

**Item 1 – Cover Page**

# **Value Partners Hong Kong Limited**

## **Form ADV Part 2A**

9<sup>th</sup> Floor, Nexxus Building

41 Connaught Road Central

Hong Kong

(852) 2880-9263

[www.valuepartners.com.hk](http://www.valuepartners.com.hk)

March 28, 2012

This brochure provides information about the qualifications and business practices of Value Partners Hong Kong Limited. If you have any questions about the contents of this brochure, please contact our Compliance Officer at (852) 2880 9263 or by e-mail at [compliance@vp.com.hk](mailto:compliance@vp.com.hk). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Value Partners Hong Kong Limited also is available on the SEC's website at [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov).

Being a registered investment advisor does not imply a certain level of skill or training.

**Item 2 - Material Changes**

None.

### Item 3 – Table of Contents

	<b>Page Number</b>
Item 1 – Cover Page.....	1
Item 2 - Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4 - Advisory Business.....	4
Item 5 - Fees and Compensation.....	7
Item 6 – Performance-Based Fees and Side-By-Side Management .....	10
Item 7 – Types of Clients.....	12
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	13
Item 9 – Disciplinary Information .....	14
Item 10 – Other Financial Industry Activities and Affiliations .....	16
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	17
Item 12 – Brokerage Practices .....	22
Item 13 – Review of Accounts.....	22
Item 14 – Client Referrals and Other Compensation.....	26
Item 15 – Custody.....	27
Item 16 – Investment Discretion.....	28
Item 17 – Voting Client Securities.....	29
Item 18 – Financial Information .....	31

#### **Item 4 - Advisory Business**

Value Partners Hong Kong Limited (“VPHK”) provides investment management and advisory services relating to equity and fixed income securities. VPHK concentrates its investment expertise regarding securities traded in Asian markets, particularly the Greater China region. VPHK generally employs an investment philosophy of buying securities that appear underpriced based upon an analysis of the financial statements, management, current health and competitive advantages of the issuer of the securities when compared to its competitors and markets. This approach is commonly referred to as “value investing.” The companies selected by VPHK for investment are identified by its investment management team using a bottom-up research methodology. This type of research involves analysis of companies based on their own merit without regard for the specific sectors in which they participate or the current economic conditions but looks closely at each company’s management, business model, growth prospects as well as other company characteristics.

VPHK serves as a discretionary investment manager, sub-investment manager or advisor mainly to:

- various privately placed, pooled investment vehicles (“Private Funds”);
- collective investment funds authorized by the Hong Kong Securities and Futures Commission (“Authorized Funds”); and
- separately managed accounts (“Managed Accounts”).

**The disclosures contained in VPHK’s Part 2 of Form ADV (“Brochure”) are designed solely to provide information about VPHK and the investment management/advisory business it conducts. None of the discussions regarding the Authorized Funds or Private Funds shall constitute a solicitation of an offer to buy or an offer to sell the securities of the Funds.**

#### Private Funds and Authorized Funds (collectively (“Funds”))

VPHK manages the Funds in accordance with each Fund’s investment objective, strategy and guidelines. A description of the investment objective, strategy and risk factors of each Fund is set forth in each Fund’s offering document. For private Funds the offering document consists of a confidential private placement memorandum (“PPM”) and for the Authorized Funds these descriptions are contained in the explanatory memorandum (“EM”) or prospectus (“Prospectus”). The Funds are not tailored to the individual needs of any particular investor and all investors are cautioned to consider whether a Fund meets their individual investment objectives and risk tolerance.

#### Managed Accounts

VPHK also provides investment management services to Managed Accounts which are tailored to meet each client’s stated investment objectives, strategies, restrictions or guidelines which are established by the client with or without the assistance of VPHK. Each Managed Account serviced by VPHK may be referred to herein as a “Client.”

### Principal Owner of VPHK

Value Partners Group Limited is a principal owner of VPHK.

### Aggregation and Batched Trades for Funds and Managed Accounts

The securities held in various accounts managed by VPHK will vary based upon the variety of investment objectives, risk tolerances and available assets within the accounts. As a result of the variety of characteristics affecting each account, it may be appropriate for VPHK to purchase or sell a security for one account prior to other accounts managed by VPHK. This could occur, for example, as a result of the specific investment objectives of the client, different cash requirements as well as differing cash resources arising from contributions or withdrawals or other factors.

Accounts that are managed in similar styles, however, may have similar portfolio compositions and weightings. For this reason, VPHK may seek to acquire or dispose of the same securities for multiple accounts contemporaneously and may aggregate into a single trade order several client trade orders for the same security.

Consistent with each client's investment agreement, VPHK may, but is not required to aggregate the orders, in order to "bunch" or batch together purchases or sales for several accounts (including Managed Accounts and Private Funds). VPHK will allocate the batched trades in a fair manner, taking into account the size of the order placed for each participating account and the amount and timing of the executions and any other factor that VPHK deems relevant to the fair treatment of each account participating in the order.

VPHK seeks to aggregate trade orders in a manner that is consistent with its duty to:

- seek best execution of client orders;
- treat all clients fairly; and
- avoiding systematically to advantage or disadvantage any single client or group of clients.

When VPHK batches trades, it is possible that a participating account may pay a price which is higher, or sell at a price which is lower, than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone. In addition, because of limitations in the trading volumes of particular securities in particular regions in the Asian securities markets, there also may be price disadvantages or liquidity difficulties when the participating accounts simultaneously seek to acquire or dispose of common securities. Instances also may arise in which VPHK determines an investment opportunity to be suitable for the participating accounts, but in which the market is too illiquid to enable each to participate fully. While VPHK will attempt to deal with such situations in a fair manner, if and when they arise, any particular resolution may not be advantageous to a participating account or may be less advantageous to a participating account than if it had acted alone.

### Side Letter Arrangements

VPHK or its associates or its Funds may enter into side letter arrangements with investors granting an investor preferred economic and other terms as compared to other shareholders. These may include, but are not limited to, rebates of fees and/or charges payable to VPHK or its associates, the reservation of capacity in the Funds, the waiver of redemption notice periods and the provision of additional information to the investor. VPHK or its associates may also agree to consult with or obtain prior approval from particular investors before taking certain actions with respect to the Funds.

## **Item 5 - Fees and Compensation**

### Fund's Fees and Compensation

The fees paid to VPHK are detailed in each Fund's investment management/advisory agreement and in each Fund's EM, Prospectus or PPM. The fees generally include:

- an annual or annualized management fee expressed as a percentage of the Fund's assets under management with VPHK; and
- incentive or performance-based fees or compensation calculated based
  - a. in the case of Private Funds, on absolute performance or performance relative to a defined benchmark; or
  - b. in the case of Authorized Funds, on absolute performance, typically calculated by reference to the highest net asset value achieved by the relevant Authorized Fund as at the end of a performance period

See the "Fee Schedules" below and Item 6 for more information on the range of these fees and information regarding fees.

Investors bear subscription and redemption charges that are separate payments due at the time of subscription to and redemption from a Fund, respectively. Investors in Funds also bear indirectly as charges against Fund assets expenses relating to securities transactions, account custody and administrative fees. Investors can refer to each Fund's EM, Prospectus or PPM for details.

Funds may maintain multiple class structures with differing fees paid by each class. Additionally, Investors in a Fund that employs a sub-manager or investment adviser may be required to pay fees which are higher than the fees paid to VPHK by that Fund.

### **Fee Schedules for Funds**

- a. Private Funds
  - Management Fee: up to 2% annually
  - Performance Fee: up to 20%
- b. Authorized Funds
  - Management Fee: up to 1.5% annually
  - Performance Fee: up to 15%

### Managed Accounts' Fees and Compensation

With respect to Managed Accounts, Clients are charged according to the size of the accounts, the complexity of the mandate, the extent of reporting requirements and other factors. These fees are agreed upon by the Client and VPHK before the Managed Account is opened. VPHK generally receives management fees and incentive fees. Management fees are typically

calculated as a fixed percentage of the assets under management in the relevant account at the valuation date(s) specified in the investment agreement. These fees are typically paid monthly or quarterly.

With agreement of the Client, an incentive or performance fee may be charged that permits VPHK to receive a share of the capital appreciation of the assets within a Client's account. Performance fees are typically calculated as a percentage of an account's positive investment performance for the relevant quarter or year and are subject to the highest asset value achieved by the account as at the end of a performance period. In some instances, performance fees may be calculated in relation to performance against a designated benchmark such as a specific market index or value. These fees are typically paid quarterly or annually. Performance fees may be charged by VPHK to Managed Accounts owned by United States Clients only to those Clients who would meet the definition of a "qualified client" as provided by Rule 205-3 of the Investment Adviser Act. Currently, in order to meet the definition of a "qualified client" an investor must have either US\$750,000 under management in the account or a net worth of US\$1,500,000. Additional information regarding performance fees charged by VPHK to Managed Accounts and how they are calculated is found in Item 6.

Clients also bear other expenses such as expenses relating to securities transactions and account custody. Clients can refer to the relevant investment/advisory agreement for details. See the "Fee Schedules" below for more information on the range of these fees.

Fees may change over time and different fee schedules may apply if VPHK accepts Clients other than those described herein. Additionally, fees may be negotiated and VPHK reserves the right to waive or reduce fees charged to Clients in its sole and absolute discretion. Consequently, some Clients may pay more or less than other Clients for the same or similar management services.

### **Fee Schedule for Managed Accounts**

Management Fee: up to 1.5% annually

Performance Fee: up to 17.5%

### **Fees and Compensation Upon Termination for Funds**

A Fund may terminate on a certain date or upon the occurrence of specified events, as described in the relevant EM, Prospectus, or PPM. Specific requirements, procedures and restrictions apply to withdrawals and terminations by an investor in the Funds. VPHK, or the general partner or managing member of a Fund, in its sole discretion, may impose minimum redemption amounts and require the maintenance of a minimum capital account size in the event of a partial withdrawal by an investor in the Funds. Typically, an Investor in a Fund may withdraw all or part of its interest in the Fund on a daily, weekly, bi-weekly or monthly (for Authorized Funds) and monthly basis (for Private Funds), on a date specified in the Fund's EM, Prospectus or PPM and subject to prior written notice (generally 0 to 30 days). In addition, where the withdrawal requests exceed 10% of the total number of shares or total interest in issue on any dealing day for which subscription and redemption of the shares/interest are being dealt with, such withdrawal may be deferred to the next dealing day. However, VPHK may, in its sole discretion, allow for



withdrawals at other times and/or waive any applicable notice requirements and may also require an Investor to redeem all or part of its interest in a Fund upon provision of reasonable notice, or without such notice if necessary to ensure that the Fund remains in compliance with applicable law.

#### Fees and Compensation Upon Termination for Managed Accounts

VPHK's investment management agreements for Managed Accounts generally provide for termination without penalty by either party upon prior written notice to the other party.

## **Item 6 – Performance-Based Fees**

### Performance-Based Fees

A substantial portion of VPHK's income with respect to Funds is derived from performance fees. VPHK also charges performance fees in Managed Accounts only upon agreement with the Clients. VPHK generally uses a high watermark methodology in calculating and charging its performance fees. The highest net asset value ("NAV") of the invested assets achieved by a Fund or a Managed Account as at the end of a performance period is known as the "high watermark". Using this methodology, if the NAV of a specific Fund or a Managed Account as at the end of a performance period is lower, no performance fee would be payable to VPHK by those accounts. If the NAV as at the end of a performance period subsequently increased back to the high watermark (but no higher), the performance fee is not payable in this circumstance. Generally, only if the NAV as at the end of a performance period increases over the high watermark would entitle VPHK to a performance based fee with respect to a Fund or Managed Account. Note that all fee arrangements will include performance fees and not all performance fee arrangements will include such provisions. Performance fees may be calculated and accrued or paid more or less frequently or in a different manner, as specified in the relevant EM, Prospectus, PPM or investment management/advisory agreement.

There are potential risks attendant to use of a high watermark methodology in calculating performance fees. Since fees are calculated based on the value of the assets, a manager may inflate the valuation of the investments (*e.g.* through inflating the value of illiquid or hard-to-value investments), thus increasing the net asset value of the assets managed. The manager could also allocate better investment opportunities to those Funds and Managed Accounts with higher performance fees. In addition, the performance fees may create an incentive for VPHK to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. The management fee and performance fee payable to VPHK are based in part upon unrealized gains (as well as unrealized losses), and that such unrealized gains and losses may never be realized by the Funds and Managed Accounts. Therefore, a conflict of interests may arise.

To mitigate these potential risks, VPHK has procedures in place that require valuation of net asset value of Funds and Managed Accounts to be performed by administrators/custodians who are independent reputable banks. For listed investments, prices are obtained from external sources and reconciliation is done between VPHK's internal records against administrators/custodians' record to ensure accuracy. For unlisted investments, VPHK has engaged an external valuation appraiser to provide valuations. For those unlisted investments whose underlying securities are listed on the Stock Exchange, valuation is done on a monthly basis, and the rest are done on a quarterly basis. Since the unlisted investment valuations are obtained from external valuation appraiser based on their own pricing models, the valuations are subject to review by VPHK based on reasonableness. However, note that for valuation of the assets within the Funds, the administrators of the Funds will usually obtain confirmation from VPHK before they release the net asset value figures.

VPHK maintains a Valuation Committee, comprised of two members: the Chief Executive Officer and the Chief Financial Officer. The Valuation Committee ensures that the investment

instruments of Funds and Managed Accounts are appropriately valued by persons independent of those who manage the Funds and Managed Accounts and, in particular that the values reflected are fair to investors. The Valuation Committee has adopted a Valuation Policy to ensure, so far as practicable, that valuations of investment assets held by the Funds and Managed Accounts are appropriate and fair to existing, exiting and incoming investors in the Funds as well as to the Clients of each Managed Account.

## **Item 7 – Types of Clients**

### Private Funds

Each Private Fund offered to US Investors (“US Private Fund”) managed/advised by VPHK is typically organized as a limited liability company under the laws of the State of Delaware or another appropriate jurisdiction or as an offshore entity. US Private Funds are established to qualify for exemption from the definition of “investment company” under the Investment Company Act of 1940, as amended, (“1940 Act”) under Section 3(c)(7) and offer their interests to Investors pursuant to Section 4(2) of, or Regulation D or Regulation S, under the Securities Act of 1933, as amended (“1933 Act”).

Investors in the US Private Funds generally include high net worth individuals, other private funds and a variety of institutional investors (*e.g.* trusts, employee benefit plans, endowments, foundations, corporations and other types of entities) meeting the qualifications of those exclusions from the 1940 Act and exemptions from the 1933 Act which the relevant US Private Fund operates and is offered, and who wish to invest in accordance with the US Private Funds investment objective. Such Investors must meet the requirements for “accredited investors” under the 1933 Act, “qualified purchasers” under the 1940 Act and “qualified eligible persons” under regulations of the Commodity Futures Trading Commission.

VPHK generally prefers a minimum initial investment in US Private Funds ranging from US\$200,000 to US\$1,000,000 as specified in the US Private Fund’s PPM. For certain Funds, VPHK may, in its sole discretion, waive such minimum investment requirements.

### Authorized Funds

Investors in the Authorized Funds generally include retail investors, high net worth individuals, other private funds and a variety of institutional investors.

VPHK generally prefers a minimum initial investment in Authorized Funds ranging from US\$5,000 to US\$100,000 as specified in the Authorized Fund’s EM or Prospectus. For certain Funds, VPHK may, in its sole discretion, waive such minimum investment requirements.

### Managed Accounts

Managed Account Clients generally include institutions, corporations, statutory authorities, university endowment funds and charitable foundations.

The terms and conditions of investment in Managed Accounts are negotiated with the Client on a case-by-case basis depending on the size of the Managed Account, the complexity of the mandate, the extent of reporting requirements and other factors.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

VPHK provides investment management and advisory services relating to equity and fixed income securities. VPHK concentrates its investment expertise regarding securities traded in Asian markets, particularly the Greater China region. VPHK generally employs an investment philosophy of buying securities that appear underpriced based upon an analysis of the financial statements, management, current health and competitive advantages of the issuer of the securities when compared to its competitors and markets. This approach is commonly referred to as “value investing.” The companies selected by VPHK for this analysis are based on their own merit without regard for the specific sectors in which they participate or the current economic conditions but looks closely at each company’s management, business model, growth prospects as well as other company characteristic.

Although VPHK utilizes information, reports and data from various external sources, its investment decision-making with respect to the accounts it manages is based primarily upon its internal research and analytical capabilities, including the research and analytical experiences and expertise of its investment staff. For those individuals who are involved in the investment management function of VPHK, a college degree and at least two years working experience in the investment sector is preferred.

Investing in securities involves risk of loss that Investors/Clients should be prepared to bear.

## Item 9 – Disciplinary Information

In the past ten years, Value Partners Limited (“VPL”), which is a fellow subsidiary of VPHK, was charged in the Eastern Magistrates’ Courts of the Hong Kong Special Administrative Region, People’s Republic of China, ESS 6369 to 6372 of 2004 with four counts of failure to perform within the proper period of duty to disclose notifiable interest in the shares of a listed company. These charges are felony charges and VPL was found guilty for all four summonses. These charges are final as of April 7, 2004. VPL was fined HK\$4,000 per summons (approximately US\$510) and paid the fine on April 8, 2004.

- Summary of Circumstances Leading to Charges – VPL manages Value Partners China Greenchip Fund Ltd (“Fund”). On April 16, 2002, there was a placement by Bright Int’l Group Ltd (“Bright”), a company listed on the Hong Kong Stock Exchange (“Exchange”). The placement was part of a top-up placement but on this occasion the top-up did not occur until after April 24, 2002. There was an acquisition of Bright shares by the Fund on April 16, 2002 which technically brought the aggregate interest of VPL marginally above the 10% reporting threshold under Hong Kong law and triggered the obligation to make disclosure to the Exchange and Bright within five days. As a result of human error, VPL used the enlarged issue share capital (*i.e.* taking into account both the existing and new shares) in making the calculation, leading to a mistaken belief that its interest in Bright had not passed the 10% threshold. Therefore, no disclosure had been made. On April 24, 2002, following a series of disposal of Bright shares, VPL’s interest in Bright fell below 10%, and VPL was under the duty to disclose to the Exchange and Bright. Because of the mistaken belief that its interest had not passed the 10% threshold, VPL was not aware that its duty to disclose had arisen again. As a result of the non-disclosure, the Hong Kong Securities and Futures Commission (“SFC”) issued four summonses against VPL for failure to perform disclosure duties to the Exchange and Bright within five days; from April 16, 2002 (one summons for disclosure to the Exchange and one summons for disclosure to Bright) and from April 24, 2002 (one summons for disclosure to the Exchange and one summons for disclosure to Bright). VPL pleaded guilty to all four summonses on April 7, 2004 and was fined HK\$4,000 (approximately US\$510) per summons and paid investigation costs of HK\$29,224 (approximately US\$3,750) to the SFC. Noting that the non-disclosure stemmed from a calculation error, SFC regarded this as an end of the matter and no further regulatory action will be taken.

In the past ten years, VPL was publicly reprimanded by the SFC. The reprimand was announced on October 5, 2000.

- On October 5, 2000, the SFC issued a public reprimand against VPL and Mr. Cheah Cheng Hye. The SFC found that, as a result of certain buy orders placed in the market by VPL on December 28, 29 and 31, 1998, the price of the stocks in question closed at a level higher than might otherwise have been the case, and that this action could have been prejudicial to the integrity of the market. Mr. Cheah was personally reprimanded in his capacity as the person responsible for the investment decisions. While the SFC also found that it was not his intention to affect the price of the relevant stocks, its view was that he should have known the risk. The SFC separately identified certain inadequacies

in VPL's internal procedures and breaches of certain regulatory requirements. In issuing the reprimand, the SFC recognized that appropriate steps had been taken to ensure that the problems identified would not reoccur. At the request of the SFC, VPL engaged an international firm of accountants to review its business operations and internal controls in January 2001. The accountants reported on their review and concluded in their report that all breaches previously identified by the SFC had been rectified and that all recommendations previously made by the SFC had been implemented. The accountants' report was submitted to the SFC which did not raise any further concerns.

## **Item 10 – Other Financial Industry Activities and Affiliations**

VPHK is affiliated through common ownership with Sensible Asset Management Limited (“SAM”), Value Partners Private Equity Limited (“VPPE”) and Sensible Asset Management Hong Kong Limited (“SAMHK”) and its wholly-owned Value Partners Limited (“VPL”). Each of these entities is engaged in the business of providing investment management and advisory services in Hong Kong. VPL, VPHK, SAM, VPPE and SAMHK are wholly-owned subsidiaries of Value Partners Group and each share front and back office personnel, research and trading facilities. VPHK serves as investment manager to an US Private Fund for which Value Partners (Cayman GP) II Limited (“VPGP”) is the managing member. VPHK and VPGP are affiliated through common ownership. VPHK may from time to time and as appropriate solicit clients to invest in the US Private Funds, but will not make such investments on a discretionary basis. As these US Private Funds may not be appropriate investments for all potential investors, not all investors will be offered the opportunity to invest and not all investors who are offered that opportunity choose to invest.



## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### Code of Ethics

VPHK and its employees must comply with a Code of Ethics. The Code of Ethics adopted by VPHK contains provisions reasonably designed to deter misconduct and conflict of interests and to detect violations of the Code of Ethics and applicable law. The Code of Ethics includes the following:

- Standard of Conduct – sets out the minimum standard expected of all staff and includes honesty and fairness, skill, care and diligence, fiduciary duty and other standards;
- Avoid Insider Trading – designed to prevent any trading or tipping based on material, non-public information and other types of market misconduct;
- Staff Dealing – sets out the procedures to be followed for trading in their own or associates' accounts by staff. The procedures include, but are not limited to, initial and annual disclosure, prior approval from fund management team and compliance team for securities transactions for staff and associates, prior approval from compliance team for opening of broker accounts, submission of trade confirmation and account statements from staff or their brokers and a minimum holding period of 60 days for securities;
- Receipt or Provision of Benefits – sets out the procedures to be followed for receiving or offering of gifts and benefits in connection with the affairs or business of a client;
- Protection of Trading and Client Information – sets out the procedures to be followed for handling VPHK's trading information and client information and about privacy of client information; and
- Books and Records – sets out the types of books and records that are required to be kept and the related timing.

Any person not in compliance with the Code of Ethics may be subject to disciplinary action, including summary dismissal. VPHK will provide a copy of its Code of Ethics to any client or prospective client upon request.

### Participation or Interest in Client Transaction – Conflict of interests

VPHK acts as investment manager to numerous Funds and Managed Accounts. As discussed in Item 10 above, VPHK shares investment personnel and other personnel, including traders. VPHK or its staff may give advice and take action with respect to any Funds or Managed Accounts it manages or for a VPHK proprietary account or an account of a staff member that may differ from action taken by VPHK on behalf of other Funds or Managed Accounts. VPHK is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that VPHK or staff may buy or sell for its or their own accounts or for other Funds or Managed Accounts VPHK manages. Additionally, VPHK's personnel and affiliates may invest, either directly or indirectly, in Funds which, in turn, may invest in securities held in other

Funds and Managed Accounts managed by VPHK. VPHK's buy or sell programs may extend over a period of months and securities may be held over a period of years. From time to time, VPHK's officers and employees may have interests in securities owned or sold by or recommended to the Funds and Managed Accounts.

All of these situations represent a potential conflict of interest for VPHK in relation to its Clients and the Investors in the Funds it manages. To address these potential conflicts of interest, VPHK maintains procedures relating to personal securities transactions and insider trading that are designed to reasonably detect and prevent actual conflict of interests. VPHK personnel supervise the execution of policies and procedures, including adopting its Code of Ethics, intended to avoid conflict of interests with Investors and Clients and resolve such conflicts appropriately if they occur. VPHK proprietary accounts and VPHK's officers and employees are not obligated to refrain from investing in securities held in the Funds and Managed Accounts it manages except to the extent such investment would be contrary to the Code of Ethics.

#### Provision of Investment Management/Advisory or Similar Services to Other Funds

VPHK (which includes its officers, employees and other agents and affiliates, collectively, "VPHK and its affiliates") provides investment management/advisory services and engages in functions with respect to various Funds, Managed Accounts and other clients, that may have similar or different investment objectives and policies. VPHK and its affiliates may retain any profit or benefit made in connection with its investment management/advisory and other services. As a result, conflicts of interests among these persons may arise.

To mitigate these conflicts, VPHK attempts to ensure fair treatment to all Funds and Managed Accounts, including but not limited to fair basis of allocation of investment opportunities among the Funds and Managed Accounts. In allocating investment opportunities among multiple Funds and Managed Accounts, VPHK will determine the intended allocation prior to execution of the transaction(s). In determining, and recording, the intended basis of allocation between different Funds and Managed Accounts, VPHK will primarily consider the following:

- the investment objectives and investment focus of each fund;
- the stock weighting within each fund;
- the amount of excess cash available in each fund (both in absolute terms and in percentage terms);
- the size of each fund;
- the sector weighting; and
- cost effectiveness.

Executed trades are promptly allocated between the relevant Funds and Managed Accounts in accordance with the intended allocation unless allocating the transaction(s) in another manner does not disadvantage any Fund or Managed Account and VPHK clearly documents the basis for the revised allocation.

#### Co-Investment by Staff or VPHK Proprietary Accounts Along with Funds and Managed Accounts

Staff or VPHK proprietary accounts may co-invest at the same time along with Funds and Managed Accounts in unlisted investment opportunities. There is risk that fund managers may give lesser allocation to the Funds and Managed Accounts and therefore increase the allocation remaining for their own or VPHK proprietary accounts. These circumstances create the potential for a conflict of interest.

To mitigate any conflict, VPHK has procedures in place that require that priority must always be given to Funds and Managed Accounts for participation in unlisted investment opportunities. Staff and VPHK proprietary accounts may participate in these investment opportunities if, after taking into account the Fund and Managed Accounts' best interest, the Fund and Managed Accounts would not acquire the entire investment available. If there is a remaining balance of the investment, it may be acquired by the staff or VPHK proprietary accounts. Prior approval from the compliance team is required for co-investment and the compliance team reviews and assesses the reasonableness of allocation.

#### Trading of the Same Security by Staff or VPHK Proprietary Accounts and Funds and Managed Accounts

VPHK and its affiliates may buy or sell securities for Fund and Managed Accounts that they have financial interests in or they may buy or sell the same securities for their own accounts notwithstanding that similar securities may be held/traded by the Funds and Managed Accounts. Positions taken by VPHK and its affiliated may be the same, different or made at a different time or price than positions taken by the Funds or Managed Accounts. There are risks that portfolio managers may engage in "front-running" where portfolio managers may buy or sell excessively for the Funds or Managed Accounts for the purpose of affecting the price to benefit his/her own personal account or that portfolio managers may abuse insider trading information by trading in staff or VPHK proprietary accounts. These circumstances create the potential for a conflict of interest.

To mitigate this, VPHK has in place a policy on staff and VPHK proprietary account dealings. A black out period has been set under which staff and VPHK proprietary accounts are prohibited from trading the same security for a period of 3 days before and after the Funds and Managed Accounts have traded that security or when there is a pending order in any of the Funds and Managed Accounts on the same day.

If any of the staff come into possession of any material non-public information regarding any security, they must report to the compliance team immediately. The compliance team shall place the security on the restricted list and all Funds and Managed Accounts, staff and VPHK proprietary accounts will be prohibited to trade that stock until information becomes public. The compliance team periodically reviews staff and VPHK proprietary account dealings with a view to identifying any pattern of staff or VPHK proprietary account securities transactions that suggest any actual or potential conflict of interests or abuse of such person's position of trust and responsibility within VPHK or VPHK's clients.

#### VPHK and its Directors/Officers May Invest in the Funds which are Managed by VPHK and its Affiliates

VPHK and its directors/officers may become the owner of Funds which are managed by VPHK and its affiliates and hold, dispose or otherwise deal with them with the same rights as other owners. These circumstances create the potential for a conflict of interest to arise.

To mitigate any conflict of interest, VPHK requires proper disclosure in the Fund's offering documents regarding the directors or officers ownership. No preferential treatment is granted in the subscription process to these related parties, apart from rebate of fees at VPHK's own expense.

#### Investing in Companies Which Any of VPHK's Directors/Officers has a Board Seat, Act as Officer or is a Committee Member

Funds and Managed Accounts may invest in securities/related securities in any company for which the directors or officers of VPHK have a board seat, acts as an officer or is a committee member. There is risk that such transaction may not be at arm's length and conflict of interests will arise.

To mitigate this, VPHK has policies in place that require all such transactions must be at arm's length and are subject to prior approval from the compliance team.

#### Cross Trade

VPHK may cause a Fund or Managed Account to purchase or sell securities from or to, as the case may be, another Fund or Managed Account in a "cross-trade." There is risk that preferential treatment is given to a certain Fund or Managed Account whereby terms of the transaction may not be at arm's length. As a result, conflict of interests may arise.

To mitigate this, VPHK has adopted and is subject to procedures with respect to cross-trades. Prior approval from the compliance team is required for all cross-trades. The transaction must be in the best interests of the Funds and Managed Accounts involved and an appropriate price must be assigned to the crossed security on an arm's length basis. Cross-trades between VPHK proprietary accounts and Funds or Managed Accounts are not permitted.

#### Related Party Transactions

VPHK, its affiliates and the service providers may contract or enter into any financial, banking or other transaction with one another or with any client or any company or anyone whose investments form part of the Funds or Managed Accounts or is interested in such contract or transaction. There is risk that such transaction may not be at arm's length and conflict of interests may arise.

To mitigate this, VPHK has policies in place that require all such transactions must be at arm's length and are subject to prior approval from the compliance team.

### Borrowing and Depositing with Affiliates

The monies of the Funds and Managed Accounts may be borrowed/deposited with any connected persons of VPHK, its affiliates or its service providers which is duly licensed to accept such deposits. There is risk that such transaction may not be at arm's length and conflict of interests may arise.

To mitigate this, VPHK requires that interest must be received on the deposit not lower than the prevailing commercial rate for a deposit of that size and term if monies are borrowed/deposited with any connected person of VPHK, its affiliate or its service providers.

### Gifts and Benefits

VPHK's staff may receive gifts and benefits from brokers, other service providers (such as distributors, custodians) and clients. The acceptance of gifts and benefit arguably may compromise the staff's position in his/her dealings with the donor.

To mitigate this, VPHK has in place policy which prohibits its staff from receiving excessive gifts or benefits in connection with the affairs or business of a client which is likely to significantly conflict with the duties owed to clients. Donation or receipt of gifts is permitted only if they are small in value and customary in nature. In addition, prior approval from the compliance team is required if gifts or benefits exceed a certain amount.

## Item 12 – Brokerage Practices

VPHK has the authority to determine without consultation or obtaining specific Investor or Client consent on a transaction-by-transaction basis, the securities to be bought or sold and the amount of securities to be bought or sold, subject to and in accordance with the investment objective and restrictions of the Fund or Managed Account. In addition, VPHK generally has discretionary authority with respect to the selection of such brokers and dealers (unless otherwise specified by the Client).

VPHK allocates portfolio transactions to brokers and dealers while seeking best execution with respect to the Funds' and Managed Accounts' portfolio transactions. The best net results, giving effect to transaction costs (including brokerage commissions and spreads which may not be the lowest available but which ordinarily will not be higher than the generally prevailing rate) is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant, and recognizing that different broker-dealers may have different execution capabilities with respect to different types of securities and transactions. These factors include the following:

- pricing of the trades (*e.g.* transaction costs, including commission rates);
- investment-related services which include:
  - a. research and investment ideas that may be provided (*e.g.* quality of research and other information provided by broker-dealer, introduction to potential investee companies, providing access to investment opportunities and initial public offerings and placements and access to primary markets); and
  - b. service standard (*e.g.* technological capabilities, accommodation of client's needs);
- execution quality (*e.g.* timing of trades, price and speed and certainty of execution); and
- security (*e.g.* the broker's ability to provide confidentiality and the quality of systems used by broker-dealer).

The weighting given to investment-related services is greater than the weight of each of the other factors and the aggregate of all other factors; although, the weighting of each factor may vary from time to time.

Investment managers and the dealing team evaluate the services of various brokers using a scoring system on a semi-annual basis and whenever they consider necessary. After each evaluation, brokers are categorized into different groups with different allocations of brokerage volumes. VPHK uses the scoring information from these evaluations as a guide in determining which broker to allocate securities orders. However, in limited circumstances and subject to periodic review by the compliance team, brokers that have not been categorized using the scoring system may receive orders if they provide research in relation to a specific investment or access to an investment opportunity.

## Soft Dollar Benefits

VPHK and its associates and delegates may receive, and are entitled to retain, research products and services, known as soft dollar benefits, which provide demonstrable benefit to the Funds and Managed Accounts (as may be permitted under applicable rules and regulations) from brokers or other persons through whom investment transactions are carried out. Soft dollars may be received from them provided that the quality of transaction execution is consistent with best execution standards. VPHK will consider many judgmental factors deemed relevant in determining whether a broker will provide best execution, which may include the provision of research products and investment ideas and introductory services to potential investment opportunities, access to investment opportunities and initial public offerings and placements which are for the benefit of Funds and Managed Accounts. The commission rates charged by brokers in these circumstances may be higher than those charged by other brokers who do not offer such services or by the same broker if it only provides execution services.

Examples of research products and services that VPHK may receive from brokers include analyses and reports concerning industries, securities and economic factors and trends. The Funds and Managed Accounts generally will pay customary full service brokerage rates where execution, research and other services cannot be unbundled for the same commission rate.

In particular cases where execution, research and other services can be unbundled, the funds will pay a brokerage commission that is discounted from customary full service brokerage rates if no research or other services are provided in addition to brokerage execution. In addition, VPHK has the discretion to cause the Funds and Managed Accounts to pay brokerage commissions in excess of discounted rates, and up to full service brokerage rates, for quality brokerage execution and the provision of research or other appropriate services that VPHK determines to be beneficial to the Funds or Managed Accounts.

VPHK may pay brokers commissions for effecting portfolio transactions in excess of amounts other brokers would have charged for effecting similar transactions if VPHK determines in good faith that such amounts are reasonable in relation to the value of the research and other services provided, viewed in terms of the particular transaction or VPHK's overall duty to its clients.

VPHK's practices with regard to soft dollar benefits are intended to comply with regulations of Hong Kong. These practices and regulations are generally consistent with Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, although they may diverge in some instances. (Section 28(e) provides a "safe harbor" that allows an investment adviser to pay for research and brokerage services with the commission dollars generated by client account transactions).

The research obtained from brokers will be used to service all the accounts under management by VPHK.

If there is a direct soft dollar arrangement whereby some brokers can settle some of the expenses for VPHK via soft dollars generated, there is risk that fund managers may engage in excessive trading for the Funds and Managed Accounts and/or divert more business to these soft dollar brokers in order to generate more soft dollars. To mitigate this, VPHK does not enter into any

direct soft dollar arrangement whereby the brokers can settle some of the expenses for VPHK via soft dollar generated. VPHK has adopted procedures in place that fund managers and the dealing team will evaluate the services of various brokers using a scoring system on a semi-annual basis as described above.

#### Directed Brokerage

On occasion, Managed Account Clients may direct VPHK to effect securities transactions in the Managed Account through a specified broker/dealer. Under such directed brokerage arrangement, VPHK may not be able to comply with the best execution standard for the Client (*e.g.* their accounts may pay higher commissions and receive less favorable execution). In addition, such a Client may not be able to participate in some of the investment opportunities which are available to other funds under management (*e.g.* a placement or IPO allocation from a particular broker which is different from the specific broker requested by the Managed Account Client, the broker may not be able to execute transaction in a specific market).

#### Use of Prime Brokerage by Funds

A Fund's use of a prime broker or custodian may yield increased administrative ease and, therefore, increase profitability for VPHK. A prime broker may also introduce Investors to the Private Fund. To the extent a Private Fund's size increases as a result of such capital contributions, the amount of VPHK's management fee will increase. Additionally, because an increase in the size of the Private Fund would likely result in increased compensation to a prime broker, a prime broker therefore benefits from introducing potential Investors to the Private Fund.



### **Item 13 – Review of Accounts**

Each Fund and Managed Account has a portfolio supervisor who is typically a senior investment team member. Each portfolio supervisor may be responsible for reviewing more than one Fund or Managed Account. The portfolio supervisors' periodic review consists of an analysis of the Fund's or Managed Account's performance to date in light of its investment objective and an evaluation of any appropriate changes which should be made to its portfolio. Such reviews are performed no less frequently than annually and more often as the portfolio supervisor considers necessary.

#### Account Reports to Investors/Clients

For Funds, monthly factsheets with quarterly commentaries are sent to Investors in the Funds which include performance updates for the portfolio. Also, audited accounts of the Funds are sent to clients on an annual basis. For Managed Accounts, reports are made and given to Clients as agreed upon with the Client in the investment management/advisory agreement.

#### **Item 14 – Client Referrals and Other Compensation**

VPHK has written arrangements to pay cash referral fees to solicitors in the US who recommend prospective clients to VPHK. The solicitors' fee may be a percentage of revenues or a fixed amount. The solicitors' fees are at VPHK's own expense. VPHK may, in the future, seek other arrangements with solicitors in the US on terms that will provide for payment of solicitation referrals.

Whenever VPHK engages a solicitor in the US to refer Clients to enter into a Managed Account with VPHK, the engagement is reflected in a written agreement between VPHK and the solicitor, which defines the duties and responsibilities of the solicitor. Each solicitor is required to provide a written disclosure document, which explains to the prospective Client the solicitor's duties and responsibilities and the fact that the solicitor is compensated by VPHK for the referral activities. The solicitor is also required to furnish a copy of Part 2 of VPHK's Form ADV to the prospective Client and obtain a written acknowledgement from the Client that both solicitor's and VPHK's disclosure documents have been received.

## **Item 15 – Custody.**

### Authorized Funds

All assets of the Authorized Funds are held by licensed/registered trust companies and the Fund Administrator identified in the EM/Prospectus generally provides each investor with statements of account on a quarterly basis reflecting the current value of the account and any transactions that have occurred during the period.

### Private Funds

For Private Funds with investors who are U.S. Persons (“U.S. Private Fund”), the assets of the U.S. Private Fund are held and maintained by licensed/registered trust companies or banks that also act as the fund administrator. The Fund Administrator for each U.S. Private Fund generally provides access to the investors electronically that permits the investors to access the account status and annual statements directly to each investor. An audit is conducted annually by an independent accounting firm with copies of the audited accounts provided to each investor.

### Managed Accounts

The assets of each Managed Account owned by a U.S. Person are held by a custodian selected by the Client. The custodian is either a bank or broker-dealer and the Client establishes the account in the Client name and provides discretionary third party trading authorization to VPHK as the manager. VPHK provides statements to the Clients and the custodian of the account also provides monthly statements to the Client directly through electronic access or in paper form. VPHK invoices the Client directly for all fees and charges and the Client determines what source they wish to use for payment which could include directing the custodian to pay the invoice. VPHK has no authority to and does not direct the custodian to deduct its fees from the Managed Account.

## **Item 16 – Investment Discretion**

Pursuant to its agreements with the Funds, VPHK has investment discretion with respect to the investment of the assets within the Funds. VPHK is granted investment discretion pursuant to its agreement with each Client of a Managed Account. Any restraints on the investment discretion that VPHK may exercise are established by the Client within the investment management agreement. A Client may establish additional restrictions regarding the exercise of investment discretion by VPHK by providing a separate writing that provides the restriction.

## **Item 17 – Voting Client Securities**

VPHK has adopted and implemented written policies and procedures as required by Advisor Act Rule 206(4)-6 regarding voting of client securities. These policies and procedures are reasonably designed to ensure that proxies are voted in the best interest of its clients, which generally means voting proxies with a view to enhancing the value of client securities. The financial interest of clients is the primary consideration in determining how their proxies should be voted. VPHK will take reasonable measures under the circumstances to:

- obtain knowledge of meetings and other events giving rise to solicitation of proxies;
- assure that proxies are received in sufficient time for it to take action;
- vote proxies; and
- return the proxies to the parties soliciting them in time to be counted.

### General Guidelines for Proxy Voting

It is not possible to present a comprehensive roadmap for the voting of proxies. The following general guidelines set out VPHK's general approach but each situation must be judged on its own merit.

- The decision to invest in a company normally represents confidence in the management of that company. Consequently, in the absence of evidence reducing VPHK's confidence in management, VPHK will give considerable weight (by no means conclusive weight) to management recommendations, except in the case of issues directly affecting the interests of management itself, such as management compensation.
- VPHK will generally support management recommendations about the internal operations of the company or which are not expected to have significant economic effect on the company or its security-holders. Proposals which are likely to have significant economic effect on the company and its security-holders will be subject to greater scrutiny on a case-by-case basis.
- VPHK favors having strong independent directors and supports delegation of key functions (such as compensation, audit and nominating committees) to independent directors. VPHK will generally oppose classification of directors.
- Proposals for re-capitalizations, mergers, corporate restructuring and anti-takeover measures such as "poison pills" will be carefully scrutinized to ascertain possible benefits and disadvantages to security-holders. Management recommendations with respect to such transactions will be reviewed in the light of possible management self-interest.
- Proposals regarding stock-option plans and other compensation issues will be carefully scrutinized. Since VPHK's investment philosophy strongly favors long-term capital appreciation, its assessment of proposals for management compensation will take into

account positioning for achievement of long-term goals as well as shorter-term performance.

- Unless VPHK concludes that substantial financial interests of its clients are at risk or has client instructions to the contrary, VPHK will generally leave to management discretion matters involving social, environmental, ethical or similar issues.

These general guidelines are not exhaustive and do not include all potential voting issues. Proposals not covered by the guidelines and contested situations are evaluated on a case-by-case basis, taking into consideration all of the relevant facts and circumstances at the time of the vote.

Regardless of the issues presented, VPHK will be mindful of its duty to vote proxies in the best interest of its clients. VPHK may defer to instructions of its clients as to voting their securities with respect to specific issues as it deems appropriate.

VPHK clients may obtain a copy of VPHK's proxy voting policies and procedures or information about how client proxies were voted by writing to VPHK's Compliance Officer at 9<sup>th</sup> Floor, Nexxus Building, 41 Connaught Road Central, Hong Kong.

**Item 18 – Financial Information**

VPHK does not require prepayment of any fees. VPHK has sufficient capital and has no financial circumstances that would restrict its ability to perform the obligations with respect to the exercise of its investment discretion.