

# China New Economy Fund Limited

## 中國新經濟投資有限公司

*(an exempted company incorporated in the Cayman Islands with limited liability and registered no. MC-236635)*

**PLACING**  
**Stock Code: 80**

**Investment Manager**



CITIC Securities International Investment Management (HK) Limited

**Sponsor**



China Everbright Capital Limited

**Lead Placing Agent**



China Everbright Securities (HK) Limited

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## IMPORTANT

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*If you are in any doubt about any of the contents of this document, you should seek independent professional advice.*

### China New Economy Fund Limited

### 中國新經濟投資有限公司

*(an exempted company incorporated in the Cayman Islands with limited liability and registered no. MC-236635)*

#### PLACING

**Number of Placing Shares :** 303,000,000 Shares  
**Placing Price :** HK\$1.03 per Share (payable in full on application plus brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)  
**Nominal Value :** HK\$ 0.10 per Share  
**Stock Code :** 80

#### Investment Manager



CITIC Securities International Investment Management (HK) Limited

#### Sponsor



China Everbright Capital Limited

#### Lead Placing Agent



China Everbright Securities (HK) Limited

#### Placing Agents

China Everbright Securities (HK) Limited  
CITIC Securities Brokerage (HK) Limited  
First Shanghai Securities Limited  
Fordjoy Securities and Futures Limited  
GF Securities (Hong Kong) Brokerage Limited  
Kingston Securities Limited  
Sun Hung Kai International Limited

Subject to the granting of the listing of, and permission to deal in, the ordinary shares of HK\$0.10 par value each (the "Shares") of China New Economy Fund Limited (the "Company") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") as well as compliance with the stock admission requirements of the Hong Kong Securities Clearing Company Limited ("HKSCC"), the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the Central Clearing and Settlement System with effect from the commencement of dealings in the Shares on the Stock Exchange or such other date HKSCC chooses. All activities under the Central Clearing and Settlement System are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

A copy of this document and the documents specified in the paragraph entitled "Documents Delivered to the Registrar of Companies and Available for Inspection" in the section headed "Additional Information" in this document has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong ("Companies Ordinance"). The Securities and Futures Commission ("SFC") and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any of the other documents referred to above.

Neither the Hong Kong Exchanges and Clearing Limited, the Stock Exchange, the SFC nor HKSCC take any responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Application has been made to the Listing Committee of Stock Exchange pursuant to Chapter 21 of the Listing Rules for the listing of and permission to deal in the Shares in issue and to be issued. The Shares will not be admitted and the directors of the Company have no current intention that any Shares be admitted to be traded on any other stock exchanges. Prospective investors should read this entire document and, in particular, the matters set out under the sections headed "Risk Factors" and "Potential Conflicts of Interest" in this document, when considering an investment in the Company.

The obligations of the Placing Agents under the Placing Agreement are subject to termination by the Lead Placing Agent (on behalf of the Placing Agents) and the Sponsor if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the day that trading in the Placing Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the paragraph entitled "Grounds for termination" in the section entitled "Structure of the Placing" in this document.

The Shares are being offered in Hong Kong on a restricted basis in reliance on Rule 21.14 of the Listing Rules. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document is being distributed only (i) in Hong Kong to persons that are considered "professional investors" under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") and the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) ("Companies Ordinance"), and (ii) to other persons to whom it may otherwise be lawful to distribute it (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is suitable only for and is available only to relevant persons and will be engaged in only with relevant persons. This document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Please refer to the paragraph entitled "Restrictions on Sale of Placing Shares" in the section headed "Structure of the Placing" in this document for further details.

31 December 2010

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## IMPORTANT INFORMATION

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This document includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information with regard to China New Economy Fund Limited (the “**Company**”). The directors of the Company and the directors of the CITIC Securities International Investment Management (HK) Limited (the “**Investment Manager**”), collectively and individually accept full responsibility for the accuracy of the information contained in this document 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 herein misleading.

Investors should rely only on the information in this document. No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representation must not be relied on as having been authorised by the Company, the Investment Manager, their directors, or any other person. Neither the delivery of this document nor any subscription or purchase of the Shares (as defined in the definition section below) made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as advice relating to legal, financial, taxation or investment matters or any other matter. Prospective investors should inform themselves as to: (i) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of Shares; (ii) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Shares which they might encounter; and (iii) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Clifford Chance is acting for the Company and no-one else in connection with the proposed placing (the “**Placing**”) and will not regard any other person as its client in relation to the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Placing or any transaction or arrangement referred to in this document.

Statements made in this document are based on the law and practice currently in force in various jurisdictions including the Cayman Islands and Hong Kong and are subject to changes thereto.

This document does not constitute, and may not be used for the purposes of, an offer or an invitation to subscribe for or otherwise acquire any Shares by any person in any jurisdiction (i) in which such offer or invitation is not authorised or (ii) in which the person making such offer or invitation is not qualified to do so or (iii) to any person to whom it is unlawful to make such offer or invitation.

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## IMPORTANT INFORMATION

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Printed copies of this document can be obtained from the Lead Placing Agent and any of the Placing Agents (both defined in the definition section below) at the following offices:

- (i) **China Everbright Securities (HK) Limited** at 36th Floor, Far East Finance Centre, 16 Harcourt Road, Central, Hong Kong;
- (ii) **CITIC Securities Brokerage (HK) Limited** at 26/F CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong;
- (iii) **First Shanghai Securities Limited** at 19/F, Wing On House, 71 Des Voeux Road Central, Hong Kong;
- (iv) **Fordjoy Securities and Futures Limited** at 10/F & 9A, Lin Fook House, 3 Jardine's Crescent, Causeway Bay, Hong Kong;
- (v) **GF Securities (Hong Kong) Brokerage Limited** at Rooms 2301-05 & 2313 COSCO Tower, 183 Queen's Road Central, Hong Kong;
- (vi) **Kingston Securities Limited** at Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong; and
- (vii) **Sun Hung Kai International Limited** at 42/F, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong

from 4:00 p.m. to 5:00 p.m. on 31 December 2010 and from 9:00 a.m. to 5:00 p.m. from 3 January 2011 to 5 January 2011.

### Investment risks

Investment in the Company carries significant risk, and investment in the Company should be regarded as long term in nature and is only suitable for investors who understand the risks involved and are Professional Investors. Investors may not recover monies invested. Investors are referred in particular to the section entitled "*Risk Factors*" for a summary of some of the risks involved.

**Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax and related matters concerning the Company and an investment therein.**

### Selling Restrictions

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you are not authorized to, deliver this document to any other person. None of the Company, the Sponsor, the Placing Agents nor any of their respective directors, officers, employees, representatives,

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## IMPORTANT INFORMATION

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advisers or affiliates, accepts any liability or responsibility whatsoever for any loss howsoever arising from any use of the document or its contents or otherwise arising in connection therewith.

### *Cayman Islands*

This document does not constitute an invitation or offer to the public in the Cayman Islands of the Shares, whether by way of sale or subscription.

### *Italy*

This document is solely intended for the individuals/entities to whom it is delivered and may not be considered or used as an offering of Shares in the Company in the meaning of, and for the purposes of, section 42 and section 93-bis and seq. of Legislative Decree no 58 of 24 February 1998, as subsequently amended.

In addition, any person who is in possession of this document understands that the Company has not been and will not be authorised by the Bank of Italy to offer the Shares to Italian residents pursuant to section 42 of legislative decree no 58 of 24 February 1998.

Accordingly, the Shares may not be offered, sold or delivered and neither this document nor any other offering material relating to the Shares may be distributed or made available to Italian residents. This document cannot be construed as a solicitation by any person to investors in Italy to subscribe for the Shares.

Individual sales of the Shares to any person in Italy may only be made according to Italian securities, tax and other applicable laws and regulations.

### *PRC*

The Shares described in this document may not be offered or sold directly or indirectly within the People's Republic of China (which, for these purposes, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) (the "**PRC**"). This document or any information contained or incorporated by reference herein relating to the Shares does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This document, any information contained in this document or the Shares have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Shares in the PRC.

The Shares described in this document may only be offered or sold to the PRC investors that are authorised to engage in the purchase of the Shares of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities Regulatory Commission, the China Banking Regulatory Commission, and

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## IMPORTANT INFORMATION

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other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

### *United Arab Emirates (excluding the Dubai International Financial Centre)*

By receiving this offering document, the person or entity to whom it has been issued understands, acknowledges and agrees that this offering document has not been approved by the UAE Central Bank, the Emirates Securities and Commodities Authority (“ESCA”) or any other authorities in the UAE, nor has the placement agent, if any, received authorisation or licensing from the UAE Central Bank, ESCA or any other authorities in the United Arab Emirates to market or sell the Shares or other investments within the United Arab Emirates. No marketing of any financial products or services has been or will be made from within the United Arab Emirates and no subscription to the Shares or other investments may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment advisor under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The Shares in the Company may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This does not constitute a public offer of securities or units in funds in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

Prospective Investors in the Dubai International Financial Centre should have regard to the specific notice below to prospective investors in the Dubai International Financial Centre.

### *Dubai International Financial Centre residents*

This offering document relates to Shares in a collective investment scheme which is not subject to any form of regulation or approval by the Dubai Financial Services Authority (“DFSA”).

The Shares in the Company may not be offered, sold or promoted directly or indirectly to persons in the Dubai International Financial Centre (“DIFC”).

The DFSA has no responsibility for reviewing or verifying this offering document or other documents in connection with this collective investment scheme. Accordingly, the DFSA has not approved this offering document or any other associated documents nor taken any steps to verify the information set out in this offering document, and has no responsibility for it.

The Shares to which this offering document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Shares.

If you do not understand the contents of this document you should consult an authorised financial adviser.

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## IMPORTANT INFORMATION

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### *United Kingdom*

This document does not constitute an approved prospectus for the purposes of and as defined in section 85 of the Financial Services and Markets Act 2000 (as amended) (the “**FSMA**”), has not been prepared in accordance with the prospectus rules issued by the UK Financial Services Authority (the “**FSA**”) pursuant to section 73A of the FSMA and has not been approved by or filed with the FSA or by any other authority which would be a competent authority for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”). The Shares may not be offered or sold and will not be offered or sold to the public in the UK (within the meaning of section 85 and 102B of the FSMA) save in the circumstances where it is lawful to do so without an approved prospectus (within the meaning of section 85 of the FSMA) being made available to the public before the offer is made.

In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares except in circumstances in which section 21(1) of the FSMA does not apply to the Company.

This document, along with any other marketing materials relating to the Company, is only available to and is only directed at persons falling within the following categories:

- persons outside of the United Kingdom within the meaning of Article 12 of the Financial Services and Markets Act (Financial Promotions) Order 2005 as amended (the “**FPO**”);
- “investment professionals” within the meaning of Article 19 FPO;
- “high net worth companies, unincorporated associations etc.” within the meaning of Article 49(2)(a) to (d) FPO;
- “certified sophisticated investors” or “self-certified sophisticated investors” within the meaning of Articles 50 and 50A FPO (respectively); or
- any other persons to whom this document may otherwise lawfully be communicated in accordance with FSMA or the FPO,

(all such persons together being referred to as “**relevant persons**”).

This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. Persons of any other description in the United Kingdom may not receive and should not act or rely on this document or any other marketing materials relating to the Company.

Prospective investors in the United Kingdom are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Company and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme. Any individual intending to invest in

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## IMPORTANT INFORMATION

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any investment described in this document should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

### *United States*

The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)). The Shares are being offered and sold outside the United States in reliance on Regulation S.

The Company has not registered, and does not intend to register, as an investment company under the United States Investment Company Act of 1940 (the “**Investment Company Act**”).

**THIS DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**



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## EXPECTED TIMETABLE

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Announcement of the levels of indication of interests of  
the Placing Shares to be published on the Company's  
website at [www.chinaneweconomyfund.com](http://www.chinaneweconomyfund.com) and  
the website of the Stock Exchange at  
[www.hkexnews.hk](http://www.hkexnews.hk) on or before . . . . . Wednesday, 5 January 2011

Deposit of share certificates into CCASS on or before . . . . . Wednesday, 5 January 2011

Dealings in Shares on the Stock Exchange to commence on . . . . Thursday, 6 January 2011

### PLACING STATISTICS

Placing Price per Share (*exclusive of brokerage of 0.5%,  
SFC transaction levy of 0.003% and  
Stock Exchange trading fee of 0.005%*) . . . . . HK\$1.03

Number of Placing Shares . . . . . 303,000,000

Market Capitalisation . . . . . HK\$312,090,000

Pro forma net tangible asset value per Share . . . . . HK\$0.95

#### Notes:

- 1) All times refer to Hong Kong local times, except as otherwise stated.
- 2) The Share certificates are expected to be deposited into CCASS on or before Wednesday, 5 January 2011 for credit to the respective CCASS Participants' stock accounts designated by the placees. No temporary document of title will be issued.
- 3) The market capitalisation is calculated on the basis of 303,000,000 Shares in issue and the Placing Price of HK\$1.03 per Placing Share.
- 4) The unaudited pro forma net tangible asset value per Share is prepared on the basis of 303,000,000 Shares expected to be in issue immediately after completion of the Placing, and the estimated net proceeds from the Placing of approximately HK\$286.6 million.

Further details of the structure and conditions of the Placing are set out in the section entitled "*Structure of the Placing*" in this document.

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## CORPORATE INFORMATION & PARTIES INVOLVED IN THE PLACING

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<b>Company's Registered Office</b>	PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104 Cayman Islands
<b>Company's Principal Place of Business in Hong Kong and Headquarter</b>	17/F, Chuang's Tower 30-32 Connaught Road Central, Central Hong Kong
<b>Investment Manager</b>	CITIC Securities International Investment Management (HK) Limited 17/F, Chuang's Tower 30-32 Connaught Road Central, Central Hong Kong
<b>Administrator</b>	HSBC Trustee (Cayman) Limited P.O. Box 484, HSBC House 68 West Bay Road, Grand Cayman KY1-1106 Cayman Islands
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shop 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong
<b>Custodian</b>	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
<b>Company's Website</b>	<a href="http://www.chinaneweconomyfund.com">www.chinaneweconomyfund.com</a> <i>(information on the website does not form part of this document)</i>
<b>Company Secretary</b>	LIN Sio Ngo (ACIS, ACS)
<b>Authorised Representatives</b>	Craig B. LINDSAY Apt B1, Shouson Garden 6A Shouson Hill Road Hong Kong  LIN Sio Ngo Flat H, 14th Floor Glamour Garden 1-5 Chik Fai Street Tai Wai, Shatin Hong Kong

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## CORPORATE INFORMATION & PARTIES INVOLVED IN THE PLACING

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<b>Principal Banker</b>	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
<b>Audit and Remuneration Committee</b>	SIU Kam Chau (Chairman) Professor XU Yangsheng DALLY, Doyle Ainsworth
<b>Sponsor</b>	China Everbright Capital Limited 40/F, Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Lead Placing Agent</b>	China Everbright Securities (HK) Limited 36/F, Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Placing Agents</b>	China Everbright Securities (HK) Limited 36/F, Far East Finance Centre 16 Harcourt Road Hong Kong  CITIC Securities Brokerage (HK) Limited 26/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong  First Shanghai Securities Limited 19/F Wing On House 71 Des Voeux Road Central Hong Kong  Fordjoy Securities and Futures Limited 10/F & 9A Lin Fook House 3 Jardine's Crescent Causeway Bay Hong Kong  GF Securities (Hong Kong) Brokerage Limited Rooms 2301-05 & 2313 COSCO Tower 183 Queen's Road Central Hong Kong

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## CORPORATE INFORMATION & PARTIES INVOLVED IN THE PLACING

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	Kingston Securities Limited Suite 2801, 28th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
	Sun Hung Kai International Limited 42/F The Lee Garden 33 Hysan Avenue Causeway Bay Hong Kong
<b>Compliance Adviser</b>	China Everbright Capital Limited 40/F, Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Legal Advisers to the Company</b>	<i>as to Hong Kong law:</i>  Clifford Chance, Hong Kong 28th Floor Jardine House One Connaught Place, Central Hong Kong  <i>as to Cayman Islands law:</i>  Maples and Calder PO Box 309, Ugland House, South Church Street George Town, Grand Cayman KY1-1104 Cayman Islands
<b>Legal Advisers to the Sponsor</b>	DLA Piper, Hong Kong 17th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong
<b>Auditors and Reporting Accountants</b>	Ernst & Young Certified Public Accountants 18th Floor, Two International Finance Centre 8 Finance Street, Central Hong Kong

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## DIRECTORS

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### Directors of the Company

Name	Address	Nationality
<b>Executive Directors</b>		
WANG, Junyan (王俊彥)	Flat A, 18/F, Block 1 Dynasty Court 23 Old Peak Road Hong Kong	Chinese
LINDSAY, Craig Blaser	Apt B1, Shouson Garden 6A Shouson Hill Road Hong Kong	American
GU, Xu (顧旭)	Room 703 No. 11 Lane 289 Ouyang Road Hongkou District Shanghai PRC	Chinese
<b>Independent Non-executive Directors</b>		
SIU, Kam Chau (蕭錦秋)	Flat D, 7/F, Tower 8 One Beacon Hill 1 Beacon Hill Road Kowloon Tong, Kowloon Hong Kong	Chinese
XU, Yangsheng (徐揚生)	Unit F, 25/F, Tower 1 Vista Paradiso 2 Hang Ming Street Ma On Shan Shatin N.T. Hong Kong	Chinese
DALLY, Doyle Ainsworth	103 Royal Palm Drive Sunrise Landing Newlands, Grand Cayman Cayman Islands	Caymanian



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## DIRECTORS

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### Directors of the Investment Manager

Name	Address	Nationality
WANG, Junyan (王俊彦)	Flat A, 18/F, Block 1 Dynasty Court 23 Old Peak Road Hong Kong	Chinese
LINDSAY, Craig Blaser	Apt B1, Shouson Garden 6A Shouson Hill Road Hong Kong	American
POON, Chi Leong Harry (潘志良)	Flat D, 8/F, Block 18 Phase 4, Laguna City Cha Kwo Ling, Kowloon Hong Kong	British
KWAN, Man Fai Louis (關文輝)	Flat A, 36/F, Tower 1 Sorrento 1 Austin Road West Tsimshatsui, Kowloon Hong Kong	Chinese
YIN, Ke (殷可)	Suite 3919 South West Tower Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	Chinese

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## DEFINITIONS

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The following definitions apply throughout this document unless the context requires otherwise:

“Administration Agreement”	the administration agreement dated 10 December 2010 entered into between the Company and the Administrator, further details of which are set out in the paragraph entitled “ <i>Administration and Accounting</i> ” in the section headed “ <i>Management and Administration of the Company</i> ” in this document
“Administrator”	HSBC Trustee (Cayman) Limited, an exempted limited liability company incorporated in the Cayman Islands
“Articles”	the articles of association of the Company adopted on 10 December 2010, and in force from time to time a summary of which is set out in Appendix 2
“Associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Business Day”	any day other than a Saturday, a Sunday or a public holiday in Hong Kong on which banks in Hong Kong are open for normal banking business in Hong Kong provided that where, as a result of a number 8 typhoon signal or higher or a black rainstorm warning or other similar event in Hong Kong, the period during which banks in Hong Kong are open for normal banking business on any day are reduced, such day shall not be a Business Day unless the Directors may determine otherwise
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

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## DEFINITIONS

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“Companies Law”	Companies Law (2010 Revision) of the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“Company”	China New Economy Fund Limited, an exempted company incorporated in the Cayman Islands on 1 February 2010
“Connected Person”	has the meaning ascribed to it in the Listing Rules
“Custodian”	HSBC Institutional Trust Services (Asia) Limited, an exempted limited liability company incorporated in Hong Kong.
“Custodian Agreement”	the custodian agreement dated 10 December 2010 entered into between the Company and the Custodian, further details of which are set out in the paragraph entitled “ <i>Custody Services</i> ” in the section headed “ <i>Management and Administration of the Company</i> ” in this document
“Directors” or “Board”	the directors of the Company, or the board of directors from time to time of the Company, as the case may require, and “Director” is to be construed accordingly
“ERISA”	the United States Employee Retirement Income Security Act of 1974, as amended
“Exchange Participants”	has the meaning ascribed to it in the Listing Rules
“Greater China”	means the PRC, Hong Kong, Macau and Taiwan
“HK\$” or “HK Dollar”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Hong Kong Resident”	means: <ul style="list-style-type: none"><li>(a) individuals who are residents of Hong Kong;</li><li>(b) companies which are incorporated under the laws of Hong Kong;</li><li>(c) companies incorporated under the laws of a jurisdiction outside of Hong Kong which are registered under Part XI of the Companies Ordinance; and</li><li>(d) partnerships, the majority of the partners of which qualify as Hong Kong residents under paragraphs (a) to (c) above</li></ul>
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Investment Manager”	CITIC Securities International Investment Management (HK) Limited, a company incorporated in Hong Kong and licensed by the SFC to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
“Investment Management Agreement”	the investment management agreement between the Company and the Investment Manager on 10 December 2010, further details of which are set out in the paragraph entitled “ <i>The Investment Manager</i> ” under the Section headed “ <i>Management and Administration of the Company</i> ” in this document
“Issue Price”	in respect of any Shares issued on any Valuation Day after the Listing Date, the price at which such Shares may be issued
“Latest Practicable Date”	23 December 2010, being the latest practicable date before the printing of this document for ascertaining certain information contained in this document
“Listing Committee”	the listing sub-committee of the directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares on the Stock Exchange first commence, which is expected to be on 6 January 2011
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Net Asset Value” or “NAV”	the net asset value of the Company in total or (as the context requires) per Share calculated monthly in accordance with the Company’s accounting policies and the Articles
“Placing”	the placing of 303,000,000 Shares at the Placing Price plus brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% set out on the cover page of this document payable in full on application on the terms and subject to the conditions stated herein
“Placing Agents”	China Everbright Securities (HK) Limited, CITIC Securities Brokerage (HK) Limited, First Shanghai Securities Limited, Fordjoy Securities and Futures Limited, GF Securities (Hong Kong) Brokerage Limited, Kingston Securities Limited and Sun Hung Kai International Limited
“Placing Agreement”	the agreement dated 28 December 2010 entered into between the Company, the Sponsor and the Placing Agents relating, <i>inter alia</i> , to the Placing, details of which are set out in the paragraph entitled “ <i>Placing Arrangements</i> ” in the section headed “ <i>Additional Information</i> ” in this document
“Placing Commission”	the placing commission of 3% of the Placing Price payable by the Company
“Placing Price”	HK\$1.03 per Placing Share (exclusive of brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)
“Placing Shares”	a total of 303,000,000 Shares being offered for subscription under the Placing
“PRC” or “China”	the People’s Republic of China (excluding for the purposes of this document Hong Kong, the Special Administrative Region of Macau and Taiwan) and the term “Chinese” shall be construed accordingly
“Professional Investors”	shall have the same meaning as ascribed thereto in Part 1 of Schedule 1 to the SFO and any rules made thereunder
“Renminbi” or “RMB”	the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholders”	the registered holders of Shares from time to time
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company carrying the rights as described in the paragraph entitled “ <i>Share Capital</i> ” in the section headed “ <i>Additional Information</i> ” in this document
“Sponsor”	China Everbright Capital Limited, a company incorporated in Hong Kong and licensed by the SFC to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited or its market for listed securities, as the context may require
“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases issued by the SFC
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Person”	any person, corporation or partnership or other entity or account defined as a “U.S. Person” in Regulation S under the Securities Act of 1933, as amended
“U.S. dollars” or “US\$”	the United States dollars, the lawful currency for the time being of the United States
“Valuation Date”	the last Business Day of each month or such other days as the Directors shall determine in their sole discretion as considered appropriate by the Board
“Valuation Point”	the close of business in the last relevant market to close on each Valuation Date or such other time on such Valuation Date as determined by the Directors from time to time at which the Directors determine that the Net Asset Value per Share of any class and/or series of Shares shall be calculated
“%”	per cent.

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## KEY INFORMATION

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The following information is derived from and should be read in conjunction with the full text of this document. Investors should read the whole of this document, in particular, the risks set out in the section headed “*Risk Factors*” and “*Potential Conflicts of Interest*” in this document and not rely solely on the key information contained in this section.

### The Company

The Company is an exempted limited liability company, incorporated in the Cayman Islands on 1 February 2010 for the purpose of acting as a closed-ended investment company. The Company has not commenced operation or business since its incorporation.

### Investment Objective

The principal investment objective of the Company is to achieve long-term capital appreciation through investing globally in both private and publicly listed enterprises that have demonstrated the ability to manufacture a product or deliver a service that is supported by the economies of mainland China, Hong Kong, Macau and Taiwan (“**Greater China**”). In seeking to fulfil this objective, the Company has adopted a number of policies including, but not limited to, investing in enterprises that will derive income from new economy industries, including, but not limited to, the low carbon energy industry, software and internet-related industries, which, in varying degrees, place a premium on innovation, advanced technology, or worker skills. Further details are set out in the paragraph entitled “*Investment Objective and Policies*” in the section headed “*Overview of the Company*”.

### Investment Restrictions

The Listing Rules and the Articles contain certain restrictions on investments of the Company, details of which are set out in the paragraph entitled “*Investment Restrictions*” in the section headed “*Overview of the Company*” in this document.

In accordance with the Listing Rules, for a period of three years from the date of this document, the investment objective and restrictions set out herein may only be changed with the approval of the majority of Shareholders in general meeting of the Company as long as the Company maintains its listing under Chapter 21 of the Listing Rules. After such period and where so permitted by the Listing Rules and considered by the Directors to be in the best interests of the Company, some investment restrictions may be altered without Shareholder’s approval. After such period, or if the Company no longer maintains its listing under

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## KEY INFORMATION

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	<p>Chapter 21 of the Listing Rules, where the Directors believe it is in the best interests of the Company, the investment objective and each of the investment policies may be altered without Shareholders' approval.</p>
Investment Manager	<p>CITIC Securities International Investment Management (HK) Limited, a company incorporated in Hong Kong and licensed by the SFC to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. The only condition imposed by the SFC on the Investment Manager is the standard condition that the licensed entity shall not hold client assets. Upon completion of the Placing, no director of the Investment Manager nor the Investment Manager itself, will hold any Shares in the Company.</p>
Custodian	<p>HSBC Institutional Trust Services (Asia) Limited has been appointed as the Company's custodian in respect of all assets of the Company.</p>
Administrator	<p>HSBC Trustee (Cayman) Limited has been appointed as the Company's administrator to provide various administrative services to the Company in the Cayman Islands.</p>
Hong Kong Share Registrar	<p>Computershare Hong Kong Investor Services Limited</p>
The Sponsor	<p>China Everbright Capital Limited has been appointed as sponsor to the Placing.</p>
Lead Placing Agent	<p>China Everbright Securities (HK) Limited has been appointed as lead placing agent to the Placing.</p>
Placing Agents	<p>China Everbright Securities (HK) Limited, CITIC Securities Brokerage (HK) Limited, First Shanghai Securities Limited, Fordjoy Securities and Futures Limited, GF Securities (Hong Kong) Brokerage Limited, Kingston Securities Limited and Sun Hung Kai International Limited have been appointed as Placing Agents to the Placing.</p>
The Placing	<p>The placing of 303,000,000 Shares by the Placing Agents on best effort basis to Professional Investors in Hong Kong at the Placing Price plus brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% set out on the cover page of this document.</p>



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## KEY INFORMATION

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Placing Commission	The Placing Commission is 3% of the Placing Price, which will be deducted from the gross proceeds from the Placing.
Net Proceeds from Placing	Based on a total of 303,000,000 Placing Shares are being placed with Professional Investors, the net proceeds from the Placing, after deduction of the Start Up Costs (as set out in section headed “ <i>Fees and Expenses</i> ” in this document) of approximately HK\$25.5 million, are estimated to be approximately HK\$286.6 million.
Use of Proceeds	The net proceeds will be applied by the Investment Manager in making investments according to the investment objective, policies and restrictions of the Company and the requirements of the Articles, the Listing Rules and the Investment Management Agreement. Any proceeds not deployed will be placed on bank deposits or invested in money market instruments or money market funds. Please refer to the paragraphs entitled “ <i>Investment Objective and Policies</i> ” and “ <i>Investment Restrictions</i> ” in the section headed “ <i>Overview of the Company</i> ” in this document.
Listing and Dealing	<p>Application has been made to the Listing Committee of the Stock Exchange under Chapter 21 of the Listing Rules for the listing of and permission to deal in the Shares in issue and to be issued under the Placing. Dealing in the Shares on the Stock Exchange is expected to commence on 6 January 2011. The minimum initial subscription size is 500,000 Placing Shares (HK\$515,000) and thereafter in integral multiples of the board lot size of 100,000 Shares (HK\$103,000) (excluding brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%). The price of the Shares will be quoted on the Stock Exchange in Hong Kong Dollars.</p> <p>The Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.</p>

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## KEY INFORMATION

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Number of the Shares will be in issue immediately upon the Placing	<p>303,000,000 Shares.</p> <p>Such Shares will be issued in registered form and will rank <i>pari passu</i> in all respects.</p>
Redemptions	<p>The Shares will not be redeemable at the discretion of Shareholders. The other means of realisation of the Shares for Shareholders is by disposal on the Stock Exchange, subject to there being sufficient liquidity. No Shares will be marketed to the public in Hong Kong under the Placing. Thus the Directors and the Sponsor do not expect an active secondary market to develop in the Shares. Investors should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, or at all, their investment in the Company, nor can they be certain that they will be able to realise their investment on a basis which necessarily reflects the Net Asset Value per Share or the value of the underlying investments held by the Company.</p>
Net Asset Value	<p>The unaudited Net Asset Value per Share will be calculated by the Administrator as at each Valuation Date and published by way of an announcement on the websites of the Company and the Stock Exchange in accordance with the Listing Rules within fifteen days after the end of each month. Further details of the Net Asset Value calculation methodology can be found in the paragraph entitled “<i>Calculation of Net Asset Value</i>” in the section headed “<i>Overview of the Company</i>” in this document.</p>
Distribution Policy	<p>The principal investment objective of the Company involves seeking long-term capital appreciation. The Company’s investment portfolio is not expected to generate significant dividend income. It is therefore not expected that the Company will have significant dividend (if any) income after expenses available for distribution by way of dividend. Any distributions will be made at the discretion of the Directors and may be either from profit, reserves of the Company (including share premium account) or any amount lawfully available for distribution.</p>

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## KEY INFORMATION

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Taxation	The Directors intend to carry out the activities of the Company in a manner so as to minimise any potential tax exposures. Further details of the Company's tax position can be found in the section headed " <i>Taxation</i> " in this document.
Investment Management Fee	The Investment Manager is entitled to an investment management fee accruing monthly at the rate of 2% per annum of the Net Asset Value of the Company, calculated and paid in HK Dollars.
Performance Fee	The Investment Manager is also entitled to a performance fee at the rate of 20% per annum of the net increase in the Net Asset Value per Share, subject to a high water mark, multiplied by the number of Shares in issue at the time of calculating the performance fee.
Fees and Expenses	<p>The Company will be responsible for all its ongoing transactional, operational and administrative expenses, including the fees and expenses of the Custodian, Administrator, Hong Kong Share Registrar, Investment Manager and compliance adviser.</p> <p>The Company will also pay all the costs and expenses of, and incidental to, the Placing including, but not limited to, the Company's establishment costs, the issue, listing, marketing and placing of the Shares, the Placing Commission, the preparation of this document and the material contracts referred to in the paragraph entitled "<i>Material Contracts</i>" in the section headed "<i>Additional Information</i>" in this document ("<b>Start Up Costs</b>"). Further details of these and other expenses payable by the Company are set out in section headed "<i>Fees and Expenses</i>" in this document.</p>

Investment in the Company carries significant risk, and investment in the Company should be regarded as long term in nature and is only suitable for Professional Investors who understand the risks involved. Investors may not recover monies invested. Investors are referred in particular to the section entitled "*Risk Factors*" for a summary of some of the risks involved.

### **Restricted Marketing – Rule 21.14 of the Listing Rules**

Shares in the Company will not be marketed to the public in Hong Kong. Potential investors should note that, in order for the Company to comply with the relevant requirements of Rule 21.14 of the Listing Rules, the minimum subscription size per placee is 500,000 Placing Shares (HK\$515,000) and thereafter in integral multiples of the board lot

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## KEY INFORMATION

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size of 100,000 Shares (HK\$103,000) (excluding brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%). As such, there will be at least 300 placees each holding no less than 500,000 Shares upon listing of the Shares.

The Directors have instructed the Lead Placing Agent and the Placing Agents to strictly follow the aforementioned Placing structure, and that no marketing activities will be carried out in Hong Kong other than to Professional Investors.

### **Limits on holding – Rule 21.04(4) of the Listing Rules**

Potential investors are reminded that under Rule 21.04(4) of the Listing Rules, at the time of listing, no person shall control 30% (or such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the votes exercisable at any general meeting of the Company. For this purpose, the interests of all the Associates of a Shareholder and any persons acting in concert (within the meaning of the Takeovers Code) with that Shareholder will be aggregated.

### **Past financial results – Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance**

According to paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance, the Company is required to include in this document a statement (“**Statement**”) as to the gross trading income or sales turnover and a report (“**Accountants’ Report**”) by the reporting accountants of the Company with respect to profits and losses, assets and liabilities of the Company in respect of each of the three financial years immediately preceding the issue of this document. The Company has in fact not conducted any business and has no trading track record since its incorporation, nor does it have any assets. In the circumstances, the Company has applied to the SFC for an exemption pursuant to section 342A of the Companies Ordinance from strict compliance with the requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance on the grounds that:

- (i) the Company, being an investment company for the purpose of Chapter 21 of the Listing Rules, is not required to have any track record period to be qualified for listing under Rule 21.04 of the Listing Rules; and
- (ii) the Company has not conducted any business since its date of incorporation on 1 February 2010. It is therefore not meaningful for investors and the Company to prepare the Statement and the Accountants’ Report. In the circumstances, the inclusion in this document of the Statement and the Accountants’ Report in strict compliance with the requirements of paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance is irrelevant in the case of the Company, in the sense that the limited information to be presented therein would not be meaningful to investors generally.

The exemption has been granted by the SFC under section 342A of the Companies Ordinance.

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## RISK FACTORS

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*Investment in the Company entails a high degree of risk and is suitable only for sophisticated investors for whom an investment in the Company does not represent a complete investment program and who fully understand and are capable of bearing the risks. Prospective investors should carefully consider the investment objective, policies and restrictions of the Company as described in this document. However, there can be no assurance that the Company will be able to achieve its investment objective or that investors will receive a return on their capital. Shares in the Company are not redeemable at the option of investors. The Company does not expect an active secondary market to develop in the Shares. Accordingly, an investment should be made only by those persons who can sustain a loss of their entire investment. Investment results may vary substantially over time and on a monthly, quarterly or annual basis and the value of an investor's investment may substantially decline as well as substantially appreciate. Prospective investors should carefully consider the following factors, which do not purport to be a complete list of all risks and potential conflicts of interest involved in an investment in the Company.*

The Company is subject to the principal risks described below. Some or all of these risks may adversely affect the Company's Net Asset Value, yield, total return and/or its ability to meet its objectives.

### **Principal Risk Factors**

#### ***No assurance of investment return***

The Company's task of identifying and evaluating investment opportunities, managing investments and realizing a significant return for investors is challenging. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize on such investments successfully. There is no assurance that the Company will be able to invest its capital on attractive terms or generate returns for its investors.

#### ***No right to redemption and limited secondary market of Shares***

Shares of the Company cannot be redeemed at the option of Shareholders.

The only means of realization of the Shares for Shareholders is by disposal on the Stock Exchange, subject to there being sufficient liquidity. No Shares will be marketed to the public in Hong Kong under the Placing. Thus the Company does not expect an active secondary market to develop in the Shares. Investors should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, or at all, their investment in the Company.

#### ***Risk of borrowing***

Under the Company's Articles, the Directors may exercise the Company's power to borrow money.

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## RISK FACTORS

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Generally, the Company will not exceed aggregate borrowings of 25% of the Net Asset Value of the Company at the time of any borrowing. If the Company cannot pay its loans when they fall due, it may need to liquidate its underlying assets at potentially unfavourable prices. The impact on investors of such a liquidation of the Company's underlying assets may be that the investors could face minimal or no returns on any investments made in the Company.

It is possible for the Company to have total borrowings exceeding 25% of its Net Asset Value. This is because the borrowing limit of 25% is based on the latest available Net Asset Value of the Company at the time the borrowing is made. If the Net Asset Value of the Company subsequently decreases, whether as a result of a repurchase or dividend of Shares (if and when made) or a fall in the market value of its assets, the amount of its borrowings as a percentage of its Net Asset Value could exceed 25% of its then Net Asset Value. Such increase in the leverage of the Company would have an impact on the risk profile of the Company as well as on the profitability of the Company resulting from a higher percentage of its income being required to service the interest payments on those borrowings.

### ***No business track record***

Although the Investment Manager has a business track record, the Company is a newly established investment company with no business track record and no investments have been identified yet for the Company. There can be no assurance that the historical information on the Investment Manager will in any respect be indicative of how they will perform in relation to the Company. In any event, the Company's future profit and value are reliant on the expertise of the Directors, the directors of the Investment Manager and the performance of investee companies. It should be noted that the Investment Manager does not have experience managing private equity investments.

### ***Unidentified investments***

The Company has not identified any particular investments to make from the net proceeds of the Placing. It will make investments on the basis of opportunities as they may arise. Therefore, prospective investors must rely on the ability of the Investment Manager to identify and make investments consistent with the Company's objectives. Shareholders will not have the opportunity to evaluate the relevant economic, financial and other information which will be utilized by the Company in deciding whether or not to make a particular investment.

### ***Shares may trade at a discount or premium to the Net Asset Value***

Shares of the Company, which is a closed-ended investment company, are not redeemable at the option of Shareholders. The only means of realization of the Shares for Shareholders is by disposal on the Stock Exchange, subject to there being sufficient liquidity. However, Shares may, depending on the supply and demand, trade at a significant discount to the Net Asset Value per Share from time to time.

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## RISK FACTORS

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Investors should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, or at all, their investment in the Company, nor can they be certain that they will be able to realise their investment on a basis which necessarily reflects the full value of the underlying investments held by the Company.

### *Dilution from subsequent issues of Shares*

The Directors reserve the right to issue additional Shares following the initial Placing. Generally such Shares may be issued at, or above, the Net Asset Value per Share (plus any applicable placing commission, trading fees, etc) as at the previous Valuation Date as determined by the Directors in the absolute discretion.

However, with the approval of a resolution of the Company in general meeting (passed by a majority of not less than two-thirds), the Directors may issue such additional Shares at a price per Share below the previous Net Asset Value per Share as at the previous Valuation Date, provided always that the price per Share shall be at or above the prevailing traded price of the Shares on the Stock Exchange as at the previous Business Day.

If additional Shares are issued at a price per Share below the prevailing Net Asset Value per Share, the Net Asset Value attributable to the Shares of existing Shareholders will be diluted. Investors cannot be certain that they will be able to realise their investment on a basis which necessarily reflects the full value of the underlying investments held by the Company.

### *Investment in equity securities*

The value of the Company (which invests primarily in equity securities) will be affected by changes in stock markets and changes in the value of individual securities as well as other factors. At times, stock markets and individual securities can be volatile and prices can change substantially in short periods of time. This risk will affect the value of the Company, which will fluctuate as the value of its holdings of equity securities fluctuates.

### *Investment in emerging markets*

Potential investors should note that investment in emerging markets, such as the PRC, carry additional risks to those inherent in other investment. In particular, potential investors should note that investment in any emerging market carries a higher risk than investment in a developed market. For example, emerging markets may afford a lower level of legal protection to investors. Also, certain countries place certain controls on foreign ownership and certain countries also apply accounting standards and auditing practices which do not conform with internationally accepted accounting principles, with the result that there is less publicly available information or information which is presented on a basis consistent with that applied in more developed economies.



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## RISK FACTORS

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### *Future distribution*

The principal investment objective of the Company is to seek long-term capital appreciation. The Company's investment portfolio is not expected to generate significant dividend income. It is therefore not expected that the Company will have significant distributable income after expenses available for distribution by way of dividend. Any distribution will be made at the discretion of the Directors and may be either from profit, reserves of the Company (including share premium account) or any amount lawfully available for distribution.

### *Dependence on key personnel*

The Investment Manager is substantially dependent upon the expertise of certain key personnel. The key personnel of the Investment Manager are Mr. Wang Junyan and Mr. Craig B. Lindsay. While such key individuals plan to fulfil their duties to the Investment Manager for the term of the Company, the Company could be adversely affected if anyone of them became unable or unwilling to do so. Furthermore, the Investment Manager does not carry keyman insurance on any key personnel. In the event the Investment Manager should lose the services of any of these key personnel, the Company may not be able to successfully avail itself of new personnel with the requisite skills, knowledge, relationships or experience to enhance the incumbent management. Neither the Company nor the Investment Manager maintain keyman insurance for these key personnel.

### *Forward-looking statements*

This document contains forward-looking statements and descriptions of goals and objectives. Although these forward-looking statements and stated goals and objectives are based upon assumptions which the Investment Manager believe are reasonable, actual results of operations and achievements may differ materially from the statements, goals, and objectives set forth in this document. General economic conditions are not predictable, particularly in China, and can have a material adverse impact on the reliability of projections.

### *Non-controlling investments*

Listing Rule 21.04(3) provides that the Company may not, either on its own or in conjunction with any connected person of the Company, take legal, or effective, management control of underlying investments and in any event will not own or control 30% or more (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body. As such, the Company may only acquire minority interests in any company or property in which it invests, may rely on independent third-party management or strategic partners with respect to the operation of a company or property in which it invests, or may only acquire a participation in a property underlying an investment, and therefore may not be able to exercise control over the management of such company or investment. If additional funds are raised through the issue of new equity or equity-linked securities, other than on a pro rata basis to their existing shareholders, the Company's interests in the investments may be diluted accordingly.



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## RISK FACTORS

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Although the Company may not have complete control over these investments and, therefore, may have a limited ability to protect its position therein, the Investment Manager expects that appropriate rights will be negotiated to protect the Company's interests. Nevertheless, such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party partner or investor may have financial difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Company or may be in a position to take action contrary to the Company's investment objectives.

### ***Leverage and Interest Rates***

Some of the investments may utilize a leveraged capital structure, in which case a third party would be entitled to cash flow generated by such investments prior to the Company receiving a return. Fluctuations in interest rates may adversely affect the ability of the Company to successfully acquire investments and may also adversely affect the performance of the Company's investments. Use of borrowed funds to leverage acquisitions involves a high degree of financial risk and can exaggerate the effect of any increase or decrease in value of an investment and will increase the exposure of the investments to adverse economic factors, such as fluctuations in interest rates, downturns in the local economies in which the investments are located or deterioration in the condition of the investments.

### ***Government Intervention and Issuer Risk***

Currency exchange rates, interest rates and trading in derivatives or currencies or interest rates are subject to certain risks arising from government regulation of or intervention in the currency and/or interest rate markets, through regulation of the local exchange market, restrictions on foreign investment by residents, limits on inflows of investment funds or changes in the general level of interest rates. Such regulation or intervention could adversely affect the Company's performance. The Company's investment in securities or other permitted financial instruments issued or guaranteed by sovereign governments, governmental entities, banks or other entities also presents risk of loss in the event of a default by the issuers of such instruments.

### ***Valuation Risk***

Investments by the Company in private or unquoted companies may be difficult to realize, and in the absence of an available market, it may not be possible to establish their current value at any particular time, or indeed to realize what the Company believes to be their full value on a realization. The Company may rely upon the Administrator and Investment Manager for valuation of certain of the Company's assets, including, without limitation, in connection with the distribution of illiquid securities upon the liquidation of the Company. The Company may engage qualified valuation professionals to assist in this determination, however, it is not required to do so. Given the nature of the proposed portfolio companies, valuation may be difficult. There may be a relative scarcity of market comparables on which to base the value of the Company's private equity assets. As such, any such valuations could prove to be incorrect. In addition, such valuations will affect the calculation and distribution of the Investment Manager's performance fee.

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## RISK FACTORS

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### *Suspension of calculation of NAV*

As described in the paragraph entitled “*Suspension of Calculation of Net Asset Value*” in the section headed “*Overview of the Company*” in this document, the Directors may (but shall not be obliged to) declare a temporary suspension of calculation of the Net Asset Value in respect of any Valuation Date.

If the calculation of Net Asset Value is suspended, the Company will make an announcement of such suspension on the website of the Company and the Stock Exchange, respectively.

If a suspension of calculation of the Net Asset Value occurs, it may adversely affect both the value and the liquidity of the Shares on the secondary market. The reputational fallout from a suspension may cause the price of the Shares on a secondary market to fall and Shareholders may be compelled to remain invested in the Company for a longer period than was otherwise intended.

All reasonable steps will be taken to bring such a period of suspension to an end as soon as possible.

### *Hedging transactions and strategy*

The Company may from time to time purchase or sell forwards, swaps, and/or options on currencies, securities and indices. It is the intention of the Company to engage in such transactions primarily as a way to mitigate risk associated with investments of the Company. However, it is generally impossible to hedge an investment fully given the uncertainty as to the amount and timing of projected cash flows and investment returns, if any, on the Company’s investments. This may lead to losses on both the Company investment and the related transaction. Conversely, there will be times during which the Company believes that it is not advisable to enter into hedging transactions; accordingly, the Company may be exposed to fluctuations in currencies and other market conditions specific to the underlying asset. Hedging transactions generally constitute a higher risk than investments in transferable securities due to their greater volatility and less liquidity.

While the Company may enter into such transactions to seek to reduce currency exchange rate, interest rate or equity value risks, unanticipated changes in currency exchange or interest rates may result in a poorer overall performance for the Company than if it had not engaged in any such hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary.

In addition, there is no limit on the exposure that may be incurred to any single counterparty under over the counter derivative instruments, exchange listed securities, options, repurchase agreements, or other similar transactions and, as a result, if any such counterparty becomes unable to pay amounts due on such instruments or transactions, the financial losses to the Company would be greater than if such limits were imposed.

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## RISK FACTORS

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It is possible that the Company will leave unhedged certain investments denominated in or generating cash flow in non-Hong Kong dollar currencies and in any such case, the Company will be exposed to risk that such currency will decline in value against the Hong Kong dollar during the term of the portfolio company such that the results of such portfolio company will be worse in Hong Kong dollar terms than the results based upon the local currency.

### *Options*

The Company may from time to time purchase or sell options. It is the intention of the Company to engage in such transactions primarily for hedging purposes and with the intent of enhancing investor returns. There are risks associated with the sale and purchase of call options and put options. The seller (writer) of a call option that is covered (e.g., the writer that holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option (i.e., the premium paid for the call) if it does not exercise the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security. The seller (writer) of a put option that is covered (e.g., the writer that has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of a put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is fully hedged if the option owned expires at the same time as or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option (i.e., the premium paid for the put). If the buyer of a put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

### *Short selling*

The Company will be permitted to sell securities short. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on the Company's portfolio. A short sale of a security involves the risk of a theoretically unlimited loss from a theoretically unlimited increase in the market price of the security that could result in an inability to cover the short position. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase.

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## RISK FACTORS

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### *Forward trading*

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and “cash” trading are substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfil its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Company has a forward contract. Although the Company will seek to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Company to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices other than with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell.

Disruptions can occur in any currency market due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Company. Market illiquidity or disruption could result in major losses to the Company.

### *Highly volatile instruments*

The prices of derivative instruments, including forward contracts, swaps and options, are highly volatile. Price movements of forward contracts and other derivative contracts in which the Company’s assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices or interest rates may cause volatility in the relevant markets. The Company also will be subject to the risk of the failure of any exchange on which its positions trade or the failure of their clearinghouses.

### *Risk of unsuccessful exit strategies*

The Company may opportunistically sell, distribute or otherwise dispose of portfolio companies at any time. It is not possible to predict whether an exit strategy will be advantageous or available at the appropriate time. If the Company fails to execute an exit

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## RISK FACTORS

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strategy prior to the liquidation of the Company, the Company may be forced to liquidate its assets on terms less favorable than anticipated and the proceeds from these portfolio companies and the remaining portfolio companies may be materially and adversely affected.

### ***Illiquid and long-term Investments***

Although investments may generate recurring income, the return on capital and the realisation of gains, if any, from an unquoted investment will most likely occur only upon the partial or complete disposal of such investment. While an investment may be sold at any time, it is generally expected that the disposal of most private investments will only occur for a number of years after such investments are made. There is no guarantee that there will be a public market for the securities held by the Company at the time of their disposal. These assets may be subject to industry cyclicality, downturns in demand, market disruptions, and the lack of available capital for potential purchasers and it may be difficult or time consuming to liquidate private investments.

### ***Termination of Investment Management Agreement***

To achieve its investment objective, the Company is dependent on having access to the investment expertise of the Investment Manager. The Investment Management Agreement is for an initial term from the Listing Date to 31 December 2012, subject to the periodic review and confirmation from the Company's Independent Non-Executive Directors, and may be terminated by the Company or the Investment Manager upon not less than 180 days' written notice or earlier for cause.

If the Investment Management Agreement is terminated and the Company is not able to enter into suitable replacement agreements, the Company may be unable to fulfil its investment objective and may have to be placed into liquidation.

### ***Risks of less established companies***

The Company may invest in smaller, less established or start-up companies, assets or projects. Investments in such entities may involve greater risks than that generally associated with investments in more established entities. To the extent that there is any public market for the securities of such companies held by the Company, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to be less well capitalised and have fewer resources, and, therefore, are often more vulnerable to financial failure.

Such companies also may have short operating history on which to judge future performance and in many cases, if operating, will have negative cash flow. There can be no assurance that losses from financial failure of an investment company will be offset by gains (if any) realized on the Company's other assets. The Company may invest in assets that (i) have little or no operating history, (ii) have a checkered financial history, (iii) offer services or products that are not yet ready to be marketed, (iv) are operating at a loss or have significant fluctuations in operating results, (v) are engaged in a rapidly changing business, or (vi) need substantial additional capital to set up internal infrastructure, hire management

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## RISK FACTORS

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and personnel, support expansion or achieve or maintain a competitive position. Such companies may have a greater variability of returns, and a higher risk of failure, than more established companies.

### ***Board lot size***

Shares will be issued and traded in board lot sizes of 100,000 Shares and this may result in relatively lower trading volume in Shares than those with a smaller board lot size. The Shares may therefore be relatively more illiquid than other similar securities traded on the Stock Exchange with a smaller board lot size.

### ***Handling of Mail***

Mail addressed to the Company and received at its registered office will be forwarded unopened to the Company Secretary to be dealt with. None of the Company, its directors, officers, advisors or service providers (including the organisation which provides registered office services in the Cayman Islands) will bear any responsibility for any delay howsoever caused in mail reaching the Company Secretary. In particular, the registered office will not open or deal directly with mail addressed to the Company. There is some risk that there may be delay in the Company's, the Directors', the Investment Manager's receipt of mail, including urgent mail, sent to the registered office.

### ***No regulation of the Company under Mutual Funds law of the Cayman Islands***

The Company is not required to register or be regulated as a mutual fund under the Mutual Funds Law (2009 Revision) of the Cayman Islands. Neither the Cayman Islands Monetary Authority nor any other governmental authority in the Cayman Islands has passed judgement upon or approved the terms or merits of this document. There is no investment compensation scheme available to investors in the Cayman Islands. Shareholders in the Company will have a different level of protection in the Cayman Islands than afforded to shareholders of a company registered as a mutual fund under the Mutual Funds Law (2009 Revision) of the Cayman Islands.

### **PRC Specific Risk Factors**

In addition to the foregoing risks associated with investments in developing countries, investing in the PRC and in securities of Chinese companies involves additional risk. The following are special considerations that should be considered when contemplating an investment in the Company.

### ***Chinese policy risks***

The success of the Company's investments will be closely linked to the economic prosperity of China. Accordingly, the Company's performance will be subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. Since 1978, China's economy has been

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## RISK FACTORS

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growing in terms of gross domestic product. However, it is uncertain that such growth will be sustained in the future. For example, any slowdown in the economies of the United States, the European Union or certain other Asian countries may adversely affect economic growth in China. An economic downturn in China might adversely affect an individual portfolio company's or the Company's overall profitability. Moreover, while the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China.

The Chinese government has implemented various measures to encourage economic development and guide the allocation of resources. As the global financial crisis became more acute, in December 2008, the State Council announced nine specific financial policies to boost economic growth in China. The Chinese government exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Such measures may impact the level of economic activity in China, which in turn could adversely affect the Company's performance. In some cases, the government owns or controls companies, including some of the largest. Accordingly, government actions in the future could have a significant effect on economic conditions, which could affect private sector companies and the Company, and on market conditions, prices and yields of investments in portfolio companies. Expropriation, confiscatory taxation, nationalization, political, economic or social instability or other developments could adversely affect the assets of the Company held in China. However, the Chinese government has substantially reduced the level of control that it exercises over the economy through state planning and other measures and has increasingly relied on market mechanisms to allocate resources, and there is an increasing degree of economic liberalization and autonomy. Notwithstanding the above, China is a socialist state controlled by the Communist Party of China and its present reforms, policies and regulatory climate may change without advance notice.

### *China legal risks*

The Company's operations in China will be governed by Chinese laws and regulations. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Many laws and regulations, including those applicable to foreign investments (which is discussed in more detail below), are relatively new and are continually evolving in response to changing economy and other conditions, and because of the limited number of published cases and their non-binding nature, any particular interpretation and enforcement of the Chinese laws and regulation may involve uncertainty.

Furthermore, China is geographically large and divided into various provinces and municipalities and as such, different local rules, regulations and policies may apply in different provinces and they may have different and varying applications and interpretations in different parts in China. The effectiveness of newly enacted laws, regulations or amendments might be delayed in certain regions, resulting in detrimental reliance by foreign investors.



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## RISK FACTORS

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The Chinese government has broad discretion in dealing with violations of laws and regulations from the perspective of administration, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. As a result, a portfolio company may be subject to sanctions, including fines, and could be required to restructure operations or cease to provide certain services if it violates the applicable laws, regulations and rules. Any of these or similar actions could significantly disrupt a portfolio company's business operations or restrict that portfolio company from conducting a substantial portion of its business operations, which could materially and adversely affect the Company's performance.

Agreements entered into by the portfolio companies may be more difficult to enforce by legal proceedings in China than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it might take more time to obtain effective enforcement in China, of an arbitral award obtained in that jurisdiction.

Moreover, the enforceability of contracts in China, especially with governmental entities, is relatively uncertain. If counterparties repudiate a contract or default on their obligations, the Company or a portfolio company might not have adequate remedies. Such uncertainties or inability to enforce contracts could have a material adverse affect on the Company's performance. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

### *Investment Controls*

Foreign investment in China is restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain opportunities and increase the costs and expenses of the Company. Governmental approval may be required for the repatriation of capital or the proceeds of sales by foreign investors, and of foreign currency. In addition, if there is a significant deterioration in balance of payments or for other reasons, a government might impose temporary restrictions on capital remittances abroad. The Company could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of proceeds from disposal of assets or divestment by the Company. Gains from the disposition of such investments may be subject to withholding taxes.

The Company will be treated as a foreign entity and the portfolio companies in China will be treated as foreign-invested enterprises under Chinese law. As a result, the Company may be subject to certain limitations on foreign ownership of certain types of companies. The Company may, consistent with generally accepted and recognized market practices in China and after seeking the advice of counsel, utilize ownership structures and contractual arrangements that are in compliance with relevant Chinese laws in connection with its investment in such companies and funds with respect to which foreign ownership is restricted. However, laws and regulations as well as policies of China relating to foreign investments and restrictions on foreign investments in particular types of companies may be subject to change in response to the development of China's marco-economy, and their interpretation and enforcement in local practice may involve some uncertainty. Accordingly, there are no assurances that Chinese governmental authorities will not find the ownership



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## RISK FACTORS

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structure utilized by the Company with respect to a particular portfolio company to be in violation of any existing or future laws or regulations of China. Furthermore, China may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated foreign investment laws and regulations.

### ***Qualified foreign institutional investor risks***

The Company may acquire access to A shares listed on Chinese exchanges (“A Shares”) via access products issued or written by a Qualified Foreign Institutional Investor (“QFII”). Given that the issuance of the access products depends on the ability of the QFII to buy and sell A Shares, any restrictions or any changes in laws and regulation imposed by the PRC government on a QFII’s operations may adversely affect the issuance of access products and/or cause the Shares to trade at a discount. Further under the QFII system, a QFII must obtain approval from the State Administration of Foreign Exchange (“SAFE”) for an investment quota which is the limit within which the QFII may acquire A Shares. In the event that the QFII wishes to increase its investment quota in the future, such increase may take time to obtain approval from SAFE and such approval is not guaranteed. Therefore, if the QFII status of the relevant QFII is revoked or the investment quota of the relevant QFII is insufficient, the Company may no longer be able to gain indirect access to the A Share market via access products.

### ***Regulatory development and oversight***

At present, the securities market and regulatory framework for the securities industry in China is undergoing rapid growth and changes, which may lead to trading volatilities, difficulties in settlement and recording of transactions and in interpreting and applying the relevant regulations. In addition, some of the investment regulations under which the Company will invest in the PRC are relatively new and given that the relevant PRC authorities wide discretion on their interpretation. There are no precedents on how such discretion might be exercised for issues that have not been clearly provided in the investment regulations, therefore leaving a considerable amount of uncertainty.

### ***Foreign exchange control and currency conversion risk***

The PRC’s system of foreign exchange administration imposes restrictions on the ability of enterprises in the PRC to retain and deal in foreign currency. Generally speaking, in accordance with the *Regulations of the PRC on Foreign Exchange Administration*, effective from 1 April 1996 and amended on 14 January 1997 and 1 August 2008, domestic transactions must be priced and settled in Renminbi. There remain significant restrictions on the ability of enterprises located in the PRC to purchase and make outward remittance of foreign currency under “capital account” transactions. In accordance with the *Regulations for the Administration of the Settlement, Purchase and Sale of Foreign Exchange*, effective from 1 July 1996, a PRC enterprise seeking to purchase foreign currency must do so through a designated foreign exchange bank. Foreign currency may be purchased or remitted abroad by complying with certain procedural requirements without approval/registration of the SAFE if the foreign currency is to be used for a “current account” transaction within SAFE definitions (e.g. dividend distribution, interest payments and expenditures from trade/service-related transactions). However, SAFE approval/registration is required in order to

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## RISK FACTORS

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purchase or remit foreign currency under “capital account” transactions (e.g. divestment and sales of assets). Accordingly, there is a risk that the Company may not be able to repatriate foreign currency for the purposes of distributions in relation to the Shares.

### ***Financial disclosure and corporate governance***

Accounting, auditing and financial reporting standards in the PRC may not be equivalent to standards applicable in more mature economies. As a result, the lower levels of disclosure and transparency of certain material information may impact on the value of investments made by the Company. This, if combined with a weak regulatory environment, could result in lower standards of corporate governance and less protection of minority shareholder rights.

### ***Publicly available information may not be reliable or current***

Accurate analysis or prediction of the China financial market may be difficult due to the lack of reliable and up-to-date information regarding the nature and extent of development and investment activities in the China, the availability of newly developed products and the availability of companies or financial products suitable for investment. Consequently, investment and business decisions may not always be based on the most reliable or up-to-date information.

### ***Tax considerations***

The tax laws and regulations of the PRC are regularly changing, and they may be changed with retrospective effect. The interpretation and applicability of the tax laws and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from region to region. In some cases, the Company may be subject to the PRC tax.

### ***Dividend payment restrictions***

Many of the portfolio companies will be operating or will have subsidiaries organized under the laws of China. The Company may lose a source of liquidity if its portfolio companies are restricted from paying dividends or making other distributions to the Company. Current Chinese regulations permit companies in China to pay dividends only out of their respective accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, companies in China are each required to set aside a certain percentage of their respective accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. In addition, current Chinese regulations prohibit inter-company borrowings or allocation of tax losses among subsidiaries in China. Further, if any of the Company’s portfolio companies in China incurs debt on its own behalf in the future, the debt incurred may restrict its ability to pay dividends or make other payments to the Company.

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## RISK FACTORS

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### *Currency fluctuation*

Subscriptions to the Company are payable in HK dollars and the Company's assets will be valued in HK Dollars. A portion of the Company's investments may be denominated in RMB, including the Company's revenues and certain of its costs. The exchange rate of RMB against other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. The People's Bank of China (the "PBOC") allows the RMB to fluctuate within a narrow and managed band against a basket of foreign currencies. There can be no assurance that the RMB will not be subject to further unexpected fluctuations in the exchange rate between the RMB and the HK Dollar, especially in light of continued international pressure on the Chinese government to further revalue the RMB. Any significant revaluation of RMB may materially and adversely affect the Company's performance, and the Net Asset Value per Share. In addition, the Company's currency exchange losses may be magnified by China's exchange control regulations that restrict its abilities to convert RMB into HK Dollars.

### **Hong Kong Specific Risk Factors**

#### *Hong Kong dollar peg*

The Shares are denominated in Hong Kong Dollars. There are no foreign exchange controls in Hong Kong, and the HK Dollar is freely convertible into other currencies. However, in the context of investments made by the Company on the Stock Exchange, the Hong Kong Government maintains a currency peg, introduced in 1983, which fixes the Hong Kong Dollar to the US Dollar at approximately one US Dollar to seven and four-fifths Hong Kong Dollars. This peg results in Hong Kong's interest rate policy being effectively directed by the US Federal Reserve. Although the currency peg has remained in existence after the handover of sovereignty of Hong Kong to the PRC, there can be no assurance that it will continue and if it does not continue, what effect this will have in the international currency markets on the value of the Hong Kong Dollar.

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## POTENTIAL CONFLICTS OF INTEREST

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### **Investment Manager**

The services provided by the Investment Manager are not exclusive and the Investment Manager and each of its directors, officers and employees are free to render services similar to those which they are providing in relation to the Company to other clients (including other funds) (together the “**Clients**”) so long as the Investment Manager’s services to the Company are not thereby impaired.

Currently the Investment Manager and their directors, officers and employees provide management services to a number of hedge funds, a mutual fund and a managed discretionary account with similar investment objectives to the Company. Details of each of these other Clients and their respective investment objectives, size and geographical coverage can be found in table in the paragraph entitled “*Other funds/accounts currently managed by the Investment Manager and/or Executive Directors*” below. The Investment Manager may also be engaged by additional Clients in the future.

From time to time conflicts of interest may arise between the interest of the Company and those of other Clients. In such situations, the Investment Manager will have regard to its obligations to the Company to act in the best interests of the Company, so far as is practicable having regard also to its obligations to the other Clients.

The Investment Manager reserves the right for itself, its associates and its Clients to co-invest with the Company, although any such co-investment will be made on terms no better than those in which the Company is investing. Similarly the Investment Manager and Clients may also make investments in companies in which the Company holds investments or has previously invested. The Investment Manager shall, in any event, disclose to the Company any transaction involving investments in which the Company has invested or may reasonably be expected to invest before the Investment Manager enters into such transactions on its own account or on behalf of any third party Client by giving a notice to the Board to that effect, provided always that the Investment Manager shall not be required to disclose information about its other Clients, which is subject to client confidentiality.

### **Allocation of investments between Clients and other funds/accounts currently managed or advised by the Investment Manager and/or Executive Directors**

The Investment Manager will use all reasonable efforts to ensure that the Company has the opportunity to participate in suitable investments identified by it which fall within the Company’s investment objective.

The Investment Manager dedicates a separate portfolio manager to each of the Clients that it provides management or advisory services to. Where a portfolio manager identifies a potential investment opportunity that falls within the investment objectives and restrictions of his or her fund or account, he or she then considers the current weighting of assets currently in the fund or account, risk parameters, market outlook, etc, to determine whether or not a purchase order should be placed for such investment.

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## POTENTIAL CONFLICTS OF INTEREST

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To the extent that there is limited liquidity for the purchase or sale of securities falling within the investment objective of both the Company and those other Clients, the Investment Manager may be in a conflict of interest in allocating the available purchase or sale opportunities among the Company and such other Clients.

The compliance manual (“**Compliance Manual**”) of the Investment Manager requires that the staff of the Investment Manager observe the following practices on order allocation:

- ensures all orders are allocated fairly and, where orders for a client and for another client are aggregated, or with an order for its own accounts, give priority to satisfying orders of clients, in any subsequent allocation if all orders cannot be filled;
- makes a record of the intended basis of allocation before a transaction is effected;
- ensures an executed transaction is allocated promptly in accordance with the stated intention;
- avoids excessive trading, taking into account the portfolio’s stated objective; and
- execute orders on the best available terms, taking into account the relevant market at the time for the transactions of the kind and size concerned.

In practice if it is deemed appropriate that the Company and any of the Clients intend to participate in the same investment opportunity, and the aggregate amount of intended investment desired by the portfolio managers of both the Company and the relevant Client(s) exceeds the size that is actually available to the Investment Manager, the Investment Manager shall allocate the available investments amongst the Company and the relevant Client(s) on a pro-rata basis depending on the respective size requested by each portfolio manager of the Company and each Client and/or such other reasonable and equitable basis as the Investment Manager may consider appropriate in the circumstances.

The Compliance Manual also requires that the compliance officer of the Investment Manager performs regular review of order allocation to ensure all orders are allocated fairly.

The Company and the Investment Manager agree that this practice ensures the allocation of limited investment opportunities between the Company and the other Clients, in a fair and equitable manner after considering factors such as the investment objectives, current assets held and overall risk preferences or tolerances of each of the Company and the other Clients.

### **Executive Directors**

As disclosed in the paragraph entitled “*Overlapping Directorship*”, both Mr. Wang Junyan and Mr. Craig Lindsay are directors of the Company and the Investment Manager and are involved in the day-to-day operations of each of these entities. This may give rise to conflicts of interest.

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## POTENTIAL CONFLICTS OF INTEREST

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As the overall interests of the Company and Investment Manager are aligned, the Directors are of the view that Mr. Wang and Mr. Lindsay will be able to act in the best interests of the Company and its Shareholders. In addition, all major decisions of each of these companies will be made by their respective board of directors of these companies as a whole and not at the sole discretion of Mr. Wang and/or Mr. Lindsay. In the case of the Company, this includes the Independent Non-Executive Directors and the third Executive Director Mr. Gu Xu.

Mr. Wang and Mr. Lindsay will maintain confidentiality in respect of the information of each of the funds managed by the Investment Manager. They are also aware of their obligations under the SFC's Internal Control Guidelines that they are required to establish and ensure the integrity and security of all information relevant to the business operations of the respective entities.

### **Voting by Executive Directors and the Investment Manager in conflicting situations**

In accordance with Rule 13.44 of the Listing Rules, the Articles of the Company provide that any Director will generally not vote on any board resolution approving a contract or arrangement or any other proposal in which he or she has a material interest, except on certain issues (which are generally those listed in paragraph 4(1) of Appendix 3 of the Listing Rules), and those continuing connected transactions in relation to which waivers have been obtained from the Stock Exchange.

The Directors are confident that, should any conflicting situations ever arise due to the overlapping directorships of Mr. Wang Junyan and Mr. Craig Lindsay in the Company and the Investment Manager, the third Executive Director (Mr. Gu Xu) and the Independent Non-Executive Directors have sufficient expertise and knowledge to make appropriate decisions on behalf of the Company. In particular, the Directors note that Mr. Doyle Dally is currently an independent non-executive director of CITIC Securities Alpha Leaders Fund and holds the Trust and Estate Practitioner designation from the Society of Trust and Estates Practitioners, while Mr. Siu Kam Chau has long experience in acting as director and independent non-executive director of listed companies in Hong Kong. Full biographical details of the Independent Non-Executive Directors of the Company is included in the paragraph entitled "*Directors of the Company*" in the section headed "*Overview of the Company*".

In addition, the Independent Non-Executive Directors and the third Executive Director (Mr. Gu Xu) have the discretion to seek independent expert advice from external legal counsel or other professionals should they feel such advice would be advantageous.

The Investment Manager has also recently employed in-house counsel to assist in ongoing risk management and compliance issues with the assistance of the Company's Chairman and Company Secretary.

Upon completion of the Placing, no director of the Company or the Investment Manager or the Investment Manager itself, will hold any Shares in the Company. However, if in the future any such director or the Investment Manager obtain Shares, such director and/or the Investment Manager, any of their respective connected persons are prohibited

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## POTENTIAL CONFLICTS OF INTEREST

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from voting their own Shares at, or being part of quorum for, any meeting of the Company to the extent that they have or any of their associates has, a material interest in the business to be conducted at such meeting.

### **Allocation of time by the Executive Directors**

As described above, the Investment Manager employs a separate portfolio manager for each of the existing funds it provides services to. Each portfolio manager has intricate knowledge of the fund or account he or she is designated to. Where the portfolio manager identifies a potential investment opportunity that falls within the investment objectives and restrictions of his or her fund, he or she then considers the current weighting of assets currently in the fund, risk parameters, market outlook, etc, to determine whether or not the investment should be purchased on behalf of that fund. Similarly the portfolio managers will continually monitor the assets in the particular portfolio to determine the ideal time to liquidate an investment. The portfolio managers work closely with the Executive Directors and are supported by the Investment Manager's legal and compliance team and other back-office support.

The Investment Manager will engage two dedicated portfolio managers for the Company. Mr. Shu Ai will be chiefly responsible for the private equity component of the portfolio, and Mr. Ng Shiu Cheong will be responsible for the public equity portion of the portfolio. Full biographies of Mr. Shu and Mr. Ng can be found in the paragraph entitled "*Investment Manager*".

In addition the Company has engaged HSBC Institutional Trust Services (Asia) Limited as the Custodian and HSBC Trustee (Cayman) Limited as the Administrator of the Company. HSBC's Institutional Fund Services has significant experience, knowledge and understanding of the funds management industry and provides an expansive range of specialist services. They assist in all facets of fund accounting, custody, complex pricing and risk, credit etc.

This mid and back office support leaves the Executive Directors' more time to focus on their core responsibilities of (i) supervising the portfolio managers of the Investment Manager to ensure that investment objective and policies are being followed; and (ii) monitoring of the performance of the various portfolios.

Mr. Wang Junyan and Mr Craig Lindsay estimate that each of them will devote at least 20 hours per week to matters of the Company. Given that there are considerable time efficiencies between the Investment Manager's tasks for each of the funds/accounts to which it provides services and the extensive relevant experience of the Executive Directors in overseeing several funds/accounts concurrently, both the Executive Directors and Independent Non-Executive Directors of the Company are confident that Mr. Wang and Mr. Lindsay will have sufficient time to attend to the management of the Company's matters notwithstanding that they will supervise each of the Investment Manager's portfolio managers.



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## POTENTIAL CONFLICTS OF INTEREST

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### **Transfer of existing investments to the Company**

It is not presently anticipated that there will be any transfer of investments amongst the existing funds/accounts managed or advised by any of the Executive Directors, Investment Manager or any other Client and the Company. The Company may however buy investments from, or sell investments to, such other parties only on an arm's length basis such that the terms on which such transactions are effected shall be no less favourable to the Company than the terms which the Company would have obtained by effecting the transaction with, by or through an independent third party.

In accordance with Rule 13.44 of the Listing Rules, the Articles of the Company provide that any Director will generally not vote on any board resolution approving a contract or arrangement or any other proposal in which he or she has a material interest, except on certain issues (which are generally those listed in paragraph 4(1) of Appendix 3 of the Listing Rules), and those continuing connected transactions in relation to which waivers have been obtained from the Exchange. This would include any potential transfer of investment from a fund and/or account which the Executive Director also served as a director.

### **Other funds/accounts currently managed by the Investment Manager and/or Executive Directors**

As described above, the services provided by the Investment Manager are not exclusive to the Company. In particular, the Investment Manager currently provides management or advisory services to three hedge funds, a mutual fund and a managed discretionary account listed in the table below.

The investment objectives of these funds/accounts are similar to those of the Company, in that each of these seeks to capitalise on profits of companies who derive the majority of their business and/or revenue that is closely related to the economic growth of the Greater China. Each of the funds/accounts managed by the Investment Manager and/or Executive directors may also invest in new economy industries in the Greater China.

The key difference between the investment objective of these funds/accounts and that of the Company is the Company's narrower focus on the "new economy industries" in the Greater China that is, low carbon energy industry, software and internet-related industries, which, in varying degrees, place a premium on innovation, advanced technology, or worker skills.

Finally the geographical coverage of the investments of many of funds/accounts is broader than that of the Company. In particular, several funds/accounts invest in companies whose core business and/or revenue is closely related to the economic growth not only of the People's Republic of China, Hong Kong but also Singapore and Taiwan.



## POTENTIAL CONFLICTS OF INTEREST

The table below sets forth the funds/accounts currently managed by the Investment Manager and certain details of those funds/accounts.

			Percentage of assets under management in new economy industries (as at 31 October 2010)	Assets under management (as at 31 October 2010)	Geographical coverage
Fund/ Managed account		Investment Objective/Mandate			
<b>Investment Manager</b>					
1	CITIC Securities Alpha Leaders Fund	Achieving a maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the People's Republic of China, Hong Kong, Singapore and Taiwan. It will also invest in the United States and United Kingdom markets.	0.48% (Information Technology)	US\$182.5 million	Mainly the People's Republic of China (Shanghai & Shenzhen), Hong Kong, Singapore. Taiwan, the United States (New York) and the United Kingdom (London).
2	China Alpha II Fund	Achieving a maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the People's Republic of China, Hong Kong, Singapore and Taiwan. It will also invest in the United States and United Kingdom markets.	11.36% (1.03% Material, 4.74% Health Care, 0.88% Information Technology, 1.86% Consumer Discretionary, 2.85% Industrials)	US\$185.0 million	Mainly the People's Republic of China (Shanghai & Shenzhen), Hong Kong, Singapore. Taiwan, the United States (New York) and the United Kingdom (London).
3	China Alpha Focus Fund	Achieving a maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the People's Republic of China, Hong Kong, Singapore and Taiwan. It will also invest in the United States and United Kingdom markets.	7.84% (0.74% Telecommunication, 5.17% Information Technology, 1.93% Consumer Discretionary)	US\$24.5 million	Mainly the People's Republic of China (Shanghai & Shenzhen), Hong Kong, Singapore. Taiwan, the United States (New York) and the United Kingdom (London).

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## POTENTIAL CONFLICTS OF INTEREST

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	<b>Fund/ Managed account</b>	<b>Investment Objective/Mandate</b>	<b>Percentage of assets under management in new economy industries (as at 31 October 2010)</b>	<b>Assets under management (as at 31 October 2010)</b>	<b>Geographical coverage</b>
4	CSI Alpha Fund Series – CSI China – Hong Kong Leaders Fund	Achieving long-term appreciation of unit price through capital growth and income appreciation by investing in a diversified portfolio of at least twenty three blue chip equities, and to a limited extent, ADRs and GDRs, that are listed primarily on Hong Kong stock exchange and/or any international securities exchange and/or other organized securities markets that are open to the international public and on which such securities are regularly traded.	7.08% (4.59% Industrials, 2.49% Health Care)	US\$27.7 million	Mainly Hong Kong
<b>Craig B. LINDSAY (all of the above plus the following)</b>					
5	Pan Global Alpha Fund	Achieving a maximum capital growth through investing in securities, derivative products and related instruments issued by public companies listed on recognized stock exchanges globally.	0.10% (0.10% Consumer Discretionary)	US\$5.4 million	Global
<b>WANG Junyan (Funds 1 to 4 above plus the following)</b>					
6	Managed account managed by China Alpha Fund Management Ltd	Achieving a maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the People's Republic of China, Hong Kong, Singapore and Taiwan. It will also invest in the United States and United Kingdom markets.	9.96% (2.85% Industrials, 1.83% Consumer Discretionary, 4.44% Health Care, 0.84% Information Technology)	US\$32.3 million	Mainly the People's Republic of China (Shanghai & Shenzhen), Hong Kong, Singapore. Taiwan, the United States (New York) and the United Kingdom (London).

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## POTENTIAL CONFLICTS OF INTEREST

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### Investments by Connected Persons of the Company in other funds/accounts currently managed by the Investment Manager

#### *China Alpha II Fund Ltd*

Mr. Craig Lindsay and Mr. Wang Junyan directly or indirectly hold shares in China Alpha II Fund Ltd. The table below sets forth details of the shares held by Mr. Lindsay and Mr. Wang:

Shareholder	Type of shares	Value of shares as a percentage of net asset value of China Alpha II Fund Ltd as at 31 October 2010
Mr. Lindsay	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	0.6% of participating shares
Mr. Wang and his immediate family members	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	6.8% of participating shares
China Alpha Fund Management Ltd, a company wholly owned by Mr. Wang	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	0.92% of participating shares
	In its capacity as the fund manager, management shares with no economic rights	100% of management shares

#### *China Alpha Focus Fund Ltd*

Mr. Wang Junyan directly or indirectly holds shares in China Alpha Focus Fund Ltd. The table below sets forth details of the shares directly or indirectly held by Mr. Wang:

Shareholder	Type of shares	Value of shares as a percentage of net asset value of China Alpha Focus Fund Ltd as at 31 October 2010
Mr. Wang and his immediate family members	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	23.71% of participating shares

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## POTENTIAL CONFLICTS OF INTEREST

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Shareholder	Type of shares	Value of shares as a percentage of net asset value of China Alpha Focus Fund Ltd as at 31 October 2010
China Alpha Fund Management Ltd, a company wholly owned by Mr. Wang	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	8.87% of participating shares
	In its capacity as the fund manager, management shares with no economic rights	100% of management shares

### *CITIC Securities Alpha Leaders Fund Limited*

Mr. Wang Junyan indirectly holds shares in CITIC Securities Alpha Leaders Fund Limited. The table below sets forth details of the shares indirectly held by Mr. Wang:

Shareholder	Type of shares	Value of shares as a percentage of net asset value of CITIC Securities Alpha Leaders Fund Limited as at 31 October 2010
China Alpha Fund Management Ltd, a company wholly owned by Mr. Wang	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	0.63% of participating shares
CSIAM (CL) Investments Limited, an indirect wholly-owned subsidiary of CITIC Securities Co., Ltd, which is the indirect controlling shareholder of the Investment Manager	Participating shares which rank <i>pari passu</i> to all participating shares held by other investors	70.15% of the participating shares
CITIC Securities Fund Management Limited, a company in which Mr Wang indirectly holds 45%	In its capacity as the fund manager, management shares with no economic rights	100% of management shares

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## POTENTIAL CONFLICTS OF INTEREST

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*Note:* Participating shares are redeemable shares with economic rights but no voting right and may be acquired by investors in the respective funds. Management shares are voting, non-participating, non-redeemable shares with no economic rights and may only be held by the fund manager of that fund.

### *CSI China – Hong Kong Leaders Fund*

CSIAM (CL) Investments Limited is the seed investor in CSI China – Hong Kong Leaders Fund, a sub-fund of the CSI Alpha Fund Series. CSIAM (CL) Investments Limited is an indirect wholly-owned subsidiary of CITIC Securities Co., Ltd, which is the indirect controlling shareholder of the Investment Manager.

As at 31 October 2010, the value of the units held by CSIAM (CL) Investments Limited accounted for 90.96% of the net asset value of CSI China – Hong Kong Leaders Fund. These units rank *pari passu* to all units held by other investors.

Save as disclosed above, no other Connected Persons of the Company holds any shares or units in any of the funds and/or accounts currently managed by the Investment Manager.

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## OVERVIEW OF THE COMPANY

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### The Company

China New Economy Fund Limited is an exempted company incorporated in the Cayman Islands with limited liability on 1 February 2010. The Company was established for the purpose of acting as a closed-ended investment company.

The Company's authorised share capital will initially consist of 776,000,000 Shares. The Company has not commenced operation or business since its incorporation.

Upon completion of the Placing, no director of the Company or the Investment Manager or the Investment Manager itself, will hold any Shares in the Company.

### Investment Objective and Policies

The principal investment objective of the Company is to achieve long-term capital appreciation by primarily investing globally in both private and public enterprises that have demonstrated the ability to manufacture a product or deliver a service that is supported by the economies of mainland China, Hong Kong, Macau and Taiwan ("**Greater China**").

In seeking to fulfil the Company's investment objective, the Company has adopted the following investment policies:

- the Company will acquire investments that will derive income from enterprises established, or conducting business, in and outside Greater China, and in particular, those related to new economy industries of Greater China, including but not limited to the low carbon energy industry, software and internet-related industries, which, in varying degrees, place a premium on innovation, advanced technology, or worker skills;
- approximately 60% – 80% of the Company's portfolio (directly or indirectly through synthetic exposure) will be invested in public companies listed on exchanges in the world including Hong Kong, Shanghai, Shenzhen, London, New York and/or Tokyo. Such investments may be in the form of interests in shares, trusts, debt instruments in listed or unlisted companies and other equity related securities. For hedging purposes, the Company may invest in futures, warrants and options;
- approximately 20% – 40% of the Company's portfolio will be invested in private equity investments which may be in the form of interests in private companies, establishment of a partnership or participation in unincorporated investments;
- the Company will specialise in long/short and fundamental driven investment strategies. It will invest in opportunities that it, and/or the Investment Manager, believes has prospects of earning growth and/or capital appreciation. In particular investments will be made in businesses or entities with potential or record of profit growth, strong management, high levels of technical expertise and research and development capabilities as well as management commitment to the long-term growth of such companies;

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## OVERVIEW OF THE COMPANY

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- investments in the private equity portfolio will generally be held for between 5 and 7 years, while investments in the public equity portfolio will generally be held for between 1 and 3 years. The actual holding period shall be dependent on the return from investment and the potential of being listed on an internationally recognised stock exchange. The Company may, however, realise investments where the Board or Investment Manager believes that such realisation would be in the best interest of the Company and its Shareholders as a whole or where the terms on which such realization can be made are considered to be particularly favourable to the Company;
- where possible, the Company shall seek to identify investments in companies where there is a certain degree of synergy with other investee companies and where cooperation between such companies would be of mutual benefit to each other; and
- before suitable investment projects are identified, the Company may seek to protect the capital value of the Company's assets by placing the funds not deployed on deposits in HK dollars and money market investments (including money market funds). Similarly, after disposal of a private equity investment the Company may place the proceeds in such investments until the Company has the opportunity to consider how such funds will be reinvest.

In accordance with the Listing Rules, for a period of three years from the date of this document, the investment objective and each of the investment policies set out above may only be changed with the approval of the majority of Shareholders at a general meeting of the Company. After such period and where the Directors believe it is in the best interests of the Company, the investment objective and each of the investment policies may be altered without Shareholders' approval.

The Company has appointed China Everbright Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules.

### **Investment Restrictions**

The following investment restrictions are adopted by the Company:

- (i) the Company will not make any investment which would expose the Company to unlimited liability;
- (ii) save in respect of cash deposits awaiting investment, the value of the Company's holding of investments issued by any one company or body shall not exceed 20% of the Net Asset Value of the Company at the time the investment is made; and
- (iii) the Company will not, either on its own or in conjunction with any Connected Person of the Company, take legal, or effective, management control of underlying investments and in any event will not own or control 30% or more (or

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## OVERVIEW OF THE COMPANY

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such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body.

In accordance with the Listing Rules, for a period of three years from the Listing Date, the investment restrictions set out above may only be changed with the approval of a majority of Shareholders at a general meeting of the Company. After such period and where the Directors believe it is in the best interests of the Company, the investment restriction in (i) above may be altered without Shareholders' approval.

Notwithstanding the above, for as long as the Company maintains its listing under Chapter 21 of the Listing Rules, the restrictions set out in (ii) and (iii) above must not be changed.

The Company has no intention to invest in options, warrants, commodities, future contracts, and precious metals other than for hedging purposes.

These restrictions, however, will not require the Company to dispose of any investment where, by reason of any change in the value of any investment or any other change in circumstances or otherwise arising after the making of such investment, the Company would not have been able to make the investment in whole or in part had it been made at such later time.

### **Borrowing Restrictions**

Subject to the provisions of the Articles and the Investment Management Agreement, the Company may from time to time borrow for the purposes of providing liquidity or taking advantage of investment opportunities as and when appropriate.

Generally the Company will not exceed aggregate borrowings of 25% of the latest available Net Asset Value of the Company at the time of any borrowing. Subject thereto, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

In accordance with the Listing Rules, for a period of three years from the Listing Date, the borrowing restrictions set out above may only be changed with the approval of a majority of Shareholders, at a general meeting of the Company. After such period, and where the Directors believe it is in the best interests of the Company, each of these borrowing restrictions may be altered without Shareholders' approval.

### **Share Capital**

The Company has an initial capital structure consisting of one class of Shares, which will rank equally for all dividends and other distributions declared, paid or made by the Company. Holders of Shares are entitled to attend and vote at general meetings of the Company. As at the Last Practicable Date, only one fully paid-up share has been issued by



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## OVERVIEW OF THE COMPANY

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the Company and was held by Mr. Wang Junyan (the “**Subscriber Share**”). It is the intention that the Subscriber Share will be transferred to the Lead Placing Agent and then form part of the Placing Shares for subscription under the Placing. The Subscriber Share will have no special rights that distinguish it from any other of the Placing Shares.

Upon the completion of the Placing, 303,000,000 Shares, representing entire issued share capital of the Company, will be held by Shareholders who are independent of the Company and its Connected Persons, and no director of the Company or the Investment Manager, or the Investment Manager itself, will hold any Shares in the Company.

### **General Mandates**

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Placing, a rights issue or pursuant to the exercise of any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by the Shareholders) with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the Placing; and
- (ii) the aggregate nominal value of the Shares repurchased by the Company (if any).

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares to be listed on the Stock Exchange with a total nominal value of not more than 10% of the aggregate nominal value of the Company’s share capital in issue immediately following the completion of the Placing.

Each of the general mandates mentioned above will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company; or (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders of the Company in a general meeting.

### **Directors of the Company**

The Board is responsible, *inter alia*, for establishing the investment objective and policies of the Company, complying with the Company’s investment restrictions, for monitoring the Company’s performance and for appointing, supervising, directing and, if necessary, removing any of the Company’s service providers, including the Investment Manager. Upon completion of the Placing, no director of the Company will hold any Shares in the Company.

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## OVERVIEW OF THE COMPANY

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The table below sets forth the age, board position and date of appointment of each of the Directors:

Name	Age	Position	Date of appointment as Director
Mr. Craig Blaser LINDSAY	56	Chairman and Executive Director	1 February 2010
Mr. WANG Junyan	40	Chief Executive Officer and Executive Director	1 February 2010
Mr. GU Xu	46	Executive Director	25 November 2010
Mr. SIU Kam Chau	46	Independent Non-Executive Director	26 July 2010
Mr. XU Yangsheng	52	Independent Non-Executive Director	26 July 2010
Mr. Doyle Ainsworth DALLY	64	Independent Non-Executive Director	26 July 2010

### *Executive Directors of the Company*

#### ***Mr. Craig Blaser LINDSAY (Chairman)***

Mr. Craig Blaser Lindsay, aged 56, was appointed as Chairman on 28 July 2010 and has been a Director of the Company since 1 February 2010. Mr. Lindsay is responsible for the management and formulation of the Company's overall investment objective and policies. Mr. Lindsay has 30 years experience in the investment banking, proprietary trading and fund management industries. His expertise lies in areas of risk management, product accounting, financial reporting, regulatory and compliance and operations.

Mr. Lindsay graduated from the Bloomfield College in USA with a Bachelor of Arts degree in Accounting in 1976. He pursued further studies at the Rutgers University Graduate School of Business in USA and received his Master of Business Administration in Finance in 1979.

Mr. Lindsay worked for Goldman, Sachs and Co from July 1980 to May 1996 as a full-time employee. During his 16 years of service at Goldman, Sachs and Co, Mr. Lindsay had worked in New York, Tokyo and London offices, in the areas of proprietary accounting and risk analysis, government control and mortgage backed control, business analysis, risk management, product accounting and equities accounting. From June 1996 to December 2003, Mr. Lindsay served as an executive vice president and chief financial officer at Tokai Asia Limited (now known as UFJ Investments Asia Limited) where he was mainly responsible for the review and decision making process of the asset management initiative and the handling and supervision of related accounting, operational, regulatory, compliance and legal requirements. From 2004 to 2006, Mr. Lindsay worked at Sattva Investment Advisors Limited as a principal and chief financial officer. During his service, he was mainly responsible for financial reporting, risk management, operations, compliance and regulatory, technology and development of the fund business.

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## OVERVIEW OF THE COMPANY

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Currently, Mr. Lindsay is a licensed person for:

- Type 1 (dealing in securities) regulated activities, on condition that Mr Lindsay shall not conduct business other than– (a) communicating offers to effect dealings in securities to an exchange participant of a recognised exchange company or a specified exchange, in the names of the persons from whom those offers are received; and (b) introducing persons to an exchange participant of a recognised exchange company or a specified exchange in order that they may – (i) effect dealings in securities; or (ii) make offers to deal in securities;
- Type 4 (advising on securities) regulated activities; and
- Type 9 (asset management) regulated activities under the SFO,

and is a responsible officer of each of the Investment Manager and China Alpha Investment Management Limited, both being licensed corporations under the SFO.

Mr. Lindsay's experience in managing third party assets is briefly shown as follows:

<b>1. Name of the fund</b>	<b>:</b>	<b>China Alpha Fund Ltd (which became China Alpha II Fund Ltd in 2007)</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Lindsay in the fund	:	<p>Director of the fund</p> <p>Director/Chief Operating Officer / Responsible Officer of the investment adviser to the fund</p> <p>Acting as a responsible officer and possessing joint discretionary authorization power with other directors</p> <p>Main responsibilities: Daily operational management, risk monitoring and portfolio analysis, compliance and managing other support functions including finance operations, investor relations, communication and administration</p>
Investment decision process of the fund	:	No involvement of Mr. Lindsay.
Period under management	:	February 2002 to the Latest Practicable Date

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## OVERVIEW OF THE COMPANY

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Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	<p>Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York</p> <p>Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore</p> <p>Derivative products: futures and options, and other related instruments and products</p>
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	<p>As of 31 December 2007: US\$153.8 million</p> <p>As of 31 December 2008: US\$67.0 million</p> <p>As of 31 December 2009: US\$141.7 million</p>
Year-to-year change in net asset value per share of the fund	:	<p>2007: +127.37%</p> <p>2008: -49.48%</p> <p>2009: +103.48%</p>
<b>2. Name of the fund</b>	<b>:</b>	<b>China Alpha Focus Fund Ltd</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Lindsay in the fund	:	<p>Director of the fund</p> <p>Director/Chief Operating Officer / Responsible Officer of the investment adviser to the fund</p>

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## OVERVIEW OF THE COMPANY

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		Acting as a responsible officer and possessing joint discretionary authorization power with other directors
		Main responsibilities: Daily operational management, risk monitoring and portfolio analysis, compliance and managing other support functions including finance operations, investor relations, communication and administration
Investment decision process of the fund	:	No involvement of Mr. Lindsay.
Period under management	:	February 2008 to the Latest Practicable Date
Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	<p>Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York</p> <p>Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore</p> <p>Derivative products: futures and options, and other related instruments and products</p>
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	<p>As of 31 December 2007: Nil</p> <p>As of 31 December 2008: US\$2.4 million</p> <p>As of 31 December 2009: US\$23.1 million</p>

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## OVERVIEW OF THE COMPANY

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Year-to-year change in net asset value per share of the fund	:	2007: N/A 2008: -1.69% 2009: +63.53%
<b>3. Name of the fund</b>	:	<b>CITIC Securities Alpha Leaders Fund Limited</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Lindsay in the fund	:	Director of the fund  Director/Chief Operating Officer / Responsible Officer of the investment adviser to the fund  Acting as a responsible officer and possessing joint discretionary authorization power with other directors  Main responsibilities: Daily operational management, risk monitoring and portfolio analysis, compliance and managing other support functions including finance operations, investor relations, communication and administration
Investment decision process of the fund	:	No involvement of Mr. Lindsay.
Period under management	:	February 2008 to the Latest Practicable Date
Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York

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		Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore
		Derivative products: futures and options, and other related instruments and products
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	As of 31 December 2007: Nil
		As of 31 December 2008: US\$123.5 million
		As of 31 December 2009: US\$138.9 million
Year-to-year change in net asset value per share of the fund	:	2007: N/A
		2008: +0.49%
		2009: +13.24%
<b>4. Name of the fund</b>	<b>:</b>	<b>CSI China – Hong Kong Leaders Fund</b>
Type of the fund	:	A sub-fund under CSI Alpha Fund Series, a trust authorized by the SFC pursuant to section 104 of the SFO
Roles and duties and positions of Mr. Lindsay in the fund	:	Director/Chief Operating Officer / Responsible Officer of the investment manager to the fund
		Acting as a responsible officer and possessing joint discretionary authorization power with other directors
		Main responsibilities: Daily operational management, risk monitoring and portfolio analysis, compliance and managing other support functions including finance operations, investor relations, communication and administration
Investment decision process of the fund	:	No involvement of Mr. Lindsay.
Period under management	:	July 2009 to the Latest Practicable Date

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Investment objective of the fund	:	To achieve long-term appreciation of the unit price through capital growth and income appreciation by investing in a diversified portfolio of at least twenty three blue chip equities, and to a limited extent, ADRs and GDRs
Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong and/or any international securities exchange and/or other organized securities market that are open to the international public and on which such securities are regularly traded
Relevance of the fund to the Company's proposed investment	:	No direct relevance
Asset under management by the fund	:	As of 31 December 2007: Nil  As of 31 December 2008: Nil  As of 31 December 2009: HK\$210.9 million
Year-to-year change in net asset value per share of the fund	:	2007: N/A  2008: N/A  2009: +8.8%
<b>5. Name of the fund</b>	<b>:</b>	<b>Pan Global Alpha Fund Ltd</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Lindsay in the fund	:	Director of the fund  Director/Chief Operating Officer / Responsible Officer of the investment adviser to the fund  Acting as a responsible officer and possessing joint discretionary authorization power with other directors



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## OVERVIEW OF THE COMPANY

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		Main responsibilities: Daily operational management, risk monitoring and portfolio analysis, compliance and managing other support functions including finance operations, investor relations, communication and administration
Investment decision process of the fund	:	No involvement of Mr. Lindsay.
Period under management	:	June 2010 to the Latest Practicable Date
Investment objective of the fund	:	To achieve a maximum capital growth through investing in securities, derivative products and related instruments issued by public companies listed on recognized stock exchanges globally
Asset types and geographical coverage of the fund	:	Listed securities: global  Unlisted securities and private equities  Derivative products: futures and options, and other related instruments and products
Relevance of the fund to the Company's proposed investment	:	No direct relevance
Asset under management by the fund	:	As of 31 December 2007: Nil  As of 31 December 2008: Nil  As of 31 December 2009: Nil  As of 30 September 2010: HK\$42.15 million
Year-to-year change in net asset value per share of the fund	:	2007: N/A  2008: N/A  2009: N/A  2010: 10.92% (since the launch of the fund to 30 September 2010)

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## OVERVIEW OF THE COMPANY

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Currently, Mr. Lindsay holds a number of directorships in various unlisted funds, investment management companies and investment advisory companies. The following table sets forth details of Mr. Lindsay's directorships:

<b>Company name</b>	<b>Place of incorporation</b>	<b>Nature of business of the company</b>	<b>Listing or not</b>	<b>Role and responsibilities of Mr. Lindsay in the company</b>	<b>Date of Mr. Lindsay becoming a director of the company</b>
China Alpha II Fund Ltd	Cayman Islands	Fund	Unlisted	Director	May 2007
China Alpha Focus Fund Ltd	Cayman Islands	Fund	Unlisted	Director	January 2008
CITIC Securities Alpha Leaders Fund Limited	Cayman Islands	Fund	Unlisted	Director	February 2008
Pan Global Alpha Fund Ltd	Cayman Islands	Fund	Unlisted	Director	April 2010
China Alpha Investment Management Limited	Hong Kong	Investment advisory	Unlisted	Director	May 2007
CITIC Securities International Fund Management Limited	Cayman Islands	Fund management	Unlisted	Director and Chief Operating Officer	February 2008
Investment Manager – CITIC Securities International Investment Management (HK) Limited	Hong Kong	Investment management	Unlisted	Director	August 2008

Mr. Lindsay has not held any directorship in any listed company since 2007.

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## OVERVIEW OF THE COMPANY

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### **Mr. WANG Junyan (王俊彥) (Chief Executive Officer)**

Mr. Wang, aged 40, was appointed as the Company's Chief Executive Officer on 28 July 2010 and has been Director of the Company since 1 February 2010. Mr. Wang is responsible for the management and formulation of the Company's overall investment objective and policies.

Mr. Wang completed a bachelor's degree majoring in International Trade from Zhongshan University (中山大學) in 1992 and a master's degree in Finance from The University of Hong Kong in 2003.

Mr. Wang has been involved in investment banking, capital markets, direct investments and fund management in China and Hong Kong since the early 1990s. Mr. Wang has accumulated over 15 years of securities investment and asset management experience in the region. He is the founder of China Alpha Fund (which later rolled into the China Alpha II Fund), China Alpha Focus Fund, Pan Global Alpha Fund, CITIC Securities Alpha Leaders Fund and CSI Alpha Fund Series.

From August 1993 to October 1997, Mr. Wang served in various departments in J & A Securities Limited. In August 1993, he joined the international corporate finance department in the Shenzhen office and was engaged in international investment and corporate finance business. In 1994, he was appointed as chief representative of the overseas business unit and was responsible for the provision of trading and investment advisory services to Chinese companies and helping them raising money in the US. In 1995, Mr. Wang was promoted to the assistant general manager and was involved in the establishment of its brokerage, sales and corporate finance operations in Hong Kong.

Mr. Wang first began managing assets for third parties in October 1997 when he joined First Shanghai Group where he held various senior positions during his tenure. He was first appointed as managing director of First Shanghai Securities Limited (formerly known as First Shanghai Capital Limited) and then in February 2000, due to Mr. Wang's outstanding performance, he was further appointed as managing director of First Shanghai Financial Holding Limited, both companies being subsidiaries of First Shanghai Investments Limited (227.HK). Mr. Wang was responsible for the supervision and management of the overall operations of all kinds of financial services, including fund management, stockbroking, corporate finance, financial information services and e-finance. From January 2007 to June 2007, Mr. Wang was appointed as the chief investment officer of First Shanghai Fund Management Limited. During the period, he was responsible for managing and overseeing investments for third party clients according to their specific needs, monitoring the portfolio and assessing the relevant risks and evaluating the performance and objectives of each of the funds and accounts managed by First Shanghai Fund Management Limited.

From 1998 to December 2006, Mr. Wang was appointed as a director of China Assets (Holdings) Limited (170.HK) ("**China Assets**"), an investment company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange. As First Shanghai Investments Limited was a substantial shareholder in China Assets, Mr. Wang was recommended by First Shanghai Investments Limited to act as a director of China Assets. China Assets is one of the forerunners in direct equity investments in China and engaged China Assets Investment

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## OVERVIEW OF THE COMPANY

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Management Limited (“CAIML”) as investment manager. For the period from October 2002 to January 2007, Mr. Wang was a director of CAIML and was a member of the investment committee of China Assets. The investment committee was responsible for identifying the private equity investments, overseeing the trading portfolio and evaluating the portfolio performance. Mr. Wang has been a shareholder of CAIML since December 2005.

During this period, Mr. Wang simultaneously continued his executive role at First Shanghai Group, as First Shanghai Investments Limited and China Assets were part of the same group of companies by virtue of their respective shareholdings in each other.

In 2008, Mr. Wang was appointed as a director of the CITIC Securities International Fund Management Limited and subsequently a director of the Investment Manager. Mr. Wang’s experience in managing third party funds is briefly shown as follows:

Mr. Wang’s experience in managing third party funds is briefly shown as follows:

<b>1. Name of the fund</b>	:	<b>China Alpha Fund Ltd (which became China Alpha II Fund Ltd in 2007)</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Wang in the fund	:	<p>Director of the fund</p> <p>Director/ Chief Investment Officer / Responsible Officer of the investment adviser to the fund</p> <p>Acting as a responsible officer and possessing joint discretionary authorization power with other directors</p> <p>Main responsibilities: daily management, sourcing and identifying of target companies for investments, performing preliminary valuations, conducting due diligence, providing investment and divestment recommendations to the board and monitoring investment performance and objectives from time to time</p>
Investment decision process of the fund	:	Decisions are made in conjunction with fund manager of the fund’s investment adviser
Period under management	:	February 2002 to the Latest Practicable Date

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## OVERVIEW OF THE COMPANY

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Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	<p>Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York</p> <p>Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore</p> <p>Derivative products: futures and options, and other related instruments and products</p>
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	<p>As of 31 December 2007: US\$153.8 million</p> <p>As of 31 December 2008: US\$67.0 million</p> <p>As of 31 December 2009: US\$141.7 million</p>
Year-to-year change in net asset value per share of the fund	:	<p>2007: +127.37%</p> <p>2008: -49.48%</p> <p>2009: +103.48%</p>
<b>2. Name of the fund</b>	<b>:</b>	<b>China Alpha Focus Fund Ltd</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Wang in the fund	:	<p>Director of the fund</p> <p>Director/ Chief Investment Officer / Responsible Officer of the investment adviser to the fund</p>

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## OVERVIEW OF THE COMPANY

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Acting as a responsible officer and possessing joint discretionary authorization power with other directors

Main responsibilities: daily management, sourcing and identifying of target companies for investments, performing preliminary valuations, conducting due diligence, providing investment and divestment recommendations to the board and monitoring investment performance and objectives from time to time

Investment decision process of the fund	:	Initially made solely by Mr. Wang but as the asset under management grew a portfolio manager was employed and decisions are made in conjunction
Period under management	:	February 2008 to the Latest Practicable Date
Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	<p>Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York</p> <p>Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore</p> <p>Derivative products: futures and options, and other related instruments and products</p>
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	<p>As of 31 December 2007: Nil</p> <p>As of 31 December 2008: US\$2.4 million</p> <p>As of 31 December 2009: US\$23.1 million</p>

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## OVERVIEW OF THE COMPANY

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Year-to-year change in net asset value per share of the fund	:	2007: N/A 2008: -1.69% 2009: +63.53%
<b>3. Name of the fund</b>	:	<b>CITIC Securities Alpha Leaders Fund Limited</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Wang in the fund	:	<p>Director of the fund</p> <p>Director/ Chief Investment Officer / Responsible Officer of the investment adviser to the fund</p> <p>Acting as a responsible officer and possessing joint discretionary authorization power with other directors</p> <p>Main responsibilities: daily management, sourcing and identifying of target companies for investments, performing preliminary valuations, conducting due diligence, providing investment and divestment recommendations to the board and monitoring investment performance and objectives from time to time</p>
Investment decision process of the fund	:	Initially made solely by Mr. Wang but as the asset under management grew a portfolio manager was employed and decisions are made in conjunction
Period under management	:	February 2008 to the Latest Practicable Date
Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan

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## OVERVIEW OF THE COMPANY

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Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York
		Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore
		Derivative products: futures and options, and other related instruments and products
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	As of 31 December 2007: Nil  As of 31 December 2008: US\$123.5 million  As of 31 December 2009: US\$138.9 million
Year-to-year change in net asset value per share of the fund	:	2007: N/A  2008: +0.49%  2009: +13.24%
<b>4. Name of the fund</b>	:	<b>CSI China – Hong Kong Leaders Fund</b>
Type of the fund	:	A sub-fund under CSI Alpha Fund Series, a trust authorized by the SFC pursuant to section 104 of the SFO
Roles and duties and positions of Mr. Wang in the fund	:	<p>Director/ Chief Investment Officer / Responsible Officer of the manager to the fund</p> <p>Acting as a responsible officer of the manager and possessing joint discretionary authorization power with other directors</p> <p>Main responsibilities: daily management, sourcing and identifying of target companies for investments, performing preliminary valuations, conducting due diligence, providing investment and divestment recommendations to the board and monitoring investment performance and objectives from time to time</p>



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## OVERVIEW OF THE COMPANY

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Investment decision process of the fund	:	Made in conjunction with the portfolio manager employed by the Manager
Period under management	:	July 2009 to the Latest Practicable Date
Investment objective of the fund	:	To achieve long-term appreciation of the unit price through capital growth and income appreciation by investing in a diversified portfolio of at least twenty three blue chip equities, and to a limited extent, ADRs and GDRs
Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong and/or any international securities exchange and/or other organized securities market that are open to the international public and on which such securities are regularly traded
Relevance of the fund to the Company's proposed investment	:	No direct relevance
Asset under management by the fund	:	As of 31 December 2007: Nil As of 31 December 2008: Nil As of 31 December 2009: HK\$210.9 million
Year-to-year change in net asset value per share of the fund	:	2007: N/A 2008: N/A 2009: +8.8%
<b>5. Name of the fund</b>	<b>:</b>	<b>China Assets (Holdings) Limited (170.HK)</b>
Type of the fund	:	Investment holding company incorporated in Hong Kong and listed on the Stock Exchange since April 1992
Roles and duties and positions of Mr. Wang in the fund	:	Director of the fund Director/investment committee member of the investment manager to the fund
Investment decision process of the fund	:	Collectively decided by the investment committee where Mr. Wang was one of the committee members

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## OVERVIEW OF THE COMPANY

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Period under management	:	1998 to 2006
Investment objective of the fund	:	To achieve long-term capital appreciation through investments primarily in equity and equity-related investments in small to medium-sized companies (listed or non-listed) operating in China
Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong, United States  Unlisted securities and private equities  Derivative products
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in PRC enterprises and the fund is also a listed Chapter 21 company
Asset under management by the fund	:	As of 31 December 2004: US\$113.1 million  As of 31 December 2005: US\$122.3 million  As of 31 December 2006: US\$139.7 million
Year-to-year change in net asset value per share of the fund	:	2004: +24.18%  2005: +8.16%  2006: +12.21%

The following table sets forth details of Mr. Wang's directorships:

Company name	Place of incorporation	Nature of business of the company	Listing or not	Role and responsibilities of Mr. Wang in the company	Date of Mr. Wang being a director of the company
China Alpha II Fund Ltd	Cayman Islands	Fund	Unlisted	Director	May 2007
China Alpha Focus Fund Ltd	Cayman Islands	Fund	Unlisted	Director	February 2008
CITIC Securities Alpha Leaders Fund Limited	Cayman Islands	Fund	Unlisted	Director	February 2008
CAC Capital Investment Limited	BVI	Private equity fund	Unlisted	Director  Currently a dormant company.	December 2009

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## OVERVIEW OF THE COMPANY

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Company name	Place of incorporation	Nature of business of the company	Listing or not	Role and responsibilities of Mr. Wang in the company	Date of Mr. Wang being a director of the company
CAC Investment Management Limited	BVI	Private equity fund	Unlisted	Director  Currently a dormant company.	December 2009
China Alpha Investment Management Limited	Hong Kong	Investment advisory	Unlisted	Director	May 2001
China Alpha Fund Management Ltd	Cayman Islands	Fund management	Unlisted	Director	April 2007
CITIC Securities International Fund Management Limited	Cayman Islands	Fund management	Unlisted	Director	February 2008
CITIC Securities International Investment Management (HK) Limited	Hong Kong	Investment management	Unlisted	Director	August 2008
Yanzhou Coal Mining Company Limited (1171.HK)	PRC	Coal mining	Listed in Hong Kong	Independent non-executive director	June 2008
China Aerospace International Holdings Limited (31.HK)	Hong Kong	Research, development, manufacture and commercialisation of space technologies and products such as spacecrafts, launch vehicles and satellites in China	Listed in Hong Kong	Independent non-executive director	March 2007
LIVZON Pharmaceutical Group Co. Ltd. (000513.SZ)	PRC	Pharmaceutical	Listed in Shenzhen	Independent non-executive director	April 2007

Save as disclosed above, Mr. Wang has not held any directorship in any listed company since 2007.

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Mr. Wang is a licensed person for Type 1 (dealing in securities) regulated activities, on condition that Mr. Wang shall not conduct business other than – (a) communicating offers to effect dealings in securities to an exchange participant of a recognised exchange company or a specified exchange, in the names of the persons from whom those offers are received; and (b) introducing persons to an exchange participant of a recognised exchange company or a specified exchange, in order that they may – (i) effect dealings in securities; or (ii) make offers to deal in securities; Type 4 (advising on securities) regulated activities; and Type 9 (asset management) regulated activities, on condition that Mr. Wang shall not provide a service of managing a portfolio of future contracts for another person unless it is for hedging purpose only, under the SFO, and is a responsible officer of each of the Investment Manager and China Alpha Investment Management Limited, both being licensed corporations under the SFO.

**Mr. Gu Xu (顧旭) (executive director)**

Mr. Gu, aged 46 is the executive Director of the Company since 25 November 2010.

Mr. Gu completed a bachelor's degree majoring in Economics from Shanghai University of Finance and Economics (上海財經大學) in July 1986 and Mr. Gu further received a master degree majoring in Economics from Shanghai University of Finance and Economics (上海財經大學) in January 1989 and a master degree majoring in Business Administration awarded jointly from Fudan University (復旦大學) and The University of Hong Kong in 2003.

Mr. Gu has accumulated 15 years experience in asset management, investment and financial management in both financial conglomerate and private company. From January 1995 to December 1995, Mr. Gu served as the deputy general manager in the asset management department in 上海萬國證券公司 (Shanghai Wanguo Securities Company). From July 1996 to March 2004, Mr. Gu first served as deputy general manager and then the general manager of the account and finance department, and further the assistant to president of 申銀萬國證券股份有限公司 (Shenyin & Wanguo Securities Co., Ltd.). During the tenure with Shanghai Wanguo Securities Company and Shenyin & Wanguo Securities Co., Ltd., Mr. Gu was mainly responsible for the supervision and day-to-day management of assets management, securities settlement, and finance and treasury functions of both companies. In respect of the assets management business, it included wealth management for high-net-worth individual clients as well as project investments in property sector for the company.

From March 2004 to October 2006, Mr. Gu served as the chief accountant of 中國華源集團有限公司 (China Worldbest Group Co., Ltd.). During the tenure with China Worldbest Group Co., Ltd., Mr. Gu was mainly responsible for the internal assets management of the company. From October 2006 to May 2008, Mr. Gu was the president and partner of 上海格雷特投資管理有限公司 (Create Capital Co., Ltd.) and he was responsible for the management and investment decision making of a fund in the PRC. Since July 2009, Mr. Gu has been acting as the director of 河南農開投資基金管理有限責任公司 (Henan Agriculture Development Investment Fund Management Limited) and is responsible for the management and supervision of a fund namely 河南農業開發產業投資基金 (Henan Agriculture Development Investment Fund).

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## OVERVIEW OF THE COMPANY

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Since August 2010, Mr. Gu has been serving as the general manager of 上海宏華文化創業投資有限責任公司 (Shanghai Honghua Cultural Venture Investment Company Limited) (the “Honghua Fund”), a fund company targeting investment in culture industry in China. Mr. Gu is also the general manager and director of the investment manager of the Honghua Fund.

Mr. Gu has not held a directorship in any listed company since 2007.

Mr. Gu’s experience in managing third party funds is briefly shown as follows:

<b>1. Name of fund</b>	<b>: 河南農業開發產業投資基金 (Henan Agriculture Development Investment Fund)</b>
Type of fund	: Collective Trust Fund incorporated in PRC and regulated under PRC law and regulations
Role and duties and positions of Mr. Gu in the fund	: Director of the investment manager to the fund
Investment decision process of the fund	: Collectively decided by the investment committee or the board of directors where Mr. Gu is one of the members of the board of directors
Period under management	: January 2010 to the Latest Practicable Date
Investment objective of the fund	: Investment in agriculture related listed and unlisted companies in Henan province with high growth potential
Asset types and geographical coverage of the fund	: Investment in agriculture related listed and unlisted companies in Henan province with high growth potential through granting of term loans or subscription of convertible bonds, issue share capital or options
Relevance of the fund to the Company’s proposed investment	: No direct relevance
Asset under management by the fund	: As of January 2010: RMB600 million (among which, RMB200 million from government and RMB400 million from a trust scheme with public investors)
Year-to-year growth	: Not available as the fund can only conclude the first year investment return of 2010 around March or April of 2011

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## OVERVIEW OF THE COMPANY

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<b>2. Name of fund</b>	:	上海宏華文化創業投資有限責任公司 (Shanghai Honghua Cultural Venture Investment Company Limited)
Type of fund	:	A limited company established in the PRC
Role and duties and positions of Mr. Gu in the fund	:	General Manager of the fund  General Manager and director of the investment manager to the fund  Main responsibilities: responsible for daily management of the fund, projects origination and making investment decision
Investment decision process of the fund	:	Collectively decided by the investment committee where Mr. Gu is a member
Period under management	:	August 2010 to the Latest Practicable Date
Investment objective of the fund	:	Invest in culture industry related companies
Asset types and geographical coverage of the fund	:	Equity investment in companies principally engaged in culture industry business and whose operational assets are in the Greater China
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in Greater China
Asset under management by the fund	:	As at December 2010: RMB30 million
Year-to-year growth	:	Not applicable since no investment has been made up to the Latest Practicable Date
<b>3. Name of fund</b>	:	上海格雷特投資管理有限公司 (Create Capital Co., Ltd.)
Type of fund	:	A limited company established in the PRC
Role and duties and positions of Mr. Gu in the fund	:	President and partner of the fund
Investment decision process of the fund	:	Collectively decided by the partners of the Company including Mr. Gu.

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## OVERVIEW OF THE COMPANY

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Period under management	:	October 2006 to May 2008
Investment objective of the fund	:	Long-term investment in companies targeting listing in the PRC
Asset types and geographical coverage of the fund	:	Unlisted private equities in the PRC
Relevance of the fund to the Company's proposed investment	:	No direct relevance
Asset under management by the fund	:	RMB24 million
Year-to-year growth	:	Not available as the investments in unlisted private equities had not been realised during the period of management by Mr. Gu and Mr. Gu could not obtain such confidential and private information now as he is no longer a staff of the fund

### ***Independent Non-Executive Directors of the Company***

#### ***Mr. SIU Kam Chau (蕭錦秋) (independent, non-executive director)***

Mr. Siu, aged 46, was appointed as an independent non executive Director on 26 July 2010. Mr. Siu obtained a bachelor degree in accounting from the City University of Hong Kong in November 1992. He is a fellow of The Association of Chartered Certified Accountants and a certified public accountant (practising) of The Hong Kong Institute of Certified Public Accountants. Mr. Siu is currently acting as the head of corporate finance department of a company, Town Health International Investments Limited, (3886.HK), a company whose shares are listed on the Main Board of the Stock Exchange.

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## OVERVIEW OF THE COMPANY

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Mr. Siu has over 20 years of working experience in auditing, accounting, company secretarial and corporate finance functions. From July 1989 to September 1993, Mr. Siu worked in the auditing department of an international accounting firm. Since then, Mr. Siu has served in different listed companies as follows:

November 1998 to September 2001	Deson Development International Holdings Limited	262.HK	Initially as an executive director and subsequently redesignated as a non-executive director
September 2000 to September 2001	KEL Holdings Limited (now known as Chinese People Holdings Company Limited)	681.HK	Initially as an executive director and subsequently redesignated as a non-executive director
July 2001 to January 2003	Town Health International Holdings Company Limited (now known as Town Health International Investments Limited)	3886.HK	Executive director
March 2006 – August 2009	Town Health Medical Technology Holdings Company Limited (now known as China Gogreen Assets Investment Limited)	397.HK	Executive director
September 2004 – the Latest Practicable Date	Wang On Group Limited	1222.HK	Independent non-executive director

***Professor XU Yangsheng (徐揚生) (independent, non-executive director)***

Professor Xu, aged 52, was appointed as an independent non executive Director on 26 July 2010. He is a fellow of the Hong Kong Academy of Engineering Sciences (香港工程科學院院士), a fellow of the Institute of Electrical and Electronics Engineers and an academician of Chinese Academy of Engineering (中國工程院院士). Professor Xu received his PhD degree in mechanical engineering specialised in robotics from University of Pennsylvania, USA in 1989, and worked at Carnegie Mellon University in USA from 1989 to 1999. In 1997, he joined The Chinese University of Hong Kong (“CUHK”) where he is currently a professor of Automation and Computer-Aided Engineering, and Associate Pro-Vice-Chancellor. Professor Xu’s research includes space robotics, intelligent control and



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## OVERVIEW OF THE COMPANY

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systems, and human interface. Professor Xu has been appointed as an independent non-executive director of Sun East Technology (Holdings) Limited (365.HK), and company listed on the Main Board of the Stock Exchange, since May 2005.

***Mr. Doyle Ainsworth DALLY (independent, non-executive director)***

Mr. Doyle Ainsworth Dally, aged 64, was appointed as an Independent Non-Executive Director on 26 July 2010.

Mr. Dally has been an independent non-executive director of CITIC Securities Alpha Leaders Fund Limited since 4 March 2008, a Cayman Islands incorporated open-ended hedge fund managed by CITIC Securities International Fund Management Limited. Mr. Dally has not held a directorship in any listed company since 2007.

Mr. Dally was the former managing director of Wachovia Bank And Trust Company (Cayman) Limited from 3 February 2005, a subsidiary of Wachovia Corporation, all of which was acquired by Wells Fargo And Company in October 2008. As a result of such acquisition and subsequent consolidation between entities within Wachovia Corporation and those within Wells Fargo and Company, Mr. Dally served as a managing director of Wells Fargo Bank And Trust Co (Cayman) Limited, a subsidiary of Wells Fargo And Company, until 12 November 2010.

Mr. Dally served in the trust division of Bank of Butterfield International (Cayman) Ltd for 14 years. Before his retirement in 2004, he was acted as the senior manager and head of the trust and corporate services division. Prior to that, he was manager of the trust administration division of Butterfield Bank in Bermuda for 9 years. Mr. Dally obtained a Bachelor of Science Degree from Atlantic Union College in Massachusetts, USA in 1981 and a Master in Business Administration from Nova Southeastern University in Florida, USA in 1992. He also obtained the Trust and Estate Practitioner designation from the Society of Trust and Estates Practitioners since October 1993.

### **Directors' Fees**

Each of the Independent Non-Executive Directors and Mr. Gu Xu are entitled to receive an annual director's fee of up to US\$15,000 per annum while Mr. Wang Junyan and Mr. Craig Lindsay will not receive separate compensation, subject to the annual review of the Audit and Remuneration Committee.

### **Audit and Remuneration Committee**

The Directors have established the Audit and Remuneration Committee in compliance with Rule 3.21 of the Listing Rules and paragraphs B1 and C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

The primary audit related duties of the committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

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## OVERVIEW OF THE COMPANY

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The primary remuneration related duties of the committee include (but without limitation): (i) making recommendations to the Directors on the Company's policy and structure for all remuneration of the Directors and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

The Audit and Remuneration Committee consists of the Company's three Independent Non-Executive Directors – Mr. Siu Kam Chau (being the chairman with professional qualifications in accountancy), Professor Xu Yangsheng and Mr. Doyle Dally.

### **The Company Secretary**

Ms. Lin Sio Ngo (練少娥), aged 44, is the company secretary of the Company. She graduated from The Open University of Hong Kong in 2000 with a degree of bachelor of business administration and The Open University of Hong Kong in 2004 with a degree of master of corporate governance. Ms. Lin is an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Lin has over 10 years of working experience in company secretarial and administration areas. She has been employed by Town Health International Investments Limited (3886.HK), a company listed on the Main Board of the Stock Exchange, since July 2001. She is now the senior company secretarial manager and head of secretariat in chief executive officer office of Town Health International Investments Limited (3886.HK).

Given Ms. Lin is an experienced company secretary, held senior secretarial positions in Town Health International Investments Limited, is well supported by her team members, and that the Company has engaged the Administrator to handle certain administrative matters (e.g. calculation of net asset value of the investments held by the Company), the Directors consider that Ms. Lin will have sufficient time to discharge her functions timely and properly in the Company.

### **Use of Proceeds**

Based on a total of 303,000,000 Placing Shares are being placed with Professional Investors, the net proceeds from the Placing, after deduction of the Start Up Costs (as set out in section headed "*Fees and Expenses*" in this document) of approximately HK\$25.5 million, are estimated to be approximately HK\$286.6 million.

The net proceeds will be applied by the Investment Manager in making investments according to the investment objective, policies and restrictions of the Company and the requirements of the Articles, the Listing Rules and the Investment Management Agreement. Any proceeds not deployed will be placed on bank deposit or invested in money market instruments or money market funds. Please refer to the paragraphs entitled "*Investment Objective and Policies*" and "*Investment Restrictions*" in this section.

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## OVERVIEW OF THE COMPANY

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### **Distribution Policy**

The Company's investment objective is to achieve long-term capital appreciation and, accordingly, the Company's investment portfolio is not expected to generate significant income. It is therefore not expected that the Company will have significant (if any) dividend income after expenses available for distribution by way of dividend and therefore the Company does not expect to declare dividend. Any declaration of distributions will be made at the discretion of the Directors and may be either from profit, reserves of the Company (including Share premium account) or any amount lawfully available for distribution.

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

The Net Asset Value will be calculated by the Administrator on behalf of the Company in HK Dollars as of the close of business on each Valuation Date.

The Net Asset Value of the Company will be determined as at the Valuation Point relating to each Valuation Date of the Company, in accordance with the following:–

- (i) the value of any cash in hand or on deposit, bills, demand notes, accounts receivable, prepaid expenses, cash dividends and interest declared or accrued and not yet received shall be deemed to be the full amount thereof unless the Investment Manager shall have determined that any such deposit, bill, demand notes or accounts receivable is not worth the full amount thereof in which event the value thereof shall be deemed to be such value as the Investment Manager shall deem to be the reasonable value thereof;
- (ii) except in the case of any interest in a unit trust, mutual fund corporation, open-ended investment company or other similar open-ended investment vehicle (a "managed fund") to which paragraph (iii) applies and subject as provided in paragraphs (iv), (v) and (vi) below, all calculations based on the value of investments quoted, listed, traded or dealt in on any stock exchange, commodities exchange, futures exchange or over-the-counter market shall be made by reference to the bid market price for long positions and offer price for short positions respectively on the principal exchange or market for such investments as at the close of business in such place on the day as of which such calculation is to be made; and where there is no stock exchange, commodities exchange, futures exchange or over-the-counter market all calculations based on the value of investments quoted by any person, firm or institution making a market in that investment (and if there shall be more than one such market maker then such particular market maker as the Investment Manager may designate) shall be made by reference to the price quoted thereon; provided always that if the Investment Manager in its discretion consider that the prices ruling on an exchange or market other than the principal exchange or market provide in all the circumstances a fairer criterion of value in relation to any such investment, they may adopt such prices;

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## OVERVIEW OF THE COMPANY

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- (iii) subject as provided in paragraphs (iv), (v) and (vi) below, the value of each interest in any managed fund which is valued as at the same day as the Company shall be the net asset value per unit, share or other interest in such managed fund calculated as at that day or, if the Investment Manager shall so determine or if such managed fund is not valued as at the same day as the Company, the last published net asset value per unit, share or other interest in such managed fund (where available) or (if the same is not available) the last published redemption or bid price for such unit, share or other interest.

In particular, if there are no price quotations available for the valuation of the managed fund, it shall be calculated in accordance with the values published, or reported in writing to the Company as at the relevant Valuation Date, by or on behalf of the managed fund, or if the managed fund is not valued as at the relevant Valuation Date, shall be the latest published or reported value. Valuations may in the absolute discretion of the Investment Manager be subject to later adjustment. In performing the calculations, the Investment Manager shall be entitled to rely on the unaudited valuations and reports and estimated valuations received from third parties, including the managed fund and its administrator, agents, investment manager or advisor, or other dealing subsidiary and shall not be responsible for verifying nor shall they be required to verify either the contents or veracity of such valuations and reports;

- (iv) if no net asset value, bid and offer prices or price quotations are available as provided in paragraphs (ii) or (iii) above, (a) because the asset is a private equity investment, then the value of the relevant asset shall be determined by the Investment Manager in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which were developed by the Association Française des Investisseurs en Capital (AFIC), the British Venture Capital Association (BVCA) and the European Private Equity and Venture Capital Association (EVCA); or (b) otherwise, then the value of the relevant asset shall be determined from time to time in such manner as the Investment Manager in its discretion shall determine;
- (v) for the purpose of ascertaining quoted, listed, traded or market dealing prices, the Investment Manager, the Administrator or their agents shall be entitled to use and rely upon mechanised and/or electronic systems of valuation dissemination with regard to valuation of investments of the Company and the prices provided by any such system shall be deemed to be the bid market prices for the purpose of paragraph (ii) above;
- (vi) notwithstanding the foregoing, the Investment Manager may, at its absolute discretion, permit some other method of valuation to be used if they consider that such valuation better reflects the fair value of a portfolio investment of the Company; and

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## OVERVIEW OF THE COMPANY

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- (vii) any value (whether of a security or cash) otherwise than in Hong Kong dollars shall be converted into Hong Kong dollars at the rate (whether official or otherwise) which the Investment Manager shall in its absolute discretion deem appropriate to the circumstances having regard, inter alia, to any premium or discount which they consider may be relevant and to costs of exchange.

The Net Asset Value per Share as at any Valuation Date will be calculated by ascertaining the Net Asset Value of the Company and dividing such sum by the number of Shares in issue (including any Shares to be redeemed). The Net Asset Value per Share will be calculated in Hong Kong dollars and rounded to the nearest cent.

Details of the Net Asset Value per Share will be available on request from the Investment Manager. In addition, the unaudited Net Asset Value per Share will be calculated as at each Valuation Date and published by way of an announcement on the websites of the Company and the Stock Exchange in accordance with the Listing Rules within fifteen days after the end of each month.

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

The Directors may (but shall not be obliged to) declare a temporary suspension of the calculation of the Net Asset Value in respect of any Valuation Date:

- (i) when one or more exchanges or other markets which provide the basis for valuing any assets of the Company are closed other than for or during holidays or if dealings therein are restricted or suspended or where trading is restricted or suspended in respect of either the shares or the securities forming a material part of the Company's assets; or
- (ii) when, as a result of political, economic, military or monetary events or any circumstances outside the control, responsibility and power of the Company, including (without limitation) delays in settlement or registration of securities transactions, the disposal of assets of the Company is not reasonably practicable without materially and adversely affecting and prejudicing the interests of continuing Shareholders, or if, in the opinion of the Directors, a fair price cannot be calculated for the assets of the Company; or
- (iii) in the case of a breakdown of the means normally used for calculating the Net Asset Value or valuing any investment of the Company or if for any reason the value of any asset of the Company which is material in relation to the Net Asset Value (as to which the Directors shall have sole discretion) may not be determined as rapidly and accurately as required; or
- (iv) if, as a result of exchange restrictions or other restrictions affecting the transfer of funds, transactions on behalf of the Company are rendered impracticable, or if purchases, sales, deposits and withdrawals of the assets of the Company cannot be effected at the normal rates of exchange; or

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## OVERVIEW OF THE COMPANY

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- (v) during any period when the payment or receipt of the proceeds of the realisation of any of the investments or other property comprised in the Company is the subject of delay, including as a result of any restriction on the repatriation of capital or profits under certain investment regulations or otherwise.

Any suspension lasting for more than seven days shall be notified to Shareholders and all suspensions shall be notified to the Stock Exchange immediately and, where possible, all reasonable steps will be taken to bring any period of suspension to an end as soon as possible.

If the calculation of Net Asset Value is suspended, the Company will make an announcement of such suspension on the websites of the Company and the Stock Exchange, respectively.

### **Foreign Exchange Policy**

The Company's investments may be denominated in currencies other than HK Dollars. As such, it may receive income, or make payments in foreign currency and is therefore subject to exchange rate fluctuations.

The PRC's system of foreign exchange administration imposes significant restrictions on the ability of enterprises located in the PRC to purchase, retain and make outward remittance of foreign currency. See paragraph entitled "*Foreign exchange control and currency conversion risk*" in the section headed "*Risk Factors and Potential Conflicts of Interest*" in this document.

### **Dividend Reinvestment Plan**

The Company does not expect to declare dividends. However, unless and until the Company otherwise determines, each dividend declared by the Company in respect of Shares may, at the election of each Shareholder, be reinvested in additional Shares at the Issue Price as of the record date for such dividend or the immediately preceding Valuation Date. Shareholders will be notified of details of the dividend reinvestment plan, if any, by way of announcement and circular.

### **Reports to Shareholders**

The Company's annual report and accounts will be made up to 31 December in each year and it is expected that copies of the annual report will be sent to Shareholders not later than three months after the end of the financial year. Shareholders will also receive an unaudited interim report covering the first six months of each calendar year and it is expected that copies of the interim report will be sent to Shareholders not later than two months after the end of that period of six months. The first report to Shareholders will be an audited annual report for the period from incorporation to 31 December 2010. The annual general meeting of the Company will be held in the second quarter of each calendar year.

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The audited accounts of the Company will be drawn up in HK Dollars and prepared under IFRS. Under IFRS, the Company will prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital and also includes net realised and unrealised investment gains. The Company's management and administration fees, finance costs and all other expenses will be charged through the income statement.

For the NAV calculation, under IFRS both revenue and capital items are included. In addition, under IFRS the Company will be obliged to treat any interest rate swap transaction as a net liability or asset. The value of such net liability or asset will equal the net cost or surplus of breaking the interest rate swap transaction (although the Directors do not expect to break such a transaction). In addition, under IFRS the Company is obliged to provide for deferred income tax on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, regardless of whether or not those temporary differences are expected to reverse.

### **Risk Management Policy**

The ultimate responsibility in defining and maintaining the Company's risk control framework, setting the appropriate risk parameters for the Company and in continuously monitoring compliance of the Company's portfolio with the investment objective and policies and investment restrictions lies with the Board of Directors of the Company, that will be advised by the Investment Manager.

Thus risk management systems are in place both at the Company and the Investment Manager level.

The Investment Manager has in place a comprehensive risk management policy which includes procedures requiring regular performance of various risk analytics on the Company's portfolio and close monitoring of the portfolio against the Company's investment objective, policies and restrictions.

On a daily basis the Investment Manager's risk officer conducts portfolio level evaluation (including analysis of value-at-risk, correlations amongst sectors, concentrations of portfolio in gross and net exposures and beta adjusted exposures with different variables) and amongst other things analyses the Company's position level (including checking for abnormal movements, liquidity dry up, etc), return profile analysis, counterparty risk analysis, market risk, etc. On a daily basis the risk officer also prepares a snapshot report of analysis results.

On a weekly basis the risk officer conducts historical/trend analysis (for example of changes in value-at-risk, changes in various gross and net exposures, etc), stress test and what-if analysis. The risk officer also monitors marginal contributions to risk analysis on an ongoing basis.



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On a regular basis the risk manager meets with the portfolio managers, Mr. Wang Junyan (Executive Director of the Company and Chief Investment Officer and Responsible Officer of the Investment Manager) and Mr. Craig Lindsay (Chairman and Executive Director of the Company and Chief Operating Officer and Responsible Officer of the Investment Manager) to discuss any risks facing the portfolio.

At the Company level, a risk committee consisting of Mr. Wang, Mr. Lindsay and Mr. Doyle Dally has been formed to monitor the operational and portfolio risks to the Company. The risk committee will monitor the Investment Manager including review whether the investment objective and policies and investment restrictions are being followed by the Investment Manager. In case of any deviation, the risk committee will discuss deviations with the Investment Manager immediately and monitor remedial action. For all material deviations the risk committee will formulate recommendations to the Board on the appropriate remedial actions to be made. In formulating such recommendations the risk committee will also seek advice from the compliance adviser on any applicable disclosure or reporting requirement relating to such deviations under the Listing Rules, and make appropriate announcement if necessary. The risk committee will meet on a monthly basis, or more regularly if a meeting is requested by any risk committee member.



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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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### **The Investment Manager**

In accordance with the power under the Articles, the Board has delegated day-to-day investment management of the assets of the Company to the Investment Manager, pursuant to the Investment Management Agreement. Upon completion of the Placing, no director of the Company or the Investment Manager or the Investment Manager itself, will hold any Shares in the Company.

The Investment Manager was incorporated in Hong Kong on 1 March 2007 and has its principal office in Hong Kong. The Investment Manager commenced business shortly after it was licensed by the SFC to carry on Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO on 1 August 2008. The only condition imposed by the SFC on the Investment Manager is the standard condition that the licensed entity shall not hold client assets.

The Investment Manager is a wholly owned subsidiary of CITIC Securities International Fund Management Limited (“CSIFM”). Shares in CSIFM are held by China Alpha Fund Management Ltd as to 45% and CSIAMF (CL) Limited as to 55%. CSIAMF (CL) Limited is wholly owned by CITIC Securities International Asset Management Limited, while China Alpha Fund Management Ltd is wholly owned by Mr. Wang Junyan, the chief executive officer and Director of the Company.

The Investment Manager performs its services to the Company pursuant to the Investment Management Agreement entered into between it and the Company. The Investment Manager has full and complete discretion to manage, supervise and direct the investment, disposition and reinvestment of the Company’s assets under the Investment Management Agreement, subject to its responsibility for ensuring that trading and investment portfolio of the Company is being managed in accordance with its investment objective and policies and investment restrictions set out in this document and the Articles and to general supervision by and the specific directions of the Directors.

The Investment Management Agreement authorises the Investment Manager to delegate responsibilities to others subject to retaining certain responsibilities for evaluating and co-ordinating the services offered by others.

The Investment Management Agreement provides that the Investment Manager shall not be liable to the Company or the Shareholders for any reasonable error of judgment, for acting upon or giving effect to instructions or arrangements specified by the Company or the Board, or for any loss or liability, in the performance of its services in the absence of wilful default, fraud or gross negligence, and contains provisions for the indemnification of the Investment Manager by the Company against liabilities to third parties arising in connection with the performance of its services (other than as a result of wilful default, fraud or gross negligence on the part of the Investment Manager).

As required by Rule 14A.35(1), the Investment Management Agreement is for an initial term from the Listing Date to 31 December 2012, unless terminated by either party upon not less than 180 days’ written notice or earlier for cause.

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The fees payable to the Investment Manager pursuant to the Investment Management Agreement are set out in the section entitled “*Fees and Expenses*” in this document.

The table below sets forth the funds to which the Investment Manager currently provides discretionary management services and the assets under management and past performance of that fund during the period such services were provided by the Investment Manager.

All funds are absolute return funds and thus do not have an agreed benchmark, however for information purposes only, the Investment Manager includes a comparison of each funds’ performance against a benchmark that it considers appropriate to the asset type of that funds.

Name of the fund	Launch Date <sup>1</sup> / Date of appointment of manager	Assets under management by the fund as of 31 December	Year-to-year change in net asset value per share of the fund (A)	Benchmark performance (B)	Fund’s performance relative to benchmark (A)-(B)
China Alpha II Fund Ltd <sup>5</sup>	3 July 2007/ 1 December 2008	2007: US\$153.8 million 2008: US\$67.0 million 2009: US\$141.7 million	2007: N/A 2008: 0.33% <sup>2</sup> 2009: +103.48%	2007: N/A 2008: 3.59% <sup>2</sup> 2009: 52.02% (Hang Seng Index)	2007: N/A 2008: -3.26% 2009: +51.46%
China Alpha Focus Fund Ltd <sup>6</sup>	1 April 2008/ 1 December 2008	2007: Nil 2008: US\$2.4 million 2009: US\$23.1 million	2007: N/A 2008: -4.31% <sup>2</sup> 2009: +63.53%	2007: N/A 2008: 3.59% <sup>2</sup> 2009: 52.02% (Hang Seng Index)	2007: N/A 2008: -7.90% 2009: +11.51%
CITIC Securities Alpha Leaders Fund Ltd <sup>7</sup>	11 April 2008/ 14 March 2008	2007: Nil 2008: US\$123.5 million 2009: US\$138.9 million	2007: N/A 2008: +0.49% <sup>3</sup> 2009: +13.24%	2007: N/A 2008: -40.52% <sup>3</sup> 2009: 52.02% (Hang Seng Index)	2007: N/A 2008: +41.01% 2009: -38.78%
CSI China – Hong Kong Leaders Fund <sup>8</sup>	23 July 2009/ 25 June 2009	2007: Nil 2008: Nil 2009: HK\$210.9 million	2007: N/A 2008: N/A 2009: +8.8% <sup>4</sup>	2007: N/A 2008: N/A 2009: 11.43% <sup>4</sup> (Hang Seng China Enterprises Index)	2007: N/A 2008: N/A 2009: -2.63%

*Note 1:* Launch date is the date the fund first received funds from an investor

*Note 2:* From the 1 December 2008 initial appointment of the Investment Manager as manager of the fund until 31 December 2008. Prior to this the fund was managed by China Alpha Investment Management Limited, of which Mr. Wang Junyan and Mr. Craig Lindsay are directors.

*Note 3:* From the 11 April 2008 launch of the fund to 31 December 2008

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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*Note 4:* From the 23 July 2009 launch of the fund to 31 December 2009

*Note 5:* As at 31 October 2010, the value of participating shares directly or indirectly held by Mr. Wang Junyan (and his family member) and Mr. Craig Lindsay respectively accounted for 7.72% and 0.60% of the net asset value of China Alpha II Fund Ltd.

*Note 6:* As at 31 October 2010, the value of participating shares directly or indirectly held by Mr. Wang Junyan (and his family member) accounted for 32.58% of the net asset value of China Alpha Focus Fund Ltd.

*Note 7:* As at 31 October 2010, the value of participating shares indirectly held by Mr. Wang Junyan through China Alpha Fund Management Ltd accounted for 0.63% of the net asset value of CITIC Securities Alpha Leaders Fund Limited. As at 31 October 2010, the value of participating shares directly held by CSIAM (CL) Investments Limited (an indirect wholly-owned subsidiary of CITIC Securities Co., Ltd, which is the indirect controlling shareholder of the Investment Manager) accounted for 70.15% of the net asset value of CITIC Securities Alpha Leaders Fund Limited.

*Note 8:* As at 31 October 2010, the value of the units directly held by CSIAM (CL) Investments Limited (an indirect wholly-owned subsidiary of CITIC Securities Co., Ltd, which is the indirect controlling shareholder of the Investment Manager) accounted for 90.96% of the net asset value of CSI China – Hong Kong Leaders Fund.

For details on Notes 5 to 8, please refer to the paragraphs entitled “*Investments by Connected Persons of the Company in other funds/accounts currently managed by the Investment Manager*” in the section headed “*Conflicts of Interest*”.

The table below sets forth the age, board position and date of appointment of each of the directors of the Investment Manager:

Name	Age	Position	Date of appointment as director of the Investment Manager
Mr. YIN Ke	47	Non-executive director	10 May 2007
Mr. Craig Blaser LINDSAY	56	Executive director	1 August 2008
Mr. WANG Junyan	40	Executive director	1 August 2008
Mr. POON Chi Leong Harry	51	Non-executive director	28 February 2008
Mr. KWAN Man Fai Louis	43	Executive director	1 August 2008

- YIN Ke (殷可);

Mr. Yin, aged 47, was appointed as a director of the CSIFM and the Investment Manager in February 2008 and May 2007 respectively. Mr. Yin is currently the chief executive officer, executive director and vice chairman of CITIC Securities International Company Limited (中信証券國際有限公司), a wholly-owned subsidiary of CITIC Securities Co., Ltd. (中信証券股份有限公司) (“**CITIC Securities**”), a leading investment bank based in China and listed on the Shanghai Stock Exchange (600030.SS).

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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Currently, Mr. Yin serves as directors of the following listed companies:

CITIC Securities Co., Ltd.	600030.SS	Director
CITIC Pacific Ltd	267.HK	Non-executive director
Dah Chong Hong Holdings Limited	1828.HK	Non-executive director
CITIC Dameng Holdings Limited	1091.HK	Non-executive director

In the past, Mr. Yin had also acted as directors of the following listed companies:

Zhongxing Shenyang Commercial Building Group Company Limited	000715.SZ	Director
ACT360 Solutions Limited	AKM.V	Director

Mr. Yin obtained a masters degree in Economics from Zhejiang University (浙江大學) in 1991. During the period from 1992 to 2009, Mr. Yin had been served as one of the senior management in various investment banking companies, including an executive director of 君安證券有限責任公司 (J&A Securities Co. Ltd), a director of 國泰君安證券有限股份公司 (Guotai Junan Securities Company Limited), a director and president of 聯合證券有限責任公司 (United Securities Co. Ltd), an independent director of CCB Principal Asset Management Co., Ltd. (建信基金管理有限責任公司), a director and deputy chief executive officer of CITIC Capital Holdings Limited (中信資本控股有限公司). Mr. Yin is not involved in the day-to-day operations of the CSIFM and the Investment Manager but shall participate on a high level basis on the formulation of major corporate and business strategies of the CSIFM and the Investment Manager.

Mr. Yin is currently a responsible officer of (i) CITIC Securities Brokerage (HK) Limited (中信證券經紀(香港)有限公司), a licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities; (ii) CITIC Securities Corporate Finance (HK) Limited (中信證券融資(香港)有限公司), a licensed corporation under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities; and (iii) CITIC Securities Futures (HK) Limited (中信證券期貨(香港)有限公司), a licensed corporation under the SFO to engage in Type 2 (dealing in futures contracts) regulated activities.

- WANG Junyan (王俊彥);

Mr. Wang is also an executive director of the Company. Please see his biography above in the paragraph entitled “*Executive Directors of the Company*” in the section headed “*Overview of the Company*”.

- LINDSAY, Craig Blaser;

Mr. Craig Lindsay is also an executive director of the Company. Please see his biography above in the paragraph entitled “*Executive Directors of the Company*” in the section headed “*Overview of the Company*”.

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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- POON Chi Leong Harry (潘志良); and

Mr. Poon, aged 51, was appointed as a director of the Investment Manager in February 2008. Mr. Poon is not involved in the day-to-day operations of the Investment Manager but shall oversee the financial and business related matters.

Mr. Poon received a degree of master of business administration from the University of Hong Kong in 2006. He is registered as a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants.

From July 1983 to August 1986, Mr. Poon was employed by Coopers & Lyband as audit supervisor and was mainly responsible for performing statutory audit of companies' financial statements. From March 1988 to September 1989, Mr. Poon was employed by County NatWest Securities Asia Limited as accounting manager and was mainly responsible for financial accounting, management accounting and regulatory reporting of the company. From October 1989 to May 1998, Mr. Poon was employed by Nava SC Securities Limited (previously Standard Chartered Securities Limited) as the group financial controller and was in charge of the financial control function covering finance, accounting and regulatory reporting. From June 1998 to December 2003, Mr. Poon was employed as first vice president and regional operations manager in Dryden Wealth Management (Hong Kong) Limited. During his tenure, Mr. Poon was in charge of operational function covering operations, settlement, securities margin financing operation and operations accounting. From October 2004 to May 2006, Mr. Poon was employed as director, brokerage finance & operation in the brokerage-finance department of CITIC Capital Market Holdings Limited and was responsible for overseeing the operations, settlement, finance, accounting and regulatory reporting in areas of brokerage finance and operations. In May 2006, Mr. Poon's employment with CITIC Capital Market Holdings Limited was transferred to CITIC Securities International Company Limited as a result of group restructuring. He has been the chief financial officer of CITIC Securities International Company Limited effective from 1 February 2008 and is responsible for financial control, accounting, regulatory and management reporting.

- KWAN Man Fai Louis (關文輝)

Mr. Kwan, aged 43, was appointed as a director of the Investment Manager in August 2008. Mr. Kwan, as a representative of CITIC Securities International Company Limited, has a supervisory role with respect to the portfolio management of the Investment Manager in addition to Mr. Wang Junyan and Mr. Craig Lindsay's roles within the organization of the Investment Manager.

Mr. Kwan received a master degree of Business Administration in Financial Management from University of Exeter in United Kingdom in 1993. He further obtained a Master of Arts in Quantitative Analysis for Business in 1997 from City University of Hong Kong. Mr. Kwan began his career as a research/investment analyst in Goodwill Research Services Ltd., South China Research Limited and

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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MeesPierson Securities (Asia) Limited from January 1994 to February 1998. From February 1998 to June 2006 and May 2001 to June 2006, Mr. Kwan joined First Shanghai Asset Management Limited and First Shanghai Investment Management Limited, respectively, as a director with the responsibility of making direct investments, analysing the target companies for investment and monitoring the performance of the investment portfolio. For the period from February 2002 to June 2006, Mr. Kwan was responsible for constructing and managing the portfolio of China Alpha Fund, a fund with First Shanghai Investment Management Limited acted as investment adviser. From June 2006 to May 2008, Mr. Kwan was the deputy managing director of CCB International Asset Management Limited and was responsible for equity portfolio management, SFC authorized fund establishment and QDII product design. Since May 2008, Mr. Kwan has been the managing director of the investment management division of CITIC Securities International Company Limited. He is the head of proprietary trading division and is responsible for monitoring the operation and performances of the funds invested by CITIC Securities International Company Limited and its associated companies.

Currently, Mr. Kwan is a licensed person for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, and is a responsible officer of the Investment Manager, a licensed corporation under the SFO.

Mr. Kwan's experience in managing third party funds is briefly shown as follows:

<b>Name of the fund</b>	:	<b>China Alpha Fund Ltd</b>
Type of the fund	:	Cayman Islands company regulated as a mutual fund under the Mutual Funds Law (2009 Revision)(as amended) of the Cayman Islands
Roles and duties and positions of Mr. Kwan in the fund	:	Fund manager of the fund  Director/ Responsible Officer of the investment adviser to the fund  Acting as a responsible officer and possessing joint discretionary authorization power with other directors  Main responsibilities: daily management, sourcing and identifying of target companies for investments, performing preliminary valuations, conducting due diligence, providing investment and divestment recommendations to the board and monitoring investment performance and objectives from time to time
Investment decision process of the fund	:	Decisions are made in conjunction with Chief Investment Officer of the fund's investment adviser

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Period under management	:	February 2002 to June 2006
Investment objective of the fund	:	To achieve the maximum capital growth through investing in securities, derivative products and related instruments issued by companies whose majority of their business and/or revenue is closely related to the economic growth of the PRC, Hong Kong, Singapore and Taiwan
Asset types and geographical coverage of the fund	:	Listed securities: Hong Kong, Shanghai, Shenzhen, Singapore, Taiwan, London, New York  Unlisted securities and private equities: PRC, Hong Kong, Taiwan, Singapore  Derivative products: futures and options, and other related instruments and products
Relevance of the fund to the Company's proposed investment	:	With a common focus on investment in PRC enterprises
Asset under management by the fund	:	As of 31 December 2004: HK\$77.3 million  As of 31 December 2005: HK\$83.4 million  As of 30 June 2006: HK\$173.6 million
Year-to-year change in net asset value per share of the fund	:	2004: 26.8%  2005: 8.7%  2006 Jan to June: 22.1%

As at the Latest Practicable Date, the Investment Manager employed 4 licensed responsible officers and 12 licensed representatives.

It is the Investment Manager's policy to employ, or have seconded to it, a different portfolio manager for each fund it manages or advises. Thus, while some of the underlying funds on which the Investment Manager provides advice or manages may have similar investment objectives to that of the Company, each portfolio manager will have responsibility for making the best execution decisions for their respective fund separately.

As detailed in the Investment Policy, the Company will maintain both private and public equity portfolios. None of the other underlying funds on which the Investment Manager provides advice or manages invest in private equity portfolios and a separate portfolio manager will be appointed by the Investment Manager to oversee the investments in the private equity portfolio.



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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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The public equity portfolio will be for longer term investments and in this regard the Company's investment objectives are not the same as the other underlying funds. In order to act and safeguard the interests of the Company and its investors, every investment opportunity will be examined and scrutinized carefully by the proposed responsible officers as well as other licensed staff, taking into consideration the funds' investment mandate, risk profiles, concentration, liquidity and other relevant factors.

### *The Portfolio Managers*

The Investment Manager dedicates one or more portfolio managers to each fund or managed account to which the Investment Manager provides its services. Each portfolio manager will identify potential investment opportunities that fall within the investment objectives and restrictions of his or her particular funds/account. The portfolio manager then considers the current weighting of assets presently in that fund/account, risk parameters of the fund/account, market outlook, etc to determine whether a purchase order should be placed for that investment opportunity. Similarly the portfolio managers will be continually monitoring the assets in the particular portfolio to determine the ideal time to liquidate a holding. The portfolio managers work closely with Mr. Wang Junyan and are supported by the Investment Manager's legal and compliance team and other back-office support.

The Investment Manager has appointed two portfolio managers in relation to the Company – one for the public equity portion of the portfolio and the other for the private equity portion. A description of the two portfolio managers and their experience is below:

- NG Shiu Cheong (吳兆昌)

Mr. Ng, aged 45, will be the portfolio manager for the public equity portion of the Company's assets effective from the Listing Date. Mr. Ng is responsible for monitoring the equities portfolio, identifying target companies and instruments for investment, performing valuation modelling and the execution of listed equities investments. Mr. Ng has around 15 years experience in the securities investments and mutual funds management.

Mr. Ng graduated from Hong Kong Polytechnic with a Bachelor of Engineering (civil engineering) in 1989. He also holds a master degree in business administration from The Chinese University of Hong Kong in 1991. Mr. Ng is a chartered financial analyst, certified international investment analyst and financial risk manager.

From May 1995 to March 1996, Mr. Ng worked as a fund manager of Darier Hentsch (Asia) Ltd. He was in charge of the day-to-day management of the exposure in Thailand, Malaysia and Singapore of two large investment funds investing in East Asia (ex-Japan). He participated in the regional asset allocation process and had the authority to manage the country exposure within the set guidelines.



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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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From June 1996 to July 1997, Mr. Ng worked as manager of investment management division of IBJ Asia Limited. During his period of services, Mr. Ng was responsible for covering the ASEAN equities markets including Singapore, Malaysia and Thailand.

From August 1997 to March 2001, Mr. Ng worked as a fund manager of Dresdner RCM Global Investors. During the period, Mr. Ng was in charge of the daily fund management of a wide range of single country funds, which included Thailand, China and Hong Kong. In 1999, Mr. Ng ran their flagship Asia regional (ex-Japan) Tiger Fund.

From May 2001 to June 2004, Mr. Ng worked as vice president and director of DBS Asset Management (Hong Kong) Limited. Mr. Ng was responsible for the overall business of the company, including the development and launch of new investment products, garnering assets, supporting the distribution channels of DBS Bank (HK), working with external distributors.

From June 2004 to May 2005, Mr. Ng worked as a senior greater China portfolio manager of Unicapital (HK) Limited. Mr. Ng managed absolute-return portfolio (with long/short strategy) covering Greater China markets.

From June 2005 to June 2007, Mr. Ng worked as the chief investment office to head the investment team of MEAG Hong Kong Ltd, a wholly subsidiary of MEAG and he also assumed the fund manager role in covered Taiwan and ASEAN country exposures for the company.

From July 2007 to June 2010, Mr. Ng was the chief investment officer of Korea Investment Management Asia Ltd. During the period, he was the lead fund manager of the Greater China Fund product and participated in the new product developments as well as offering marketing supports to the fund promotion activities in Korea.

Since July 2010, Mr. Ng has been working with the Investment Manager as a portfolio manager for the Hong Kong/China equities of the SFC authorised fund managed by the Investment Manager.

Mr. Ng did not hold any directorship in any listed companies.

Mr. Ng is a licensed person for Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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- SHU, Ai (舒埃)

Mr. Shu, aged 34, will be the portfolio manager for the private equity portion of the Company's assets effective from the Listing Date. Mr. Shu is responsible for monitoring the private equity portfolio, identifying target companies, assets and instruments for investment, performing valuation modelling and the execution of private equity investments. Mr. Shu has approximately 4 years experience in the securities investments and mutual funds management in China.

Mr. Shu graduated from Fudan University with a bachelor's degree in Science in 1998. He also holds a master degree in business administration from INSEAD in 2007.

From June 2004 to December 2006, Mr. Shu worked as an associate in McKinsey & Consulting Company Inc. Shanghai.

From 2007 to 2008, Mr. Shu worked as an associate in fixed income, currencies and commodities department and corporate principal investments, Merrill Lynch (Asia Pacific) Limited.

From December 2008 to March 2010, Mr. Shu worked as an associate director in Mount Kellett Capital (Hong Kong) Limited ("MKC") of the asset management company Mount Kellett Capital Management LP. MKC is a New York-based private equity firm.

Since April 2010, Mr. Shu has been working in CITIC Securities International Company Limited as a senior vice president of private equity.

Mr. Shu does not hold any directorship in any listed companies.

### Overlapping Directorship

Both Mr. Wang Junyan and Mr. Craig Lindsay are directors of the Company and Investment Manager. They are expected to spend the necessary time and attention required as Executive Directors to oversee and manage the operation of the Company. All major management decisions will be made by the Board of Directors as a whole, including the Independent Non-Executive Directors, and not at the sole discretion of Mr. Wang and Mr. Lindsay. In addition, the overall interests of the Company and Investment Manager are aligned. Therefore, notwithstanding the fact that Mr. Wang and Mr. Lindsay will hold dual positions in the Company and Investment Manager, the Directors are of the view that they will be able to act in the best interests of the Company and its Shareholders.

Mr. Wang and Mr. Lindsay are involved in the day-to-day operations of the Investment Manager and the Company. The Investment Manager and the Company are aware of, and consent to, the roles played by Mr. Wang and Mr. Lindsay for both the company and the Investment Manager and will provide adequate resources, including but not limited to the engagement of separate portfolio manager(s) to manage the Company's portfolio, in order for them to discharge their supervisory responsibilities. Serving as directors and responsible

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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officers for the Investment Manager, Mr. Wang and Mr. Lindsay will devote sufficient time and attention to the funds managed by these entities. Mr. Wang and Mr. Lindsay will maintain confidentiality in respect of the information of each of the funds managed by the Investment Manager. They are also aware of their obligations under the SFC's Internal Control Guidelines that they are required to establish and ensure the integrity and security of all information relevant to the business operations of the respective entities.

The Custodian, the Investment Manager, any of their respective connected persons, and each Director and each of the directors of the Investment Manager, are prohibited from voting their own Shares at, or being part of quorum for, for any meeting to the extent that they have or any of their associates has, a material interest in the business to be conducted at such meeting.

### **Custody Services**

HSBC Institutional Trust Services (Asia) Limited is the custodian of the Company and responsible for the safe-keeping of the Company's assets.

HSBC is one of the leading global custodians with a custody network that includes many markets around the world. The Custodian is under no duty to supervise compliance with the investment objective and policies, investment restrictions, borrowing restrictions or operating guidelines of the Company.

The Custodian is entitled to be indemnified from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (other than those resulting from the negligence, wilful default, bad faith, fraud or breach of the Custodian Agreement, on the part of the Custodian or any agent, sub-custodian or delegate appointed by it and for which it would be liable under the Custodian Agreement) which may be imposed on, incurred by or asserted against the Custodian in performing its obligations or duties.

The Custodian will be liable for the acts of such agents, sub-custodians and delegates as if such acts were the acts of the Custodian.

The Custodian will not (except in circumstances provided in the Custodian Agreement) be responsible for any loss suffered by the Company by reason of liquidation, bankruptcy or insolvency of any agent, sub-custodian or delegate who are not members of the HSBC group. The Custodian would not be liable to any person for consequential losses under any circumstances.

The appointment of the Custodian may be terminated by giving not less than 3 months' notice in writing by either the Company or the Custodian.

Neither the Custodian nor its employees or agents are directly involved in the business affairs, organisation, sponsorship or management of the Company; nor responsible for the preparation or issue of this document other than the description above.

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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### Administration and Accounting

Pursuant to an Administration Agreement entered into between the Company and HSBC Trustee (Cayman) Limited, HSBC Trustee (Cayman) Limited (the “Administrator”) has been appointed to act as the administrator of the Company. The Administrator will provide certain administrative services to the Company including the proper book-keeping of the Company (other than the share register) and calculation of net asset value of the Shares of the Company.

Further details of this agreement, including the fees payable under the agreement, are set out in the paragraph entitled “*Administration Fees*” in the section headed “*Fees and Expenses*” in this document.

The Administrator is entitled to be indemnified by the Company against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (other than those resulting from the fraud, gross negligence or wilful default on the part of the Administrator) which may be imposed on, incurred by or asserted against the Administrator in performing its obligations or duties.

The Administrator will use reasonable endeavours to independently verify the price of any such assets or liabilities of the Company using its network of automated pricing services, brokers, market makers, intermediaries or other third parties.

In the absence of readily available independent pricing sources, the Administrator may rely solely upon any valuation or pricing information (including, without limitation, fair value pricing information) about any such assets or liabilities of the Company (including, without limitation, private equity investments) which is provided to it by: (i) the Company, (ii) the Company’s Board of Directors (or other governing body) or the Investment Manager; and/or (iii) any valuer, third party valuation agent, intermediary or other third party which in each such case is appointed or authorised by the Company, the Company’s Board of Directors (or other governing body) or the Investment Manager to provide valuations or pricing information of the Company’s assets or liabilities to the Administrator.

The Administrator in no way acts as guarantor or offeror of the Company’s Shares or any underlying investment. The Administrator is a service provider to the Company and has no responsibility or authority to make investment decisions, or render investment advice, with respect to the assets of the Company. The Administrator is not responsible for, and accepts no responsibility or liability for any losses suffered by the Company or any investors in the Company as a result of any failure by the Company or the Investment Manager to adhere to the investment objective and policies, investment restrictions, borrowing restrictions or operating guidelines. The Administrator will not participate in transactions or activities or make any payments denominated in US Dollars, which, if carried out by a US person, would be subject to sanctions of the Office of Foreign Assets Control (“OFAC”) of the US Department of the Treasury.

The Administrator shall not be liable or otherwise responsible for any loss suffered by any person by reason of (i) any act or omission of any person prior to the commencement date of the Administration Agreement, (ii) any defect, error, inaccuracy, breakdown or delay

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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in any product or service provided to the Administrator by any third party service provider, and (iii) any inaccuracy, error or delay in information provided to the Administrator by or for the Company or Investment Manager (including any broker, market maker or intermediary). The Administrator shall not otherwise be liable for any loss to the Company or any other person unless direct loss is sustained as a result of its fraud, gross negligence or wilful default.

Under the terms of the Administration Agreement, the Administrator is able to delegate certain of its functions and duties to the Administrator's affiliates.

The appointment of the Administrator may be terminated without cause by not less than 90 days' notice in writing.

The Administrator is not responsible for the preparation or issue of this document other than with respect to the description above in respect of the Administrator.

### **Hong Kong Share Registrar**

Computershare Hong Kong Investor Services Limited was appointed to act as Hong Kong share registrar to the Company. It will maintain the Company's original share register in Hong Kong. Further details of these arrangements, including the fees payable under the agreement, are contained in the paragraph entitled "*Hong Kong Share Registrar Fee*" in the section headed "*Fees and Expenses*" in this document.

### **Compliance Adviser**

The Company has appointed China Everbright Capital Limited as the compliance adviser, pursuant to Rule 3A.19 of the Listing Rules, to advise the Company on the following matters in accordance with Rule 3A.23 of the Listing Rules:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds of the Placing in a manner different from that detailed in this document or where the business activities, developments or results of the Company deviate from any description forecast, estimate or other information in this document;
- (iv) where the Stock Exchange makes an inquiry to the Company under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which the Company despatch the annual report as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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### Transfer of Subscriber Share

At the Last Practicable Date, only one fully paid-up share (the “**Subscriber Share**”) has been issued by the Company and was held by Mr. Wang Junyan, an executive director of the Company. It is the intention that the Subscriber Share will be transferred to the Lead Placing Agent and then form part of the Placing Shares for subscription under the Placing. The Subscriber Share will have no special rights that distinguish it from any other of the Placing Shares.

Upon the completion of the Placing, all Shares will be held by Shareholders who are independent of the Company and its Connected Persons.

Rule 10.07(1) of the Listing Rules provides that a person disclosed in this document at the time of the Company’s application for listing to be controlling shareholders of the Company shall not for a period of 6 months from the date of this document, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the issuer in respect of which he is or they are shown by that listing document to be the owner.

In addition, Rule 9.09 of the Listing Rules provides that no dealing in the securities for which listing is sought by any connected person of the issuer (except as permitted by Rule 7.11):

- (a) in the case of listing application by listed issuers, from the time of submission of the formal application for listing until listing is granted; and
- (b) in the case of a new applicant, from 4 clear business days before the expected hearing date until listing is granted.

The Company has applied for and been granted a waiver from strict compliance with Rule 10.07(1) and Rule 9.09 of the Listing Rules in relation to the transfer of the Subscriber Share to and from Mr. Wang based on the reasons stated below:

- Mr. Wang shall not be viewed as the controlling shareholder of the Company by virtue of his temporary interest in the Subscriber Share;
- Save for the Subscriber Share, Mr. Wang does not and will not hold any Shares before and after the listing;
- The transfer of the Subscriber Share to and from Mr. Wang has been disclosed in this document;
- Mr. Wang will not obtain any financial benefit from holding or transferring the Subscriber Share; and
- The Subscriber Share will form part of the Placing Share under the Placing.

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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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### Continuing Connected Transactions

The Company will enter into the following continuing connected transactions following the listing of the Shares on the Stock Exchange.

#### *Exempt continuing connected transaction*

##### *Custodian Agreement*

Pursuant to Rule 21.13 of the Listing Rules, the Custodian is regarded as a Connected Person to the Company. The Custodian is entitled to a monthly fee of the higher of (a) up to 0.04% per annum of the Company's net asset value; and (b) HK\$15,000. The Directors anticipate that the Custodian fees payable to the Custodian under the Custodian Agreement will not exceed HK\$1 million and the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will be, on an annual basis, less than 5%. Accordingly, the Custodian Agreement constitutes a *de minimis* continuing connected transaction and is exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

The Directors consider that the continuing connected transaction under the Custodian Agreement has been entered into in the ordinary and usual course of business and on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

#### *Non-exempt continuing connected transaction*

##### *Investment Management Agreement*

Pursuant to the Investment Management Agreement, the Investment Manager manages the Company's investments in accordance with the Company's investment objective. The Investment Manager is entitled to an investment management fee accruing monthly at the rate of 2% per annum of the Net Asset Value of the Company, and a performance fee at the rate of 20% per annum of the net increase in the Net Asset Value per Share. The Company's management fee of 2% and the performance fee of 20% under the Investment Management Agreement fall within the market range and the use of net asset as a basis for calculation of performance fee is generally in line with other Chapter 21 Companies listed on the Stock Exchange. Details of the investment management fee and performance fee payable by the Company to the Investment Manager is set out in the paragraph entitled "*Investment Management Fee and Performance Fee*" in the section headed "*Fees and Expenses*" in this document.

Pursuant to Rule 21.13 of the Listing Rules, the Investment Manager is regarded as a Connected Person of the Company.

##### *Proposed Annual Caps*

The Directors estimated that the annual amount of the investment management fee and performance fee payable by the Company to the Investment Manager in aggregate in respect of the three years ending 31 December 2010, 2011 and 2012 will be nil, approximately HK\$16.7 million and HK\$21.0 million, respectively (collectively the "Annual Caps").



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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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In computing the above proposed Annual Caps, the Directors have taken into account and made reference to

- (i) the projected growth of the Net Asset Value of the Company in 2010, 2011 and 2012;
- (ii) the net proceeds from the Placing of HK\$286.6 million will be received by the Company in January 2011;
- (iii) the investment management fee accruing monthly at the rate of 2% per annum of the Net Asset Value of the Company and the performance fee at the rate of 20% per annum of the net increase in the Net Asset Value per Share;
- (iv) the projected fluctuation in the securities and capital markets;
- (v) the projected development in “new economy industries” of Greater China including but not limited to, low carbon energy industry, software and internet-related industries, innovation, advanced technology and worker skills; and
- (vi) the past performance of the other funds managed by the Investment Manager.

The Directors, including the independent non-executive Directors, are of the view that the terms of and the transaction contemplated under the Investment Management Agreement has been entered into after arm’s length negotiation, on normal commercial terms and in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and that the proposed Annual Caps in respect of the fees payable under the Investment Management Agreement are fair and reasonable.

The applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules in respect of the annual amount of investment management fee and performance fee payable by the Company to the Investment Manager are more than 5% and the annual amount payable will exceed HK\$10 million. Accordingly, the Investment Management Agreement is considered to be non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and would require compliance with the reporting and announcement requirements set out in Rule 14A.45 to 14A.47 of the Listing Rules and the prior independent shareholders’ approval requirement set out in Rule 14A.48 of the Listing Rules on each occasion when they arise.

### *Renewal of Investment Management Agreement*

As required by Rule 14A.35(1) of the Listing Rules, the Investment Management Agreement is for an initial term from the Listing Date to 31 December 2012 unless terminated by either party upon not less than 180 days’ written notice or earlier for cause. Pursuant to Rule 14A.48 of the Listing Rules, renewal of the Investment Management Agreement and Annual Caps will be conditional on approval by independent Shareholders.



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## MANAGEMENT AND ADMINISTRATION OF THE COMPANY

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### *Application for Waiver*

As the continuing connected transaction under the Investment Management Agreement is expected to continue on a recurring basis, the Directors consider that compliance with the announcement and the independent shareholders' approval requirements would be impractical and would add unnecessary administrative costs to the Company.

Accordingly, the Directors have requested the Stock Exchange to grant a waiver from compliance with these requirements under Rule 14A.42(3) of the Listing Rules. We have requested the Stock Exchange, and the Stock Exchange has agreed, to grant a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements relating to the continuing connected transactions under the Listing Rules.

The Company will comply with Rules 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

### *Confirmation from the Sponsor*

Having considered the principal terms of the Investment Management Agreement and the factors taken into account by the Directors on the calculation of the proposed Annual Caps, the Sponsor is of the view that the terms of and the transaction contemplated under the Investment Management Agreement are entered into after arm's length negotiation, on normal commercial terms and in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and that the proposed Annual Caps in respect of the fees payable under the Investment Management Agreement are fair and reasonable.

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## LISTING AND DEALING

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### **Application for Listing on the Stock Exchange**

The Company has applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued under the Placing.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing or permission to deal on any other stock exchange or the Growth Enterprise Market of the Stock Exchange.

### **Dealings**

It is expected that dealings in the Shares will commence on the Main Board of the Stock Exchange at 9:30 a.m. on 6 January 2011. The Shares will be issued and traded in board lots of 100,000 Shares each. The price of the Shares will be quoted on the Stock Exchange in Hong Kong dollars. The Shares will be issued in registered form.

The rules of the Stock Exchange currently require settlement to be made within two Business Days.

In respect of dealings on the Stock Exchange, the Stock Exchange charges a trading fee of 0.005% and the SFC charges a transaction levy of 0.003% in respect of each transaction carried out on the Stock Exchange, such amount payable by each of the seller and buyer and calculated on the value of the consideration for the securities concerned. In addition, participants of the Stock Exchange will charge brokerage on both buyer and seller.

The Company has appointed Computershare Hong Kong Investor Services Limited as its Hong Kong Share Registrar for the purpose of receiving transfer instructions (if any) from the Company as well as investors and for the purpose of administering the transfer of Shares and the payment of proceeds of such transfers.

Subject to the Listing Rules, the Shares under the Placing will not be marketed in Hong Kong other than to persons who are Professional Investors.

### **Further issues following the Placing**

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Placing or any issue of Shares or securities in compliance with Rules 10.08(1) to (4) of the Listing Rules, the Company will not, at any time during the period of six months from the date on which dealings in the Shares commence on the Stock Exchange (the “**First Six-month Period**”), allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other securities of the Company) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce the intention to do so.

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## LISTING AND DEALING

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However subject to the relevant requirements of Rules 10.08(1) to (4) of the Listing Rules or after the First Six-month Period, the Directors reserve the right to issue further Shares following the initial Placing.

Such Shares may be issued at, or above, the Net Asset Value per Share (plus any applicable placing commission, trading fees, etc.) as at the previous Valuation Date as determined by the Directors in their absolute discretion.

In addition, and with the approval of a resolution of the Company (passed by a majority of not less than two-thirds) in general meeting, the Directors may issue such further Shares at a price per Share below the previous Net Asset Value per Share as at the previous Valuation Date, provided always that the price per Share shall be at or above the prevailing traded price of the Shares on the Stock Exchange as at the previous Business Day. In such event, the Net Asset Value per Share will be diluted.

For the purposes of any such further issue of Shares, the Directors may determine an additional Valuation Date.

If additional Shares are issued, the proceeds of this issue and all investments acquired with such proceeds will not be segregated in the Company's books from the assets of the Company attributable to the existing Shares on issue. The investment objective and policies for such proceeds would be identical to those provided for in respect of the Company generally, unless consent is obtained from the Shareholders.

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## STRUCTURE OF THE PLACING

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### The Placing

Pursuant to the Placing Agreement, the Placing Agents have undertaken as agents of the Company to procure prospective investors in the Placing for up to 776,000,000 Placing Shares at the Placing Price on best effort basis.

The final number of Placing Shares, being 303,000,000 Shares, was determined after the book-building process which was completed shortly before the bulk printing of this document. An announcement including levels of indication of interests of Placing Shares will be published on the Company's website at [www.chinaneweconomyfund.com](http://www.chinaneweconomyfund.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before 5 January 2011.

Under the Placing, Placing Shares are being offered at a Placing Price of HK\$1.03 per Share. In addition, the placees are obliged to pay brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. The minimum subscription size per placee is 500,000 Placing Shares (HK\$515,000) and thereafter in integral multiples of the board lot size of 100,000 Shares (HK\$103,000) (excluding brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%).

The Placing is not a public offering of the Shares and the Placing is being conducted in accordance with the securities laws of Hong Kong, Cayman Islands, Regulation S of the Securities Act and the Shares are subject to certain restrictions. The Shares may not be offered or sold in Hong Kong other than to Professional Investors.

The Placing will not proceed if the total number of placees is less than 300 and will only be accepted if the prospective investors can provide their Placing Agents with both (a) adequate evidence that they are Professional Investors; and (b) cleared funds prior to the date specified by their Placing Agents.

### Conditions of the Placing

The Placing is conditional upon among other things:

- the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing;
- the Lead Placing Agent (on behalf of the Placing Agents) receiving such number of subscription in respect of the Placing Shares by the placees which will result in the total number of placees under the Placing being not less than 300 before 5:00 p.m. on book close date or such later date as the Lead Placing Agent (on behalf of the Placing Agents) and the Company may agree; and
- the obligations of Placing Agents under the Placing Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the Placing Agreement on or before the dates and times specified in the Placing Agreement.

If any of above conditions is not fulfilled, the Placing will lapse and the subscription money will be returned to the placees without interest.

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## STRUCTURE OF THE PLACING

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### Placing Procedures

Step 1: *Briefing among Placing Agents and sub-placing agents (if any)*

A briefing session has been hosted on 10 December 2010 by Sponsor/Lead Placing Agent for Placing Agents and sub-placing agents (if any), before the book building to introduce the placing guidelines and placing procedures. Representatives from compliance department, sales department and ECM department of the Placing Agents have attend the briefing session.

The Placing Agents must procure any of its sub-placing agent or other person through whom they may, directly or indirectly, effect the Placing or offer any Placing Shares, to observe the placing procedures.

Step 2: *Account opening*

The Lead Placing Agent will treat the Placing Agents as its prospective investors and each of the Placing Agents has to maintain/open a Professional Investor Securities Account with the Lead Placing Agent.

In turn, prospective investors, who may be an individual, a company or a broker, and who intend to place order with the Placing Agents, must maintain/open a Professional Investor Securities Account with any one of the Placing Agents.

The Placing Agents will conduct know-your client and anti-money laundering checks on each prospective investor as part of the Professional Investor Securities Account opening process.

Step 3: *Book open*

The Lead Placing Agent will start preparing the order book.

Step 4A: *Checking of professional investor status*

Prospective investors must provide documentary proof to the Placing Agents to prove that he/she/it is a “professional investor” under the definition of the SFO and any rules thereunder. No order will be accepted if the prospective investors fail to provide documents to prove he/she/it is a professional investor to the satisfactory of the Placing Agents.

Step 4B: *Distribution of placing guidelines*

For prospective investors that falls under sections 3(a) to (c) of the Professional Investor Rules (i.e. trust corporation, individual or corporation or partnership), the relevant Placing Agent will explain to them the placing guidelines and the risk involved in investing in the Shares of the Company via telephone (with tape record) or a physical meeting. A copy of the placing guidelines will also be distributed to the prospective investors. This will be accompanied by a request that the potential investor sign and return a letter acknowledging (a)

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## STRUCTURE OF THE PLACING

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his/her/its receipt and understanding on the placing guidelines; and (b) risk involved in investment in Shares of the Company (the “**Initial Investor Acknowledgment**”).

The red herring offering memorandum will not be provided and no order will be accepted if the prospective investors fail to sign and return the Initial Investor Acknowledgement. For avoidance of doubt, return of the signed Initial Investor Acknowledgement by fax or scanned copy will be accepted, but mere acknowledgement by email will not.

Step 5: *Distribution of red herring offering memorandum*

The red herring offering memorandum will be provided to the prospective investors for their information.

Step 6: *Order placement by ultimate prospective investors*

At any time during the book building period, prospective investors who have passed Steps 4A and 4B (including return of signed Initial Investor Acknowledgement) may submit order forms to any one of the Placing Agents.

Step 7: *Order placement by Placing Agents to the Lead Placing Agents*

At the end of each day during the book building period, the Placing Agents will place orders with the Lead Placing Agent based on the number of satisfactory orders they have received.

When placing such orders, the Placing Agents must confirm to the Lead Placing Agent and the Company that their ultimate prospective investors behind these orders are professional investors and they have received all of the Initial Investor Acknowledgement.

Step 8: *Review and monitoring by the Lead Placing Agent and the Company*

At the end of each day during the book building period, the Placing Agents will send an order report (the “**Order Report**”) to the Lead Placing Agent. Details in the Order Report will include (i) name or identification number and type of the prospective investors (e.g. discretionary funds, trust corporation, individual, corporation or partnership), (ii) order size; and (iii) list of documents reviewed by the Placing Agents as part of the professional investor status checks.

For prospective investors who are individual, the Order Report will include age, education background, occupation and year of investment experience of the prospective investors. For prospective investors who are trust corporation, corporation or partnership, the Order Report will include year of investment experience of the prospective investors.

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## STRUCTURE OF THE PLACING

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The Lead Placing Agent will select certain prospective investors from the Order Report and request the relevant Placing Agents to provide documentary proof of the selected prospective investors for review. If the Lead Placing Agent suspects that the selected prospective investor does not qualify as a professional investor, the Lead Placing Agent will request the relevant Placing Agents to obtain further and sufficient information from the prospective investors. Orders from unqualified prospective investors must be rejected.

The Lead Placing Agent will send a consolidated daily Order Report to the Company on each next business day during the book building period. The Company may also request the relevant Placing Agents to obtain further and sufficient information from the prospective investors. The Company also reserves the right to reject orders from unqualified prospective investors.

Step 9: *Book close*

The Lead Placing Agent will make up the order book after book close. In case the total number of ultimate prospective investors is less than 300, the Placing will be terminated.

Step 10: *Distribution of placing letter*

The Lead Placing Agents will send placing letters (indicating the number of allocated shares and the subscription amount payable) to all Placing Agents after book close.

The Placing Agents will then send placing letters (indicating the number of allocated shares and the subscription amount payable) to their prospective investors.

The placing letter constitutes confirmation of a pre-existing contract and no order can be withdrawn. The final offering memorandum will be provided to the prospective investors upon request and it is also available from the website of the Stock Exchange.

Step 11: *Return of Form of Acknowledgement from prospective investors*

Prospective investors who agree to subscribe for the allocated Placing Shares have to complete, sign and return the “Form of Acknowledgement” attached to the placing letter. For avoidance of doubt, return of the signed Form of Acknowledgement by fax or scanned copy will be accepted, but mere acknowledgement by email will not.

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## STRUCTURE OF THE PLACING

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Step 12: *Submission to the Stock Exchange*

Each Placing Agent has to submit to the Stock Exchange a marketing Form D, a placee list and a CD Rom containing the placee list after the placing allocation. In addition, each Placing Agent has to confirm to the Stock Exchange that their ultimate placees are (i) independent; and (ii) Professional Investors.

Step 13: *Record keeping*

All Placing Agents must keep copies of all the documents that they have relied on to assess investors' means and to identify their Professional Investor status for a minimum period of three years and agrees to provide to the Company with copies of such documents upon its reasonable request.

In case any investors were subsequently found to have failed to meet the Professional Investor status, the Company will initially approach the relevant Placing Agent and request for explanation on such circumstance. The relevant Placing Agent will investigate the reason leading to such circumstance and report to the Company.

If it is found out that such circumstance was caused by the misrepresentation, default or fraud of the Lead Placing Agent or any of the Placing Agents, the Company will consult its legal advisors and consider taking legal actions under the Placing Agreement, against the relevant party for all losses, claims, penalties, costs and expense arising from it.

Alternatively, the Company may take legal action against the placees directly, by relying on the undertakings from the Lead Placing Agent and the Placing Agents to the Company in the Placing Agreement that each subrogates their respective rights under the Placing Letter to take legal action against the placees. The Placing Agents will provide such assistance as may be necessary to enable the Company to take such action.

### **Shares will be eligible for admission into CCASS**

Subject to the granting the listing of, and permission to deal in, the Shares on the Stock Exchange and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



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## STRUCTURE OF THE PLACING

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Prospective investors should seek the advice from their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

### **Restrictions on sale of Placing Shares**

Each person subscribing for Placing Shares will be required to confirm that they are aware of the restrictions on placing of the Placing Shares described in this document. No action has been taken to permit an offering of the Placing Shares or the distribution of this document in any jurisdiction other than Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Prospective investors should note that, the minimum subscription size per placee is 500,000 Placing Shares (HK\$515,000) and thereafter in integral multiples of the board lot size of 100,000 Shares (HK\$103,000) (excluding brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%). There will be at least 300 placees each holding no less than 500,000 Shares upon listing of the Shares.

The Directors have instructed the Lead Placing Agent and the Placing Agents to strictly follow the aforementioned Placing structure, and that no marketing activities will be carried out in Hong Kong other than to Professional Investors and no securities of the Company will be permitted to be marketed or offered to the public in Hong Kong.

The Placing Agents will require each of the placee is (i) a Professional Investor within the meaning as prescribed under the SFO; and (ii) independent of and not connected with the Directors, chief executives or substantial shareholders (being anyone who is entitled to exercise or control the exercise of 10% or more of the voting power at any general meetings of the Company) of each of the Company or any of their respective Associates and not acting in concert with any of them (within the meaning of the Takeovers Code).

### **Grounds for termination**

If at any time prior to 8:00 a.m. on the Dealing Date:

(I) if there has come to the notice of any of the Placing Agents:

- that any material statement contained in this document was when it was issued, has become, untrue, incorrect or misleading in any material respect; or
- that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this document, constitute a material omission therefrom; or
- any material breach of the Company's warranties as given in the Placing Agreement; or

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## STRUCTURE OF THE PLACING

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- any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnities contained in the Placing Agreement; or
- any material breach of any of the obligations imposed upon any party to the Placing Agreement (other than on any of the Placing Agents); or
- any material adverse change in the business or in the financial or trading position of the Company; or

(II) if there develops, occurs or comes into effect:

- any event, or series of events, beyond the reasonable control of the Placing Agents (including, without limitations, acts of government, strikes, lock-outs, act of terrorism, outbreak of epidemic diseases, civil commotion, acts of war, acts of God, public disorder); or
- any material adverse change in local, international, financial, economic, political, military, fiscal, regulatory conditions and matters and/or disasters (including any moratorium, suspension or material restriction on trading on the Stock Exchange); or
- any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the Cayman Islands, Hong Kong or any other jurisdiction relevant to the Company; which are material and adverse to the business of the Company; or
- the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the United States or by the European Economic Community (or any member thereof) on the Cayman Islands, Hong Kong or any other jurisdiction relevant to the Company; or
- a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Cayman Islands, Hong Kong or any other jurisdiction relevant to the Company;
- any litigation or claim of material importance of any third party being threatened or instigated against the Company; or
- any change in the Investment Manager, the Custodian, the management of the Company, the Investment Manager, investment objective, investment policies or investment restrictions of the Company;

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## STRUCTURE OF THE PLACING

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which, in the reasonable opinion of the Lead Placing Agent (on behalf of the Placing Agents):

- is or will or is likely to be materially adverse to the business, financial or other conditions or prospects of the Company or to any present or prospective shareholder of the Company in his capacity as such; or
- has or will or is likely to have a material adverse effect on the success of the Placing or the level of Placing Shares being applied for or accepted or the distribution of Placing Shares; or
- makes it inadvisable or inexpedient to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this document;

then the Lead Placing Agent, on behalf of the Placing Agents and the Sponsor, may, upon giving notice to the Company, terminate the Placing Agreement with immediate effect.

### **Anti-Money Laundering Regulations**

In order to comply with regulations aimed at the prevention of money laundering, the Company has delegated to the Placing Agents certain compliance procedures in accordance with any Hong Kong rules, regulations and codes of conduct for the prevention of money laundering and know your clients, as may be amended from time to time.

Accordingly, each of the Company and the Placing Agents reserves the right to request such information as it considers necessary to verify the identity of a prospective investor in order for them to be in compliance with any Hong Kong rules, regulations and codes of conduct for the prevention of money laundering and know your clients, as may be amended from time to time.

The Company and the Placing Agents shall and shall procure their agent to take all reasonable steps, including the establishment of effective procedures to establish and verify the true and full identity of each prospective investor and each prospective investor's financial situation, investment experience and investment objectives, at the time the relationship is established and subsequently, in order to ensure that all rules, regulations and codes of conduct for the prevention of money laundering and know your client are adhered to.

The Company and the Placing Agents may refuse to accept any application of Placing Shares if a prospective investor delays in producing or fails to produce any information required for the purpose of verification and, in that event, any funds received by or on behalf of the Company will be returned without interest to the account from which the monies were originally debited.

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## **FEES AND EXPENSES**

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### **Investment Management Fee and Performance Fee**

The Investment Manager, is entitled to receive from the Company an investment management fee accruing monthly at the annual rate of 2% of the Net Asset Value of the Company on each Valuation Date and payable monthly in arrears. The Investment Management Fee will be calculated and paid in Hong Kong Dollars. The Investment Manager is entitled to be reimbursed all reasonable out-of-pocket and third party expenses incurred in the performance of its duties.

In addition to the Investment Management Fee, a performance or incentive fee will also be payable by the Company to the Investment Manager. The Performance Fee is payable semi-annually in arrears and is calculated at the rate of 20% of any net appreciation (after deduction of the investment management fees for the relevant period, but prior to deduction of the performance fee) in the Net Asset Value per Share on the immediately preceding Valuation Date, above the previous highest Net Asset Value per Share on any preceding Valuation Date in respect of which a performance fee was last paid (or where no performance fee has been paid, the aggregate Placing Price of the Shares subscribed at the Listing Date) multiplied by the number of Shares in issue at the time of calculating the Performance Fee.

In the event of a repurchase of any Shares, an amount representing the pro rata Performance Fee will be determined and deduction from the price at which Shares are repurchased. The pro rata Performance Fee will be on account of the Investment Manager.

### **Administration Fees**

The Company will pay the Administrator a monthly fee of the higher of (a) up to 0.14% per annum of the Company's Net Asset Value, and (b) HK\$73,000 for accounting, valuation and shareholder services. In addition, the Administrator will be paid a once off inception fee of HK\$80,000 and an annual financial statements fee of HK\$20,000 for the production of the Company's financial statements. The Company shall also pay extra transaction fees and other special services, fees for tax and reimburse any reasonable out-of-pocket expenses incurred by the Administrator in the performance of its duties.

### **Custodian Fees**

The Company will pay the Custodian a monthly fee of the higher of (a) up to 0.04% per annum of the Company's Net Asset Value, and (b) HK\$15,000 for providing custody of the Company's assets.

### **Hong Kong Share Registrar Fee**

Pursuant to the Hong Kong Share Registrar Agreement, the Company will pay the Hong Kong Share Registrar all out-of-pocket expenses incurred by the Hong Kong Share Registrar in relation to the provision of its services under the Hong Kong Share Register Agreement and all reasonable costs in securing appropriate forged transfer indemnity insurance coverage.

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## FEES AND EXPENSES

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### Compliance Adviser Fee

Pursuant to the agreement entered into between the Company and China Everbright Capital Limited (the “**Compliance Adviser**”) on 29 December 2010, the Company will pay the Compliance Adviser a monthly fee of HK\$50,000 and to be paid semi-annually in advance in relation to the provision of its services for the period from the Listing Date and end on the date on which the Company despatch the annual report as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date.

### Other Operating Expenses

The Company will be responsible for the payment of its normal operating expenses including the payment of the Directors’ fees and expenses, which are initially expected to be approximately US\$60,000 in aggregate per annum, subject to annual review by the Audit and Remuneration Committee.

The Company will be responsible for all brokerage and commissions and other dealings costs, stamp duties, taxes, foreign exchange costs, bank charges, registration fees relating to investments, insurance and security costs, any out-of-pocket expenses of the Directors, and all fees and out-of-pocket expenses of the auditor, Administrator, Custodian, registration and legal and certain other expenses and taxes incurred in the administration of the Company and in the acquisition, holding and disposal of investments. The Company is also responsible for the costs of preparing, printing and distributing all valuations, statements, accounts and reports. The expenses of preparing and publishing the Net Asset Value and Issue Price are also borne by the Company.

### Start-up Costs

The Company will also pay all the costs and expenses of, and incidental to, the Placing including but not limited to the Company’s establishment costs, the issue, listing, marketing and placing of the Shares, the Placing Commission, the preparation of this document and the material contracts referred to in the paragraph entitled “*Material Contracts*” in the section headed “*Additional Information*” in this document (“**Start Up Costs**”)

The total Start Up Costs (including the estimated Placing Commission of HK\$9.4 million) are estimated to be approximately HK\$25.5 million. Upon completion of the Placing, the total Start Up Costs will be payable by the Company out of the proceeds from the Placing.

As the Company has not conducted any business transactions since its incorporation on 1 February 2010, CITIC Securities International Fund Management Limited (“**CSIFM**”), the parent company of the Investment Manager, has incurred some of the Company’s Start Up Costs that required settlement prior to the Placing. As at the Latest Practical Date, the Start Up Costs settled by CSIFM on behalf of the Company were estimated to be HK\$5.2 million. Upon completion of the Placing, the Start Up Costs settled by CSIFM will be reimbursed directly from the proceeds of the Placing.

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## FEES AND EXPENSES

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### **Placing Commission**

Each Placing Agent shall be entitled to receive the Placing Commission which is payable by the Company out of the proceeds of the Placing. Based on a total of 303,000,000 Shares are being placed, the Placing Commission is estimated to be HK\$9.4 million.

Neither the Directors nor the Investment Manager will be entitled to receive any part of any commission or brokerage charged to the Company, or any re-allowance of other types on applicants charged to the Company. However, CITIC Securities Brokerage (HK) Limited, being one of the Placing Agents and thus a recipient of the Placing Commission, is a wholly owned entity of CITIC Securities International Company Limited. CITIC Securities International Company Limited is also the indirect parent of CSIAMF(CL) Limited, the majority equity holder of the Investment Manager.

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## FINANCIAL INFORMATION

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### No Business Track Record

The Company was incorporated in the Cayman Islands on 1 February 2010 for the purpose of acting as a closed-ended investment company.

The Company has not commenced operation or business since its incorporation. The total Start Up Costs (including estimated Placing Commission of HK\$9.4 million) payable by the Company are estimated to amount to approximately HK\$25.5 million.

### Unaudited Pro Forma Net Tangible Asset Value

The following pro forma net tangible asset value per Share of the Company is prepared on the basis of 303,000,000 Shares expected to be in issue immediately after completion of the Placing, and the estimated net proceeds from the Placing of approximately HK\$286.6 million.

	Assuming 303,000,000 Shares to be in issue immediately after completion of the Placing HK\$
Gross proceeds from the Placing	312,090,000
Estimated Start Up Costs	<u>(25,500,000)</u>
Estimated net proceeds from the Placing	<u>286,590,000</u>
Pro forma net tangible asset value	<u>286,590,000</u>
Pro forma net tangible asset value per Share	<u>0.95</u>

### Indebtedness

As at the Latest Practicable Date, the Company had no outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments or finance lease commitments or any guarantees or other material contingent liabilities.

Since the Company has no outstanding indebtedness, the Directors are of view that the Company has sufficient liquidity and financial resources to meet its capital expenditure requirements.

### Reserves

As at the Latest Practicable Date, the Company had no reserves available for distribution.

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## FINANCIAL INFORMATION

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### **Disclosure Required under the Listing Rules**

As at the Latest Practicable Date, the Directors are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **No Material Change**

The Directors confirm that since the incorporation of the Company, there has been no material adverse change in the financial or trading position or prospect of the Company.

### **Past financial results – Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance**

According to paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance, the Company is required to include in this document a statement (“**Statement**”) as to the gross trading income or sales turnover and a report (“**Accountants’ Report**”) by the reporting accountants of the Company with respect to profits and losses, assets and liabilities of the Company in respect of each of the three financial years immediately preceding the issue of this document. The Company has in fact not had any business or track record since its incorporation. In the circumstances, the Company has applied to the SFC for an exemption pursuant to section 342A of the Companies Ordinance from strict compliance with the requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance on the grounds that:

- (i) the Company, being an investment company for the purpose of Chapter 21 of the Listing Rules, is not required to have any track record period to be qualified for listing under Rule 21.04 of the Listing Rules; and
- (ii) the Company in fact has not conducted any business since its date of incorporation on 1 February 2010. It is therefore not meaningful for investors and the Company to prepare the Statement and the Accountants’ Report. In the circumstances, the inclusion in this document of the Statement and the Accountants’ Report in strict compliance with the requirements of paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance is irrelevant in the case of the Company, in the sense that the limited information to be presented therein would not be meaningful to investors generally.

The exemption has been granted by the SFC under section 342A of the Companies Ordinance accordingly.

### **Litigation**

As at the Last Practicable Date, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against the Company.



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## TAXATION

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### General

The taxation of income and capital gains of the Company and the Shareholders is subject to the fiscal law and practice of the Cayman Islands, and any other jurisdiction in which the Company invests and of the jurisdictions in which Shareholders are resident or otherwise subject to tax. The following summary of the anticipated tax treatment in certain jurisdictions does not constitute legal or tax advice and is based on the taxation law and practice in force at the date of this document. The summary applies only to persons holding Shares as an investment.

**The summary does not consider all aspects of taxation which may be relevant to a particular Shareholder in the light of his particular circumstances (for example, tax consequences in the Shareholder's jurisdiction of residence). Investors should consult their own advisers on the taxation and exchange control implications of their acquiring, holding or disposing of Shares under the laws of the jurisdiction in which they are liable to taxation.**

While this summary is considered to be a correct interpretation of existing laws and practice in force on the date of this document, no assurance can be given that courts or other authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws or practice will not occur.

### Cayman Islands

The Government of the Cayman Islands will not, under existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Company or the Shareholders. The Cayman Islands are not party to a double tax treaty with any country that is applicable to any payments made to or by the Company.

The Company has received an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, (i) on or in respect of the shares, debentures or other obligations of the Company, or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by the Company to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Company.

No stamp duty is payable in the Cayman Islands on the issue or transfer of Shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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## TAXATION

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### **Hong Kong**

The Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong) imposes tax on property rental income, salaries and business profits (i.e. profits tax). As the Company does not intend to own any land or buildings situated in Hong Kong and will not be generating any employment income its exposure to Hong Kong tax under the Inland Revenue Ordinance of Hong Kong falls to be considered only in connection with profits tax.

Every person who carries on a trade, profession or business in Hong Kong, either in his own right or through another person, is chargeable to profits tax on profits (not being capital in nature) which arise in or are derived from Hong Kong from such trade, profession or business. Hong Kong does not levy a capital gains tax nor is there any general turnover, sales or value added tax.

Hong Kong profits tax may be chargeable if the Company is carrying on a business in Hong Kong either on its own account or through the agency of the Investment Manager or its agents. If the Company is carrying on a business in Hong Kong, a liability to profits tax, the rate of which is currently 16.5%, will exist in respect of any profits which arise in or are derived from Hong Kong and which are not profits arising from the sale of capital assets.

Dividends received by the Company from its investments (whether located within or outside Hong Kong) will not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise) under current law.

Interest arising in or derived from outside Hong Kong will not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise) under current law.

In case the Company acquires or disposes of any Hong Kong stocks as defined under the Hong Kong Stamp Duty Ordinance, Hong Kong stamp duty will be imposed at the current rate of 0.1% on the consideration or the fair market value of the stocks, whichever is higher. The purchaser and the seller will each be liable for the Hong Kong stamp duty upon such acquisition or disposal.

Profits arising on the realisation of an investment in the Company will be subject to profits tax for Shareholders who are carrying on a business in Hong Kong, where the profits (not being capital in nature) arise from such business and are sourced in Hong Kong. Dividends received by Shareholders from the Company will generally not be subject to profits tax in Hong Kong.

All Shares will be registered on the register of Shareholders of the Company in Hong Kong maintained by the Hong Kong Share Registrar. Dealings in the Shares on the Company's register of Shareholders maintained in Hong Kong will be subject to Hong Kong stamp duty.

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## TAXATION

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

#### ***Corporate income tax ("CIT")***

Under the current tax law and regulations, the Company is not directly subject to PRC CIT provided that the Company does not have a permanent establishment in the PRC or considered as a PRC tax resident.

#### ***Dividends from PRC investment***

With effect from 1 January 2008, the CIT Law provides for a 20% withholding tax on dividends payable to non-PRC residents by a PRC resident company. However, in accordance with the Detailed Implementation Rules ("DIR"), the withholding tax on dividends has now been set at 10%.

In the event that the Company qualifies as a Hong Kong tax resident and holds 25% or more of a PRC portfolio company, the withholding tax rate may be further reduced to 5% in accordance with the double tax arrangement between the PRC and Hong Kong. The Company should submit the confirmation of tax residence issued by the Hong Kong Inland Revenue Department to the PRC tax authorities to support the claim for reduced dividend withholding tax rate.

According to Guoshuifa [2009] No. 124 ("Circular 124") issued by the State Administration of Taxation ("SAT") on 24 August 2009, effective from 1 October 2009, it is mandatory for the Company to request approval with the competent PRC tax authorities to claim for reduced dividend withholding tax rate. When requesting such an approval, the Company must submit the required documents to the tax authorities for review, which include the application form for the approval of treaty benefits, identify information report for treaty benefits, a certificate of tax residence issued after the beginning of the previous calendar year by the competent authorities, relevant supporting documents relating to the dividend income concerned, etc.

According to Guoshuihan [2009] No. 81 ("Circular 81") issued by SAT on 20 February 2009, the Company must be the 'beneficial owner' if it seeks to enjoy the reduced withholding tax rate (i.e. 5%) for dividends received from the PRC investment under the double tax arrangement.

According to Guoshuihan [2009] No. 601 ("Circular 601") issued by SAT on 27 October 2009, 'beneficial owner', as described under tax treaty for the purpose of determining whether a non-resident enterprise is entitled to a reduced withholding tax rate on certain PRC-sourced income, refers to a person who has the right of ownership and control over the item of income, or the right or property from which that item of income is derived. A beneficial owner generally shall engage in substantive business operations, and can be an individual, corporation or any other organization. Agents or conduit companies do not qualify as beneficial owners for tax treaty purposes.

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## TAXATION

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Circular 601 requires tax authorities to determine beneficial ownership not just from a technical or domestic law perspective, but also to apply the principle of substance over form to the facts of each case in light of the object and purposes of the tax treaty. Circular 601 only sets forth the following negative factors for the recognition of beneficial ownership, but does not provide any quantitative guidance on how some of the factors would be looked at by the SAT when evaluating beneficial ownership:

- the applicant is obligated to distribute all or the majority (e.g. 60% or above) of the PRC-sourced income to a resident of a third jurisdiction within a specified period (e.g. 12 months);
- other than holding the properties or rights that generate the income received, the applicant does not have business operations;
- if the applicant is a corporation or another type of business entity, the assets, the scale of operations, and the human resources of the applicant are disproportionately small relative to the income received from the PRC;
- the applicant has no or minimal control or decision-making rights, and bears little or no risks;
- the applicant is exempt from tax or is not subject to tax in the contracting country with respect to the income received from the PRC, or the applicant is subject to an extremely low effective tax rate;
- in the case of interest income, there is a loan or deposit contract between the applicant and a third party, the terms of which (i.e. the amount, interest rate, signing dates) are similar or close to those of the loan contract under which the interest income is received.

### ***Interest from hedging activities in the PRC***

With effect from 1 January 2008, the CIT Law provides for a 20% withholding tax on interest payments made to non-PRC residents by a PRC resident company. However, in accordance with the DIR, the withholding tax rate on interest payments has now been set at 10%. The withholding tax rate may be reduced by relevant double tax arrangements, subject to approval from the PRC tax authorities. Please refer to above for discussions on Circulars 124, 81 and 601. Interest received from PRC companies will be subject to 5% business tax, which would be collected by way of withholding.

### ***Gains on disposal of shares in PRC investment***

With effect from 1 January 2008, the CIT Law provides for a 20% withholding tax to be imposed on gains derived by non-PRC residents from the sale of shares in a PRC resident company. However, in accordance with the DIR, the withholding tax rate on such gains has been set at 10% provided that the Company is not considered to have a place of establishment (or permanent establishment) in the PRC or the capital gain is not considered

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## TAXATION

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effectively connected to the said establishment, and the Company is not considered tax residents of the PRC. The capital gain will be computed based on the difference between the sales proceeds and the original cost of investment.

If the Company qualifies as Hong Kong tax resident, and at any point of time within 12 months before the alienation, owns less than 25% of the PRC investment and the gains are not derived from the alienation of shares of a company the property of which consists directly or indirectly principally of immovable properties situated in the PRC, such gains will be exempt from withholding income tax.

The transfer of shares in the PRC investment will be subject to stamp duty at a rate of 0.05% on the transfer value. Stamp duty is payable by the seller of the PRC investment and the purchaser.

### *Taxes from investments in PRC listed companies*

The Company would be able to invest in A-shares through Qualified Foreign Institutional Investors (“**QFIIs**”). The current practice of the PRC tax authorities is to treat QFIIs as the direct PRC taxpayer. The Company is not a PRC taxpayer under the current PRC tax practice.

The CIT Law and DIR impose a withholding tax of 10% on PRC sourced income derived by a foreign resident without a permanent establishment in the PRC. The SAT has clarified under Guoshuihan [2009] 47 on 23 January 2009 that QFIIs are subject to a 10% PRC withholding tax on dividends and interests that are sourced in the PRC unless tax treaties that the PRC entered into provide for different provisions.

The Ministry of Finance and the SAT have clarified under Caishui [2005] No. 155 that gains derived by QFIIs from the trading of Chinese securities are exempt from business tax. The new PRC business tax reform which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Memorandum.

Stamp duty at 0.1% applies to the transfer of A Shares and B Shares on the transferor, effective from 19 September 2008, per the notices issued by the PRC tax authorities. This duty may be subject to further changes to be in-line with further state policies.

Non-China resident Shareholders will not be subject to PRC tax on distributions received from the Company, or on gains derived from the disposal of Shares in the Company. The PRC tax resident Shareholders should seek their own tax advice on their tax position with regard to their investment in the Company. There is no assurance that the current practice of taxing the QFII, not the beneficial investors, will not be changed in the future.

At the time any arrangement between the Company and QFII quota provider is agreed, the Company, in consultation with its Auditor, will determine whether or not it should make an accrual relating to a potential PRC tax provision to be included in the Net Asset Valuations calculations.

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## ADDITIONAL INFORMATION

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### **The Company**

The Company was incorporated and registered with limited liability in the Cayman Islands on 1 February 2010 under the Companies Law with the name “China New Economy Fund Limited” and with registered number MC-236635.

The Company operates under the Companies Law and the Articles and in conformity with other applicable laws and regulations of the Cayman Islands. The Company was also registered as a body corporate under Part XI of the Companies Ordinance on 8 December 2010.

The Investment Manager has been nominated as the authorised representative to accept service of process and notices of the Company in Hong Kong.

The Company does not have any employees and the Company did not pay any salaries to any person since the incorporation of the Company.

### **Shareholders’ Resolution**

Resolutions were passed by a shareholder dated 10 December 2010 pursuant to which, among other matters:

1. the Company approved and adopted the Articles, the terms of which are summarised in Appendix 2;
2. that conditional upon the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document on or before the date falling 30 days after the date of this document:
  - (a) the Placing was approved and the Directors were authorized to allot and issue, and to approve the transfer of, such number of Shares on and subject to the terms and conditions stated in this document and in the relevant subscription forms;
  - (b) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Placing, a rights issue or pursuant to the exercise of any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by the Shareholders) with an aggregate nominal value of not more than the sum of:
    - (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing; and
    - (ii) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any);

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## ADDITIONAL INFORMATION

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- (c) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase Shares to be listed on the Stock Exchange with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following the completion of the Placing.

Each of the general mandates referred to in paragraphs (b) and (c) above will remain in effect until whichever is the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders of the Company in a general meeting.

### Share Capital

The Company has an authorised share capital of HK\$77,600,000 divided into 776,000,000 Shares of a par value of HK\$0.10 each. The Directors authorised the issue of Shares under the terms of this document by a resolution of the Directors passed on 10 December 2010.

Save as mentioned above and as disclosed herein:

- (a) no Shares have been issued or agreed to be issued for cash or other consideration and no such Shares are now proposed to be issued, other than the Subscriber Share initially issued to Maples Corporate Services Limited as subscriber to the Memorandum of Association and subsequently transferred to Mr. Wang Junyan. It is the intention that the Subscriber Share will then be transferred to the Lead Placing Agent and form part of the Placing Shares for subscription under the Placing prior to listing;
- (b) no commissions, discounts or brokerages or other special terms have been granted within the two years immediately preceding the issue of this document in connection with the issue or sale of the Shares;
- (c) no founder, management or deferred shares have been issued by the Company; and
- (d) no Shares are under option or agreed conditionally or unconditionally to be put under option.

No pre-emption rights exist in respect of the Shares, either under Cayman Islands law, the Articles or otherwise.

Save and except for the Placing, since the date of incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital and no borrowing or contingent liabilities have been incurred.



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## ADDITIONAL INFORMATION

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No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.

The Shares will be issued in registered form and will be capable of being held in certified or uncertified form. Temporary documents of title will not be issued.

It is expected that the Shares will be allotted pursuant to a resolution of the Board (or a duly authorised committee thereof) to be passed on or before 3 January 2011 upon the conditions disclosed in this document being satisfied.

So far as is known to the Directors, no person will have, immediately following the completion of the Placing and taking no account of any Shares which may be taken up under the Placing, an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

The Directors have no present intention of issuing other Shares save and except for the Placing.

The Shares will be issued in conformity with the law of the Cayman Islands and the Articles and all authorisations needed for their creation and issue under such law or documents have been duly given.

Meetings of shareholders of the Company will be convened and conducted in a manner which is acceptable to the Stock Exchange.

### Shareholder Rights

The following is a summary of the respective rights attaching to the Shares.

The Shares carry the sole right to receive income and on a liquidation carry the sole right to participate in any amounts payable to Shareholders. Shares of the Company cannot be redeemed at the option of Shareholders, although the Board may, from time to time, repurchase the Shares subject to the requirements of the Listing Rules.

Shareholders, as the holders of the Shares, have the right to receive notice of, attend and vote at general meetings of the Company and to vote on all ordinary and special resolutions, including but not limited to any proposed amendments to the Articles, the appointment and removal of any Directors and the winding up of the Company.

To the extent the Company has more than one class of Shares, the Company will establish a separate internal account (each an “**Account**”) in respect of each class of Shares and the proceeds of issue of Shares of each separate class, and the profits and/or losses deriving from such proceeds of issue, shall be applied in the books of the Company to the Account established for that class of Shares.



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## ADDITIONAL INFORMATION

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The Net Asset Value of any particular Share will be calculated in accordance with the paragraph entitled “*Calculation of Net Asset Value*” in the section headed “*Overview of the Company*” in this document.

Any income arising in respect of any Account may be applied in the payment of a dividend or other distribution only to Shareholders holding Shares of the relevant class.

On a winding-up of the Company, following payment of all of the creditors, the balance of the assets available for distribution in respect of a class shall then be paid to the holders of Shares of that class in proportion to the Net Asset Value of the Shares held.

The Articles provide that, subject to the Companies Law of the Cayman Islands and the other provisions of the Articles, all or any of the class rights or other terms of offer whether set out in this document, any subscription agreement or otherwise (including any representations, warranties or other disclosure relating to the offer or holding of Shares) (collectively referred to as “**Share Rights**”) for the time being applicable to any class or series of Shares in issue (unless otherwise provided by the terms of issue of those Shares) may (whether or not the Company is being wound up) be varied without the consent of the holders of the issued Shares of that class or series where such variation is considered by the Directors, not to have a material adverse effect upon such holders’ Share Rights; otherwise, any such variation shall be made only with the prior consent in writing of the holders of not less than two-thirds by Net Asset Value of such Shares, or with the sanction of a resolution passed by a majority of at least three quarters of the votes cast in person or by proxy at a separate meeting of the holders of such Shares. For the avoidance of doubt, the Directors reserve the right, notwithstanding that any such variation may not have a material adverse effect, to obtain consent from the holders of such Shares. Each subscriber for Shares will be required to agree that the terms of offer set out in the applicable Subscription Agreement and the rights attaching to the Shares can be varied in accordance with the provisions of the Articles.

### Directors

Immediately following completion of the Placing, no Director will have interests in the equity or debt securities or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which:

- (a) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or
- (b) will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or
- (c) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

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## ADDITIONAL INFORMATION

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No emoluments are expected to be received by the Directors or payable by the Company in respect of the accounting period of the Company ending 31 December 2010 under the arrangements in force at the date of this document.

No directors' fees, remuneration, bonuses, benefits in kind, or any compensation, were paid or granted by the Company to the Directors since the incorporation of the Company.

Each of the executive Directors has entered into an appointment letter with the Company for an indefinite term unless and until his services shall be terminated by the executive Director or the Company, in accordance with the appointment letter. Termination will be with immediate effect by giving the other party written notice. The executive Directors will not be remunerated for their services subject to annual review of the Audit and Remuneration Committee.

Each of the independent non-executive Directors has entered into a service agreement with the Company for an indefinite term unless and until his services shall be terminated by the independent non-executive Director or the Company, in accordance with the service agreement, by giving to the other party not less than 60 days' prior notice in writing or 60 days' payment in lieu of notice. In consideration for the performance of his duties under the service agreement, the independent non-executive Director will receive a fee of US\$15,000 per year. The fee shall be subject to review periodically as determined by the Company and decided by the majority in number of the members of the Board, provided that, if applicable, the independent non-executive Director shall abstain from voting and shall not be counted in the quorum at any meeting of the Board at which the Board is to determine the amount payable to the independent non-executive Director.

No loan or guarantee has been granted or provided by the Company to or for the benefit of any Director.

With the exception of Mr. Wang Junyan, no Director has any direct or indirect interest in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, the Company, or are proposed to be acquired or disposed of by or leased to the Company.

With the exception of Mr. Wang Junyan, no Director is materially interested in any contract or arrangement subsisting as at the date of this document which is significant in relation to the business of the Company. Mr. Wang Junyan has an indirect shareholding in the CSIFM, which in turn wholly owns the Investment Manager. As such Mr. Wang Junyan is materially interested in the Investment Management Agreement.

Mr. Wang Junyan is materially interested in the Investment Management Agreement because as disclosed in the paragraph entitled "*The Investment Manger*", he is the sole owner of all issued share capital in China Alpha Fund Management Ltd which indirectly holds 45% of the issued shares in the Investment Manager.

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## ADDITIONAL INFORMATION

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### Repurchase of Shares

#### *Relevant Legal and Regulatory Requirements*

The Listing Rules permit the Shareholders to grant to the Directors a general mandate to allow the Company to repurchase the Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by the Shareholders in a general meeting.

#### *Shareholder Approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 10 December 2010, the Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following the Placing on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of the Company's next annual general meeting, (ii) the date by which the Company's next annual general meeting is required by applicable laws and the Articles to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of the Shareholders of the Company in a general meeting (the "**Relevant Period**").

#### *Source of Funds*

Repurchase of the Shares listed on the Stock Exchange must be funded by the Company out of its funds legally available for the purpose in accordance with the Articles and the applicable laws of the Cayman Islands. The Company may not repurchase the Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, the Company may make repurchases with funds which would otherwise be available for dividend or distribution or out of an issue of new Shares for the purpose of the repurchase.

#### *Reasons for Repurchases*

The Directors believe that it is in the Company and its Shareholders' best interests for the Directors to have general authority to execute repurchases of Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the Net Asset Value per Share and will only be made where the Directors believe that such repurchases will benefit the Company and its Shareholders.

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## ADDITIONAL INFORMATION

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### *Funding of Repurchases*

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles and the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Company as disclosed in this document and taking into account the current working capital position of the Company, the Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this document. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

### *Share Capital*

The exercise in full of the current repurchase mandate, on the basis of 303,000,000 Shares in issue immediately after the Placing, could accordingly result in up to 30,300,000 Shares being repurchased by the Company during the Relevant Period.

### *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of its associates (as defined in the Listing Rules) currently intends to request that the Company repurchase or redeem any of the Shares.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, the Articles and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. The Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No Connected Person as defined by the Listing Rules has notified the Company that he or it has a present intention to sell his repurchase or its Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

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## ADDITIONAL INFORMATION

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### Placing Arrangements

The Placing is conditional, inter alia, upon the Shares being listed on the Stock Exchange on or before 6 January 2011, or such later date as the Lead Placing Agent and the Company, on behalf of the Placing Agents may agree.

Pursuant to the Placing Agreement, the Placing Agents have undertaken as agents of the Company to procure prospective investors in the Placing for up to 776,000,000 Placing Shares at the Placing Price on best effort basis. The final number of Placing Shares, being 303,000,000 Shares, was determined after the book-building process which was completed shortly before the bulk printing of this document. The minimum subscription size per placee is 500,000 Placing Shares (HK\$515,000) and thereafter in integral multiples of the board lot size of 100,000 Shares (HK\$103,000) (excluding brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%).

The Shares are being placed at the Placing Price plus brokerage of 0.5%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. Based on a total of 303,000,000 shares are being placed, the Placing Commission will be approximately HK\$9.4 million and will be payable by the Company out of the proceeds of the Placing.

Each Placing Agent has represented and agreed in Placing Agreement with the Company that it will in relation to the Placing comply with all applicable laws and regulations in any country or jurisdiction in which it offers or sells the Shares, and without prejudice to the generality of the foregoing.

The Shares are being offered in Hong Kong on a restricted basis in reliance on Rule 21.14 of the Listing Rules. The Company has not been authorized by the SFC to offer its Shares to the public in Hong Kong. Accordingly: (i) the Shares may not be offered or sold in Hong Kong by means of any document other than to persons that are considered Professional Investors or in other circumstances which do not result in the document being a 'prospectus' as defined in the Companies Ordinance and which do not constitute an offer to the public with the meaning of the Companies Ordinance; and (ii) the Placing Agents may not issue or cause to be issued any other document relating to the Shares whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to Professional Investors. The Directors reserve the right to request the sale or transfer of Shares that are acquired by Hong Kong residents who are not Professional Investors.

This document may not be distributed directly or indirectly in the PRC. The Shares described in this document may only be offered or sold to the PRC investors that are authorised to engage in the purchase of the Shares of the type being offered or sold. Investors are responsible for obtaining all relevant governmental approvals, verifications, licences or registrations (if any) from all relevant PRC governmental authorities, including, but not limited to, the State Administration of Foreign Exchange, the China Securities

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## ADDITIONAL INFORMATION

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Regulatory Commission, the China Banking Regulatory Commission, and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, any relevant foreign exchange regulations and/or overseas investment regulations.

No offer or invitation to subscribe for any Shares may be made the public in the Cayman Islands.

The Shares have not been and will not be registered under the U.S Securities Act of 1933 (as amended) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons. The Shares are being offered and sold outside the United States in reliance on Regulation S of the Securities Act.

The Company has not registered, and does not intend to register, as an investment company under the U.S Investment Company Act of 1940 (as amended).

### **Material contracts**

The following contracts (not being contracts entered into in the ordinary and usual course of business) have been entered into by the Company since its incorporation and are, or may be material and there are no other contracts entered into by the Company which include an obligation or entitlement, which is material to the Company at the date of this document.

- (a) The Investment Management Agreement dated 10 December 2010 between the Investment Manager and the Company, under which the Company has appointed the Investment Manager to manage, supervise and direct the investment, disposition and re-investment of the assets of the Company, on a discretionary basis, but subject to the investment objective and restrictions of the Company. The Investment Manager will receive an investment management fee of 2% per annum of the Net Asset Value of the Company and a performance fee at the rate of 20% per annum of the increase in the Net Asset Value per Share, subject to a high water mark. As required by Rule 14A.35(1) the Investment Management Agreement is for an initial term from the Listing Date to 31 December 2012, unless terminated by either party upon not less than 180 days' written notice or earlier for cause. Renewal of the Investment Management Agreement and Annual Caps to fees under it, will be conditional on approval by independent Shareholders;
- (b) The Administration Agreement dated 10 December 2010 between the Company and the Administrator, under which the Administrator has agreed to provide administrative and secretarial services to the Company, the details of which are set out in the paragraphs entitled "Administration and Accounting" in the section headed "Management and Administration of the Company";
- (c) The Custodian Agreement dated 10 December 2010 between the Company and the Custodian, under which the Custodian has agreed to provide custody services to the Company of the Assets, the details of which are set out in paragraph entitled "Custody Service" in the section headed "Management and Administration of the Company";

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## ADDITIONAL INFORMATION

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- (d) The Placing Agreement dated 28 December 2010 between the Company, the Sponsor, the Lead Placing Agents and the Placing Agents referred to in paragraph entitled “Placing Arrangements” above; and
- (e) The Hong Kong Share Registrar Agreement dated 15 December 2010 between the Company and the Hong Kong Share Registrar under which Computershare Hong Kong Investor Services Limited will act as the Hong Kong Share Registrar of the Company in Hong Kong.

### General

The Company has not commenced operation since its incorporation, nor have any accounts been made up since its incorporation. The Company is not and has not been involved in any legal or arbitration proceedings and no legal or arbitration proceedings are known to the Directors to be pending or threatened by or against the Company.

The Start Up Costs payable by the Company amounts to approximately HK\$25.5 million (including the Placing Commission of approximately HK\$9.4 million). The net proceeds of the Placing of approximately HK\$286.6 million will be available for investment by the Company.

Including in the Start Up Costs, the preliminary expenses relating to the incorporation of the Company is approximately HK\$33,522, which is payable by the Company.

The Placing Price of HK\$1.03 per Share represents a premium of HK\$0.93 over the par value of HK\$0.10 per Share.

The Company has no promoter for the purposes of the Listing Rules.

Ernst & Young have been the only auditors of the Company since its incorporation.

Each of China Everbright Capital Limited, Ernst & Young and Maples and Calder has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or the references to their names included in this document in the form and context in which they are respectively included. None of the experts named above has any shareholding interests in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.



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## ADDITIONAL INFORMATION

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The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given their opinions or advice in this document are as follows:

Name	Qualifications
China Everbright Capital Limited	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Maples and Calder	Cayman Islands attorneys-at-law

The Company has no, and has not had any, subsidiaries. The Company does not have and does not expect that it will have, nor has it had since its incorporation, any employees and it neither owns nor occupies any premises.

The principal place of business of the Company is at Room 1701, Chuang's Tower 30-32 Connaught Road Central, Central, Hong Kong which is also the business address of the Investment Manager. The Company's statutory records are maintained at its registered office in the Cayman Islands.

No application is being made for the Shares to be listed or dealt in on any stock exchange or investment exchange other than on the Main Board of the Stock Exchange.

Stock accounts of participants in the Placing who elect to receive their Shares through the CCASS will be credited by 5 January 2011.

No securities have been sold or are available in whole or in part to the public in connection with the Placing.

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

### **Documents Delivered to the Registrar of Companies and Available for Inspection**

#### ***Documents delivered to the Registrar of Companies in Hong Kong***

The documents attached to the copy of this document registered by the Registrar of Companies in Hong Kong were copies of the written consents referred to above, copies of the material contracts referred to above and other information required by section 342C of the Companies Ordinance.



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## ADDITIONAL INFORMATION

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### *Documents available for inspection*

Copies of the following documents will be available for inspection at the Hong Kong offices of the Investment Manager during normal business hours on any Business Day up to and including the date which is 14 days from the date of this document:

- (a) the Memorandum and Articles;
- (b) the material contracts referred to above;
- (c) the written consents referred to above;
- (d) the letter of advice from Maples and Calder referred to above;
- (e) the reporting accountants report as set out in Appendix 1; and
- (f) the Companies Law.

*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

31 December 2010

**The Directors**  
**China New Economy Fund Limited**  
**China Everbright Capital Limited**

Dear Sirs,

China New Economy Fund Limited (the “Company”) was incorporated in the Cayman Islands on 1 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Company has not conducted any business transactions since its incorporation. Save for the estimated start up costs settled by CITIC Securities International Fund Management Limited on behalf of the Company prior to the Placing as set out in the paragraph entitled “Start Up Costs” under the section headed “Fees and Expenses” of this document, the Company has not entered into other significant transactions since its incorporation.

The Company has adopted 31 December as its accounting year end and accordingly no audited financial statements of the Company have been prepared up to the date of this report.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
*Hong Kong*

## **1. Share Capital**

### **1.1 Power to allot and issue**

Shares may be allotted or issued in separate classes with different terms, preferences, privileges or special rights including, without limitation, with respect to investment strategy and/or policy, participation in assets, profits and losses of the Company, voting, fees charged, (including management, performance and incentive fees), allocation of costs and expenses (including, without limitation, the costs and expenses incurred in any hedging activities and any profits and losses arising therefrom) as the Directors may determine. The Company is not authorised to issue Shares to bearer.

On or before the allotment of any Share the Directors shall resolve the class and/or series to which such share shall be designated. Each class and/or series shall be specifically identified. The Directors may at any time, and without obtaining the consent of the affected members, re-designate any Share as part of another class and/or series to give effect to applicable provisions of the Offering Memorandum or a resolution of the Directors; provided, that such re-designation does not amount to a variation of the rights attaching to such Shares.

### **1.2 Power to purchase Shares**

Shareholders cannot elect to redeem their Shares.

Subject to the Companies Law and the Listing Rules, the Company has the power to purchase its own Shares (which includes redeemable Shares) provided that the manner of purchase has first been authorised by an ordinary resolution of the Shareholders and comply with the relevant Listing Rules.

## **2. Consolidation, sub-division and cancellation**

The Company may from time to time by ordinary resolution:

- increase its share capital by such sum and with such rights, priorities and privileges annexed thereto, as the resolution shall prescribe;
- consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
- cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken; and
- sub-divide its Shares or any of them into Shares of smaller amount than is fixed by the Memorandum.

The Company may by special resolution:

- change its name;

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## APPENDIX 2      SUMMARY OF THE CONSTITUTION OF THE COMPANY

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- alter or add to the Articles;
- alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and

reduce its share capital or any capital redemption reserve fund.

### 3. Transfer of Shares

Shares may not be transferred without the prior written approval of the Directors (which may be withheld for any or no reason); provided, that the Directors may waive this requirement to the extent that they deem appropriate in connection with the listing of any class or series of Share on the Stock Exchange. Without limiting the generality of the foregoing, the Directors may, in their absolute discretion, and without giving any reason therefor, refuse to register any transfer of any Share to any person that is, in the opinion of the Directors, not (i) an Eligible Investor or (ii) a person of whom the Directors approve.

For the purposes of the Articles, an “**Eligible Investor**” means a person eligible to hold Shares, as determined from time to time by the Directors.

The Board may also decline to register any transfer of any Share:

- unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists;
- to more than four (4) joint holders;
- which is not fully paid up or on which the Company has a lien;
- if the instrument of transfer is in respect of more than one class of Share; or
- unless, if applicable, the instrument of transfer is duly and properly stamped.

Transfers of Shares may be effected by an instrument of transfer that is consistent with the standard form of transfer as prescribed by the Stock Exchange and approved by the Board. All instruments of transfer must be delivered to the registered office of the Company or such other place as the Board may appoint and all such instruments of transfer shall be retained by the Company.

The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor and by or on behalf of the transferee; provided, that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The instrument of transfer of any Share shall be executed with a manual signature or facsimile signature (which may be machine imprinted

or otherwise) by or on behalf of the transferor and transferee; provided, that in the case of execution by facsimile signature by or on behalf of a transferor or transferee, the Board shall have previously been provided with a list of specimen signatures of the authorised signatories of such transferor or transferee and the Board shall be reasonably satisfied that such facsimile signature corresponds to one of those specimen signatures. The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

#### **4. Disclosure of interests in Shares**

The Articles do not contain any provisions relating to the disclosure of interests in Shares.

#### **5. Failure to disclose interests in Shares**

The Articles do not contain any provisions relating to the failure to disclose interests in Shares.

#### **6. Redemption of Shares**

Shares are not redeemable at the option of members.

#### **7. Member Meetings**

The Company will hold a general meeting in each calendar year as its annual general meeting, and shall specify the meeting as such in the notice calling it. The annual general meeting shall be held at such time and place as the Directors shall determine but will always be not more than 15 months (or such longer period as the Stock Exchange may authorise) after the previous annual general meeting. The first annual general meeting must be held within 18 months of the incorporation of the Company.

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a Special Resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days but if permitted by the rules of the Stock Exchange, a general meeting may be called by shorter notice, subject to the Companies Law, if it is so agreed:

- in the case of an annual general meeting, by all the members entitled to attend and vote thereat; and
- in the case of an extraordinary general meeting, by a majority in number of the members having the right to attend and vote at the meeting, being a majority together holding not less than ninety per cent. in Net Asset Value of the Shares giving that right.

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## APPENDIX 2      SUMMARY OF THE CONSTITUTION OF THE COMPANY

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The notice shall specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all members other than to such members as, under the provisions of the Articles or the terms of issue of the Shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a member and to each of the Directors and the Auditors.

No business shall be transacted at any general meeting unless a quorum is present. A quorum shall be one or more members (present in person, by proxy or authorised corporate representative, as the case may be) entitled to attend and vote and representing not less than twenty per cent. in Net Asset Value of all of the Shares in issue and carrying the right to vote at the meeting.

The custodian, the Investment Manager, any of their respective connected persons, and each Director and each of the directors of the Investment Manager, are prohibited from voting their own Shares at, or being part of quorum for, for any meeting to the extent that they have or any of their associates has, a material interest in the business to be conducted at such meeting.

A person may, with the consent of the Directors, participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

If a quorum is not present within half an hour from the time appointed for the meeting or if during such a meeting a quorum ceases to be present, the meeting, if convened upon the requisition of members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to such other day, time or such other place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the members present shall be a quorum.

The chairman, if any, of the board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if the chairman shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.

If no Director is willing to act as chairman, or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their number to be chairman of the meeting.

The chairman may, with the consent of a meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general

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meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice.

### **8.    Voting rights**

The Directors may issue Shares on terms that they are designated as non-voting or on terms that no matter the number of Shares held by a particular member, such member shall not be entitled to exercise voting rights exceeding such percentage of the total voting rights attributable to all the Shares then in issue as the Directors and such member may agree or as the Directors may determine. Subject thereto and to any rights or restrictions attached to any Shares, on a poll the voting rights attributable to each Share carrying the right to vote on the matter in question shall be calculated by reference to the Net Asset Value per Share (calculated as at the most recent Valuation Date) and not on the basis of one Share, one vote.

A resolution put to the vote of a meeting shall be decided on a poll.

In the case of an equality of votes, the chairman shall not be entitled to a second or casting vote.

Where the Company has knowledge that any member is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

The custodian, the Investment Manager, any of their respective connected persons, and each Director and each of the directors of the Investment Manager, are prohibited from voting their own Shares at, or being part of quorum for, for any meeting to the extent that they have or any of their associates has, a material interest in the business to be conducted at such meeting.

In the case of joint holders of record, the vote of the senior holder that tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. Seniority among joint holders shall be determined by the order in which the names of the holders stand in the Register of Members.

A member of unsound mind, or in respect of which an order has been made by any court or authority having jurisdiction in lunacy, may vote by the member's committee, receiver, curator bonis, or other similar person appointed on such member's behalf by that court or authority and any such committee, receiver, curator bonis or other similar person may vote by proxy.

No person shall be entitled to vote at any general meeting unless such person is registered as a member on the record date for such meeting, nor unless all calls or other monies then payable by such person in respect of such Shares have been paid.

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No objection shall be raised as to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is purported to be given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.

Votes may be cast either personally or by proxy. A member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting

A member holding more than one Share need not cast the votes in respect of its Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain (any such abstentions to count neither for nor against the resolution) from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing it, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which such proxy is appointed either for or against a resolution and/or abstain from voting.

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member that is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member that is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

The instrument appointing a proxy shall be in writing, be executed under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation or other non-natural person, under the hand of an officer or other person duly authorised for that purpose.

The Directors may, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the place and the time (being not later than the time for holding the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited. In the absence of any such direction from the Directors in the notice convening any meeting or adjourned meeting, the instrument appointing a proxy shall be deposited at the registered office of the Company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote.

Any corporation or other non-natural person which is a member of the Company may in accordance with its constitutional documents, or in the absence of such provision, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member.



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If a clearing house (or its nominee(s)), being a corporation, is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company; provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person so authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by the clearing house (or its nominee(s))

### **9. Directors**

#### **9.1 Appointment**

The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director who shall hold office only until the next annual general meeting and shall then be eligible for re-election; provided, that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors

The Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors.

Any Director (other than an alternate Director) may by written notice to the Company appoint any other Director, or any other person willing to act, to be an alternate Director and by written notice to the Company may remove from office an alternate Director so appointed by the Director.

An alternate Director shall cease to be an alternate Director if such alternate Director's appointor ceases to be a Director.

An alternate Director shall be entitled to receive notice of all meetings of Directors and of meetings of committees of Directors of which such alternate Director's appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present and generally to perform all the functions of his appointor as a Director in such Director's absence.

The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director shall not be required to hold Shares. No Director shall be required to vacate office or be ineligible for re-election on re-appointment as a Director and no person shall be ineligible for appointment as a Director by reason only of having attained any particular age.

#### **9.2 Retirement by Rotation**

The Articles do not have any provisions relating to the retirement of Directors by rotation.

### **9.3 Removal of Directors**

The Company may by ordinary resolution at any time remove any Director.

The office of a Director shall be vacated:

- if he resigns his office by notice in writing to the Company;
- if he is absent (without being represented by proxy or an alternate Director appointed by such Director) from three consecutive meetings of the board of Directors without special leave of absence from the Directors, and they pass a resolution that such Director has by reason of such absence vacated office;
- if he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
- if he is or becomes of unsound mind;
- if he ceases to be a Director by virtue of, or is prohibited from being a Director by, an order made pursuant to any law or regulation binding on the Company; or
- if all the other Directors of the Company (being not less than two in number) resolve that such Director should be removed as a Director.

### **9.4 Remuneration of Directors**

The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine, and is subject to annual review of the Audit and Remuneration Committee. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any Class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

The Directors may by resolution approve additional remuneration to any Director for any services other than such Director's ordinary routine work as a Director. Any fees paid to a Director who is also counsel to the Company, or otherwise serves it in a professional capacity, shall be in addition to such Director's remuneration as a Director.

### **9.5 Directors' interests**

A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with such Director's office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

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A Director may act alone or by such Director's firm in a professional capacity for the Company and the Director or such Director's firm shall be entitled to remuneration for professional services as if such Director were not a Director or alternate Director.

A Director or alternate Director of the Company may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by such Director or alternate Director as a director or officer of, or from such Director or alternate Director's interest in, such other company.

No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director holding office or of the fiduciary relationship thereby established. A Director (or such Director's alternate Director in such Director's absence) shall be at liberty to vote in respect of any contract or transaction in which such Director is interested; provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by such Director at or prior to such Director's consideration and any vote thereon.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general Notice to the Board by a Director to the effect that:

- he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or
- he is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person that is connected with him;

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided, that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in five (5%) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associate is derived); or
- any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors or his associate(s) and to employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

A company shall be deemed to be a company in which a Director and/or his associate(s) owns five per cent (5%) or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five per cent (5%) or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third

company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.

If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

#### **10. Borrowing powers**

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party. Notwithstanding the foregoing, the Directors shall not exercise any such powers specified above in breach of any limits or restrictions specified in this document.

#### **11. Separate Accounts**

The Directors have the power to establish and maintain, with respect to Shares of any Class and/or Series, a separate internal account of the Company (each a “**Separate Account**”), to record (purely as an internal accounting matter) the allocation, on a differentiated basis, of the assets and liabilities of the Company to the holders of Shares of any such Class and/or a Series in a manner consistent with the methodology set forth in this document and the rights otherwise attaching to the Shares.

The proceeds from the issue of Shares of any Class and/or Series shall be applied in the books of the Company to the Separate Account established for Shares of that Class and/or Series. The assets and liabilities and income and expenditure attributable to that Separate Account shall be applied to such Separate Account and, subject to the provisions of the Articles, to no other Separate Account. In the event that the assets of a Separate Account referable to any Class and/or Series are exhausted, any and all rights which any members referable to that Class and/or Series have against the Company shall be extinguished and the members referable to that Class and/or Series shall have no recourse against the assets of any other Separate Account established by the Company.

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Where any asset is derived from another asset (whether cash or otherwise), such derivative asset shall be applied in the books of the Company to the same Separate Account as the asset from which it was derived, and on each revaluation of an asset the increase or diminution in value shall be applied to the same Separate Account and, subject to the provisions of the Articles, to no other Separate Account.

In the case of any asset or liability of the Company which the Directors do not consider is attributable to a particular Separate Account, the Directors shall have discretion to determine the basis upon which any such asset or liability shall be allocated between or among Separate Accounts.

The Directors may, in the books of the Company, allocate assets and liabilities to and from Separate Accounts if, as a result of a creditor proceeding against certain of the assets of the Company or otherwise, a liability would be borne in a different manner from that in which it would have been borne if applied under the foregoing provisions.

The Directors may from time to time transfer, allocate or exchange an asset or liability from one Separate Account to another Separate Account; provided, that at the time of such transfer, allocation or exchange the Directors form the opinion (in good faith) that the value in money or money's worth of each such asset or liability transferred, allocated or exchanged is not significantly less or more than the value in money or money's worth received by the Separate Account from which such asset or liability is transferred, allocated or exchanged.

### 12. Determination of Net Asset Value

The Net Asset Value and Net Asset Value per Share of each Class and/or Series shall be determined by or on behalf of the Directors as at the relevant Valuation Point on each relevant Valuation Date.

For the purposes of the Articles:

- **“Valuation Date”** means the last Business Day of each month or such other days as the Directors shall determine in their sole discretion as considered appropriate by the Board, on which the Net Asset Value per Share of that Class and/or Series is calculated
- **“Valuation Point”** means, with respect to any Class and/or Series, the time or times on the Valuation Date of such Class and/or Series at which the Directors determine that the Net Asset Value per Share of that Class and/or Series shall be calculated

In calculating the Net Asset Value and the Net Asset Value per Share the Directors shall apply such generally accepted accounting principles as they may determine.

The assets and liabilities of the Company shall be valued in accordance with such policies as the Directors may determine. Absent bad faith or manifest error, any valuation made pursuant to the Articles shall be binding on all persons.

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Unless otherwise determined by the Directors in any resolution creating a Class and/or Series of Share or as otherwise disclosed in this document, the Net Asset Value per Share of each Class (or Series) shall be determined by allocating pro rata the Net Asset Value, as at the relevant Valuation Point, of the Company and/or of the relevant Separate Account among each Class and/or Series, adjusting the amount so calculated to reflect any fees, costs, foreign exchange items or other assets or liabilities which are properly attributable to a specific Class and/or Series and then by dividing the resultant amount by the number of Shares of such Class and/or Series then in issue.

The Directors may determine that the Net Asset Value of any Class and/or Series shall be definitively determined on the basis of estimates and that such determination shall not be modified to reflect final valuations.

Any expense or liability may be amortised over such period as the Directors may determine.

The Directors may establish such reserves as they deem reasonably necessary for Company expenses and any other contingent Company assets or liabilities, and may, upon the reversal or release of such reserves, apply any monies resulting therefrom in such manner as they may, in their absolute discretion, determine.

Net Asset Value per Share shall be rounded to the nearest cent or such other amount as the Directors may determine and the benefit of any such roundings may be retained by the Company.

If the liabilities of a Separate Account exceed its assets on a calculation of Net Asset Value on a Valuation Date then the Directors may attribute the amount by which the liabilities exceed the assets between the other Separate Accounts according to the respective Net Asset Value of the other Separate Accounts and treat them as a liability of each such Separate Account.

The Directors may cause the Company to issue new Shares at par or (subject to the Companies Law and the Listing Rules) to compulsorily redeem (for a nominal redemption price to each holder of Shares so redeemed equal to an aggregate amount of HK\$1.00 for all the Shares redeemed from such holder) in the aggregate such number of Shares as they consider necessary to address, in such manner as they consider equitable, any prior miscalculation of Net Asset Value or Net Asset Value per Share. The Company shall not be required to pay to the holder the redemption proceeds of any such compulsorily redeemed Shares, which proceeds shall be retained by the Company.

### **13. Suspensions**

The Directors may, from time to time, in the circumstances disclosed in this document, declare a Suspension with respect to any one or more Classes and/or Series of Shares.



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For the purposes of the Articles, a “**Suspension**” means a determination by the Directors to postpone or suspend (i) the calculation of the Net Asset Value of Shares of any one or more Classes and/or Series and/or (ii) the issue of Shares of any one or more Classes and/or Series.

A Suspension shall take effect on such date and at such time as the Directors shall specify. The Directors shall promptly notify all affected members of any such Suspension and shall promptly notify such members upon termination of such Suspension.

### **14. Designated Investments**

The Directors may, in their discretion, classify certain of the Company’s investments which are deemed by the Directors or the Investment Manager to be illiquid or the value of which is not readily or reliably ascertainable or which may have a relatively long-term investment horizon as “Designated Investments”. Once so classified, Designated Investments shall be represented by a separate Class and/or Series of Shares (a “Designated Investments Class and/or Series”) which, unless otherwise determined by the Directors, shall be allotted only to those members that are holders of Shares at the time of such designation. The gains and losses attributable to Designated Investments shall be segregated and separately calculated and attributed amongst members holding Shares of the relevant Designated Investment Class and/or Series in such manner as the Directors, in their absolute discretion, consider fair and equitable. Shares of any such separate Designated Investments Class and/or Series may be issued by way of bonus or by way of conversion or exchange of all or part of a member’s holding of Shares of another Class and/or Series. Similarly, Shares of a Designated Investment Class and/or Series may be converted or exchanged back into Shares of the original Class and/or Series upon the Directors making a determination that the relevant investment no longer qualifies as a Designated Investment. The power to convert or exchange Shares of one Class and/or Series into Shares of another Class and/or Series may be effected by the Directors in any manner permitted by the Companies Law and the Articles, including the redemption of Shares of one Class and/or Series and the contemporaneous issue and allotment of Shares of the other Class and/or Series (and the payment of the redemption price of such redeemed Shares out of the proceeds of the fresh issue of such issued Shares) or by redesignating a portion of the Shares of any existing Class and/or Series as thereafter belonging to a new Class and/or Series. Shares of a Class or Series of Shares representing Designated Investments shall not, unless the Directors otherwise determine, be redeemable at the option of the members holding such Shares. Where investments are classified as Designated Investments and Shares of a separate Class and/or Series are issued by way of bonus, the requirement of the Articles to ensure proper value is transferred to the Separate Account of the Shares of the original Class and/or Series to which such investments were originally allocated shall not apply.

### **15. Dividends**

Subject to the Companies Law, the Articles, and the special rights attaching to Shares of any Class and/or Series, the Directors may, in their absolute discretion, declare dividends and distributions on Shares of any Class and/or Series in issue. No dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the



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share premium account attributable to Shares of the Class and/or Series in respect of which the dividend or distribution is proposed to be paid, or as otherwise permitted by the Companies Law.

Except as otherwise provided by the rights attached to Shares, or as otherwise determined by the Directors, all dividends and distributions in respect of Shares of a particular Class and/or Series shall be declared and paid according to the Net Asset Value of the Shares of the Class and/or Series that a member holds. If any Share is issued on terms providing that it shall rank for dividend or distribution as from a particular date, that Share shall rank for dividend or distribution accordingly.

The Directors may deduct and withhold from any dividend or distribution otherwise payable to any member all sums of money (if any) then payable by it to the Company on account of calls or otherwise or any monies which the Company is obliged by law to pay to any taxing or other authority.

Under no circumstances may the assets (or the income derived from such assets) attributed to a Separate Account in respect of any Class and/or Series be used to pay a dividend in respect of a Separate Account that is attributed to any other Class and/or Series.

The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures or securities of any other company or in any one or more of such ways and, where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the basis of the value so fixed in order to adjust the rights of all members and may vest any such specific assets in trustees as may seem expedient to the Directors.

Any dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder that is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall (unless the Directors in their sole discretion otherwise determine) be made payable to the order of the person to which it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the Share held by them as joint holders.

Any dividend or distribution which cannot be paid to a member and/or which remains unclaimed after six months from the date of declaration of such dividend or distribution may, in the discretion of the Directors, be paid into a separate account in the Company's name; provided, that the Company shall not be constituted as a trustee in respect of that account and the dividend or distribution shall remain as a debt due to the member. Any dividend or distribution which remains unclaimed after a period of six years from the date of declaration of such dividend or distribution shall be forfeited and shall revert to the Company.

No dividend or distribution shall bear interest against the Company.

#### **16. Capitalisation of reserves**

The Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to members of any Class and/or Series in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the members concerned). The Directors may authorise any person to enter into an agreement with the Company, on behalf of all of the members interested, providing for such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

#### **17. Distribution of assets on liquidation**

If the Company shall be wound up the liquidator shall apply the assets of the Company in satisfaction of creditors' claims in such manner and order as such liquidator thinks fit. The liquidator shall in relation to the assets available for distribution among the members make in the books of the Company such transfers thereof to and from Separate Accounts as may be necessary in order that the effective burden of such creditors' claims may be shared among the holders of Shares of different Classes and/or Series in such proportions as the liquidator in such liquidator's absolute discretion may think equitable.

Subject to the special rights attaching to Shares of any Class or Series, the balance shall then be paid to the holders of Shares in proportion to the Net Asset Value of the Shares held, subject to a deduction from those Shares in respect of which there are monies due, of all monies due to the Company for unpaid calls, or otherwise.

If the Company shall be wound up (whether the liquidation is voluntary or by or under the supervision of the Court) the liquidator may, with the authority of a resolution or resolutions passed by the holders of Shares (whether as a whole or at separate Class meetings), divide among the members in kind the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of one kind or shall consist of property of different kinds, and may for such purposes set such value as the liquidator deems fair upon any one or more class or classes of property, and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no member shall be compelled to accept any shares or other property in respect of which there is a liability.

**18. Untraceable shares**

The Company shall have the power to sell, in such manner as the Board thinks fit, any Shares of a member that is untraceable, but no such sale shall be made unless:

- all cheques or warrants in respect of dividends of the Shares in question, being not less than three in total number, for any sum payable in cash to the holder of such Shares in respect of them sent during the relevant period in the manner authorised by the Articles have remained uncashed;
- so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member that is the holder of such Shares or of a person entitled to such Shares by death, bankruptcy or operation of law; and
- the Company, if so required by the rules governing the listing of shares on the Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Stock Exchange to be made of its intention to sell such Shares in the manner required by the Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the “relevant period” means the period commencing twelve (12) years before the date of publication of the advertisement referred to above and ending at the expiry of the period referred to above.

The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any such sale shall be valid and effective notwithstanding that the member holding the Shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

**19. Indemnity and insurance**

Every Director and officer of the Company (which for the avoidance of doubt, shall not include auditors of the Company), together with every former Director and former officer of the Company (each an “**Indemnified Person**”) shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud, wilful default or Gross Negligence. No Indemnified Person shall be liable to the Company for any loss or damage incurred by the Company as a result (whether direct or indirect) of the carrying out of their functions unless that liability arises through the actual fraud, wilful default or Gross

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## APPENDIX 2      SUMMARY OF THE CONSTITUTION OF THE COMPANY

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Negligence of such Indemnified Person. No person shall be found to have committed actual fraud, wilful default or Gross Negligence under the indemnity provisions unless or until a court of competent jurisdiction shall have made a finding to that effect.

For these purposes, “**Gross Negligence**”, in relation to a person, means a standard of conduct beyond negligence whereby that person acts with reckless disregard for the consequences of a breach of a duty of care owed to another.

The Directors, on behalf of the Company, may purchase and maintain insurance for the benefit of any Director or other officer of the Company against any liability which, by virtue of any rule of law, would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the Company.

### **20. Auditing Policy**

The Directors may appoint an Auditor of the Company, which shall hold office on such terms as the Directors determine.

Every Auditor of the Company must be independent of the Company, the Investment Manager and any custodian to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the requirements on independence issue by the Hong Kong institute of Certified Public Accountants.

Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

Any Auditors of the Company shall, if so required by the Directors or any rules of the Stock Exchange, make a report on the accounts of the Company that will be provided to members before every annual general meeting following their appointment, and at any other time during their term of office, upon request of the Directors or any general meeting of the members.

Subject to the following paragraphs, a printed copy of the Directors’ report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors’ report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and at the same time as the notice of annual general meeting and laid before the Company at the annual general meeting; provided, that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

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## **APPENDIX 2      SUMMARY OF THE CONSTITUTION OF THE COMPANY**

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Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of the preceding paragraph shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law, summarised financial statements derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations; provided, that any person that is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

The requirement to send to a person the documents referred to above or a summary financial report in accordance with the preceding paragraph shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Stock Exchange, the Company publishes copies of the documents and, if applicable, a summary financial report, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

**1. Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**2. Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 February 2010 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

**3. Share capital**

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's length basis.

#### **4. Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for further details).

#### **5. Shareholders' suits**

The Cayman Islands courts can broadly be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act



which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, or (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

#### **6. Protection of minorities**

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

#### **7. Disposal of assets**

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

#### **8. Accounting and auditing requirements**

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- all sales and purchases of goods by the company; and
- the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.



**9. Register of members**

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any duplicate registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to file any list of members with the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10. Inspection of books and records**

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**11. Special resolutions**

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than three quarters (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

**12. Subsidiary owning shares in parent**

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

**13. Mergers and Similar Arrangements**

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (i) a special resolution of the shareholders of each constituent company voting together as one class if the shares to be issued to each shareholder in the consolidated or surviving company will have the same rights and economic value as the shares held in the relevant constituent

company or (ii) a shareholder resolution of each constituent company passed by a majority in number representing 75% in value of the shareholders voting together as one class. The plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the dual majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and

If the arrangement and reconstruction is approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

In addition, there are further statutory provisions to the effect that, when a take-over offer is made and accepted by holders of 90.0% of the shares (within four months after the making of the offer), the offeror may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

#### **14. Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**15. Liquidation**

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**16. Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**17. Letter to the Company**

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection at the Company's Registered Office. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.