who have redeemed their investments prior to such time will not be affected by the tax**

**liabilities of the China A Shares Fund as a result of insufficient tax provision and its consequent impact on the Fund. Likewise, Unitholders of the Fund who have already redeemed their Units in the Fund before the date of the reversal of any tax provision by the China A Shares Fund (and its consequent impact on the Fund) will not be entitled or have any right to claim any part of the amount representing the consequent adjustment to the net asset value of the Fund. Unitholders should seek their own tax advice on their tax position with regard to their investment in the Fund.**

### **Market Risk**

The Fund is subject to substantial market fluctuations and to the risks inherent in all investment, and investors should be aware that the price of the Units can go down as well as up. Investors may not get back their original investment. Investments in the Fund are designed to produce returns over the long term and are not suitable for short-term speculation.

An investment in the Fund involves risks. These risks may include or relate to, amongst other things, equity market, foreign exchange, interest rate, credit, market volatility and political risks and any combination of these and other risks. Investors are also reminded that risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of the Units. No assurance can be given as to the effect that any combination of risk factors may have on the value of the Units.

Investors should note that investments in the Fund are not bank deposits and repayment of principal is not insured or guaranteed by any deposit insurance or government agency.

### **Political, Social and Economic Risks**

Changes to government policies or legislation may adversely affect the political or economic stability of the markets in which the Fund invests. Investments in Mainland China will be sensitive to any significant change in political, social or economic policies in Mainland China, which are determined by the central government and which will be impacted by the gradual transition of Mainland China from a centrally planned economy to a more free market oriented economy. Such sensitivity may adversely affect the capital growth and thus the performance of these investments. The accounting, auditing and financial reporting standards and practices in the PRC may not be equivalent to international standards and practices.

### **Risks of Investing in Another Collective Investment Scheme**

The Fund will invest in A-Shares indirectly through another collective investment scheme, namely, the China A Shares Fund. In addition to the expenses and charges charged by the Fund, investors should note that there are additional fees involved when investing into the China A Shares Fund, including fees and expenses charged by the service provider(s) of the China A Shares Fund and the redemption fee charged by the China A Shares Fund during the lock-up period applicable to the China A Shares Fund. Furthermore, there can be no assurance that (i) the liquidity of the China A Shares Fund will always be sufficient to meet redemption requests as and when needed and (ii) the investment objective and strategy of the China A Shares Fund will be successfully achieved. As the Investment Manager is appointed to provide portfolio management services for the China A Shares Fund, potential conflicts of interest may arise. Please refer to the section headed “Conflicts of Interest” for details.

The valuation of the Fund’s holdings in another collective investment scheme in which it invests depends primarily on unaudited financial information provided by the relevant collective investment scheme and its service providers. This may affect the calculation of the net asset value

of the Fund which may not reflect the fair value of the investment of the Fund. Further, the Fund may also experience a delay in receiving the required financial information from the relevant collective investment scheme for calculating the Fund's net asset value if the dealing day of such scheme is not the same as that of the Fund. If the Fund invests in an underlying fund that is managed by the Manager or a connected person of the Manager, potential conflicts of interest may arise. Please refer to the section headed "Conflicts of Interest" for details.

### **Risks relating to Foreign Account Tax Compliance Act ("FATCA")**

Investors should refer to the section headed "United States Foreign Account Tax Compliance Act" in this Offering Document for more information on FATCA and how it affects the Umbrella Fund and/or the Fund and their investors. The Manager will endeavour to satisfy the requirements imposed under the FATCA to avoid any withholding tax. In the event the Umbrella Fund and/or the Fund is not able to comply with the requirements imposed by FATCA, and the Umbrella Fund and/or the Fund suffers FATCA withholding tax on its investments as a result of non-compliance, the net asset value of the Umbrella Fund and/or the Fund may be adversely affected and the Umbrella Fund and/or the Fund may suffer significant loss as a result.

### **Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect risk**

In addition to the risk associated with Mainland China investment and the risk related to investments in RMB, investments through the Stock Connect are subject to additional risks, namely, quota limitations, suspension risk, differences in trading day, restrictions on selling imposed by front-end monitoring, clearing, settlement and custody risks, operational risk, recalling of eligible stocks, beneficial owner of the Stock Connect Securities, investor compensation, trading costs, Mainland China tax consideration and regulatory risk.

#### Quota limitations

The Stock Connect is subject to quota limitations on investments, which may restrict the Fund's ability to invest in A-Shares through the Stock Connect on a timely basis, and the Fund may not be able to effectively pursue its investment strategy. In particular, once the Northbound daily quota is reduced to zero or the Northbound daily quota is exceeded during the opening call session, new buy orders will be rejected (although investors will be allowed to sell their cross-boundary securities regardless of the quota balance).

#### Suspension risk

Each of the SEHK, SZSE and SSE reserves the right to suspend trading if necessary for ensuring an orderly and fair market and managing risks prudently. In case of a suspension, the Fund's ability to invest A-Shares and access the Mainland China market through the Stock Connect will be adversely affected. In such event, the Fund's ability to achieve its investment objective could be negatively affected.

#### Differences in trading day

The Stock Connect only operates on days when both the Mainland China and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. Due to the difference in trading days between the mainland China and the Hong Kong markets, there may be occasions when it is a normal trading day for the Mainland China market but not in Hong Kong and, accordingly, the Fund cannot carry out any Stock

Connect Securities trading. The Fund may therefore be subject to a risk of price fluctuations in A-Shares during the periods when the Stock Connect is not operational.

#### Restrictions on selling imposed by front-end monitoring

Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise both SZSE and SSE will reject the sell order concerned. SEHK will carry out pre-trade checking on A-Shares sell orders of its participants (*i.e.*, the stock brokers) to ensure there is no over-selling.

#### Clearing, settlement and custody risks

The Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of HKEx (“HKSCC”) and ChinaClear established the clearing links and each is a participant of each other to facilitate clearing and settlement of cross-boundary trades. As the national central counterparty of Mainland China’s securities market, ChinaClear operates a comprehensive network of clearing, settlement and stock holding infrastructure. ChinaClear has established a risk management framework and measures that are approved and supervised by the China Securities Regulatory Commission (“CSRC”). The chances of a ChinaClear default are considered to be remote.

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC will, in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear’s liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

The A-Shares traded through Stock Connect are issued in scripless form, so investors, such as the Fund, will not hold any physical A-Shares. Hong Kong and overseas investors, such as the Fund, who have acquired Stock Connect Securities through Northbound trading should maintain the Stock Connect Securities with their brokers’ or custodians’ stock accounts with the Central Clearing and Settlement System (“CCASS”) operated by HKSCC for the clearing securities listed or traded on SEHK. Further information on the custody set-up relating to the Stock Connect is available upon request from the Manager.

#### Operational risk

The Stock Connect provides a new channel for investors from Hong Kong and overseas, such as the Fund, to access the China stock market directly. The Stock Connect is premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this program subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

It should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the trial program to operate, market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in the Stock Connect program requires routing of orders across the border. This requires the development of new information technology systems on the part of

the SEHK and exchange participants (*i.e.*, a new order routing system (“China Stock Connect System”) to be set up by SEHK to which exchange participants need to connect). There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the program could be disrupted. The Fund’s ability to access the A-Share market (and hence to pursue its investment strategy) will be adversely affected.

#### Recalling of eligible stocks

If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Fund’s ability to invest in A Shares through the Stock Connect.

#### Beneficial Owner of the Stock Connect Securities

As mentioned, A-Shares traded through Stock Connect are issued in scripless form, so the Fund will not hold any physical China A-Shares and should maintain the shares via or with the brokers’ or Depository’s stock accounts with CCASS operated by HKSCC for the clearing securities listed or traded on the SEHK). In respect of SSE Securities, HKSCC holds SSE Securities of all its participants through a “single nominee omnibus securities account” in its name registered with ChinaClear, the central securities depository in the PRC. HKSCC is only a nominee holder and the Fund remains the beneficial owner of the SSE Securities. The Fund’s title or interests in, and entitlements to SSE Securities (whether legal, equitable or otherwise) will therefore be subject to applicable requirements, including laws relating to any disclosure of interest requirement or foreign shareholding restriction. CCASS Rule 824 confirms that all proprietary interests in respect of A-Shares held by HKSCC as nominee holder belong to CCASS participants or their clients (as the case may be). Also as set out in CCASS Rule 824, HKSCC is prepared to provide assistance to the beneficial owners of A-Shares, where necessary, to provide certification to ChinaClear for the purpose of providing evidential proof of the CCASS participant’s or its client’s holding in A-Shares; and to assist the CCASS participant or its client bringing the legal action in the PRC in the manner as may be required under PRC law, after having regard to its statutory duties and subject to such conditions as HKSCC may reasonably require (including payment of fees and costs upfront and indemnities to the satisfaction of HKSCC). Although the relevant CSRC regulations and ChinaClear rules generally provide for the concept of a “nominee holder” and recognise the Hong Kong and overseas investors (including the Fund) as the ultimate owners who would be recognised under the laws and regulations of the PRC as having beneficial ownership in the A-Shares traded via the Shanghai-Hong Kong Stock Connect, how an investor such as the Fund, as the beneficial owner of the A-Shares, under the Shanghai-Hong Kong Stock Connect structure, exercises and enforces its rights over the China A-Shares in the PRC courts are to be tested. It is expected that same nominee holder arrangement will apply to Shenzhen-Hong Kong Stock Connect.

#### Investor compensation

Investments of the Fund through Northbound trading under the Stock Connect will not be covered by Hong Kong’s Investor Compensation Fund. Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong.

Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Hong Kong's Investor Compensation Fund. On the other hand, since the Fund is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, therefore they are not protected by the China Securities Investor Protection Fund in Mainland China.

#### Trading costs

In addition to paying trading fees and stamp duties in connection with A-Share trading, the Fund may be subject to new portfolio fees, dividend tax and tax concerned with income arising from stock transfers which are yet to be determined by the relevant authorities.

#### Mainland China tax consideration

There are risks and uncertainties associated with the current Mainland China tax laws, regulations and practice in respect of capital gains realized via the Stock Connect on the Fund's investments in Mainland China (which may have retrospective effect). Any increased tax liabilities on a Fund may adversely affect the Fund's value.

Pursuant to the "Notice about the tax policies related to Shanghai-Hong Kong Stock Connect" (Caishui [2014] No. 81) ("Circular No. 81") and "Notice about the tax policies related to Shenzhen-Hong Kong Stock Connect" (Caishui [2016] No. 127) ("Circular No. 127") jointly promulgated by the Ministry of Finance, State of Administration of Taxation and CSRC, corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A-Shares through the Stock Connect.

Based on professional and independent tax advice, currently no tax provision is made on the capital gains, realized or unrealized, arising from the Fund's investments via the Stock Connect. If tax provision has been made by the Fund, any shortfall between the provision and the actual tax liabilities, which will be debited from the Fund's assets, will adversely affect the Fund's net asset value. The actual tax liabilities may be lower than the tax provision made. Depending on the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

It should be noted that the corporate income tax exemption under Circular No. 81 and Circular No. 127 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the net asset value of the Fund.

#### Regulatory risk

The CSRC Stock Connect rules are departmental regulations having legal effect in Mainland China. However, the application of such rules is untested, and there is no assurance that Mainland China courts will recognise such rules, e.g. in liquidation proceedings of Mainland China companies.



The Stock Connect is novel in nature, and is subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in Mainland China and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect.

The regulations are untested so far and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change. There can be no assurance that the Stock Connect will not be abolished. The Fund which may invest in Mainland China markets through Stock Connect may be adversely affected as a result of such changes.

### **QFI Regime Risks**

Under normal market conditions, at least 70% of the Fund's total net assets will be invested the China A Shares Fund. As such, the QFI regime risks associated with the China A Shares Fund (as outlined below) will also affect the Fund.

#### *Risks associated with repatriation and investment restrictions*

Repatriations by QFIs in respect of the China A Shares Fund are currently not subject to repatriation restrictions or prior approval, although a review on authenticity and compliance will be conducted on each remittance and repatriation by the QFI Local Custodian. The repatriation process may be subject to certain requirements set out in the relevant regulations such as submission of certain documents, and completion of the repatriation process may be subject to delay. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the investment principal and income may impact on the China A Shares Fund's ability to meet the redemption requests of the unitholders of the China A Shares Fund (including the Fund). Furthermore, as the QFI Local Custodian's review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the QFI Local Custodian in case of non-compliance with the QFI rules and regulations. In this case, payment of the redemption proceeds may be delayed and paid to unitholders of the China A Shares Fund (including the Fund) as soon as practicable and in any event within seven (7) Business Days after completion of the repatriation process. The China A Shares Fund may be exposed to potential loss from any restriction or delay in the QFI Holder's ability to convert USD from or into RMB and/or to repatriate funds from Mainland China and therefore may have adverse impact on the Fund.

In the event that redemption requests for a large number of units of the China A Shares Fund are received on a Dealing Day (i.e. more than 10% of the total number of Units in issue), the China A Shares Fund may need to, for the purposes of meeting such redemption requests, defer part of the redemption requests in the China A Shares Fund in accordance with the details set out in the sub-section headed "Instructions and Payments" under the section headed "Redemption of Units".

There are rules and restrictions under current QFI regulations including rules on investment restrictions. Transaction sizes for QFIs are relatively large (with the corresponding heightened risk of exposure to the decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities).

### *Risks associated with QFI Local Custodian and PRC Broker*

The QFI Local Custodian of the Fund and/or the China A Shares Fund is responsible for providing custody services to the China A Shares Fund's cash and securities assets in the PRC. As the Fund and/or the China A Shares Fund invest in the PRC market where custodial and/or settlement systems are not fully developed, the assets of the Fund and/or the China A Shares Fund may be exposed to custodial risk.

In the event that the QFI Local Custodian is liquidated, bankrupt or insolvent, the China A Shares Fund may need a more lengthy time to recover their assets. In the event that there is any retroactive application of legislation and/or fraud or improper registration of the title of the assets of the China A Shares Fund, the China A Shares Fund's assets held by the QFI Local Custodian may, in whole or in part, become unavailable for withdrawal or delivery. Under such circumstances, the China A Shares Fund may not be able to recover its assets, in whole or in part, held in custody by the QFI Local Custodian. The reduction in the quantity or value of such assets will create losses to the China A Shares Fund. This will adversely impact the Fund. In addition, the costs borne by the China A Shares Fund in investing and holding investments in the PRC market through a local custodian in the PRC will generally be higher than in developed securities markets. Such higher costs could adversely affect the asset value of the China A Shares Fund and hence the investments of investors in the Fund.

As regards the PRC Broker, there is a risk that the Fund and/or the China A Shares Fund may suffer losses, whether direct or consequential, from the default or bankruptcy of the PRC Broker or disqualification of the same from acting as a broker, which may prevent the China A Shares Fund from trading to any further degree with that PRC Broker, potentially disrupting current or contemplated trades for particular securities and presenting an opportunity cost. This may affect the performance of the Fund and the investments of investors, as best execution or the transfer of certain funds or securities may not be immediately available or possible.

This may also adversely affect the China A Shares Fund in the execution or settlement of any transaction or in the transfer of any funds of securities.

Reasonably competitive commission rates and prices of securities will generally be sought to execute the relevant transactions in Mainland China's markets. It is possible that only a single PRC Broker is appointed by the QFI Holder per stock exchange due to operational constraints and/or other factors. As a result, the China A Shares Fund may not necessarily pay the lowest commission or spread available. Notwithstanding the foregoing, the Manager and the manager of the China A Shares Fund will seek to obtain the best net results for the Fund and the China A Shares Fund respectively, taking into account such factors as prevailing market conditions, price (including the applicable brokerage commission or dealer spread), size of order, difficulties of execution and operational facilities of the PRC Broker involved and the PRC Broker's ability to position efficiently the relevant block of securities.

A-Shares or other permissible securities acquired by the QFI for the account of the China A Shares Fund are registered in the name of Templeton Investment Counsel, LLC –Templeton China A Shares Fund in accordance with Mainland China's laws and regulations, and maintained in electronic form via a securities account with the ChinaClear. The QFI Holder selects one or more PRC Brokers to act on its behalf in Mainland China markets as well as the QFI Local Custodian to maintain its assets in safe custody.

Under QFI regulations, the assets, including cash, held by the QFI Local Custodian belong to the China A Shares Fund as the ultimate beneficial owner, and they are segregated from the assets of the QFI Holder, the QFI Local Custodian, the PRC Broker, and their respective clients. Under QFI regulations, if the QFI Holder, the QFI Local Custodian or the PRC Broker is liquidated, the assets (including cash) which belong to the China A Shares Fund do not form part of the liquidation assets of the QFI Holder, the QFI Local Custodian or the PRC Broker.

The China A Shares Fund may incur losses due to a default, act or omission of either the PRC Broker or the QFI Local Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities and therefore may have adverse impact on the Fund.

*Risks associated with suspension of dealings, limited investment capabilities and fund termination*

There can be no assurance that realization requests can be processed, due to QFI repatriation regulations. This may result in a need to suspend dealings in the China A Shares Fund.

In extreme circumstances, the China A Shares Fund may incur significant loss due to limited investment capabilities, or may not be able to fully implement or pursue its investment objectives or strategies, due to QFI investment restrictions, illiquidity of the A-Share market, and delay or disruption in execution of trades or in settlement of trades.

The China A Shares Fund may, subject to the prior approval of the SFC and the Trustee, be terminated by the manager of the China A Shares Fund in its absolute discretion if, among other things, any law shall be passed, or any other regulatory changes or administrative decisions shall be made by a competent PRC regulator or authority (including, but not limited to, the suspension of the QFI regime in the PRC as a whole, and/or the termination of the QFI status of the QFI Holder), which shall render the China A Shares Fund illegal or in the opinion of the manager of the China A Shares Fund impracticable or inadvisable to continue the China A Shares Fund. In such circumstances, the Fund will be adversely impacted. Please refer to the section headed “Termination of the Umbrella Fund and/or the Fund” for further information.

*Risks associated with additional investment and borrowing restrictions*

Investors should note that certain restrictions imposed by the Chinese authorities on QFIs may have an adverse effect on the performance of the China A Shares Fund (and, in turn, the performance of the Fund). Investments in securities through QFIs are generally subject to compliance with the following investment restrictions currently imposed under QFI regulations in the PRC, as amended from time to time:

- (1) shares held by each QFI or any other foreign investor (such as the China A Shares Fund) in a single listed company should not exceed 10% of the total outstanding shares of such listed company; and
- (2) total shares held by all QFIs and other foreign investors (such as the China A Shares Fund) in the A-Shares of each listed company should not exceed 30%, or any other applicable regulatory threshold as specified by the Chinese authorities from time to time, of the total outstanding shares of such listed company.

When foreign investors carry out strategic investments in listed companies in accordance with

the rules, the shareholding of the strategic investments is not capped by the abovementioned percentages. Stricter restrictions on shareholding by foreign investors separately imposed by applicable law, regulation or any other regulatory rule in the PRC, if any, shall prevail.

As there are limits on the total shares held by all QFIs and other foreign investors (such as the China A Shares Fund) in one single listed company in the PRC, the capacity of the China A Shares Fund to make investments in A-Shares will be affected by the activities of all other QFIs and other foreign investors, and not just the activities of the manager of the China A Shares Fund as the QFI Holder. In addition, the manager of the China A Shares Fund as the QFI Holder may also experience practical and/or operational issues when monitoring the total shares held by all QFIs and other foreign investors in one single listed company in the PRC as different QFIs and other foreign investors could potentially be involved. A breach of the aforesaid limits by the QFI Holder may result in regulatory actions taken against the QFI Holder and potentially affect the investments made by the China A Shares Fund, and thus, the Fund..

#### *Risks associated with QFI regulations and others regulatory requirements*

The regulations which regulate investments by QFIs in Mainland China and the repatriation and currency conversion may be subject to change. The application and interpretation of such investment regulations may therefore not be certain and there is no certainty as to how they will be applied as Mainland China authorities and regulators have been given wide discretion in administering such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future. The uncertainty and change of the laws and regulations in the PRC may adversely impact the China A Shares Fund and, thus, the Fund. The rules and regulations which regulate QFI investment are also subject to changes.

The Fund's investments are also subject to regulatory risk, for example, the introduction of new laws or the imposition of exchange controls (or additional controls or restrictions). The China A Shares Fund and the Fund must comply with various legal requirements, including securities laws and tax laws. Should any of those laws change over the life of the China A Shares Fund and the Fund, the corresponding regulatory requirements to which the China A Shares Fund, the Fund as well as the unitholders of the China A Shares Fund and the Fund may be subject could differ materially from the current requirements.

#### *Risks associated with the QFI status of the QFI Holder*

The status or approval of the QFI Holder of the China A Shares Fund may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFI Holder or for any other reasons. In such event, all the assets held by the QFI Holder for or on account of the China A Shares Fund will be liquidated and repatriated to the China A Shares Fund in accordance with applicable laws and regulations and the provisions of the agreement between the China A Shares Fund and the QFI Holder. The China A Shares Fund and, thus, the Fund may suffer loss as a result of such liquidation and repatriation. In addition, the QFI rules and restrictions generally apply to the QFI as a whole and not simply to the investments made by the China A Shares Fund (and thus, the Fund). If the other activities performed by the QFI Holder in respect of any other investors who also invest through the QFI status of the QFI Holder have resulted in any regulatory actions taken against the QFI Holder, including the revocation of the QFI status as a whole, the China A Shares Fund and, thus, the Fund will be adversely affected.

**Valuation of Securities Risk**

Investors should be aware that the value of securities invested by the Fund may vary over time and may increase or decrease by reference to a variety of factors which may include, amongst other things, corporate actions, macro-economic factors, speculation and market activity. Prices of listed securities may be subject to sudden and substantial price movement. This may result in substantial changes in the net asset value of the Fund.

## TAX NOTES

### **(i) General**

The Offering Document is not intended to provide a comprehensive guide to the taxation treatment of investors. The Offering Document is intended as a general guide only and do not necessarily describe the tax consequences for all types of investors in the Fund and no reliance, therefore, should be placed upon them. All prospective Unitholders, and in particular those from jurisdictions other than those specifically referred to below or of classifications not referred to below should inform themselves of, and take their own advice on, the taxes applicable to the subscription, holding, transfer and redemption of units, and any distribution (each, a “Relevant Event”) under the laws of the place of their operation, domicile, residence, citizenship and/or incorporation. None of the parties listed in the section “Management and Administration Directory” gives or makes any warranty and/or representation as to the tax consequences in relation to any Relevant Event (or combination of Relevant Events), take any responsibility for any tax consequences in relation to any Relevant Event (or combination of Relevant Event), and the Fund and such parties expressly disclaim any liability whatsoever for any tax consequences in relation to any Relevant Event (or combination of Relevant Events) and/or for any loss howsoever arising (whether directly or indirectly) from any Relevant Event (or combination of Relevant Events).

### **(ii) Taxation of the Fund in its Jurisdiction of Formation – Hong Kong**

For so long as the Umbrella Fund and the Fund are authorised by the SFC as a collective investment scheme under Section 104 of the SFO, they will be exempted from Hong Kong profits tax.

### **(iii) Taxation of Unitholders in Hong Kong**

A Unitholder will not be liable to Hong Kong profits tax on gains realised on the sale or redemption of Units except where the acquisition and disposal of Units are or form part of a trade, profession or business carried on by the Unitholder in Hong Kong and the gains are revenue in nature and sourced in Hong Kong for Hong Kong profits tax purposes. The classification of a gain as revenue or capital in nature will depend on the particular circumstances of the Unitholders.

### **Stamp Duty**

No Hong Kong stamp duty is payable where the sale or transfer of the Units is effected by extinguishing the Units or the sale or transfer is to the Manager who subsequently re-sells the Units within two (2) months thereof.

Other types of sales or purchases or transfers of Units by Unitholders would be liable to Hong Kong stamp duty at 0.1% on the higher of the consideration or market value, payable by both the buyer and the seller (i.e. a total of 0.2%).

Unitholders should take advice from their own professional advisers as to their particular tax position.

#### **(iv) Investment Markets**

The taxation of the Fund in the key markets in which it invests is as follows:

##### **Hong Kong**

For as long as the Umbrella Fund and the Fund are authorized by the SFC as a collective investment scheme under section 104 of the SFO, they will be exempted from Hong Kong profits tax provided the Umbrella Fund and the Fund carry on business in accordance with the purposes stated in their constitutive documents as approved by the SFC and in accordance with the requirements of the SFC.

##### **The People's Republic of China**

###### **1. PRC Withholding Income Tax (“WHT”)**

Guoshuihan [2009] 394 (“Circular 394”) was issued to clarify the PRC WHT treatment of dividends derived by non-resident enterprises from PRC listed shares. Circular 394 provides that 10% PRC WHT should be withheld by PRC issuers of A-Shares, B-Shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises in respect of dividends payable to non-resident enterprises (assuming that they do not have an establishment or a place of business in the PRC) for the year 2008 and after. The WHT rate may be reduced under an applicable DTA.

Interest derived by non-resident enterprises (including QFIs) from the holding of PRC government bonds is exempt from PRC WHT; but interest from non-government bonds should be subject to PRC WHT at 10%, which may be reduced under applicable DTA. On 22 November 2018, the PRC Ministry of Finance (“MOF”) and the SAT jointly issued Caishui [2018] 108 (“Circular 108”) to stipulate that foreign institutional investors are temporarily exempt from WHT with respect to bond interest income derived in the domestic bond market for the period from 7 November 2018 to 6 November 2021.

On 14 November 2014, the SAT and the CSRC jointly issued Circular No.79. Circular No.79 states, amongst other things, that:

- (i) QFIs without an establishment or place in the PRC are, with effect from 17 November 2014, temporarily exempt from PRC enterprise income tax on gains derived from the transfer of domestic shares and other equity interest investment in the PRC; and
- (ii) enterprise income tax shall be imposed on such gains earned by QFIs before 17 November 2014 in accordance with the tax laws.

PRC tax circulars Caishui [2014] No. 81 and Caishui [2016] No. 127 provide that PRC corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A-Shares through the Stock Connect.

There is an absence of specific regulation on the trading gains derived by non-PRC enterprises from other listed shares issued by PRC enterprises under the CITL, and the general principles of the CITL should be followed. Thus, capital gains derived by non-resident enterprises from the disposal of listed shares issued by PRC resident enterprises including B-Shares, H-Shares

and other overseas listed shares issued by PRC resident enterprises should technically be subject to 10% PRC WHT which may be reduced by applicable DTA.

As the Detailed Implementation Regulations of the CITL did not specify the sourcing rule for capital gains derived from the trading of debts (e.g. PRC government bonds / corporate bonds issued by PRC resident enterprises), it is unclear whether gains derived by non-resident enterprises from the trading of the above debt instruments would be considered as PRC-sourced. On the basis that PRC debts are treated as movable assets, gains derived by non-PRC residents (including QFIs) from the trading of PRC debts should not be considered as PRC-sourced income, and thus should not be subject to WHT. In practice, the PRC tax authorities have not enforced the collection of WHT from foreign investors on gains from trading of PRC fixed income securities.

In practice, the PRC tax authorities have not yet actively enforced the collection of PRC WHT on capital gains derived by non-resident enterprises from the trading of the above listed securities (except for capital gains derived by QFIs from the trading of A-Shares prior to 17 November 2014) where both the sale and purchase of the listed securities are conducted on public stock exchanges. Therefore, there is uncertainty as to whether the SAT will collect WHT in respect of the gains on PRC listed shares and bonds.

As for a Red Chip company, it should be treated as an offshore company for CITL purposes unless it is confirmed by the SAT as a PRC tax resident enterprise (“TRE”) either through self-application or deemed by the local tax authority. Therefore, dividends distributed by the Red Chip Company, which has not been confirmed as a TRE by the SAT, to non-resident enterprises (assuming that the non-resident enterprises have no permanent establishment and are themselves not TREs in the PRC) and capital gains derived by the non-resident enterprises from the disposal of equity interest in the Red Chip Company should not be subject to PRC WHT, provided that both the purchase and sale are conducted on public stock exchange.

If the Red Chip Company is confirmed by the SAT as a TRE, dividends received from the Red Chip Company by non-resident enterprises (assuming that they have no permanent establishments and are themselves not TREs in the PRC) are considered as PRC-sourced income and subject to 10% PRC WHT, which may be reduced by treaty relief under a DTA if applicable. Capital gains derived by non-resident enterprises from the transfer of shares in the Red Chip Company, which has been confirmed by the SAT as a TRE, should technically be subject to 10% PRC WHT (subject to any relief under a DTA if applicable), though it is currently not collected by the SAT in practice where both the sale and purchase of the PRC securities are conducted on the public stock exchanges. At the Red Chip Company level, dividends received from the PRC investees should generally be exempted from CITL while capital gains arising from the disposal of PRC investees’ equity interest should be subject to 25% CITL.

## 2. Other taxes

Prior to 1 May 2016, technically, PRC-source interest income should also be subject to 5% PRC Business Tax (“BT”) and local surcharges (the amount of the local surcharges is about 12% of the PRC BT paid). In practice, the PRC tax authorities did not enforce the collection of BT on coupon interest on government and corporate bonds. In the absence of specific provision on BT exemption, gains derived by non-resident enterprises from the buying and selling of listed shares and bonds issued by PRC resident enterprises on PRC stock exchanges may be



subject to 5% PRC BT. In practice, the PRC tax authorities did not enforce the collection of BT on gains derived by non-resident enterprises from the trading of the above securities. According to Caishui [2005] 155, QFIIs were exempt from BT on gains realised from the trading of securities.

With the issuance of Caishui [2016] 36 (“Circular 36”) coming into effect on 1 May 2016, gains derived from the trading of PRC securities and interest income received from PRC bonds (except for PRC government bonds) are subject to PRC Value-Added Tax (“VAT”) at 6% instead of BT, subject to exemption or reduction under the domestic VAT regulations. If VAT is applicable, there are also local surcharges that would amount to as high as 12% of VAT payable.

According to Circular 36 and Caishui [2016] 70 (“Circular 70”), gains derived by QFIs from the trading of onshore PRC securities (including A-Shares and PRC bonds) are exempt from VAT since 1 May 2016. Circular 70 also states that the gains derived from investment in the PRC interbank local currency markets (including money market, bond market and derivatives market) by foreign investors, which are qualified by People’s Bank of China, are exempt from VAT since 1 May 2016.

According to Circular 36, interest on deposit (e.g. interest derived from deposit in PRC custodian bank) is not subject to VAT. Interest derived from the PRC government bonds and bonds issued by PRC local government of a province, autonomous regions, and municipalities directly under the Central Government or municipalities separately listed on the state plan, as approved by the State Council, is exempted from VAT. Interest on non-government bonds issued by PRC enterprises should be subject to 6% VAT. On 22 November 2018, MOF and SAT jointly issued Circular 108 to clarify that foreign institutional investors are temporarily exempt from VAT with respect to bond interest income derived in the domestic bond market for the period from 7 November 2018 to 6 November 2021.

Dividend income or profit distributions on equity investment derived from the PRC are not included in the taxable scope of VAT.

Technically, gains derived from the trading of B-Shares should be subject to VAT at 6%. It is unclear if VAT should be imposed on gains derived from the trading of overseas listed shares and bonds. In practice, the PRC tax authorities have not enforced the VAT collection on such trading gains.

Effective from 19 September 2008, purchasers, inheritors and grantors of A-Shares and B-Shares are not subject to PRC Stamp Duty while transferors of A-Shares and B-Shares are subject to PRC Stamp Duty at 0.1% on the transfer value.

#### **(v) Tax Ownership**

There is a general lack of guidance in the PRC tax law with respect to the application of PRC taxes in situations where legal title to assets are held by an intermediary on behalf of the beneficial owners of such assets. In the event PRC tax authorities issue guidance with respect to the application of PRC taxes in situations where legal title to assets are held by an intermediary on behalf of the beneficial owners of such assets, this could have an impact particularly in relation to the application of a DTA to the securities held by the unitholders (i.e. beneficial owners) through a fund, as described further below.

#### **(vi) DTA**

Foreign enterprises with no permanent establishment in China which are qualified residents in countries and/or jurisdictions that have entered into a DTA with China may be entitled to a reduction of or exemption from Chinese taxes imposed on the payment of dividends, interest, and gains with respect to various Chinese investments. China currently has a DTA with Hong Kong (“PRC-HK DTA”). Under the PRC-HK DTA, the Fund may be eligible to treaty relief on interest and capital gains, subject to the terms and conditions of the PRC-HK DTA and whether the Fund qualifies as Hong Kong tax resident. Whether the PRC-HK DTA might be applicable to reduce or exempt the China WHT described above will depend, in part, on whether China issues guidance with respect to the application of China taxes in situations where legal title to assets are held by an intermediary on behalf of the beneficial owners of such assets. Therefore, the application of the PRC-HK DTA depends on China's application of the tax treaty residence qualification to different types of entities and whether the Fund qualifies as a Hong Kong tax resident, which is an area of Chinese tax law that remains unsettled with little guidance from Chinese tax authorities.

For information on the taxation risks involved in investing in PRC Securities and tax provisioning followed by the Fund, please refer to the section headed “PRC Tax Provisions” and the section headed “Risk Considerations of Investing in Templeton China Opportunities Fund”.

#### **(vii) Automatic Exchange of Financial Account Information**

The Inland Revenue (Amendment) (No.3) Ordinance (the “Ordinance”) came into force on 30 June 2016. The Ordinance establishes the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (also referred to as the Common Reporting Standard (“CRS”)) in Hong Kong. The CRS requires financial institutions (“FI”) in Hong Kong (such as the Umbrella Fund and the Fund) to collect information relating to non-Hong Kong tax residents holding financial accounts with FIs, and report such information to the Hong Kong Inland Revenue Department (“IRD”). The information will be further exchanged with jurisdiction(s) in which the account holder is a tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has signed a Competent Authority Agreement (“CAA”); however, the Umbrella Fund, the Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Umbrella Fund and the Fund are required to comply with the requirements of CRS as implemented by Hong Kong, which means that the Umbrella Fund, the Fund and/or its agents shall collect the relevant tax information relating to Unitholders and prospective investors and provide such information to the IRD.

The CRS rules as implemented by Hong Kong require the Umbrella Fund and the Fund to, amongst other things: (i) register the Umbrella 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 CRS purposes; and (iii) report certain information of such Reportable Accounts to the IRD. The IRD will then transmit such information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA (*i.e.* the “Reportable Jurisdictions”).

Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax residents in the Reportable Jurisdictions; and (ii) certain entities controlled by individuals who are tax residents in the Reportable Jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, address, tax residence, tax identification number, account details, account balance/value, and certain income or sale or redemption proceeds, may be reported to the IRD, which are subsequently exchanged with government authorities in the relevant Reportable Jurisdictions.

By investing in the Umbrella Fund and the Fund and/or continuing to invest in the Umbrella Fund and the Fund, Unitholders acknowledge that they may be required to provide additional information to the Umbrella Fund, the Fund, the Manager and/or the Umbrella Fund's agents in order for the Umbrella Fund and the Fund to comply with CRS. The Unitholder's information (and/or information pertaining to Controlling Person(s) of a Unitholder, as defined in the Ordinance), may be exchanged by the IRD with government authorities in the Reportable Jurisdictions.

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

#### **(viii) United States Foreign Account Tax Compliance Act**

Sections 1471 – 1474 of the US Internal Revenue Code of 1986 (“IRS Code”), as amended (referred to as the Foreign Account Tax Compliance Act or “FATCA”), impose rules with respect to certain payments paid to certain foreign (i.e. non-US) financial institutions (“FFI”), such as the Umbrella Fund and the Fund, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to FATCA withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (“IRS”) to identify US persons (under the definition in the IRS Code) with direct or indirect interests in such payments. To avoid the 30% withholding tax under FATCA, certain FFIs, such as the Umbrella Fund and the Fund (and, generally, other investment funds organised outside the US), generally would be required to register with the IRS directly to obtain a Global Intermediary Identification Number (“GIIN”) and enter into an agreement (an “FFI Agreement”) with the IRS under which it will agree to identify its direct or indirect account holders who are US persons and report certain information concerning such US account holders to the IRS.

In general, an FFI which does not enter into an FFI Agreement or comply with the relevant FATCA regulations, and is not otherwise exempt may face a 30% withholding tax on “withholdable payments” derived from US sources, including dividends, interest, certain derivative payments and certain other fixed, determinable, annual or periodical (“FDAP”) income made to such FFI on or after 1 July 2014. In addition, starting from 1 January 2019, gross proceeds from the sale or other disposition of certain property, such as sales proceeds of property and returns of principal derived from stocks and debt obligations generating US source dividends or interest, will also be treated as “withholdable payments”. Moreover, it is expected that a 30% withholding tax on foreign passthru payments will commence at the later of 1 January 2019 or the date of the publication of the relevant regulations defining the term foreign passthru payment.

The Hong Kong government has entered into a Model 2 intergovernmental agreement (“IGA”)

with the US for the implementation of FATCA. Under such Model 2 IGA, FFIs in Hong Kong (such as the Umbrella Fund and the Fund) would be required to register with the IRS and comply with the terms of the FFI Agreement. Otherwise they may be subject to a 30% withholding tax on relevant US-sourced payments made to them.

It is expected that FFIs in Hong Kong (such as the Umbrella Fund and the Fund) complying with the terms of an FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will generally not be required to withhold tax on payments made to non-consenting US accounts (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close those non-consenting US accounts (provided that information regarding such account holders is reported to the IRS in aggregate), but may be required to withhold tax on withholdable payments made to non-participating FFIs.

Franklin Templeton Investments (Asia) Limited (GIIN: VBSW3T.00000.SP.344) has registered with the IRS as a Sponsoring Entity for the Umbrella Fund and the Fund and has agreed to perform, on behalf of the sponsored entities, all due diligence, withholding, reporting and other FATCA-related requirements. The Umbrella Fund and the Fund have been registered with the IRS as a registered deemed compliant FFI in accordance with the FATCA Regulations and the Hong Kong IGA. Please refer to the sub-section headed “Risks relating to Foreign Account Tax Compliance Act (“FATCA”)” in the “Risk Factors” section of this Offering Document for the risks associated with FATCA.

In the event a Unitholder (an account holder) does not provide the requested information and/or documentation, whether or not that actually leads to non-compliance by the Umbrella Fund and/or the Fund, or a risk of the Umbrella Fund and/or the Fund being subject to withholding tax under FATCA, the Manager on behalf of the Umbrella Fund and/or the Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the IRS; (ii) withholding or deducting from such Unitholder’s redemption proceeds or distributions to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

Each Unitholder and prospective investor should consult with its own tax advisor as to the potential impact of FATCA in its own tax situation and the potential impact on the Umbrella Fund and the Fund.

#### *Certification for Compliance with FATCA 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 Umbrella Fund and the Fund (A) to avoid 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 receive payments and/or (B) to satisfy due diligence, reporting or other obligations under 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 registration, due diligence and reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including but not limited to any law, rule and requirement relating to AEOI), including such obligations that may be imposed by future legislation.

For the purposes herein, “AEOI” means one or more of the following as the context requires:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standards and any associated guidance;
- (c) any intergovernmental agreement, treaty, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in paragraphs (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding paragraphs (a) to (c) above.

*Power to Disclose Information to Tax Authorities*

Subject to applicable laws and regulations in Hong Kong, the Umbrella Fund, the Fund, 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, date of birth, tax residence, taxpayer 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 Umbrella Fund or the Fund to comply with any applicable law (including any law, rule and requirement relating to AEOI), regulation or any agreement with a tax authority (including, but not limited to, any agreement entered into pursuant to FATCA, or any similar or successor legislation).

## **MANAGEMENT AND ADMINISTRATION DIRECTORY**

### **MANAGER**

FRANKLIN TEMPLETON INVESTMENTS (ASIA) LIMITED

17/F Chater House  
8 Connaught Road Central  
Hong Kong

### **INVESTMENT MANAGER**

TEMPLETON ASSET MANAGEMENT LTD.

7 Temasek Blvd.  
Suntec Tower 1, #38-03  
Singapore, 038987

### **TRUSTEE**

CITITRUST LIMITED

50/F Champion Tower  
3 Garden Road, Central  
Hong Kong

### **REGISTRAR AND TRANSFER AGENT**

CITICORP FINANCIAL SERVICES LIMITED

9/F Citi Tower, One Bay East  
83 Hoi Bun Road  
Kwun Tong  
Kowloon, Hong Kong

### **AUDITORS**

PRICEWATERHOUSECOOPERS

21/F Edinburgh Tower  
15 Queen's Road Central  
Hong Kong

### **DIRECTORS OF THE MANAGER**

Molina, George H  
Plafker, Jed Andrew  
Wong, Tak Tai  
Young, Ho Yip Alan

**CUSTODIAN**

CITIBANK N.A. (HONG KONG BRANCH)  
50/F, Champion Tower  
3 Garden Road, Central  
Hong Kong

## SCHEDULE 1 – INVESTMENT RESTRICTIONS

Unless otherwise disclosed in the offering document of the relevant sub-fund, each of the sub-funds under the Umbrella Fund is subject to the investment restrictions and borrowing restrictions set out in this Schedule 1.

### 1. **Investment limitations applicable to each Sub-Fund (each sub-fund of the Umbrella Fund is hereinafter referred to as a “Sub-Fund”)**

No holding of any security or asset 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;
  - (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 Recognised Exchange, 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. Subject to the foregoing, 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; and

- (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 authorised 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 authorised by the SFC exceeding 30% of its latest available net asset value unless the underlying scheme is authorised 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) authorised 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 offering document 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; and
- (h) notwithstanding sub-paragraphs 1(a), (b), (d) and (e) above, where direct investment by a Sub-Fund in a market is not in the best interest of investors, the Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
- (i) the underlying investments of the subsidiary, together with the direct investments made by the Sub-Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (ii) any increase in the overall fees and charges directly or indirectly borne by the Unitholders of the Sub-Fund as a result must be clearly disclosed in the offering document; and
  - (iii) the Sub-Fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Sub-Fund.

## 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 Recognised Exchange 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; and
- (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 from 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 authorised by the SFC;
- (b) 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; and
- (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 valuation agent, the administrator, the Manager 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, the valuation agent or any person appointed to perform valuation of the

financial derivative instruments (including any calculation agent or the 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 Offering Document, 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 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 authorised under 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; and
  - (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 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;

- (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 USD1,000,000 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 USD 1,000,000 or its equivalent in the base currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size; and
  - (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 a 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; and
- (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. In addition, it is expected that periodic stress testing will be carried out by the Manager in monitoring the liquidity of such Money Market Fund authorised under Chapter 8.2 of the Code.

## **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 offering document 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) must be disclosed in the offering document 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 the 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 offering document of the Sub-Fund.
- 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.