

PRODUCT KEY FACTS



Haitong Middle Kingdom Fund

April 2015

Issuer: Haitong International Investment Managers Limited

- ***This statement provides you with key information about Haitong Middle Kingdom Fund (the "Fund").***
- ***This statement is a part of the offering document.***
- ***You should not invest in this product based on this statement alone.***

Quick facts

Fund Manager:	Haitong International Investment Managers Limited
Trustee:	Bank of Bermuda (Cayman) Limited
Dealing frequency:	Daily, on every business day in Hong Kong except Saturday
Base currency:	Hong Kong Dollars (HK\$)
Ongoing charges over a year*:	2.20%
Dividend policy:	No distribution will be made
Financial year end of this Fund:	30 June
Min. investment:	Initial: HK\$5,000 Subsequent: HK\$5,000

* The ongoing charges figure is an annualized figure based on the expenses data for the interim period from 1 July to 31 December 2014 on the official data of NAV as at 31 December 2014. This figure may vary from year to year. The figure is expressed as a percentage of the Fund's average net asset value of a financial year.

What is this product?

Haitong Middle Kingdom Fund is a unit trust categorised as a "Regulated Mutual Fund" under the Mutual Funds' Law of the Cayman Islands and at the same time governed by the laws of Hong Kong.

Objective and Investment Strategy

Objective

Haitong Middle Kingdom Fund aims to achieve capital growth by managing a portfolio of publicly quoted equity or equity-linked securities of companies within the Pacific region whose business relates substantially or in part to the People's Republic of China (the "PRC").

Strategy

The majority of the Fund's investments will be made in Hong Kong companies or companies listed on The Stock Exchange of Hong Kong Limited but investment in the PRC itself as well as Taiwan, Singapore, Japan and other countries will be considered if deemed appropriate by the Manager.

What are the key risks?

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

1. Emerging market risk

- The Fund invests in Asia including in countries that are emerging markets and will be subject to higher volatility, liquidity, political, legal and currency risk.
- Investment in emerging markets may be subject to exchange controls and repatriation restrictions.

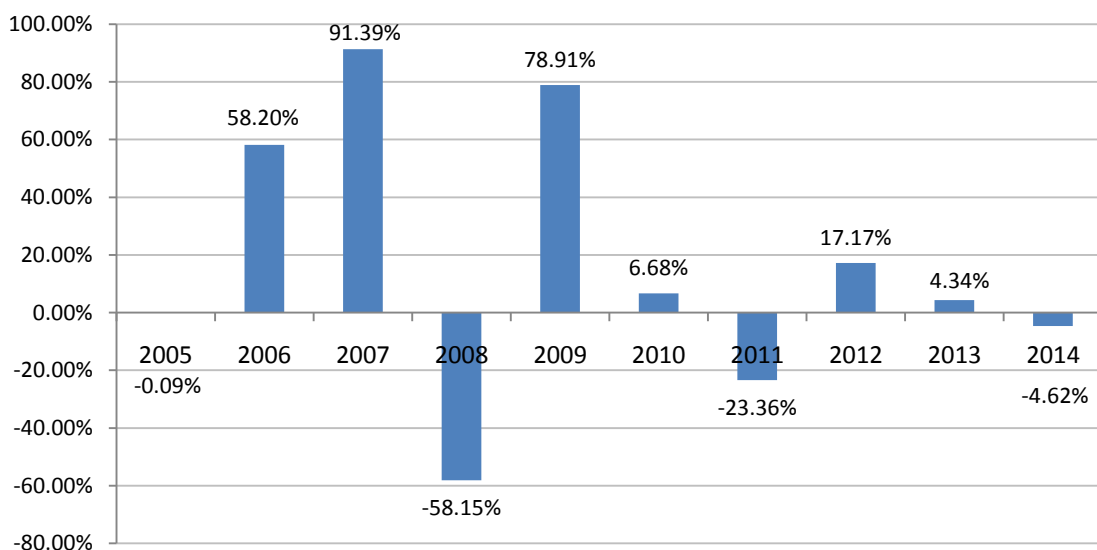
2. Currency risks

- The Fund will hold investments denominated in currencies different from the base currency of the Fund, meaning the Fund will be at risk to adverse movements in the foreign currency rates.

3. Investment risks

- The Fund is an investment fund. There is no guarantee of the repayment of principal.
- Investment in equity securities may lead to greater volatility.
- The instruments invested by the Fund may fall in value and therefore your investment in the Fund may suffer losses.

How has the Fund performed?



- The bar chart above provides the past performance information of the Fund.
- The Past performance information is not indicative of future performance. Unitholders may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV.
- These figures show by how much the Fund increased or decreased in value during the calendar year being shown. Performance data has been calculated in HK\$ including ongoing charges and excluding subscription fee (initial charge), redemption fee and switching fee you might have to pay.
- Where no past performance is shown there was insufficient data available in that year to provide performance.
- Launch date of the Fund: May 1989
- Investors may obtain the past performance information of the Fund at <http://www.htisec.com/asm>¹.

Is there any guarantee?

The Fund does not have any guarantees. You may not get back the full amount of money you invest.

What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the units of the Fund.

<u>Fee</u>	<u>What you pay</u>
Subscription fee (initial charge)	Up to 5% of the Net Asset Value per unit
Switching fee	Not applicable
Redemption fee	Nil

Ongoing fees payable by the Fund

The following fees will be paid out of the Fund. They affect you because they reduce the return you get on your investments.

	<u>Annual rate (as a % of the Fund's net asset value)</u>
Management Fee	1.75% p.a.*
Trustee Fee	0.3% p.a., currently subject to a minimum of HK\$125,000 p.a.*
Performance Fee	Nil
Administration Fee	Nil

Other fees

You may have to pay other fees and charges when dealing in the units of the Fund.

* You should note that such fees may be increased, up to a specified permitted maximum level, by giving the relevant unitholders at least 3 months' prior notice. For details, please refer to pages 20 to 22 of the Explanatory Memorandum.

Additional Information

- You generally buy and redeem units at the Fund's next-determined net asset value (NAV) after the Manager receives your request in good order on or before 3:00p.m. (Hong Kong time) being the dealing cut-off time. Please check with your distributor for distributor's internal dealing cut off time.
- Investor may obtain relevant information on the Manager's website at <http://www.htisec.com/asm>¹.

Important

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

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

¹ This website has not been reviewed by the SFC.

HAITONG MIDDLE KINGDOM FUND

EXPLANATORY MEMORANDUM

March 2015

Issuer: Haitong International
Investment Managers Limited

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MANAGEMENT AND ADMINISTRATION

Manager:

Haitong International Investment Managers Limited
22/F., Li Po Chun Chambers,
189 Des Voeux Road,
Central, Hong Kong
General Line: (852) 2116 8200

Directors of the Manager:

Poon Mo Yiu
Zhang Yibin
Yang Jianxin
Zhang Xinjun
Lo Wai Ho

Trustee and Registrar:

Bank of Bermuda (Cayman) Limited
P O Box 513
HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

Alternate Trustee:

HSBC Bank Bermuda Limited
Bank of Bermuda Building, 6 Front Street
Hamilton HM11
Bermuda

Trustee's and Registrar's Agent:

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

Solicitors:

King & Wood Mallesons
13/F Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Auditors:

KPMG
Century Yard, Cricket Square George Town
Grand Cayman
Cayman Islands
British West Indies

INTRODUCTION

The Haitong Middle Kingdom Fund is a unit trust established pursuant to the Trust Deed dated 18 April 1989 (as amended) under the laws of Hong Kong. Details of the constituent documents of the Fund are set out below in the section headed "Trust Deed". The base currency of the Fund is Hong Kong dollars.

Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website www.htisec.com/asm. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

PRELIMINARY INFORMATION

Important - If you are in any doubt about the contents of this Explanatory Memorandum, you should consult your stockbroker, bank manager, solicitor, accountant or financial advisor.

Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the Fund will be achieved. Investors should read this Explanatory Memorandum, particularly the section headed "Risk Factors" before making their investment decisions.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum in relation to the Fund at the date of publication, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to such date. This Explanatory Memorandum may from time to time be updated. Prospective investors should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum have been issued.

In particular, nationals or residents of, or persons domiciled in, countries other than Hong Kong should consult their financial advisors and take legal advice as appropriate as to whether any government or other consents are required, or other formalities need to be observed and as to any taxation effects, foreign exchange restrictions or exchange control requirements applicable, to enable them to acquire Units.

No action has been taken to permit an offering of Units or distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized. Receipt of any document about the Fund does not constitute an offer of Units in those jurisdictions in which it is illegal to make such an offer. In particular:

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

Units issued in respect of the Fund after the date of this Explanatory Memorandum are offered on the basis only of the information contained in this Explanatory Memorandum, the product key facts statement and the latest annual report and accounts or semi-annual report of the Fund. Any further information or

representations made by any dealer, salesman or other person must be regarded as unauthorized and must accordingly not be relied upon. The delivery of this Explanatory Memorandum or the other documents mentioned above or the offer, issue or sale of Units shall not in any way constitute a representation that the information and representations given herein or in such documents is correct as at any time subsequent to the date of such documents.

The Fund is authorised by the SFC. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

The Fund is registered as a “mutual fund” under Section 4(1)(b) of the Mutual Funds Law and, accordingly, is regulated pursuant to that law. In compliance with the requirements of Section 4(1)(b) of the Mutual Funds Law, the Trustee, being a licensed mutual fund administrator for the purposes of the Mutual Funds Law, provides the principal office of the Fund in the Cayman Islands.

In connection with its registration under the Mutual Funds Law, the Fund has filed with CIMA a copy of this Explanatory Memorandum and certain details of this Explanatory Memorandum prescribed by the Mutual Funds Law as well as the prescribed initial registration fee.

The Fund’s continuing obligations under the Mutual Funds Law are: (a) to file with CIMA prescribed details of any changes to this Memorandum, (b) to file annually with CIMA accounts audited by an approved auditor and an annual return, and (c) to pay the relevant prescribed annual fee.

As a regulated mutual fund, the Fund is subject to the supervision of CIMA. At any time, CIMA may instruct the Fund to have its accounts audited and to submit them to CIMA within such time as CIMA may specify. Failure to comply with any supervisory request by CIMA may result in substantial fines. CIMA has wide powers to take certain actions if certain events occur. For instance, it has wide powers to take action if it is satisfied that a regulated mutual fund:

- (a) is or is likely to become unable to meet its obligations as they fall due; or
- (b) is carrying on or is attempting to carry on business or is winding up its business voluntarily in a manner that is prejudicial to its investors or creditors.

The powers of CIMA include, amongst others: (i) the power to require a trustee to be replaced; (ii) the power to appoint a person, at the expense of the Fund to advise the Fund on the proper conduct of its affairs; and (iii) the power to appoint a person, at the expense of the Fund, to assume control of the affairs of the Fund, including for the purpose of terminating the business of the Fund. CIMA also has other remedies available to it including applying to the courts of the Cayman Islands for approval of other actions, and requiring the Fund to re-organise its affairs in a manner specified by CIMA.

Investors may contact the Manager for any queries or complaints in relation to the Fund using the following methods:

In writing to: 22/F., Li Po Chun Chambers,
189 Des Voeux Road,
Central, Hong Kong
Telephone: (852) 2116 8200
Email: htiim@htisec.com

The Manager will respond to any enquiry or complaint as soon as practicable in writing or by telephone.

DEFINITIONS

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

Auditor	KPMG or the auditors of the Fund as from time to time appointed
business day	a day on which licensed banks in Hong Kong generally are open for business (excluding Saturdays)
CIMA	the Cayman Islands Monetary Authority
Code	the Code on Unit Trusts and Mutual Funds issued by the SFC as amended and supplemented from time to time
connected person	in relation to the Manager, means: <ul style="list-style-type: none">(a) any person, company or fund beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or(b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or(c) any member of the group of which the Manager forms part; or(d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above
Explanatory Memorandum	this Explanatory Memorandum as may be amended, updated or supplemented from time to time
FATCA	the U.S. Foreign Account Tax Compliance Act
Fund	Haitong Middle Kingdom Fund
government and other public securities	any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organisation for Economic Co-operation and Development (“ OECD ”) or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing
Hong Kong	Hong Kong Special Administrative Region of the People’s Republic of China

Hong Kong dollars or HK\$	Hong Kong Dollars, the lawful currency of Hong Kong
HTISG	Haitong International Securities Group Limited
Manager	Haitong International Investment Managers Limited
Mutual Funds Law	the Mutual Funds Law (Revised) of the Cayman Islands
Net Asset Value	the net asset value of the Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed
PRC or China	the People's Republic of China excluding Hong Kong, Macau and Taiwan
Registrar	Bank of Bermuda (Cayman) Limited in its capacity as registrar of the Fund
Registrar's Agent	HSBC Institutional Trust Services (Asia) Limited in its capacity as registrar's agent of the Fund
Securities	includes any investment which is a security within the meaning of the SFO and any other instrument commonly known or recognized as a security
SFC	the Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571) as amended or supplemented from time to time
Trust Deed	the trust deed dated 18 April 1989 establishing the Fund and entered into by the Manager and the Trustee (as amended and/or supplemented from time to time)
Trustee	Bank of Bermuda (Cayman) Limited in its capacity as trustee of the Fund
Unit(s)	one equal undivided part or share of the Fund including as the context may require a fraction of a Unit
Unitholder(s)	the person or persons who are for the time being registered in the register as the holder or joint holders of any Units
U.S.	the United States of America
U.S. dollars or US\$	the lawful currency of the United States of America
Valuation Date	a date on which the Net Asset Value is determined in accordance with the Trust Deed

Valuation Point

the time of 6:00p.m. in the afternoon in Hong Kong or such other time as the Manager shall determine pursuant to the Trust Deed

TABLE OF KEY FEATURES

Name of Fund	Haitong Middle Kingdom Fund
Investment Objective	To manage a portfolio of publicly quoted equity or equity-linked securities of companies within the Pacific region whose business relates substantially or in part to the PRC
Base Currency	Hong Kong dollars
<u>Dealing Deadline</u>	
Application for Units	3:00pm Hong Kong time on a Valuation Date
Redemption of Units	3:00pm Hong Kong time on a Valuation Date
Dealing Frequency	Daily, on every business day in Hong Kong except Saturday
Minimum Subscription Amount	HK\$5,000
Minimum Subsequent Subscription Amount	HK\$5,000
Minimum Redemption Amount	HK\$5,000
Minimum Holding	HK\$5,000
Distribution Policy	No distribution will be made
Financial year end	30 June
<u>Fees payable by investors</u>	
Initial Charge	Up to 5% of the total subscription amount received in relation to an application for Units
Redemption Charge	Nil
Switching Fee	Not applicable

Fee payable by the Fund

Management Fee 1.75% per annum of the Net Asset Value of the Fund

Trustee Fee 0.3% per annum of the Net Asset Value of the Fund,
subject to a minimum fee of HK\$125,000 per annum

POLICY AND OBJECTIVES OF THE FUND

The investment objective of the Fund is to manage a portfolio of publicly quoted equity or equity-linked securities of companies within the Pacific region whose business relates substantially or in part to the PRC.

At least 70% of such investments will be made in Hong Kong companies or companies listed on The Stock Exchange of Hong Kong Limited, but investment in Taiwan, Singapore, Japan and other countries will be considered if deemed appropriate by the Manager in consideration of factors such as higher expected returns from the markets of those countries or areas, the outperformance of which may benefit the overall profitability in a certain degree. The Fund aims to achieve capital growth.

The Fund and/or the Manager:

- (a) does not intend to obtain exposure to debt securities issued within mainland China and China A-Shares by using the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor quotas or China B-Shares;
- (b) does not invest in any derivative instruments (e.g. options, warrants and financial futures contracts) for investment purposes, but may invest in derivative instruments for hedging purposes; and
- (c) does not intend to enter into any securities lending, repurchase or reverse repurchase transactions or similar over-the-counter transactions in respect of the Fund.

Prior approval may be sought from the SFC and at least one month's prior notice will be given to Unitholders if the Fund and/or the Manager intend(s) to make such investment in the future.

RISK FACTORS

Investors should consider the following risks before investing in the Fund. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the Fund is suitable for them, they should obtain independent professional advice.

The Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of the Fund and the income from them may go down as well as up. There is no assurance that the investment objective of the Fund will be achieved.

Equity market risks: Investing in equity securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value, which may have an adverse impact on the value of the

Fund's investments.

Liquidity risks: Some of the markets in which the Fund invests may be less liquid and more volatile than the world's leading security markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Fund's ability to acquire or dispose of such securities at their intrinsic value.

Currency risks: The Fund may invest in part in assets quoted in currencies 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 held and the base currency of the Fund. Since the Manager aims to maximise returns for the Fund in terms of their base currency, investors in the Fund may be exposed to additional currency risk. Adverse movements in the foreign currency rates may adversely impact on the value of the Fund.

Credit risks: The value of the Fund may fall if any of the financial institutions or companies with which cash is invested or deposited or which are counterparties to transactions suffer insolvency or other difficulties.

Hedging risks: While the Manager may enter into hedging transactions to seek to reduce risk, there is no guarantee that hedging will be successful in all circumstances. Insofar as the Fund acquires derivative instruments for hedging purposes, it will be subject to additional risks. There can be no assurance that any hedging techniques will fully and effectively eliminate the risk exposure of the Fund. Derivative instruments may be illiquid and are complex in nature. In adverse situations, the Fund's use of derivatives for hedging may become ineffective and the Fund may suffer significant losses. The price of a derivative instrument can be very volatile which may result in losses in excess of the amount invested in the derivative instruments by the Fund. A derivative instrument is subject to the risk that the counterparty of the instrument will not fulfil its obligations to the Fund, and this may result in losses to the Fund.

Emerging market risks: In accordance with the Fund's investment policies, the assets of the Fund will to a certain extent invest in new and emerging markets. Investors should therefore be aware of a number of special risk factors in investing in the Fund particularly in respect of investments in the emerging markets:-

(a) Volatility

As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which the Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries are not as large as the more established securities markets and have a substantially lower trading volume.

(b) Investment and repatriation restrictions

Investment in emerging markets may be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital. There are also possibilities of nationalisation, expropriation or confiscatory taxation, foreign exchange

control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of the Fund's investments.

(c) Settlement risk

Settlement systems in some of the emerging markets may be less well organised than in developed markets. Thus there may be a risk that settlement may be delayed and that cash or securities of the Fund may be in jeopardy because of failure or of defects in the systems. The Fund may incur substantial losses if its counterparty fails to pay for securities the Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for the Fund if investment opportunities are missed or if the Fund is unable to acquire or dispose of a security as a result.

(d) Legal, political and social factors

Investments in emerging markets will be sensitive to any change in political, social or economic development in the region. Many emerging countries have historically been subject to political instability which may affect the value of securities in emerging markets to a significant extent.

(e) Different financial treatment

Accounting, auditing and financial reporting standards in some of the emerging markets are different from the developed countries standards, for example, less information is available to investors and such information may be out of date. As a result, certain material disclosures may not be made, and information may not be available, to the Fund and other investors than would be in the case if the Fund's investments were restricted to securities in developed markets.

Restricted Market Risk: The Fund may invest in securities in jurisdictions which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Fund may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

Risk relating to FATCA: Sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended (commonly known as the Foreign Account Tax Compliance Act or "FATCA") provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Fund, including interests and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities, unless the Fund complies with FATCA.

Although the Fund will attempt to satisfy any obligations imposed on it and to avoid the imposition of any FATCA withholding, no assurance can be given that the Fund will be able to achieve this and/or satisfy such FATCA obligations. If the Fund becomes subject

to a 30% FATCA penalty withholding on most types of income from U.S. investments (further described under the section headed “FATCA”) as a result of the FATCA regime, the value of the Units held by Unitholders in the Fund may suffer material losses.

The Fund’s ability to comply with FATCA will depend on each Unitholder providing the Fund with information that the Fund requests concerning the Unitholder or its direct and indirect owners. If a Unitholder fails to provide the Fund with any information the Fund requests, and, in the opinion of the Manager, holding of Units by such person (whether directly or beneficially) will result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or the Fund being exposed to any liability, penalty or regulatory action, then the Manager, with the approval of the Trustee, may exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder. Any such transfer or compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

Please refer to sub-section “FATCA” under the section headed “Taxation” for details of FATCA.

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

MANAGEMENT

The Manager of the Fund is Haitong International Investment Managers Limited which is formerly known as Taifook Investment Managers Limited. The Manager is registered with the SFC as a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

The Manager is a wholly owned subsidiary of HTISG (SEHK Stock Code 0665; formerly known as Taifook Securities Group Limited), which is listed on the Stock Exchange of Hong Kong. With more than 40 years of history, HTISG provides a wide spectrum of integrated financial services covering corporate finance, asset management and brokerage services to global and local institutional and corporate clients as well as individual investors. With effect from 21 December 2009, Haitong International Holdings (formerly known as Hai Tong (HK) Financial Holdings Limited), a company incorporated in Hong Kong and wholly owned by the leading mainland securities firm - Haitong Securities Company Limited (“Haitong”; Stock Code: 600837.SH; 6837.HK), has acquired Taifook Securities Group Limited from NWS Holdings Limited and become HTISG’s major shareholder.

The Manager is entitled under the Trust Deed to delegate all or part of its powers, duties and discretion under the Trust Deed and has delegated to HSBC Institutional Trust Services (Asia) Limited the functions of valuing the Fund's assets and calculating the subscription and redemption prices. The Manager may appoint investment advisers for the Fund, subject to the prior approval of the SFC and provided the fees for such investment advisers are borne by the Manager.

The Manager is principally engaged in fund management. The Manager’s investment approach adopted with respect to investments of the Fund focuses on carrying on disciplined analysis of the underlying investments and leverages on the investment experience of the Haitong principals, each of whom has gained extensive investment experience during their tenure at renowned international asset management companies. The team has extensive investment experience; and is well versed in many kinds of investment products and services.

The directors of the Manager are as follows:

Poon Mo Yiu

Mr Poon joined HTISG in August 2008 and was appointed as an Executive Director on 1 July 2009. He is the Chief Operating Officer, a member of the Cost Management Committee, the Cost Rationalisation Committee, the Credit Committee, the Executive Committee, the Investment Committee and the IT Steering Committee as well as a director of various subsidiaries of HTISG. Mr Poon holds a Master of Business Administration Degree from the Chinese University of Hong Kong, Hong Kong. He is a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England & Wales. Mr Poon has extensive experience in financial management, management information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining HTISG, Mr Poon

worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank. Mr Poon was an Executive Director of The Hong Kong Building and Loan Agency Limited (a company listed on the SEHK) from 2006 to 2007.

Zhang Yibin

Mr Zhang is the Managing Director of the Manager, Haitong International Asset Management Limited and Hai Tong Asset Management (HK) Limited. Before joining HTISG in December 2010, Mr Zhang worked as Head of International Business and Portfolio Manager of a QDII fund for China Merchants Fund in Shenzhen, the PRC in 2009 and 2010. With more than 11 years of experience in the industry, Mr Zhang obtained a Ph.D. in Financial Economics from Duke University, United States and worked at various financial services companies in New York, United States including Moody's KMV, UBS and Fitch Ratings before relocating back to the PRC.

Mr Zhang is licensed as a responsible officer of the Manager with the SFC with respect to supervising the conduct of Type 1 (dealing in securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities.

Yang Jianxin

Mr Yang is the Chief Investment Officer and Managing Director (asset management) of the Manager, Haitong International Asset Management Limited and Hai Tong Asset Management (HK) Limited, and responsible for the overall investment activities of the abovementioned three companies. Before joining HTISG in January 2014, Mr Yang worked at Guosen Securities (HK) Asset Management Co. Ltd. as the Head of Fund Management. Prior to that, he also worked at China Southern Fund Management Co., Ltd in China as Head of Financial Engineering and at CITIC Securities Co., Ltd as Senior Manager. Mr Yang has over 13 years of research and investment experience, covering multiple asset classes, including both equities and fixed income products. Mr Yang graduated from Xiamen University with a Doctorate Degree in Statistics.

Mr Yang is licensed as a responsible officer of the Manager with the SFC with respect to supervising the conduct of Type 1 (dealing in securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities.

Zhang Xinjun

Mr Zhang is the Chief Financial Officer of HTISG. He graduated from Nankai University, the PRC with a postgraduate Master's Degree in Management in 2001. He has gained over 10 years of experience in financial management while working in Haitong Securities Co., Ltd. and its subsidiaries including Haitong International Holdings and HTISG. Mr Zhang has assisted in formulating the accounting policies of Haitong Securities Co., Ltd. and monitoring its assets. In addition, Mr Zhang was also accountable for valuing the assets of Haitong Securities Co., Ltd. for the purposes of its restructuring and listing.

Lo Wai Ho

Mr Lo is the Finance Director of HTISG, a member of the Executive Committee and the Risk Management Committee of HTISG, and a director of various subsidiaries of HTISG. He is responsible for accounting, settlement, and financial management. Mr Lo holds a Master of Business Administration Degree from Columbia Southern University in the U.S. and a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. He has over 25 years' experience in the securities and futures industry. Prior to joining HTISG in April 2004, Mr Lo Has held senior positions in regional financial institutions in Hong Kong. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants.

TRUSTEE AND REGISTRAR'S AGENT

The Trustee of the Fund is Bank of Bermuda (Cayman) Limited, which was incorporated in the Cayman Islands on 21 June 1988 and is a licensed trust company under the Banks and Trust Companies Law (Revised) and a licensed mutual fund administrator pursuant to the Mutual Funds Law (Revised).

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Fund. The Trustee may, however, appoint any person or persons to be the custodian of such securities. The investments of the Fund will normally be held for the Trustee by, or to the order of, HSBC Institutional Trust Services (Asia) Limited.

The Trustee has also appointed HSBC Institutional Trust Services (Asia) Limited to act as its agent in Hong Kong in relation to its duties as the Registrar of the Fund. The register of Unitholders will, however, be kept by the Trustee in the Cayman Islands.

HSBC Institutional Trust Services (Asia) Limited was incorporated in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance (Cap 29) in Hong Kong.

Both the Trustee and the Registrar's Agent are indirect wholly owned subsidiaries of HSBC Holdings plc, a public company incorporated in England and Wales. The HSBC Group is one of the largest banking and financial services organisations in the world with well-established businesses in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

Neither the Trustee nor the Registrar's Agent will participate in transactions or activities or make any payments denominated in U.S. dollars, which, if carried out by a U.S. person, would be subject to sanctions of the Office of Foreign Assets Control.

APPLICATION FOR UNITS

Units may be acquired on any Valuation Date at the Unit value determined on that day (see "Valuation and Price Calculation" below). The Valuation Date is every business day in Hong Kong except Saturday. Application should be made by returning the duly completed and signed application form to the Manager or the Trustee through the Registrar's Agent. Application forms can be obtained from the Manager or the Registrar's Agent. Applications may be sent by fax. The Manager or the Registrar's Agent shall proceed with the application once the duly completed and signed application form or the fax thereof is received. Confirmation will also be issued once the application is successfully completed. To avoid any doubt, please note that save and except the initial subscription where investors are required to return the original completed and signed application form together with other required documents as set out in the application form to the Manager or the Registrar's Agent, no original application forms need to be produced by the investors for all subsequent subscription unless specifically requested by the Manager or the Registrar's Agent. Investors should be reminded that if they choose to send application forms by fax, they bear their own risk of the forms not being received by the Manager or the Registrar's Agent and the risk of sending duplication of orders to the Manager or the Registrar's Agent. Investors should therefore, for their own benefit, confirm with the Manager or the Registrar's Agent the receipt of the form. Notwithstanding the above, the Manager or the Registrar's Agent reserves the right not to effect application pending receipt of the original completed and signed application form and if such rights are exercised, the Manager or the Registrar's Agent shall notify the relevant Unitholders of such decision forthwith.

To take effect on a Valuation Date an application must be received by 3:00p.m. Hong Kong time on that Valuation Date. Applicants should be aware of the internal Dealing Deadline of different distributors for receiving application requests. Applications received on a day which is not a business day or after 3:00p.m. on any day will be treated as having been received on the next Valuation Date.

Attention of investors is drawn to the section headed "Anti-Money Laundering Regulations".

The subscription monies should be forwarded in full as outlined below at the same time such application form is sent to the Manager or the Registrar's Agent. Each applicant whose application is accepted will be sent a contract note by HSBC Institutional Trust Services (Asia) Limited confirming details of the purchases of Units. The minimum initial investment amount for the Fund is HK\$5,000, with subsequent minimum investments of no less than HK\$5,000, in both cases inclusive of the initial charge. Payment of subscription monies should normally be made in Hong Kong dollars for the Fund. If an applicant pays in any other currency acceptable to the Manager then it will be converted by the Trustee at the cost and expense of the applicant.

Payment should be made in any of the following ways:-

- (a) by telegraphic transfer in Hong Kong dollars (net of any bank charges) to:

The Hongkong and Shanghai Banking Corporation Limited

(SWIFT Address: HSBCHKHKKH)

1 Queen's Road Central

Hong Kong

A/C Name : HSBC Institutional Trust Services (Asia) Limited – IFS
Subscription Account

A/C No: 502-547839-001

Sub account No. : 541094

In each case the remitter should instruct the remitting bank to send a SWIFT advice (format MT103) to HSBC Institutional Trust Services (Asia) Limited (SWIFT Address: BTFEHKHH) advising details of remittance, including the full name of the applicant and the Fund, for ease of identification.

- (b) by cheque or bank draft sent to the Manager or the Registrar's Agent. Each cheque or bank draft should be made payable to "HSBC Institutional Trust Services (Asia) Limited" and bear the name of the applicant on its reverse along with the name of the Fund.

If payment is made by cheque or banker's draft, applicants should be aware the Manager or the Registrar's Agent may not process an application to subscribe for Units until the Manager or the Registrar's Agent has received cleared funds in respect of such payment. Applicants should further note that it may take several weeks for the Manager or the Registrar's Agent to receive cleared funds where subscription monies are paid by U.S. dollar cheques or U.S. dollar banker's drafts.

Application monies will not be accepted in cash and will not be treated as having been received unless paid in any of the ways described above. No money should be paid to any intermediary in Hong Kong which is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under the SFO.

If payment in full in cleared funds and the original application form (if applicable) have not been received within five business days of the Valuation Date upon which the application was dealt with, the Manager or the Trustee may enforce payment of the sum due or cancel the Units applied for, at its discretion.

Units will only be issued in registered form. No certificates will be issued to Unitholders. Instead, Unitholders will receive confirmation of their holdings from the Registrar's Agent following receipt of the subscription monies in cleared funds and the duly completed and signed application form.

If an applicant wishes to make his application through an intermediary, the applicant is advised to satisfy himself that the relevant intermediary has all relevant approvals and/or registrations (an intermediary in Hong Kong should be a licensed corporation or registered institution under the SFO) which it may require in order to receive clients' money and the intermediary is adequately supervised by an appropriate regulatory authority. Under the Trust Deed the Manager is given the exclusive right to accept or reject applications for Units. The provisions as to the valuation and pricing of Units are set out below in the section headed "Valuation and Price

Calculation".

REDEMPTION OF UNITS

Units may be redeemed on any Valuation Date, at the redemption price applicable as at the close of business in Hong Kong on such day. The Manager or the Trustee through the Registrar's Agent shall proceed with the redemption once the duly completed and signed redemption notice is received. The form of redemption notice can be obtained from the Manager or the Registrar's Agent and such notice can be given by fax. Confirmation will also be issued once the redemption is successfully completed. To avoid any doubt, no original redemption notice needs to be produced by the Unitholders unless as specifically requested by the Manager or the Registrar's Agent. If a certificate has been previously issued, in case of redemption, Unitholders are required to return the original certificate to the Manager or the Registrar's Agent before the redemption proceeds can be released to them and there is a form to be endorsed on the reverse of the certificate. A notice of redemption to be given by joint Unitholders must be signed by all joint Unitholders. If the redemption notice (either originals or fax copies) and the certificate (if any) are received before 3:00 p.m. Hong Kong time on a Valuation Date, such redemption shall take effect on that Valuation Date; if not or such redemption notice (either originals or fax copies) and the certificate (if any) are received on a day which is not a business day, such redemption shall take effect on next Valuation Date. Unitholders should be reminded that if they choose to send notices of redemption by fax, they bear their own risk of the notices not being received by the Manager or the Registrar's Agent and the risk of sending duplication of orders to the Manager or the Registrar's Agent. Unitholders should therefore for their own benefit confirm with the Manager or the Registrar's Agent the receipt of the notices. Notwithstanding the above, the Manager or the Registrar's Agent reserves the right not to effect redemption pending receipt of the original completed and signed notice of redemption and if such rights are exercised, the Manager or the Registrar's Agent shall notify the relevant Unitholders of such decision forthwith.

The minimum amount which can be redeemed at any one time is HK\$5,000, and a Unitholder may not make a partial redemption if this would result in his holding being less than the minimum holding of HK\$5,000. There is no redemption charge payable.

Redemption proceeds will normally be paid in Hong Kong dollars, by cheque in favour of registered holder sent by HSBC Institutional Trust Services (Asia) Limited as soon as possible and at the latest within 21 days from the Valuation Date on which the redemption is effected or, if later, on the day of receipt of the duly completed and signed notice (either originals or fax copies) and the original certificate (if any). The maximum interval between the receipt of a properly documented request for redemption of Units and the payment of the redemption proceeds will not exceed one calendar month unless in exceptional circumstances if the market(s) in which a substantial portion of the Fund's investments is made is subject to legal or regulatory requirements rendering the timely redemption to be impractical, in which case the extended time frame for the payment of redemption proceeds shall reflect the additional time needed in light of the specific circumstances in the relevant market(s) and such redemption proceeds will be paid as soon as possible after the receipt of the proceeds by the Fund. No certificate will be issued in respect of any balance of the Units held after the partial redemption has been effected.

The Trustee may arrange for payment of redemption proceeds by telegraphic transfer or in another currency approved by the Manager if the Unitholder so wishes but the cost of conversion and other charges or expenses will be deducted from the redemption proceeds. No third party payments are allowed.

The Manager has power to compulsorily redeem Units in certain circumstances set out in the Trust Deed if the holding of Units by investors may result in adverse tax or other consequences for the Fund, the Manager or the Trustee or their associates.

VALUATION AND PRICE CALCULATION

The Trust Deed provides for the Net Asset Value of the Fund to be determined on each Valuation Date by reference to the value of each asset of the Fund as at the Valuation Point (i.e. time) on that Valuation Date. The current Valuation Point is 6:00 p.m. Hong Kong time. The Manager has power from time to time on one month's notice to the Trustee and the Unitholders to change the Valuation Dates to such other day or days as it thinks fit or to increase or decrease the number of Valuation Dates. In addition the Manager may at any time with the consent of the Trustee change the Valuation Point on such Valuation Dates.

The Net Asset Value of the Fund and the price of Units depend inter alia on the value of the Fund's investments. The Net Asset Value of the Fund is established by deducting from the aggregate value of the assets of the Fund its liabilities (including accrued charges and expenses and a provision for contingent liabilities, where appropriate). The Net Asset Value per Unit is determined by dividing the Net Asset Value of the Fund by the total number of Units in issue.

Quoted investments are normally valued at the latest available closing price on the stock exchange or market on which the investment is listed, traded or ordinarily dealt in. As for future contracts, they are included in, or deducted from, the assets of the Fund in respect of each outstanding contract entered into on behalf of the Fund an amount equal to the gain or loss respectively which would have accrued to the Fund at the time as at which the relevant valuation is made if the Manager had at the time closed out the position of the Fund under such futures contract by entering into an equal and opposite futures contract at market prices prevailing at that time.

The Manager may after consultation with the Auditor or by some other person appropriately qualified and approved by the Trustee adjust the value of any investment or permit some other method of valuation to be used if the Manager considers that such adjustment or other method of valuation is more appropriate.

To calculate the subscription price the Net Asset Value is divided by the number of Units in issue to give the Net Asset Value per Unit and the resulting figure is rounded down to two (2) decimal places. To calculate the redemption price the Net Asset Value is divided by the number of Units in issue to give the Net Asset Value per Unit and the resulting figure is rounded down to two (2) decimal places.

The Trust Deed contains provisions for a fiscal charge to be added to the subscription

price and deducted from the redemption price. However, it is not the Manager's present intention to levy this charge. Unitholders will be given 3 months' advance notice if the Manager decides to levy a fiscal charge. The Manager may deal in Units and subscriptions and redemptions may accordingly at the Manager's discretion be either for the direct account of the Fund or sales or purchases by the Manager.

PUBLICATION OF PRICES

The subscription and redemption prices of Units are published in the South China Morning Post and the Hong Kong Economic Journal, such other newspaper(s) as the Manager may determine and the Fund's website at www.htisec.com/asm. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

SUSPENSION OF DEALINGS

The Trust Deed contains powers for the Manager to cease to issue or redeem Units in certain circumstances where for example the markets, on which investments of the Fund are listed, are closed otherwise than for ordinary holidays or where any dealings on such markets are restricted or suspended, or there is a breakdown in the means of communication normally used so that valuation of the investments cannot be promptly and accurately ascertained. Full details of these circumstances are contained in the Trust Deed. If there is a suspension of dealings the Manager will give notice to any person whose subscription or redemption request is affected by the suspension.

LIMITS ON REDEMPTION

In the event of redemption requests being received in excess of 10% of the Units in issue, the Manager may with the approval of the Trustee and with a view to protecting the interests of Unitholders, limit the number of Units to be redeemed to 10% of the Units in issue. In that event, applications for redemption will be scaled down pro rata so that all Unitholders wishing to redeem their Units on that day redeem the same proportion of such Units. Units not so redeemed will be carried forward for redemption on the next Valuation Date, subject to the same limitation. Alternatively, the Manager may sell a proportion of the Fund's assets corresponding to the proportion of the Units to be redeemed and recalculate the redemption price based on the investments actually sold and in such event, the redemption proceeds will usually be payable only when the proceeds of sale of such investments are received.

CHARGES AND EXPENSES

The Manager

The Manager is entitled under the Trust Deed to a management fee at a maximum rate of 2.5% per annum of the Net Asset Value of the Fund, calculated and accrued on each Valuation Date and payable monthly in arrears. The Manager currently receives a management fee at the rate of 1.75% per annum. The Manager may only increase the level of its fee up to 2.5% per annum by giving to the Trustee and the Unitholders not less than three months' notice in writing or at such earlier date as may be approved by extraordinary resolution.

The Manager is also entitled to receive an initial charge on the issue of Units of up to 5% of the total subscription amount received in relation to the application for Units.

The Manager and its associates may enter into portfolio transactions for or with the Fund either as agent, in which case they may receive and retain customary brokerage commissions, or with the approval of the Trustee as principal in accordance with normal market practice. The Fund will generally pay brokerage at customary institutional full service brokerage rates. The Manager and its associates will not receive cash or other rebates from brokers or dealers in respect of transactions from the Fund but may enter into soft commission arrangements for the provision to the Manager or its associates of goods and services which are of demonstrable benefit to Unitholders. Execution of transactions for the Fund will be consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates. Details of any soft commissions will be disclosed in the annual report and accounts of the Fund.

The Manager may, in its absolute discretion, waive, reduce, share with or rebate to any person(s), including those by or through whom Units are offered for subscription, the payment of all or any portion of the initial charge received by the Manager for its own use and benefit, and may share with or rebate to any person(s), including those by or through whom Units are offered for subscription, the payment of all or any portion of the management fee and/or performance fee received by the Manager for its own use and benefit.

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

payments.

The Trustee

The Trustee currently receives a trustee fee of 0.3% per annum of the Net Asset Value of the Fund, payable monthly in arrears, and may only increase the level of fees to the maximum rate of 0.5% per annum of the Net Asset Value of the Fund with the agreement of the Manager and by giving to Unitholders not less than three months' notice in writing.

The Trustee is entitled under the Trust Deed to receive a minimum trustee fee of HK\$250,000 per annum, however it is currently only entitled to receive a minimum fee of HK\$125,000 per annum in the Fund. Such minimum fee can be increased up to the stated maximum with the approval of the Manager and upon three months' notice to Unitholders.

Other Expenses and Charges

The Fund is liable to pay a number of expenses in addition to the fees payable to the Manager and the Trustee. These expenses include the cost of investing and realising the assets of the Fund, of safe-keeping the investments which includes the fee of any custodian or sub-custodian (including transaction fees which may be payable to associates of the Trustee), fees payable to the Cayman Islands government, any tax or similar duties payable by the Fund, the cost of publishing, printing and circulating the annual report and notices of Unitholders' meetings, the costs of publishing subscription and redemption prices and other communications to Unitholders.

The Fund also bears legal expenses incurred by the Manager or the Trustee in enabling the Fund to conform to new legislation or in connection with any supplemental deed giving effect to an authorised alteration, modification or variation of the Trust Deed. The costs and expenses of auditing the Fund, their legal costs, the costs of obtaining or maintaining the approval of any regulatory authority for the Fund, the Manager's and the Trustee's expenses properly incurred, and any other costs incurred by the Manager or the Trustee wholly and exclusively for the benefit of the Fund, are also borne by the Fund. Under the Trust Deed, the Fund may receive the benefit of rounding adjustments made in the calculation of the redemption price.

TAXATION

The following comments are based on advice received by the Manager regarding current law and practice and are intended to assist investors. Investors should appreciate that as a result of changing law or practice, or unfulfilled expectations as to how the Fund or investors will be regarded by revenue authorities in different jurisdictions, the taxation consequences for investors may be otherwise than as stated below.

Investors should consult their professional advisers on the taxes applicable and possible tax consequences on their subscribing for, purchasing, holding, selling or redeeming Units under the laws of their countries of citizenship, residence, ordinary residence or domicile.

Hong Kong

During such period as the Fund is authorised by the SFC pursuant to section 104 of the SFO, under present Hong Kong law and practice:

- (a) The Fund is not expected to be subject to Hong Kong profits tax in respect of any of its authorised activities.
- (b) No tax will be payable by Unitholders in Hong Kong in respect of dividends or other income distributions of the Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units of the Fund, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

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

Dividends, interest and other income received by the Fund from outside Hong Kong may be subject to withholding taxes in the countries in which the payment is made and these taxes would not normally be recoverable by the Fund, though they may be recoverable by individual Unitholders who are able to claim the benefit of appropriate double taxation relief.

FATCA

(a) General Information

Sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended (commonly known as the Foreign Account Tax Compliance Act or “**FATCA**”) imposes a 30% withholding tax on certain payments to a foreign financial institution (“**FFI**”) if that FFI is not compliant with FATCA. The Fund is likely to be FFIs and thus, subject to FATCA and generally be required to enter into an agreement (an “**FFI Agreement**”) with the Internal Revenue Service (“**IRS**”) under which it will agree to identify its direct or indirect owners who are United States persons (“**U.S. persons**”)

and report certain information concerning such owners who are U.S. persons to the IRS.

Beginning 1 July 2014, this withholding tax applies to payments to the Fund that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation) and beginning on 1 January 2017, this withholding tax is extended to the proceeds received from the sale or disposition of assets that give rise to U.S. source dividend or interest payments, and foreign pass thru payments. It is expected that certain non-U.S. sourced payments attributable to amounts that would be subject to FATCA withholding (referred to as “passthru payments”) will also be subject to FATCA withholding, though the definition of “passthru payment” in U.S. Treasury Regulations is currently pending.

These FATCA withholding taxes may be imposed on payments to the Fund unless the Fund becomes FATCA compliant pursuant to (i) the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder, and/or (ii) where the Fund is subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA (“**IGA**”). If an IGA is in place between U.S. and the country where the FFI is domiciled, all FFIs in the IGA country will generally be able to apply simpler, less burdensome due diligence and tax information sharing requirements, with generally no FATCA tax withholding if the requirements of that IGA are satisfied.

The Cayman Islands Government has signed a FATCA Model 1B (non-reciprocal) IGA with the United States (“**Cayman IGA**”) on 29 November 2013. The Cayman IGA requires the Cayman Islands Government to enact laws requiring the identification and reporting of information about U.S. accounts to the standards set out therein. Unless there is an available exemption, FFIs subject to the Cayman IGA will be required to identify U.S. accounts and report specified information about those U.S. accounts to the Cayman Islands Tax Information Authority (the “**Cayman TIA**”). The Cayman TIA would then pass this information on to the U.S. tax authority, the IRS on an automatic basis annually. The Cayman TIA may also be required to automatically exchange information with other foreign tax authorities (such as HM Revenue and Customs of the United Kingdom (“**HMRC**”)).

FFIs that comply with the laws implemented pursuant to the Cayman IGA will be treated as satisfying the due diligence and reporting requirements of FATCA. As such, those FFIs will be 'deemed compliant' with the requirements of FATCA. In order to protect its Unitholders from the penalty of any penalty withholding, the Fund intend to comply with the relevant due diligence and reporting requirements relating to certain U.S. Shareholders to ensure that none of its income is subject to FATCA withholding.

(b) FATCA Registration Status

The Fund has registered with the IRS as a reporting FFI and has obtained a global

intermediary identification number (GIIN No. KM6F5D.99999.SL.136) from the IRS.

(c) Impact to the Fund and Unitholders

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

Each Unitholder shall also be required to: (a) inform the Fund, the Manager or its agents as soon as possible of any change in any information provided in relation to its U.S. or non-U.S. tax status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) subject to the Unitholder's express consent, waive any and all rights of such Unitholder under any relevant law or regulation in any applicable jurisdiction that would prevent the Fund, the Manager or its agents from meeting applicable regulatory and legal requirements.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund, or a risk of the Fund being subject to withholding tax under FATCA, the Fund, the Manager or its agents may, and acting in good faith and on reasonable grounds as permitted under applicable laws and regulations (i) report the relevant information of such Unitholder to the IRS, the HMRC or any tax authorities in other jurisdictions (subject to applicable laws or regulations in Hong Kong); (ii) withhold such amount from any redemption and/or distributions moneys which would otherwise be payable to a Unitholder; and/or (iii) exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder if in the opinion of the Manager, holding of Units by such person (whether directly or beneficially) will result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or the Fund being exposed to any liability, penalty or regulatory action, with the approval of the Trustee.

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

Although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund will be able to satisfy these obligations. If the Fund becomes subject to a withholding

tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

BORROWING

The Trust Deed permits borrowing to be made for the account of the Fund but the principal amount of all borrowings shall be only up to the value of 25% of the latest Net Asset Value of the Fund at the time the borrowing is made. Back-to-back loans do not count as borrowing. The Fund's assets may be charged or pledged as security for the borrowing. The Manager may from time to time borrow for the purposes of providing monies to permit any payment required to be made out of the Fund under the Trust Deed or required to be made from the Fund in connection with the investment of the Fund.

INVESTMENT RESTRICTIONS

The Trust Deed sets out restrictions on the acquisition of certain investments by the Manager for the Fund.

No holding of any security may be acquired or added for the Fund which would not be consistent with achieving the investment objective of the Fund or which would result in:-

- (a) more than 10% of the latest available Net Asset Value of the Fund being invested in securities issued by any single issuer;
- (b) the Fund holding more than 10% of any ordinary shares issued by any single issuer;
- (c) more than 15% of the latest available Net Asset Value of the Fund being invested in securities which are not listed, quoted or dealt in on a market (i.e. any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded);
- (d) more than 30% of the latest available Net Asset Value of the Fund being invested in government and other public securities of the same issue, save that the Fund may invest all of its assets in government and other public securities in at least six different issues;
- (e) more than 15% of the latest available Net Asset Value of the Fund being invested in options and warrants in terms of the total amount of premium paid, except where such options and warrants are acquired for hedging purposes;
- (f) the Manager, for the account of the Fund, writing uncovered options;
- (g) the Manager, for the account of the Fund, writing call options over investments held by the Fund the total of which, in terms of the prices at which all such call options may be exercised, exceeds 25% of the latest available Net Asset Value of the Fund;

- (h) more than 20% of the latest available Net Asset Value of the Fund being invested in: (i) physical commodities (including gold, silver, platinum or other bullion); (ii) commodity-based investments (excluding, for this purpose, shares in companies engaged in the producing, processing or trading of commodities); and (iii) futures contracts on an unhedged basis, calculated using the net total aggregate value of contract prices, whether payable to or by the Fund under all outstanding futures contracts (but without prejudice to the Manager's right to take positions in futures contracts for hedging purposes);
- (i) more than 10% of the latest available Net Asset Value of the Fund being invested in any units or shares in other collective investment schemes which are not recognised jurisdiction schemes (as designated by the SFC) and not authorised by the SFC; and
- (j) more than 30% of the latest available Net Asset Value of the Fund being invested in units or shares in a collective investment scheme which is either a recognised jurisdiction scheme (as designated by the SFC) or authorised by the SFC, provided always that such limit may be exceeded if (i) such collective investment scheme is authorised by the SFC and (ii) name and key investment information of such collective investment scheme are disclosed in this Explanatory Memorandum.

If the investment restrictions and limitations in relation to the Fund are breached, the Manager shall take as a priority objective all steps as are necessary within a reasonable period of time to remedy such breach taking due account of the interests of the Unitholders.

In addition, the Fund is subject to the following investment restrictions, which prohibits the Manager, for the account of the Fund, from:

- (a) investment in a collective investment scheme, the objective of which is to invest primarily in any investments prohibited under Chapter 7 of the Code, and where such collective investment scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such holdings may not be in contravention of the relevant limitations;
- (b) investment in a collective investment scheme managed by the Manager or its connected persons unless all initial charges on such collective investment scheme are waived and the Manager does not retain any rebate on any fees or charges levied by the collective investment scheme or the management company of such collective investment scheme;
- (c) investment in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts);
- (d) making short sales which (i) will result in the Fund's liability to deliver securities exceeding 10% of its latest available Net Asset Value; and (ii) is not actively traded on a market where short selling activity is permitted;

- (e) lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (f) acquisition of any asset which may involve the Fund in any unlimited liability;
- (g) investment in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all those issued securities of that class or such directors and officers collectively own more than 5% of those securities; and
- (h) acquisition of any security where a call is to be made for any sum unpaid on that security unless that call could be met in full out of cash or near cash by the assets of the Fund, the amount of which has not already been taken into account for the purposes of paragraph (g) above.

DISTRIBUTION AND INCOME

The Trust Deed empowers the Manager to distribute the income of the Fund but it is the Manager's intention to accumulate it and make no distribution.

If distributions were to be made, then on the reinvestment of a distribution in Units, the initial charge would not be payable. Distributions will not be paid out of, or effectively out of, the capital of the Fund.

REPORTS AND ACCOUNTS

The financial year end of the Fund is 30 June. Annual reports and audited accounts (in English only) will be made available to Unitholders as soon as possible, in any event within four months after the end of the relevant financial year. Unaudited semi-annual reports (in English only) will also be made available to Unitholders shortly, in any event within two months after 31 December in each year.

Notice will be given to Unitholders to notify them where the financial reports (in printed and electronic forms) can be obtained within the relevant timeframe. In any event, the financial reports will be available on the website of the Manager at www.htisec.com/asm and printed copies of the financial reports will be provided to Unitholders upon their request and will be available at the offices of the Manager. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

TRUST DEED

The Fund was established under Hong Kong law by a Trust Deed dated 18 April 1989 and made between SHK Unit Trust Managers Limited as Manager, Standard Chartered International Trustee Limited (as it was then known) as Trustee and Standard Chartered Trust Company Limited as Alternate Trustee. This Trust Deed has been amended by supplemental trust deeds dated 16th October 1989, 1 June 1991, 31 March 1992, 7 June 1993, 15 April 1996, 24 June 1999, 31 October 2001, 9 July 2007, 22 November 2010 and 6 March 2015 respectively and a Deed of Retirement and Appointment dated 20 May 1995 and a Deed of Retirement and Appointment of Manager and Modification of the Trust Deed constituting Taifook Middle Kingdom Fund (as the Fund was then known) dated 24 October 2003.

Since the Fund was established, the Trustee and the Alternate Trustee have changed. Bank of Bermuda (Cayman) Limited and The Bank of Bermuda Limited (now known as HSBC Bank Bermuda Limited) became Trustee and Alternate Trustee respectively with effect from 30 September 1994.

The Fund was formerly known as Polaris Middle Kingdom Fund, Kingsway Middle Kingdom Fund and Taifook Middle Kingdom Fund before 1 August 2001, 1 August 2007 and 29 November 2010 respectively and has changed to its present name with effect from 29 November 2010.

The Trust Deed contains provisions for the indemnification of the parties and their exclusion from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

The Trustee and Manager may agree to modify the Trust Deed by supplemental deed provided that the Trustee certifies in writing that in its opinion such change (a) is necessary to so comply or is expedient for the economical, simple, advantageous or profitable working or management of the Funds and is not materially detrimental to the interests of Unitholders and does not operate to release to any material extent the Trustee, the Manager, or any other person from any liability or responsibility to Unitholders, and does not increase the costs and charges payable out of the Fund; or (b) is necessary in order to comply with fiscal or other statutory or official requirements of any country or authority.

UNITHOLDERS' MEETINGS

Meetings of Unitholders may be convened by the Manager or the Trustee and the Manager is required to convene a meeting on the request of the Unitholders of not less than 1/10 of the Units for the time being in issue. Unitholders will be given not less than 14 days' notice of any meeting. Unitholders may appoint proxies to attend and vote on their behalf.

Unitholders may by ordinary resolution, that is a simple majority of the votes passed for and against the relevant proposal, elect a chairman of the meeting, adjourn a meeting and approve further unrestricted investments. In addition, Unitholders may by extraordinary resolution, that is a 75% majority of the votes, of those present or represented at the meeting, passed for the relevant proposal, sanction a modification of the Trust Deed as approved by the Manager and the Trustee, remove the Trustee, terminate the Fund or approve amalgamation with another trust.

The quorum required for all meetings is Unitholders present in person or by proxy representing 25% of the Units in issue on the day immediately preceding the date of the meeting. The Manager and its associates may not be counted in the quorum at any meeting nor vote in respect of Units beneficially held by them if the Manager or any of its associates has a material interest in the business to be transacted at the meeting. However, such restrictions in relation to the required quorum and voting by the Manager do not apply at an adjourned meeting where the original meeting was inquorate. Separate notice will be given of the re-convened meeting. Equivalent restrictions apply to voting by the Trustee and its associates and the counting of Units held by the Trustee for quorum purposes.

On a show of hands, every individual Unitholder present in person and every corporate Unitholder present by representative has one vote. On a poll, every Unitholder present in person, by proxy or by representative has one vote for every whole Unit held. A poll may be demanded by the chairman or by one or more Unitholders present in person or by proxy, representing 5% of the Units in issue.

DURATION AND TERMINATION OF THE FUND

The Fund will continue indefinitely until terminated as provided in the Trust Deed.

The Trustee may terminate the Fund by giving notice to the Manager (if there shall be a Manager in office) and thereafter by giving not less than three (3) months' notice in writing to all Unitholders in certain circumstances including:

- (a) within a period of 6 months from the date of the removal of the Manager pursuant to the Trust Deed, the Trustee is unable to appoint some other company to act as Manager;
- (b) the passing of any laws rendering it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund;
- (c) within a period of 6 months from the date of the Trustee giving notice in accordance with the Trust Deed of its desire to retire, the Trustee and the Manager shall have failed to appoint a new Trustee; or
- (d) at any time after the expiry of 5 years from the date of establishment of the Fund, an extraordinary resolution of the Unitholders authorising the termination of the Fund is passed; or
- (e) the Manager shall go into liquidation (save a voluntary liquidation for the purpose of and followed by a reconstruction or amalgamation upon terms previously approved in writing by the Trustee).

The Manager may terminate the Fund by giving notice to the Trustee and thereafter by giving not less than three (3) months' notice to all Unitholders in certain circumstances including:

- (a) where the aggregate Net Asset Value of the Fund falls below HK\$50 million for a continuous period of 3 months; or
- (b) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund.

Upon termination of the Fund, all investments forming part of the Fund will be sold, such sale being carried out and completed in such manner and within such period as the Trustee deems fit. The Trustee will distribute to the Unitholders pro rata to the Units held by them all the net cash proceeds derived from the realisation of the Fund's assets after making provisions for all costs, charges, expenses and claims arising out of the liquidation of the Fund. Every such distribution will be made in respect of Units for which a certificate (if any) is in issue against production of the Unit certificate upon which will be endorsed a memorandum of every interim distribution made and on a final distribution the certificate will be surrendered to the Trustee. Where a certificate has not been issued, a certificate of payment signed by the Trustee shall be given to Unitholders.

The Trustee shall not be bound except in the final distribution to pay out less than

HK\$0.50 per Unit. Any distribution which remains unclaimed for a period of 6 years after the date on which it is first made available will be paid to the Manager.

ANTI-MONEY LAUNDERING REGULATIONS

As part of the Manager and the Trustee and Registrar's responsibility for the prevention of money laundering, the Manager and the Trustee and Registrar, each of their respective affiliates, subsidiaries or associates may require a detailed verification of the applicant's identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:

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

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations. Each of the Manager and the Trustee and Registrar nevertheless reserves the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, either the Manager or the Trustee and Registrar may refuse to accept the application and the subscription monies relating thereto and may delay the payment of any redemption proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of fund. None of the Manager, the Trustee and Registrar or their delegates shall be liable to the applicant for any loss suffered by the applicant as a result of the rejection or delay of any subscription or payment of redemption proceeds.

By subscribing for Units, the applicant consents to the disclosure by the Trustee, the Manager, the Registrar and their delegates, agents and affiliates, of any information provided by the applicant to government agencies, regulatory bodies and other relevant persons in connection with anti-money laundering requirements and similar matters.

Each applicant for Units will be required to make such representations as may be required by the Trustee in connection with anti-money laundering programmes, including, without limitation, representations that such applicant is not a prohibited country, territory, individual or entity listed on the United States Department of Treasury's Office of Foreign Assets Control (**OFAC**) website and that it is not directly or indirectly affiliated with any country, territory, individual or entity named on an OFAC list or prohibited by any OFAC sanctions programmes. Each applicant will also be required to represent that subscription monies are not directly or indirectly derived from activities that may contravene United States federal or state, or international, laws and regulations, including anti-money laundering laws and regulations.

If any person in the Cayman Islands involved in the business of the Fund (including

the Trustee and Registrar) has a suspicion or believes that a payment to the Fund (by way of subscription or otherwise) is derived from or represent the proceeds of criminal conduct, that person is required to report such suspicion to the Cayman Islands Financial Reporting Authority pursuant to The Proceeds of Crime Law, 2008 of the Cayman Islands. Such a report shall not be treated as a breach of any restriction upon the disclosure of information imposed by law or otherwise.

CONFLICTS OF INTEREST

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 and clients which have similar investment objectives to 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. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:

- (a) the Trust Deed, and any supplemental deeds; and
- (b) the latest financial reports of the Fund.