

November 2012



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



FRANKLIN TEMPLETON  
INVESTMENTS

**This letter is important and requires your immediate attention.**

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

15 June 2017

Dear Investor,

**Franklin Templeton Fund Series - Templeton China Opportunities Fund (the “Fund”)**

The purpose of this letter is to inform you of:

- (1) the implementation of the Standard for Automatic Exchange of Financial Account Information (“**AEOI**”) and the United States of America’s Foreign Account Tax Compliance Act (“**FATCA**”) in Hong Kong and their implications for you as a Unitholder in the Fund;
- (2) a change in PRC taxation and consequent adjustments to the Templeton China A Shares Fund’s (“**China A Shares Fund**”) tax provision and net asset value;
- (3) additional Mainland China tax risks for the China A Shares Fund;
- (4) a change in the registrar and transfer agent of the Fund; and
- (5) an elaboration on the operational costs of the Fund.

Unless otherwise specified herein, capitalised terms used herein shall have the meanings assigned to such terms in the Explanatory Memorandum dated November 2012, as amended, of the Fund (the “**Current Explanatory Memorandum**”).

**1. The implementation of AEOI and FATCA in Hong Kong and their implications for you as a Unitholder in the Fund**

**What is AEOI?**

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

The Fund is required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund and/or its agents shall collect and provide to the IRD tax information relating to Unitholders and prospective investors. The first exchange of information will commence in 2018, in relation to accounts held in the 2017 calendar year.

### **What are the obligations of the Fund under AEOI?**

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

### **What is FATCA?**

FATCA is US tax legislation pursuant to which non-United States financial institutions are required to comply with certain documentation and reporting requirements or otherwise be subject to a 30% US withholding tax on certain US payments, including interest and dividends from securities of US issuers, constituting "withholdable payments" with effect from 1 July 2014. Beginning on 1 January 2019, a 30% withholding tax may be applied to foreign passthru payment and to gross proceeds from sale of assets which could produce withholdable payments.

### **What are the obligations of the Fund under FATCA?**

The impact of FATCA on FIs in a specific country may be modified by an Intergovernmental Agreement ("**IGA**") between the US and that country. A Model 2 IGA between the US and Hong Kong has been signed on 13 November 2014 ("**HK IGA**"). The Fund's Manager, Franklin Templeton Investments (Asia) Limited, has registered with the US Internal Revenue Service (the "**IRS**") as a sponsoring entity of the Fund for FATCA purposes, and is responsible for ensuring that the FATCA compliance obligations of the Fund are met. The Fund has been registered with the IRS as a sponsored investment entity in accordance with the FATCA regulations and the HK IGA. The Manager, on behalf of the Fund, is therefore obligated to apply prescribed due diligence procedures, and report to the IRS specified information about any "US Accounts", and "Nonparticipating Financial Institutions".

As the Fund has been registered with the IRS, it is expected that the Fund will generally not be subject to the 30% withholding tax described above. Although the Fund will endeavour to satisfy the requirements imposed under FATCA and the HK IGA to avoid any US withholding tax, there is no assurance that the Fund will be able to satisfy these requirements. In the event that a Unitholder does not provide the requested information and/or documentation such that the Fund does suffer US withholding tax on its investments, the net asset value of the Fund may be adversely affected and the Fund may suffer significant loss as a result of non-compliance.

## **How does AEOI and FATCA affect you as a Unitholder?**

By investing in and/or continuing to invest in the Fund, Unitholders acknowledge that they may be required to provide self-certification and/or additional documentation/information (including, without limitation, documentation/information regarding their tax residence and/or FATCA status) to the Fund, the Trustee, the Manager and/or the Fund's agents in order for the Fund to comply with AEOI, FATCA and the HK IGA and to avoid any US withholding tax under FATCA, if any. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the Fund to the IRS and/or the IRD, and the IRD may share this information with tax authorities in other jurisdictions.

The failure of a Unitholder to provide any requested information may result in the Fund, the Trustee, the Manager and/or other agents of the Fund taking any action and/or pursuing remedies at their disposal including, without limitation, (i) reporting the relevant information to the IRS; (ii) withholding, deducting from the Unitholder's account, or otherwise collecting any such tax liability from the Unitholder to the extent permitted by applicable laws and regulations; and/or (iii) mandatory redemption or withdrawal of the Unitholder concerned. The Manager in taking any such action or pursuing any such remedy, if permitted by applicable laws and regulations, shall act in good faith and on reasonable grounds.

In circumstances where a prospective or existing investor who is determined to be a "US Person" fails to provide consent for the Fund to satisfy its reporting requirement pursuant to FATCA, the Fund reserve the right (i) not to open an account for such prospective investor or close the account in respect of an existing investor and/or (ii) to report information on account balances, payment amounts and number of non-consenting US Persons to the IRS pursuant to the HK IGA.

Unitholders should note that the Fund, the Trustee, the Manager and/or the Fund's agents may contact them and request that you provide information or other documentation in order to confirm your tax residence and/or FATCA status or if there is any changes in circumstances which may affect your tax residence and/or FATCA status.

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

### **2. Change in PRC taxation and consequent adjustments to the China A Shares Fund's tax provision and net asset value**

Under normal market conditions, at least 70% of the Fund's total net assets will be invested in domestic A-Shares equity securities indirectly through the China A Shares Fund. The Fund and/or the China A Shares Fund may be subject to withholding and various other taxes imposed in Mainland China as a result of the Fund and/or the China A Shares Fund investing in PRC securities. The sections on "PRC TAX PROVISIONS", "RISK CONSIDERATIONS OF INVESTING IN TEMPLETON CHINA OPPORTUNITIES FUND – Mainland China Tax Risk" on pages 18 and 41 of the Current Explanatory Memorandum describe the PRC tax provision policy of the Fund and the China A Shares Fund. The Manager wishes to inform you of adjustments to the amount of the China A Share Fund's tax provision and net asset value as a result of tax developments in Mainland China.

On 14 November 2014, the Ministry of Finance, the State Administration of Taxation ("SAT") and the China Securities Regulatory Commission of the PRC jointly issued the "Circular Concerning the Temporary Exemption of the Enterprise Income Tax for Gains Earned by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China" Caishui [2014] No.79 ("Circular No.79").

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

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

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

In view of the issuance of Circular No.79, the manager of the China A Shares Fund, Templeton Investment Counsel, LLC (“**TIC, LLC**”) had, after considering independent professional external tax advice, applied the following adjustments to the China A Shares Fund’s tax provision as at 17 November 2014:

- reversed tax provisions of USD 759,470 (RMB 4,651,375) in respect of unrealised gains from trading of A-Shares; and
- ceased to make additional provision for tax liabilities in relation to realised gains from trading of A-Shares from 17 November 2014 onwards.

The tax provision of USD 808,100 (RMB 4,958,776) in respect of realised gains prior to 17 November 2014 from trading of A-Shares was maintained, pending further clarity to be provided by the SAT as to treaty application and tax settlement.

As the Fund’s investments in A-Shares are primarily through the China A Shares Fund, the net asset value of the Fund has been impacted due to the adjustments above. Based on the value of the Fund’s investment in the China A Shares Fund, the Fund’s net asset value as at 17 November 2014 was adjusted by the following amount/percentage:

Increase in net asset value	Percentage increase in net asset value per unit
USD 428,697 (RMB 2,625,555)	0.76%

Persons who have already redeemed their Units in the Fund before 17 November 2014 will not be entitled to or have any right to claim any part of the amount representing the adjustment. Cititrust Limited, the Trustee of the Fund and the China A Shares Fund, has confirmed that it has no objection to the calculation method or the reversal of the tax provision applicable to the China A Shares Fund.

Subsequently, during the calendar year 2015, the Shanghai Municipal Office of the SAT (“the Tax Office”) provided guidance for the assessment and payment of corporate income tax in relation to realised gains derived by QFIIs prior to 17 November 2014 from trading of A-Shares. Generally, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “**Tax Treaty**”), capital gains derived by a Hong Kong tax resident from transfer of shares of a PRC tax resident company would be subject to PRC corporate income tax if:

- 50% or more of the value of the PRC tax resident company’s assets are comprised, directly or indirectly, of immovable property situated in the PRC (a “**land-rich company**”); or
- the Hong Kong tax resident holds at least 25% of the shares of the PRC tax resident company at any time within the 12 months before the alienation.

Pursuant to the relevant PRC tax regulations, to enjoy relief under the Tax Treaty, a Hong Kong tax resident should submit to the relevant PRC tax authority the relevant documents, including a Hong Kong Tax Resident Certificate (a “**HKTRC**”) issued by the Inland Revenue Department of Hong Kong (the “**IRD**”).

The Fund has been informed by TIC, LLC that it has, on behalf of the China A Shares Fund, applied to the IRD for the HKTRCs and has obtained HKTRCs for the China A Shares Fund for the calendar years ended 31 December 2013 and 31 December 2014. The HKTRCs for the China A Shares Fund have been submitted to the Tax Office for the purpose of applying for corporate income tax relief on realised gains derived by the China A Shares Fund from trading of A-shares which are non-land-rich companies under the Tax Treaty.

At the request of the Tax Office, TIC, LLC as QFII and on behalf of the China A Shares Fund, submitted the information and documents requested by the Tax Office in August 2015 in respect of gains from trading of A-Shares to apply for corporate income tax exemption on realised gains derived by the China A Shares Fund from trading of A-shares which are non-land-rich companies under the Tax Treaty and report the corporate income tax payable on realised gains derived by the China A Shares Fund from trading of A-shares of land-rich companies. The documents submitted include the HKTRCs for the China A Shares Fund as described above, as part of the application for the Tax Office’s approval of the eligibility of the China A Shares Fund to benefit from corporate income tax exemption provided by the Tax Treaty.

The Fund has been informed by TIC, LLC that the Tax Office completed the review on the China A Shares Fund’s aforesaid tax treaty application and issued a document on its official web-site notifying the China A Shares Fund of the tax treaty application result. According to the document, the Tax Office indicated that it agreed with the China A Shares Fund’s tax treaty application submitted. As such, realised gains derived by the China A Shares Fund for the period from and including 17 December 2012 (being the date of first capital injection by the Fund) up to and including 16 November 2014 (the “**Relevant Period**”) are exempted from corporate income tax under the Tax Treaty, except for A-Shares issued by land-rich companies.

Subsequently, the China A Shares Fund paid income tax on realised gains arising from the China A Shares Fund’s disposal of A-Shares issued by land-rich companies for the Relevant Period. As a result of the tax relief, the actual tax declared and paid by the China A Shares Fund to the Tax Office was USD 80,045 (RMB 509,686). Given that the actual tax paid to the Tax Office was less than the tax provision of USD 808,100 (RMB 4,958,776), the remaining tax provision was reversed.

As the Fund’s investments in A-Shares are primarily through the China A Shares Fund, the net asset value of the Fund has been impacted due to the China A Shares Fund’s tax provision reversal. Based on the value of the Fund’s investment in the China A Shares Fund, the Fund’s net asset value as at 9 November 2015 was adjusted by the following amount/percentage:

Increase in net asset value	Percentage increase in net asset value per unit
USD301,843 (RMB 1,917,624)	1.56%

Persons who have already redeemed their Units in the Fund before 9 November 2015 will not be entitled to or have any right to claim any part of the amount representing the adjustment. Cititrust Limited, the Trustee of the Fund and the China A Shares Fund, has confirmed that it has no objection to the calculation method or the reversal of the tax provision applicable to the China A Shares Fund.

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

Investors should note that the tax assessment disclosed in section 2 of this notice was made in accordance with the corporate income tax law, the implementation rules and practices adopted by the Tax Office. The net asset value of the China A Shares Fund may require further adjustments to take into account any retrospective application of tax regulations and developments, including changes in interpretation of the relevant regulations and practices adopted by the relevant PRC tax authorities. As the Fund's investments in A-Shares are primarily through the China A Shares Fund, the net asset value of the Fund may be impacted due to the adjustments to the net asset value of the China A Shares Fund.

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

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

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

**Unitholders of the Fund may be advantaged or disadvantaged depending upon the final tax liabilities of the China A Shares Fund settled with the relevant PRC tax authority, the level of provision by the China A Shares Fund and when the Fund subscribed and/or redeemed units in the China A Shares Fund. Any tax provision, if made by or reversed by TIC, LLC for the China A Shares Fund, will be reflected in the net asset value of the China A Shares Fund at the time the provision is booked or when the provision is reversed and thus will only have impact on the Fund and Unitholders who remain invested in the Fund at that time. Unitholders of the Fund**

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

#### **4. Change in registrar and transfer agent of the Fund**

With effect from 31 December 2015, the registrar and transfer agent of the Fund has changed from Citi Fund Services (Asia) Limited to Citicorp Financial Services Limited. Citicorp Financial Services Limited is a private company incorporated with limited liability in Hong Kong and is a wholly-owned subsidiary of Citigroup Inc.

The address of the new registrar and transfer agent is:

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

Rest assured, there will not be any change to the dealing procedures or to the fees and charges of the Fund as a result of the change in registrar and transfer agent.

#### **5. Elaboration on the operational costs of the Fund**

The Fund's operational costs include costs, charges and expenses payable in respect of the acquisition, holding and realisation of any investments and other property. Clause 21.3.4 of the Trust Deed relating to the Fund provides for such costs, charges and expenses to be payable out of the assets of the Fund. To bring these costs, charges and expenses to the attention of investors, the second paragraph of the section titled "Other Fees" under the heading "FEES AND CHARGES" on page 27 of the Current Explanatory Memorandum shall be revised as follows (with changes marked up):

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

For the avoidance of doubt, these revisions do not impact on the fee structure of the Fund, or increase the amount of fees which are payable by the Fund.

\* \* \* \* \*

The Hong Kong Representative accepts full responsibility for the accuracy of the information contained in this letter as at the date of its publication and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.



If you require further information, please do not hesitate to contact your investment consultant or call the Investor Hotline of the Hong Kong Representative at +852 2805 0111.

Yours faithfully,

For and on behalf of

**Franklin Templeton Investments (Asia) Limited**

富蘭克林鄧普頓投資(亞洲)有限公司

As Hong Kong Representative of the Fund

A handwritten signature in black ink, appearing to read 'David Chang', with a long vertical stroke extending downwards from the end of the signature.

David Chang  
Director

## TEMPLETON CHINA OPPORTUNITIES FUND

### Addendum to the Explanatory Memorandum dated November 2012 Dated May 2014

Note: This Addendum dated May 2014 shall be read and construed in conjunction with the Explanatory Memorandum of Templeton China Opportunities Fund (the “Fund”) dated November 2012. The Manager and its directors accept full responsibility for the accuracy of the information contained in this Addendum as at the date of its publication and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief there is no other fact the omission of which would make any statement misleading.

Please note that the following changes apply to the Explanatory Memorandum of the Fund dated November 2012 (the “Current Explanatory Memorandum”) with effect from 30 May 2014:-

#### 1. Revisions to Investment Policy

The fifth paragraph of the investment objective and policy of the Fund as set out on page 11 of the Current Explanatory Memorandum shall be deleted in its entirety and replaced with the following paragraph (with changes marked up):-

*“The Fund currently does not invest in financial derivative instruments for any purposes and may not invest more than 10% of its total net asset value in each of the following types of investments:*

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

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

The sixth paragraph of the sub-section headed “Investment Objective and Policy of the Fund – Information on Templeton China A Shares Fund” as set out in page 12 of the Current Explanatory Memorandum shall be deleted in its entirety and replaced with the following paragraph (with changes marked up):-

*“The China A Shares Fund currently does not invest in financial derivative instruments for any purposes and may not invest more than 10% of its total net asset value in each of the following types of investments:*

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

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

**2. Revisions to definition of "US Person"**

The definition of "US Person" under the section headed "DEFINITIONS" as set out on page 8 of the Current Explanatory Memorandum shall be amended as follows (with changes marked up):-

**"US Person"**                      *means any person that is a United States person within the meaning of Regulation S under the United States Securities Act of 1933 or as defined by the U.S. Commodity Futures Trading Commission for this purpose, as the definition of such term may be changed from time to time by legislation, rules, regulations or judicial or administrative agency interpretations.*

**3. Restrictions on ownership of Units by "Restricted Persons"**

The following new paragraphs shall be inserted at the end of the section "REDEMPTION OF UNITS" on page 24 of the Current Explanatory Memorandum:-

**"Restrictions on ownership of Units by "Restricted Persons"**

*The Manager may restrict or prevent the direct or indirect ownership of Units by any US Person or any person in breach of the law or requirements of any country or governmental authority. Such persons are herein referred to as "Restricted Persons".*

*The actions that the Manager may take in order to restrict or prevent the ownership of Units by Restricted Persons include:*

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

# CONTENTS

	Page
IMPORTANT INFORMATION FOR INVESTORS	2
INTRODUCTION	4
DEFINITIONS	5
FRANKLIN TEMPLETON FUND SERIES	10
INVESTMENT OBJECTIVE AND POLICY	11
INVESTMENT RESTRICTIONS AND GUIDELINES	15
PRC TAX PROVISIONS	18
PURCHASE OF UNITS	19
REDEMPTION OF UNITS	23
SWITCHING OF UNITS	25
SUSPENSION OF DEALING	25
FEES AND CHARGES	26
DIVIDENDS	27
BASES OF VALUATIONS	28
CONFLICTS OF INTEREST	30
REPORTS AND ACCOUNTS	31
GENERAL	32
RISK CONSIDERATIONS OF INVESTING IN TEMPLETON CHINA OPPORTUNITIES FUND	38
TAX NOTES	50
MANAGEMENT AND ADMINISTRATION DIRECTORY	54
APPENDIX A	55

## IMPORTANT INFORMATION FOR INVESTORS

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

The Manager and its directors accept full responsibility for the accuracy of the information contained in the Offering Document as being accurate at the date of its publication and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading. However, neither the delivery of the Offering Document nor the offer or issue of units in the Fund (“Units”) shall under any circumstances constitute a representation that the information contained in the Offering Document is correct as of any time subsequent to the publication date. The Offering Document may be updated from time to time.

Distribution of the Offering Document should be accompanied by a copy of the latest annual report and accounts of the Fund (if available) and any subsequent interim report. The first annual report and accounts of the Fund shall cover the period from the launch date of the Fund up to 31 December 2013. The financial year end of the Fund is 31 December. Units are offered on the basis only of the information contained in the Offering Document and (where applicable) the above mentioned annual reports and accounts and interim reports. Any information given or representations made by any dealer, distributor, salesman or other person and (in either case) not contained in the Offering Document should be regarded as unauthorized and accordingly must not be relied upon.

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

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

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

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

# INTRODUCTION

## FRANKLIN TEMPLETON INVESTMENTS

Franklin Templeton Investments is one of the largest global investment management organizations and has been investing globally for over 60 years. It provides investment management and advisory services to a wide variety of mutual funds, institutes and private clients worldwide.

Franklin Templeton Investments comprises Franklin Resources, Inc., a US company listed on the New York Exchange and a constituent of the S&P 500 Index, and its subsidiaries worldwide.

## IMPORTANT NUMBERS AND CONTACT DETAILS

### *Manager Information*

**Investor Hotline** : Tel +852 2805-0111

**Investor Service & Information** : Tel +852 2877-7733

**Website Address of the Manager** : <http://www.franklintempleton.com.hk>\*

**Email Address of the Manager** : [fti-hk@templeton.com](mailto:fti-hk@templeton.com)

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

### *Registrar Information*

**Fund Dealing Fax Number** : Fax +852 3141-4182

**Your attention is drawn to the statements under “Important Information for Investors” on the preceding pages. If you are in any doubt about the contents of the Offering Document, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other financial adviser.**

## DEFINITIONS

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



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

<b>“CITL”</b>	means the Corporate Income Tax Law of the PRC.
<b>“CSRC”</b>	means the China Securities Regulatory Commission.
<b>“Dealing Day”</b>	means a Business Day which is also a Valuation Day, or such other day as the Trustee and the Manager may agree upon from time to time.
<b>“Dealing Deadline”</b>	means 4:00 p.m. (Hong Kong time), or such other time as the Manager may determine from time to time on each Dealing Day.
<b>“DTA”</b>	means Double Taxation Agreement.
<b>“First Dealing Day”</b>	means 3 December 2012 , or such other day as the Manager may determine at its absolute discretion, as the first Dealing Day after the Initial Offer Period.
<b>“Fund”</b>	means Templeton China Opportunities Fund, a sub-fund of Franklin Templeton Fund Series.
<b>“GDRs”</b>	means global depository receipts, which are negotiable instruments evidencing ownership of shares in a non-US company issued by a depository bank in international markets (e.g. in Europe) and made generally available to institutional investors.
<b>“H-Shares”</b>	means shares denominated in Hong Kong dollars issued by companies incorporated in PRC and listed and traded on the Stock Exchange of Hong Kong.
<b>“HKD” or “HK Dollars”</b>	means the lawful currency of Hong Kong.
<b>“Initial Offer Period”</b>	means the period from 9:00 a.m. (Hong Kong time) on 12 November 2012 to 4:00 p.m. (Hong Kong time) on 30 November 2012, or such other time or date as the Manager may determine at its absolute discretion.

<b>“Investment Manager”</b>	means Templeton Asset Management Ltd., a company incorporated with limited liability in Singapore with a branch in Hong Kong and holding a Type 9 (Asset Management) licence issued by the SFC.
<b>“Manager”</b>	means Franklin Templeton Investments (Asia) Limited, a company incorporated with limited liability in Hong Kong holding Type 1 (Dealing in Securities) and Type 9 (Asset Management) licences issued by the SFC.
<b>“PRC Broker”</b>	means, in relation to the China A Shares Fund, a Mainland China broker selected by the QFII Holder.
<b>“PRC Securities”</b>	means A-Shares, B-Shares and shares issued by PRC resident enterprises on overseas stock exchanges (e.g. H-Shares).
<b>“QFII”</b>	means a qualified foreign institutional investor approved pursuant to the relevant Chinese laws and regulations, as may be promulgated and/or amended from time to time.
<b>“QFII Holder”</b>	means, in relation to the China A Shares Fund, Templeton Investment Counsel, LLC, a company incorporated with limited liability in the US and registered as an investment adviser with the US Securities and Exchange Commission.
<b>“QFII Local Custodian”</b>	means, in relation to the China A Shares Fund, the Mainland China custodian appointed by the QFII Holder.
<b>“QFII Quota”</b>	means the foreign exchange quota(s) granted by SAFE to a QFII to remit foreign freely convertible currencies to China and convert into RMB for the purpose of investing in China’s securities market.
<b>“Recognised Exchange”</b>	means a stock exchange, over-the-counter market or other organised securities market which is open to the public and on which securities are regularly traded and which is approved by the Manager.
<b>“Red Chips”</b>	means the shares of companies incorporated outside of the PRC, generating a predominant proportion of their sales and/or profits from the PRC (by having its base in PRC) and listed on the Hong Kong Stock Exchange and the term “Red Chip Company” shall be construed accordingly.
<b>“Registrar”</b>	means Citi Fund Services (Asia) Limited, a company incorporated with limited liability in Hong Kong.

<b>“RMB”</b>	means Renminbi, the lawful currency of the PRC.
<b>“SAFE”</b>	means the State Administration of Foreign Exchange of the PRC.
<b>“SAT”</b>	means the PRC State Administration of Taxation.
<b>“SFC”</b>	means the Securities and Futures Commission of Hong Kong.
<b>“SFO”</b>	means the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong).
<b>“Trust”</b>	means Franklin Templeton Fund Series, a unit trust established as an umbrella fund and governed by the laws of Hong Kong.
<b>“Trust Deed”</b>	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 1 November 2012 as amended by supplemental deeds from time to time.
<b>“Trustee”</b>	means Cititrust Limited, a company incorporated in Hong Kong and registered as a trust company under the Trustee Ordinance (Cap. 29 of the laws of Hong Kong).
<b>“Umbrella Fund”</b>	means the Trust.
<b>“Unit”</b>	means one undivided share in the Fund.
<b>“Unitholder”</b>	means the person for the time being entered on the register listing the holders of units in the Fund as the holder of a Unit including (where the context so admits) persons jointly so registered.
<b>“US”</b>	means the United States.
<b>“USD” or “US Dollars”</b>	means the lawful currency of the United States.
<b>“US Person”</b>	means any person that is a United States person within the meaning of Regulation S under the United States Securities Act of 1933, as the definition of such term may be changed from time to time by legislation, rules, regulations or judicial or administrative agency interpretations.
<b>“Valuation Day”</b>	means a Business Day on which the stock exchanges in both Hong Kong and the PRC are open, or such other day as the

Trustee and the Manager may agree upon from time to time; provided that such day shall not be a Valuation Day if it falls within any of the periods during which there is a suspension of dealing, unless the Trustee and the Manager determine otherwise.

**“Valuation Point”**

means the close of business of the Stock Exchange of Hong Kong, or such other time on the relevant Valuation Day as the Trustee and the Manager may agree upon from time to time.

# FRANKLIN TEMPLETON FUND SERIES

## INTRODUCTION

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

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

## FUND PARTIES

The Fund is managed by the Manager, with day-to-day investment management of the Fund delegated to the Investment Manager. Both the Manager and Investment Manager are wholly-owned subsidiaries of Franklin Resources, Inc.

The Trustee acts as trustee of the Fund and is an indirect wholly-owned subsidiary of Citibank N.A., a public company incorporated in the US. Under the Trust Deed, the Trustee is responsible, *inter alia*, for the safe-keeping of the Fund’s investments upon trust for the Unitholders and subject to the provisions of the Trust Deed.

Citibank N.A. (Hong Kong Branch), a Hong Kong branch of a banking company incorporated in the US and holding a full banking licence in Hong Kong, has been appointed to act as the custodian of the Fund. As custodian, Citibank N.A. (Hong Kong Branch) is responsible for the custody of the assets of the Fund. The custodian may act through any agents, nominees or sub-custodians. The custodian shall (i) exercise reasonable care and diligence in the selection, appointment and ongoing monitoring of such agents, nominees or sub-custodians; and (ii) be satisfied that such agents, nominees or sub-custodians remain suitably qualified and competent to provide the relevant services.

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

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

# INVESTMENT OBJECTIVE AND POLICY

## Investment Objective and Policy of the Fund

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

Under normal market conditions, at least 70% of the Fund’s total net assets will be invested in domestic A-Shares equity securities indirectly through the China A Shares Fund.

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

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

- 70% to 90% in the China A Shares Fund;
- 10% to 20% in H-Shares;
- 10% to 20% in Red Chips;
- 1% to 5% in B-Shares; and
- 0% to 7% in cash and/or other types of investments.

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

The Fund will not invest in structured products. In addition, the Manager currently does not intend to enter into any securities lending, repurchase/reverse repurchase or similar over-the-counter transactions in respect of the Fund or to leverage the Fund.

The base currency of the Fund is US Dollars.

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

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

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

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

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

*The China A Shares Fund is managed by the QFII Holder. The QFII Holder is a QFII approved by the CSRC for investing in the securities market of the PRC. The QFII Holder was first granted a QFII Quota of USD200 million by SAFE in December 2009. An extra QFII Quota of USD100 million was subsequently granted by SAFE to the QFII Holder in July 2012 and such extra QFII Quota is intended to be specifically and wholly allocated to the China A Shares Fund for investment.*

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

*The China A Shares Fund will not invest in structured products. In addition, the manager of the China A Shares Fund currently does not intend to enter into any securities lending, repurchase/ reverse repurchase or similar over-the-counter transactions in respect of the China A Shares Fund or to leverage the China A Shares Fund.*

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

*Please refer to the Product Key Facts Statement of the China A Shares Fund as set out in **Appendix A** for further details.*

*Copies of the Hong Kong Offering Document, latest annual and semi-annual reports of the China A Shares Fund may be obtained at a reasonable cost, or may be inspected free of charge, during normal working hours at the offices of the Manager. The net asset value per unit of the China A Shares Fund is normally published in the South China Morning Post and the Hong Kong Economic Times at least once a month and is also available on the website [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk). The above website has not been reviewed by the SFC.*

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

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

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

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

- (1) a securities account (“Securities Account”) shall be opened with the China Securities Depository and Clearing Corporation Limited in the joint names “Templeton Investment Counsel, LLC – Templeton China A Shares Fund” pursuant to the applicable PRC laws and regulations with approvals from the relevant competent PRC authorities;
- (2) a special RMB account (“Cash Account”) shall be opened and maintained with the QFII Local Custodian in the joint names “Templeton Investment Counsel, LLC – Templeton China A Shares Fund” pursuant to the applicable PRC laws and regulations with approvals from the relevant competent PRC authorities;
- (3) the ownership of assets held and/or credited in the Securities Account and/or the Cash Account (as the case may be) belongs solely to the China A Shares Fund;
- (4) the assets held and/or credited in the Securities Account and/or the Cash Account (as the case may be) are segregated and independent from the proprietary assets of the manager of the China A Shares Fund (as the QFII Holder), the QFII Local Custodian, the PRC Broker(s), and the assets of the other clients of the manager of the China A Shares Fund (as the QFII Holder), the QFII Local Custodian, the PRC Broker(s);
- (5) If the manager of the China A Shares Fund (as the QFII Holder) is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the manager of the China A Shares Fund (as the QFII Holder) in liquidation in the PRC;
- (6) If the QFII Local Custodian is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the QFII Local Custodian in liquidation in the PRC;
- (7) If the PRC Broker is liquidated, the assets contained in the Securities Account and the Cash Account will not form part of the liquidation assets of the PRC Broker in liquidation in the PRC; and
- (8) The trustee acting for and on behalf of the China A Shares Fund, namely Cititrust Limited, is the only entity which has a valid claim of ownership over the assets in the Securities Account and the Cash Account of the China A Shares Fund.



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

- (1) The assets of the China A Shares Fund, including assets deposited in the Securities Account and the Cash Account with the QFII Local Custodian, are held on trust for the unitholders of the China A Shares Fund and will remain indirectly under its control;
- (2) The trustee of the China A Shares Fund registers the assets of the China A Shares Fund, including assets deposited in the Securities Account and the Cash Account with the QFII Local Custodian, to the order of the trustee of the China A Shares Fund; and
- (3) The QFII Local Custodian will look to the trustee of the China A Shares Fund (via the custodian of the China A Shares Fund, namely Citibank N.A. (Hong Kong Branch)) for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

# INVESTMENT RESTRICTIONS AND GUIDELINES

## Investments Restrictions

- (1) The value of the Fund's holding of securities issued by any single issuer may not exceed 10% of the Fund's total net asset value.
- (2) The Fund may not hold more than 10% of any ordinary shares issued by any single issuer. The total collective investment by the Fund and other sub-funds of the Umbrella Fund (if any) in any ordinary shares issued by any single issuer may not exceed the aforesaid 10% threshold.
- (3) The value of the Fund's holding of securities neither listed, quoted nor dealt in on a market (i.e. any stock exchange, over-the-counter market or other organized securities market that is open to the international public and on which such securities are regularly traded) may not exceed 15% of the Fund's total net asset value.
- (4) The Fund may not invest through a wholly-owned subsidiary company.
- (5) The Fund may not invest more than 30% of its total net asset value in government and other public securities (i.e. any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organization for Economic Co-operation and Development ("OECD") or any fixed interest investment issued in any OECD country by a public or local authority or nationalized industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing) of the same issue and, in any event, may not invest all of its assets in such securities even if more than six (6) different issues are involved.
- (6) The Fund may not invest in options and/or warrants for any purposes.
- (7) The writing of uncovered options by the Fund is prohibited.
- (8) The writing of call options by the Fund is prohibited.
- (9) The Fund may not enter into financial futures contracts for any purposes.
- (10) The Fund may not invest in any other collective investment schemes (collectively, "Underlying Schemes") which are non-recognized jurisdiction schemes as referred to in the Code on Unit Trusts and Mutual Funds (the "UT Code") and/or not authorized by the SFC.
- (11) The value of the Fund's holding of units or shares in Underlying Schemes which are either schemes regulated in one of the jurisdictions recognized by the SFC for the purposes of the UT Code (as may be specified by the SFC from time to time) or schemes authorized by the SFC may not exceed 30% of its total net asset value (unless such Underlying Schemes are authorized by the SFC and the name and key investment information thereof are disclosed in this Explanatory Memorandum) and, in any event, such Underlying Schemes may not invest primarily in investments prohibited or restricted by the SFC under Chapter 7 of the UT Code as

amended from time to time, and where the objective of any of such Underlying Schemes is to invest primarily in investments restricted by Chapter 7 of the UT Code, such investments and/or holdings may not be in contravention of the relevant limitation as imposed by the SFC from time to time.

- (12) The Fund may not invest all of its assets in a single collective investment scheme.
- (13) The Fund may not invest in any type of real estate (including buildings) or interests in real estate (including options or rights).
- (14) The Fund may not engage in short selling of securities for any purposes.
- (15) The Fund may not acquire any asset which involves the assumption of any liability which is unlimited.
- (16) The Fund may not invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class, or, collectively the directors and officers of the Manager own more than 5% of those securities.

### **Limitation on charges**

- (17) Where the Fund invests in any Underlying Schemes managed by the Manager or its connected persons, all initial charges on such Underlying Schemes will be waived.
- (18) The Manager may not obtain a rebate on any fees or charges levied by any Underlying Schemes or their respective management company.

### **Limitations on making loans**

- (19) The Fund may not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee.

### **Limitations on nil-paid/partly-paid securities**

- (20) The portfolio of the Fund may not include any security where a call is to be made for any sum unpaid on that security unless that call could be met in full out of cash by the Fund's portfolio.

### **Limitations on borrowing**

- (21) The maximum borrowing of the Fund may not exceed 25% of its latest available total net asset value.

### **Limitations on non-investment grade investments**

- (22) The Fund will not invest more than 10% of its net asset value in securities issued by or guaranteed by any single country (including the country, the government of that country, and/or any public or local authority or nationalized industry of that country) with a credit rating below investment grade.

### **Breach of investment limits**

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

## PRC TAX PROVISIONS

Investors should refer to the sections headed “Risk Considerations of Investing in Templeton China Opportunities Fund – Mainland China Tax Risk” and “Tax Notes” in respect of the tax obligations of the Fund.

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

Based on independent tax advice, the Manager will not make provisions for any PRC taxes payable by the Fund on capital gains derived from the sale of B-Shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises except for the Fund’s investments into the China A Shares Fund, for which provisions for PRC taxes on capital gains on A-Shares have been made at 10% by the China A Shares Fund.

The Manager will make provision for any PRC taxes payable by the Fund on capital gains derived from the sale of Red Chips stocks if the Red Chips stock issuer is confirmed by the SAT as a PRC tax resident enterprise.

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

### **China A Shares Fund**

Based on independent tax advice, the manager of the China A Shares Fund will make a provision of 10% for any PRC taxes payable by the China A Shares Fund on capital gains derived from the sale of A-Shares.

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

# PURCHASE OF UNITS

## Fund Classes Available

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

## Availability of Units for First Subscription during Initial Offer Period

Units of the Fund will be available for first subscription during the period from 9:00 a.m. (Hong Kong time) on 12 November 2012 to 4:00 p.m. (Hong Kong time) on 30 November 2012, or such other time or date as the Manager may determine at its absolute discretion (the “Initial Offer Period”).

The initial offer price per Unit for the A (acc) USD class is USD10.00 and the initial offer price per Unit for the A (acc) HKD class is HKD10.00.

Applications for subscription of Units made during the Initial Offer Period must be sent to the Registrar as stated in the prescribed application form and cannot be withdrawn or amended during the Initial Offer Period.

During the Initial Offer Period, Units for each class of Units will be allocated as follows:

- (1) Units will be allocated on a first-come-first-served basis for each class of Units until the Manager determines on any Business Day during the Initial Offer Period that (a) the Fund reaches its capacity (e.g. subscription demand exceeds the available QFII Quota of the China A Shares Fund into which the Fund invests) and/or (b) does not have ready access to appropriate and permissible instruments to invest additional subscription proceeds in a timely manner;
- (2) If the Manager determines that (a) the Fund reaches its capacity and/or (b) does not have ready access to appropriate and permissible instruments to invest additional subscription proceeds in a timely manner on any Business Day during the Initial Offer Period, Units subscribed through valid applications received by the Registrar on such Business Day will be allocated at the end of that Business Day on a pro-rata basis for each class of Units as determined by the Manager.

During the Initial Offer Period, the Manager may close subscriptions for Units of the Fund before the end of the Initial Offer Period without prior notice if the Manager determines that (a) the Fund reaches its capacity (e.g. subscription demand exceeds the available QFII Quota of the China A Shares Fund into which the Fund invests) and/or (b) does not have ready access to appropriate and permissible instruments to invest additional subscription proceeds in a timely manner. Under such circumstances, the Manager will post an announcement on its website at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk) as soon as practicable. The above website has not been reviewed by the SFC.

If a subscription application is rejected in whole or in part, the subscription monies paid by the applicant will be returned, in full or in part (as the case may be), to the applicant without interest at the own risk of the applicant.

Payment in full in cleared funds must be received by the Registrar within three (3) Business Days following the end of the Initial Offer Period for the allocated Units subscribed during the Initial Offer Period.

After the Initial Offer Period, Units of the Fund will be available for subscription starting from the First Dealing Day.

### **Subsequent Issue of Units**

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

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

### **Discretion of the Manager**

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

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

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

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

## **Minimum Investment Amount**

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

## **Application Forms Sent by Facsimile**

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

## **Price and Charges**

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

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

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

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

## **Payment by Telegraphic Transfer**

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



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

### **Additional Information**

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

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

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

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

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

### **Market Timing**

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

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

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

# REDEMPTION OF UNITS

## Instructions and Payments

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

Following the receipt of the original completed redemption form by the Registrar from an investor, the proceeds will normally be paid to the investor's bank account by telegraphic transfer in USD or HKD within one (1) calendar month after the relevant Dealing Day.

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

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

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

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

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

## **Redemption Instructions Sent by Facsimile**

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

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

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

## **Lock-up Period and Redemption Fee**

Investors should note that due to PRC regulatory restrictions in respect of repatriation of capital by the China A Shares Fund into which the Fund invests, the Manager has imposed a lock-up period on the Fund. During the lock-up period, being a minimum period of the first three (3) months and a maximum period of the first eight (8) months after the Initial Offer Period, redemptions from the Fund will be subject to a redemption fee of 5% of the net asset value per Unit of the Units redeemed, applicable to Units in both A (acc) USD class and A (acc) HKD class. Such redemption fee may be waived in whole or in part by the Manager. No redemption fee will be imposed for redemption requests made after the lock-up period. All the relevant fees and charges imposed under the Fund are set out in the section headed "Fees and Charges".

## SWITCHING OF UNITS

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

## SUSPENSION OF DEALING

The Manager may at any time declare a suspension of the right of Unitholders to require the redemption of Units of the Fund during any of the following periods:

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

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

Whenever the Manager declares a suspension it shall, immediately after any declaration and at least once a month during the period of the suspension, publish a notice in the South China Morning Post and Hong Kong Economic Times.

## **FEES AND CHARGES**

### **Initial Charge**

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

### **Management Fee**

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

### **Maintenance Charge**

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

### **Fund Administration Fee**

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

### **Trustee Fee**

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

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

## **Custodian Fee**

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

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

## **Registrar and Transfer Agent Fee**

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

## **Redemption Fee**

During the lock-up period, being a minimum period of the first three (3) months and a maximum period of the first eight (8) months after the Initial Offer Period, redemptions from the Fund will be subject to a redemption fee of 5% of the net asset value per Unit of the Units redeemed, applicable to Units in both A (acc) USD class and A (acc) HKD class. Such redemption fee may be waived in whole or in part by the Manager. No redemption fee will be imposed for redemption requests made after the lock-up period.

## **Other Fees**

The establishment expenses for the Fund are estimated to be approximately US\$55,000 and will be payable out of the assets of the Fund. Such expenses will be amortized over the first five (5) years of the Fund (or such other period as determined by the Manager after consultation with the Trustee).

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

## **DIVIDENDS**

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

## **BASES OF VALUATIONS**

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

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

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

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

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

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

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

The Manager may, after giving notice to the Trustee, declare a suspension of the determination of the net asset value of the Fund and/or each Unit during any of the periods set out in the section "Suspension of Dealing". The Manager shall immediately notify the SFC if the determination of the

net asset value of the Fund and/or each Unit is suspended. During any such suspension, the Manager shall be under no obligation to rebalance or adjust the assets of the Fund.

Whenever the Manager declares a suspension it shall, immediately after any declaration and at least once a month during the period of the suspension, publish a notice in the South China Morning Post and Hong Kong Economic Times.



## CONFLICTS OF INTEREST

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

Consistent with obtaining the best execution, brokerage commissions on portfolio transactions for the Fund may be directed by the Manager to brokers or dealers in recognition of research services furnished by them as well as for services rendered in the execution of orders by such brokers or dealers. Any such brokerage commissions will be at rates not in excess of customary institutional full-service brokerage rates, and any goods and services received will be of demonstrable benefit to the Fund and/or other funds and/or accounts managed by the Manager and/or Franklin Templeton Investments. Examples of goods and services of demonstrable benefit that may be received include the following:

- (1) Research and advisory services;
- (2) Transaction execution and clearing services; and
- (3) Computer software incidental to the above goods and services.

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

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

## **REPORTS AND ACCOUNTS**

The financial year-end of the Fund is 31 December each year. The audited annual report and semi-annual unaudited financial report of the Fund are available on the website of the Manager at *www.franklintempleton.com.hk*, within four (4) months and two (2) months respectively after the end of the period covered. The above website has not been reviewed by the SFC.

These reports are available in English only, and are also available free of charge at the office of the Manager.

# GENERAL

## Price Information

The net asset value per unit is normally published in the South China Morning Post and the Hong Kong Economic Times on each Dealing Day and is also available on the website *www.franklintempleton.com.hk*. The above website has not been reviewed by the SFC.

## Trust Deed

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

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

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

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

In all other cases, modifications, alteration or addition to the provisions of the Trust Deed require the sanction of an extraordinary resolution. No such modification, alteration, or addition (whether or not approved by an Extraordinary Resolution (as defined in the Trust Deed) shall impose upon any Unitholder any obligation to make any further payment in respect of the Unitholder's Unit or to accept any liability in respect thereof.

## Joint Holders

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

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

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

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

## **Cancellation of Units**

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

## **Notices and Meetings of Unitholders**

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

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

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

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

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

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

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

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

While the Trust Deed provides for various exclusions of liabilities and/or indemnities for the Trustee and/or the Manager, there is nothing in the Trust Deed which exempts the Trustee and/or the Manager (as the case may be) from any liability to Unitholders imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) or breaches of trust through fraud or negligence on its (or their) part. In addition, under the Trust Deed, the Trustee and/or the Manager (as the case may be) shall not be indemnified against any liability imposed under the Hong Kong law (i.e. the law of the Umbrella Fund's place of domicile) or breaches of trust through fraud or negligence on its (or their) part by Unitholders or at the Unitholders' expense.

## **Borrowing**

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

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

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

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

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

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

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

- (1) if the Manager goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or

shall be adjudged a bankrupt or insolvent or appoints liquidators or if a receiver shall be appointed in respect of the property or undertaking of the Manager or any part thereof or the Manager is the subject of any analogous proceedings or procedure in each case under the law of Hong Kong or such other law as may be applicable in the circumstances where, after the expiration of a period of three months, the Trustee has not appointed a new Manager;

- (2) if on the expiration of three (3) months after notifying the Manager that in the Trustee's opinion a change of Manager is desirable in the interests of the Unitholders, the Trustee has not found another company ready to accept the office of Manager of the Umbrella Fund and/or the Fund (as the case may be) of which the Trustee and the SFC shall approve;
- (3) if, in the reasonable opinion of the Trustee, the Manager shall be incapable of performing its duties properly or shall do any other thing which in the reasonable opinion of the Trustee is calculated to bring the Umbrella Fund and/or the Fund (as the case may be) into disrepute or to be harmful to the interests of Unitholders, provided that the Trustee shall certify that in its reasonable opinion the proposed termination on this ground is in the overall interests of the Unitholders as a whole;
- (4) if any laws, rules and regulations imposed by any regulatory or supervisory, governmental, or quasi-governmental authority, any fiscal body or self-regulatory organisation (whether of a governmental nature or otherwise) shall be passed which renders it illegal or in the reasonable opinion of the Trustee (in consultation with the Manager and if the Trustee deems necessary, upon advice from legal counsel) impracticable or inadvisable to continue the Umbrella Fund and/or the Fund (as the case may be);
- (5) if the Manager shall have committed a material breach of any of the terms of the Trust Deed and shall have failed to remedy such breach within thirty (30) days after service of a notice by the Trustee requiring such breach to be remedied, provided that the Trustee shall certify that in its reasonable opinion the proposed termination is necessary having regard to the interests of Unitholders; or
- (6) if the SFC directs under the SFO that the authorization of the Umbrella Fund and/or the Fund (as the case may be) be withdrawn.

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

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

- (1) the Manager is of the opinion that it is not economically viable to continue the Umbrella Fund and/or the Fund (as the case may be) or the class or classes of Units relating thereto (as the case may be);
- (2) the Umbrella Fund and/or the Fund (as the case may be) shall not be or cease to be authorised or otherwise officially approved pursuant to the SFO; or
- (3) any law shall be passed, or any other regulatory changes or administrative decisions shall be made by a competent PRC regulator or authority, which shall render the Umbrella Fund and/or the Fund (as the case may be) illegal or in the opinion of the Manager impracticable or inadvisable to continue the Umbrella Fund and/or the Fund.

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

### **Complaints and Enquiries Handling**

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

Registered office: 17th Floor, Chater House, 8 Connaught Road Central, Hong Kong  
Investor Hotline: +852 2805-0111  
Facsimile: +852 2877 4501

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



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

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

## **Concentration risk**

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

## **Counterparty risk**

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

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

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

## **Custodial, Clearance and Settlement risks**

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

The clearance and settlement systems available to effect trades on certain emerging or developing economies or markets as well as the local banking and telecommunications systems or markets may be

significantly less developed than those in more developed economies or markets, which may result in delays and other material difficulties in settling trades and in registering transfers of securities. Since the local postal and banking systems may not meet the same standards as those of more developed economies or markets, no guarantee can be given that all entitlements attaching to securities acquired by the China A Shares Fund and/or the Fund can be realized. There is the risk that payment of interest or other distributions by bank wire or by cheque sent through the mail could be delayed or lost. In addition, there is risk of loss in connection with the insolvency of an issuer's bank, particularly because these institutions may not be guaranteed by the local government.

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

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

## **Debt Securities risk**

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

## **Early Termination risk**

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

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

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

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

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

## **Interest Rate risk**

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

## **Investment risk**

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

## **Liquidity risk**

The liquidity of the Fund will be affected by the liquidity of its investments, including its investments in the China A Shares Fund. The liquidity of the Fund and/or the China A Shares Fund may

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

### **Mainland China Investment risk**

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

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

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

### **Mainland China Tax risk**

As a result of investing in PRC Securities, the Fund and/or the China A Shares Fund may be subject to withholding and various other taxes imposed in Mainland China. To date, a 10% Mainland China withholding tax has been levied on cash dividends, distributions and interest payments from

PRC Securities and bonds issued by PRC companies to foreign investors (subject to any relief available under a DTA if applicable). The PRC taxation of gains on PRC Securities is, however, presently unclear. Under the current CITL, a 10% withholding tax is technically due on gains derived from the sale of PRC Securities by foreign investors (subject to any relief available under a DTA if applicable). But the PRC tax authorities have not enforced the collection of such withholding tax in practice where both the sale and purchase of the PRC Securities are conducted on public stock exchanges. Therefore, there is uncertainty as to whether the SAT will collect this tax in respect of the gains on PRC Securities.

In light of this uncertainty and in order to meet this potential tax liability, the manager of the China A Shares Fund will provide for the withholding tax at 10% on capital gains derived from the sale of A-Shares and withhold the tax for the account of the China A Shares Fund. Upon any future resolution of the above-mentioned uncertainty or further changes to tax law or policies, the manager of the China A Shares Fund will, as soon as practicable, make relevant adjustments as it considers necessary.

As for a Red Chip Company, it should be treated as an offshore company for CITL purposes unless it is confirmed by the SAT as a PRC tax resident enterprise (“TRE”) either through self-application or deemed by the local tax authority. Therefore, dividends distributed by the Red Chip Company, which has not been confirmed as a TRE by the SAT, to non-resident enterprises (assuming that the non-resident enterprises have no permanent establishment and are themselves not TRES in the PRC) and capital gains derived by the non-resident enterprises from the disposal of equity interest in the Red Chip Company should not be subject to PRC withholding tax unless the Red Chip Company is confirmed by the SAT as a TRE in the PRC. If the Red Chip Company is confirmed by the SAT as a TRE, dividends received from the Red Chip Company by non-resident enterprises (assuming that they have no permanent establishments and are themselves not TRES in the PRC) are considered as PRC-sourced income and subject to 10% withholding tax, which may be reduced by treaty relief. Capital gains derived by non-resident enterprises from the transfer of shares in a Red Chip Company, which has been confirmed by the SAT as a TRE should technically be subject to 10% withholding tax (which may be reduced by treaty relief), though it is currently not collected by the SAT in practice where both the sale and purchase of the PRC Securities are conducted on public stock exchanges. At the Red Chip Company level, dividends received from the PRC investees should generally be exempted from CITL while capital gains arising from the disposal of PRC investees’ equity interest should be subject to 25% CITL.

Based on independent tax advice, the Manager will not make provisions for any PRC taxes payable by the Fund on capital gains derived from the sale of B-shares and overseas listed shares (including H-Shares, ADRs and GDRs) issued by PRC resident enterprises except for the Fund’s investments into the China A Shares Fund, for which provisions for PRC taxes on capital gains on A-Shares have been made at 10% by the China A Shares Fund. The Manager will make provision for any PRC taxes payable by the Fund on capital gains derived from the sale of Red Chips stocks if the Red Chips stock issuer is confirmed by SAT as a PRC tax resident enterprise.

The tax law and regulations of Mainland China are constantly changing, and they may be changed with retrospective effect to the advantage or disadvantage of Unitholders. The interpretation and applicability of the tax law and regulations by tax authorities may not be as consistent and transparent as those of more developed nations, and may vary from region to region. It should also be noted that

any provision for taxation made by the Manager may be excessive or inadequate to meet final Mainland China tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units in/ from the Fund. Any sums withheld in excess of the tax liability incurred or is expected to be incurred by the Fund shall be released and transferred to the Fund's accounts forming part of the Fund's assets upon the issuance of definitive tax regulation by the PRC State Administration of Taxation and/or the PRC Ministry of Finance ("MOF") to clarify the PRC taxation on capital gains. On the other hand, where the amount of such provisions is not sufficient to meet the actual tax liabilities, any shortfall will be debited from the Fund's assets. The Fund's asset value will be adversely affected as the Fund will have to bear the additional tax liabilities.

Please refer to the section "Tax Notes" for further information.

## **Market risk**

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

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

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

## **Political, Social and Economic risks**

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

## **Redemption fee**

During the lock-up period, being a minimum period of the first three (3) months and a maximum period of the first eight (8) months after the Initial Offer Period (i.e. the period from 12 November 2012

to 30 November 2012), redemptions from the Fund will be subject to a redemption fee of 5% of the net asset value per Unit of the Units redeemed. Investors should consider their short-term cash flow needs if they wish to redeem the Fund within the period.

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

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

The valuation of the Fund’s holdings in another collective investment scheme in which it invests depends primarily on unaudited financial information provided by the relevant collective investment scheme and its service providers. This may affect the calculation of the net asset value of the Fund which may not reflect the fair value of the investment of the Fund. Further, the Fund may also experience a delay in receiving the required financial information from the relevant collective investment scheme for calculating the Fund’s net asset value if the dealing day of such scheme is not the same as that of the Fund. If the Fund invests in an underlying fund that is managed by the Manager or a connected person of the Manager, potential conflicts of interest may arise. Please refer to the section headed “Conflicts of Interest” for details.

## **QFII Regime risks**

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

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

Under the applicable QFII regulations, there are foreign exchange control restrictions imposed on the repatriation of principal or profits by the QFII Holder. The QFII Holder may be restricted from withdrawing funds from its account in respect of the China A Shares Fund until and unless the QFII Holder as a whole is permitted to repatriate its funds under the QFII regulations. It may, therefore, not be possible for the China A Shares Fund to repatriate capital, dividends, interest and income from Mainland China, or it may require consent from the SAFE to do so. The China A Shares Fund could be adversely affected by the introduction of, or delays in, or refusal to grant any such consent for the repatriation of funds or by any official intervention affecting the process of settlement of transactions. The China A Shares Fund may be exposed to potential loss from any restriction or delay in the QFII

Holder's ability to convert USD from or into RMB and/or to repatriate funds from Mainland China and therefore may have adverse impact on the Fund.

In particular, investors should note that if the net amount to be repatriated by the QFII Holder for the account of the China A Shares Fund on any occasion exceeds the equivalent of USD 50 million (including principal and profit), prior approval from SAFE is required. In this case, payment of the redemption proceeds may be delayed and paid to unitholders of the China A Shares Fund (including the Fund) as soon as practicable and in any event within seven (7) Business Days after completion of the repatriation process. The repatriation of an amount less than or equal to the equivalent of USD 50 million (including principal and profit) is currently subject to SAFE's filing requirement (while pre-approval by SAFE is not required). However, the corresponding regulations may be subject to change. The application and interpretation of such regulations may not be certain and there is no certainty as to how they will be applied now or in the future.

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

There are rules and restrictions under current QFII regulations including rules on investment restrictions, maximum remittance period, minimum investment holding period and repatriation of principal and profits. Transaction sizes for QFIIs are relatively large (with the corresponding heightened risk of exposure to the decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities). As regards the remittance period, the QFII Holder is generally required to remit the investment capital or the principal under the QFII Quota into Mainland China within a maximum period of six (6) months after obtaining QFII Quota approval from SAFE. There are lock-up restrictions on repatriation of capital invested by the QFII Holder in Mainland China. In particular, according to the Administrative Measures on Foreign Exchange of Domestic Securities Investments by QFII ("QFII Measures") issued by the SAFE, there is an initial lock-up period of three (3) months for the repatriation of the investment capital starting from the date on which the QFII fully remits the principal amount, and repatriation of investment capital and profits can only be done on a monthly basis. As a result, investors should note that they may be subject to a higher risk of delayed payment of the redemption proceeds during the remittance period and the lock-up period. The measures set out in the section headed "Lock-up Period and Redemption Fee" are adopted in managing the liquidity of the Fund during the lock-up period. Investors should not invest in the Fund if they have short-term cash flow needs which require redeeming the Fund within the lock-up period.

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

The QFII Local Custodian of the Fund and/or the China A Shares Fund is responsible for providing custody services to the China A Shares Fund's cash and securities assets in the PRC. As the Fund and/or the China A Shares Fund invest in the PRC market where custodial and/or settlement



systems are not fully developed, the assets of the Fund and/or the China A Shares Fund may be exposed to custodial risk. In addition, the QFII Local Custodian is also subject to certain QFII regulations under which the QFII Local Custodian is required to contribute a prescribed percentage of the QFII Holder's QFII Quota to a clearing reserve fund and such prescribed percentage may change from time to time.

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

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

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

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

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

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

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

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

There can be no assurance that additional QFII Quota can be obtained to fully satisfy subscription requests, or that realization requests can be processed, due to QFII repatriation restrictions. These may result in a need to suspend dealings in the China A Shares Fund.

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

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

*Risks associated with additional investment and borrowing restrictions*

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

- (1) shares held by each underlying foreign investor investing through QFII investment quotas (such as the China A Shares Fund) in a single listed company should not exceed 10% of the total outstanding shares of such listed company; and
- (2) total shares held by all underlying foreign investors investing through QFII investment quotas (such as the China A Shares Fund) in the A-Shares of each listed company should not exceed

30%, or any other applicable regulatory threshold as specified by the Chinese authorities from time to time, of the total outstanding shares of such listed company.

As there are limits on the total shares held by all underlying foreign investors investing through QFII investment quotas (such as the China A Shares Fund) in one single listed company in the PRC, the capacity of the China A Shares Fund to make investments in China A-Shares will be affected by the activities of all other underlying foreign investors investing through QFII investment quotas, and not just the activities of the manager of the China A Shares Fund as the QFII Holder. In addition, the manager of the China A Shares Fund as the QFII Holder may also experience practical and/or operational issues when monitoring the total shares held by all underlying foreign investors investing through QFII investment quotas in one single listed company in the PRC as different QFIIs could potentially be involved. A breach of the aforesaid limits by the QFII Holder may result in regulatory actions taken against the QFII Holder and potentially jeopardize the QFII Quota specifically and wholly allocated to the China A Shares Fund for investment. Please refer to the section headed “Fund Parties” for further information about the allocation of the QFII Quota to the China A Shares Fund.

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

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

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

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

The status or approval of the QFII Holder of the China A Shares Fund may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFII Holder or for any other reasons. In such event, all the assets held by the QFII Holder for or on account of the China A Shares Fund will be liquidated and repatriated to the China A Shares Fund in accordance with applicable laws and regulations and the provisions of the agreement between the China A Shares Fund and the QFII Holder. The China A Shares Fund and, thus, the Fund may suffer loss as a result of such liquidation and repatriation. In addition, the China A Shares Fund does not have the exclusive use of the full QFII Quota (i.e. USD 300 million) granted to the QFII Holder. Only USD 100 million has been allocated

to the China A Shares Fund. If the other activities performed by the QFII Holder in respect of any portions of the full QFII Quota (i.e. USD 300 million) granted to the QFII Holder have resulted in any regulatory actions taken against the QFII Holder, including the revocation of the QFII Quota granted as a whole, the China A Shares Fund and, thus, the Fund will be adversely affected. Please refer to the section headed “Fund Parties” for further information about the allocation of the QFII Quota to the China A Shares Fund.

### **Valuation of Securities risk**

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

# TAX NOTES

## **(i) General**

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

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

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

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

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

### ***Stamp Duty***

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

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

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

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

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

##### ***Hong Kong***

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

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

###### **1. PRC Withholding Income Tax**

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

Interest derived by non-resident enterprises (including QFIIs) from the holding of PRC government bonds is exempt from PRC WHT.

Under the CITL, which came into effect on 1 January 2008, there is no specific regulation addressing the PRC WHT treatment on capital gains derived by non-resident enterprises (including QFIIs) from the trading of listed shares and bonds issued by PRC resident enterprises. In the absence of specific regulation, the general principles of the CITL should be followed. Thus, capital gains derived by non-resident enterprises from the disposal of listed shares issued by PRC resident enterprises including A-Shares, B-Shares, H-Shares and other overseas listed shares issued by PRC resident enterprises should technically be subject to 10% PRC WHT which may be reduced by applicable DTA.

As the Detailed Implementation Regulations of the CITL did not specify the sourcing rule for capital gains derived from the trading of debts (e.g. PRC government bonds / corporate bonds issued by PRC resident enterprises), it is unclear whether gains derived by non-resident enterprises from the trading of the above debt instruments would be considered as PRC-source, which is subject to further guidance to be issued by the MOF and/or the SAT.

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

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

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

## 2. Other taxes

Technically, PRC-source interest income should also be subject to 5% PRC Business Tax (“BT”) and local surcharges (the amount of the local surcharges is about 12% of the PRC BT paid). In practice, the PRC tax authorities have not yet enforced the collection of BT on coupon interest on government and corporate bonds. Therefore, there is uncertainty with respect to BT.

In the absence of specific provision on BT exemption, gains derived by non-resident enterprises from the buying and selling of listed shares and bonds issued by PRC resident enterprises on PRC stock exchanges may be subject to 5% PRC BT. In practice, the PRC tax authorities have not yet enforced the collection of BT on gains derived by non-resident enterprises from the trading of the above securities.

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

## (v) Tax Ownership

There is a general lack of guidance in the PRC tax law with respect to the application of PRC taxes in situations where legal title to assets are held by an intermediary on behalf of the beneficial

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

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

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

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



# MANAGEMENT AND ADMINISTRATION DIRECTORY

## MANAGER

FRANKLIN TEMPLETON INVESTMENTS  
(ASIA) LIMITED  
17/F Chater House  
8 Connaught Road Central  
Hong Kong

## INVESTMENT MANAGER

TEMPLETON ASSET MANAGEMENT LTD.  
17/F Chater House  
8 Connaught Road Central  
Hong Kong

## TRUSTEE

CITITRUST LIMITED  
50/F Citibank Tower, Citibank Plaza  
3 Garden Road, Central  
Hong Kong

## REGISTRAR AND TRANSFER AGENT

CITI FUND SERVICES (ASIA) LIMITED  
50/F Citibank Tower, Citibank Plaza  
3 Garden Road, Central  
Hong Kong

## AUDITORS

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

## DIRECTORS OF THE MANAGER

Browning, Mark Banks  
Chang, Wan David  
Hudson, David W.  
Lam, Hung Allan  
McGowan, Gregory Eugene  
Mobius, Joseph Bernhard Mark  
Plafker, Jed Andrew  
Wu, Wai Kwok

## CUSTODIAN

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



## Product Key Facts

### Templeton China A Shares Fund

*Last updated: August 2018*

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

- *The fund uses the Qualified Foreign Institutional Investor (“QFII”) quota of the QFII holder which is denominated in United States Dollars (“USD”) to invest primarily in the Mainland China A Shares market. The fund has to remit USD into the People’s Republic of China (“PRC”) and then convert into Renminbi (“RMB”) for investment in China A-Shares.*
- *The fund is not denominated in RMB. Any subscriptions and redemptions are in USD or other major currencies (other than RMB). The fund involves multi-currency conversions and is therefore subject to risk of higher costs and other multi-currency conversion risks.*

#### Quick facts

**Manager:** Templeton Investment Counsel, LLC

**Investment manager:** Templeton Asset Management Ltd.

*(internal delegation, Hong Kong)*

**QFII holder:** Templeton Investment Counsel, LLC

**Trustee:** Cititrust Limited

**Custodian:** Citibank N.A. (Hong Kong Branch)

**QFII local custodian:** HSBC Bank (China) Company Limited

**Base currency:** USD

**Financial year end of this Fund:** 31 December

**Ongoing charges over a year<sup>#</sup>:**

Class X (acc) HKD: 0.24%

Class X (acc) USD: 0.24%

*<sup>#</sup>The ongoing charges figures are estimates based on the annualized projection of the actual expenses for the financial period ended 31 July 2018, and represent the sum of the estimated ongoing expenses chargeable to the Fund expressed as a percentage of the Fund’s average net asset value. The actual figures may be different from these estimated figures and they may vary from year to year.*

**Dealing frequency:** Daily, on Hong Kong and China Business Day

**Dividend policy:** No dividend distribution

**Minimum Investment:** USD 100,000 [initial], USD 1,000 [additional]

#### What is this product?

*This is a fund constituted in the form of a unit trust established by a trust deed governed by the laws of Hong Kong. The fund is denominated in USD, not in RMB, and will primarily invest (i.e. not less than 70% of its net assets) in RMB-denominated A-Shares in the PRC via a USD-denominated QFII quota granted under the name of the Manager for the account of the fund.*



### **Investment Objective and Policy**

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

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

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

*The fund currently does not invest in financial derivative instruments for any purposes and may not invest more than 10% of its total net asset value in each of the following types of investments:*

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

*The fund will not invest in structured products. In addition, the Manager currently does not intend to enter into any securities lending, repurchase / reverse repurchase or similar over-the-counter transactions in respect of the fund or to leverage the fund.*

<sup>1</sup>*Urban investment bonds are debt instruments issued by local government financing vehicles ("LGFVs") in the Mainland listed bond and interbank bond-market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.*

### **What are the key risks?**

**Investment involves risks. Please refer to the offering document for details including the risk factors.**

- **Market risk:** *The fund is subject to substantial market fluctuations and to the risks inherent in all investment, and the price of the units can go down as well as up. Investors may not get back their original investment.*
- **Mainland China investment risk:** *An investment in the fund with exposure to Mainland China's markets involves certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater government control over the economy, political and legal uncertainty, currency fluctuations or blockage, the risk that Mainland China's government may decide not to continue to support economic reform programs, the risk of nationalization or expropriation of assets, tax and foreign exchange risk, regulatory risk, legal risk and accounting risk.*
- **Concentration risk:** *The fund invests only in Mainland China and is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as the fund is more susceptible to fluctuations in value resulting from limited number of holdings or from adverse conditions in the single country which it invests.*
- **Foreign currency, exchange control and multi-conversion risks:** *The base currency of the fund is denominated in USD, while its investments and income derives from such investments (if any) are denominated in currencies other than USD and primarily in RMB (which is currently not a freely convertible currency and is subject to exchange controls and restrictions). As a result, the fund is exposed to incurring transactions costs associated with currency conversion (i.e. from USD subscription monies to RMB for the fund to invest in RMB-denominated investments and from RMB sale proceeds (after the fund has disposed of the RMB-denominated investments) to USD to meet with redemption requests as and when necessary). In addition, investment in the fund will be subject to fluctuations between USD and other currencies, including RMB. There can be*

no assurance that the RMB will not be subject to devaluation or revaluation or that shortages in the availability of foreign currency will not develop.

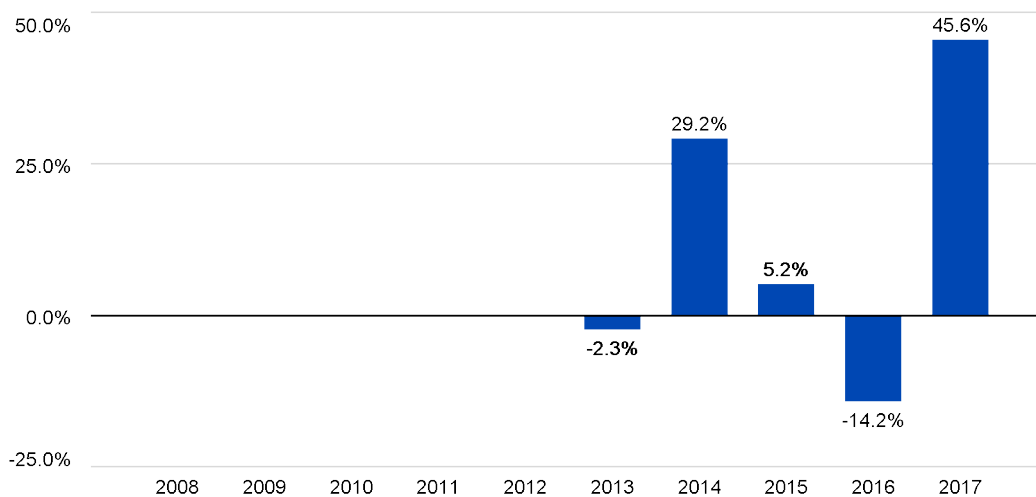
- **QFII regime risks**

- **Risks associated with repatriation controls and investment restrictions:** Under the applicable QFII regulations, the QFII holder may be restricted from withdrawing funds from its account in respect of the fund until and unless the QFII holder as a whole is permitted to repatriate its funds under the QFII regulations. If the net amount to be repatriated by the QFII holder for the account of the fund on any occasion exceeds the equivalent of USD 50 million (including principal and profit), prior approval from the State Administration of Foreign Exchange of the PRC (“SAFE”) is required. In this case, payment of the redemption proceeds may be delayed and paid to unitholders of the fund as soon as practicable and in any event within seven (7) business days after completion of the repatriation process. The repatriation of an amount less than or equal to the equivalent of USD 50 million (including principal and profit) is currently subject to SAFE’s filing requirement (while pre-approval by SAFE is not required). However, the corresponding regulations may be subject to change. The application and interpretation of such regulations may not be certain and there is no certainty as to how they will be applied now or in the future. In the event that redemption requests for a large number of units of the fund are received on a dealing day (i.e. more than 10% of the total number of units in issue), the fund may need to, for the purposes of meeting such redemption requests, defer part of the redemption requests in the fund. As a result, the payment of the redemption proceeds may be delayed and paid to unitholders of the fund within seven (7) business days after completion of the repatriation process. There are rules and restrictions under current QFII regulations including rules on investment restrictions, maximum remittance period, minimum investment holding period and repatriation of principal and profits.
- **Risks associated with QFII local custodian and PRC broker:** As the fund invests in the PRC market where custodial and/or settlement systems are not fully developed, the assets of the fund may be exposed to custodial risk. In the event that there is any retroactive application of legislation and/or fraud or improper registration of the title of the assets of the fund, the reduction in the quantity or value of such assets will create losses to the fund. As regards the PRC broker, there is a risk that the fund may suffer losses, whether direct or consequential, from the default or bankruptcy of the PRC broker or disqualification of the same from acting as a broker, which may prevent the fund from trading to any further degree with that PRC broker, potentially disrupting current or contemplated trades for particular securities and presenting an opportunity cost. This may affect the performance of the fund and the investments of investors, as best execution or the transfer of certain funds or securities may not be immediately available or possible.
- **Risks associated with QFII regulations and other regulatory requirements:** The regulations which regulate investments by QFIIs in Mainland China and the repatriation and currency conversion may be subject to change. The application and interpretation of such investment regulations may therefore not be certain and there is no certainty as to how they will be applied as Mainland China authorities and regulators have been given wide discretion in administering such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future. The uncertainty and change of the laws and regulations in the PRC may adversely impact the fund. The rules and regulations which regulate QFII investments are also subject to changes.
- **Risks associated with the QFII status of the QFII holder:** The status or approval of the QFII holder of the fund may be revoked or terminated or otherwise invalidated at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFII holder or for any other reasons. In such event, all the assets held by the QFII holder for or on account of the fund will be liquidated and repatriated to the fund in accordance with applicable laws and regulations and the provisions of the agreement between the fund and the QFII holder. The fund may suffer loss as a result of such liquidation and repatriation. In addition, the fund does not have the exclusive use of the full QFII quota (i.e. USD 300 million) granted to the QFII holder. Only USD 100 million has been allocated to the fund. If the other activities performed by the QFII holder in respect of any portions of the full QFII quota (i.e. USD 300 million) granted to the

QFII holder have resulted in any regulatory actions taken against the QFII holder, including the revocation of the QFII quota granted as a whole, the fund will be adversely affected.

- **Mainland China tax risk:** Based on independent tax advice, the Manager will make a provision of 10% for any PRC taxes payable by the fund on capital gains derived from the sale of China A-Shares. Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, any shortfall will be debited from the fund's assets where the amount of such provision is not sufficient to meet the actual tax liabilities. In this case, the fund's asset value will be adversely affected as the fund will have to bear the additional tax liabilities.
- **Debt securities risk:** There is no assurance that losses will not occur with respect to investment in debt securities (such as bonds). A default on interest or principal by the counterparty may adversely affect the performance of the fund. The fund may invest in non-rated and/or lower rated bonds where the risk of failure to pay interest and/or principal is greater when compared to higher rated bonds, exposing the fund to potential losses. Bonds are also exposed to the risk of being downgraded, which can cause a significant drop in the value of the fund.
- **Interest rate risk:** Debt securities (such as bonds) are more susceptible to fluctuations in interest rates. Generally, the price of debt securities will fall when interest rates rise, adversely affecting the value of the fund, whereas the price will rise when interest rates fall. Longer term debt securities are usually more sensitive to interest rate changes than shorter term securities.

#### How has the Fund performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividends reinvested.
- These figures show by how much class X (acc) USD increased or decreased in value during the calendar year being shown. Class X (acc) USD is the share class available in Hong Kong with the longest history in the Fund. Performance data has been calculated in USD, including ongoing charges and excluding subscription fee and redemption fee you might have to pay.
- Where no past performance is shown, there was insufficient data available in that year to provide performance.
- Fund launch date: 3 December 2012
- Class X (acc) USD launch date: 3 December 2012

#### Is there any guarantee?

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

## What are the fees and charges?

### Charges which may be payable by you

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

Fee	What you pay
	<b>Class X</b>
<b>Subscription fee (Initial sales charge)</b>	N/A
<b>Switching fee (Switching charge)</b>	N/A
<b>Redemption fee (Redemption charge)</b>	N/A

### Ongoing fees payable by the Fund

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

	Annual rate (as a % of the Fund's net asset value)
	<b>Class X</b>
<b>Management fee*</b>	N/A
<b>Custodian fee</b>	Up to 0.080%
<b>Performance fee</b>	N/A
<b>Administration fee</b>	N/A
<b>Trustee fee<sup>#</sup></b>	Up to 0.04%

\*The Manager does not currently charge any management fee and the Manager may charge up to 3% per annum by giving one month's written notice to the unitholders of the fund in accordance with the requirement of the trust deed.

<sup>#</sup>The current maximum annual rate of Trustee fee is up to 0.04% and the Trustee may increase it up to 1% by giving one month's written notice to the unitholders of the fund in accordance with the requirement of the trust deed.

### Other fees

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

### Additional Information

- The Manager was first granted a QFII quota of USD 200 million in December 2009. An extra QFII quota of USD 100 million was subsequently granted by SAFE to the Manager in July 2012 and such extra QFII quota is intended to be specifically and wholly allocated to the fund for investment. The Manager may exercise its absolute discretion to close subscriptions to the units of the fund without prior notice if the total subscription monies received reach USD 100 million.
- You generally buy and redeem units at the fund's next determined net asset value ("NAV") after the Registrar, Citicorp Financial Services Limited, receives your request in good order on or before 4:00 p.m. (Hong Kong time) being the dealing cut-off time on each "dealing day" (i.e. any business day which is also a "valuation day" as mentioned below).
- The NAV of the fund is calculated on each "valuation day" (i.e. a business day on which the stock exchanges in both Hong Kong and the PRC are open) and the price of units is published at least once a month in South China Morning Post and Hong Kong Economic Times. Information about prices is also available online at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk).
- Investors may obtain the past performance information of other share classes offered to Hong Kong investors from the Hong Kong Representative's website at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk).
- The website mentioned above has not been reviewed by the Securities and Futures Commission ("SFC").



**Important**

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

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

*Issuer of this statement: Franklin Templeton Investments (Asia) Limited*