



Annual Report

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI  
JUNAN GREATER CHINA GROWTH FUND  
A unit trust constituted by a Trust Deed dated  
29 August 2007 under the laws of the Cayman Islands

For the period from 19 November 2007 (date of  
establishment) to 31 December 2008

Ernst & Young

# GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

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# GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

## MANAGEMENT AND ADMINISTRATION

### **Manager**

Guotai Junan Assets (Asia) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

### **Directors of the Manager**

Yim Fung (Appointed on 19 November 2007)  
Charles Cheung (Appointed on 19 November 2007)  
William Mak (Appointed on 19 November 2007 and resigned on 14 November 2008)

### **Trustee and Registrar**

HSBC Trustee (Cayman) Limited  
P.O.Box 484  
HSBC House,  
68 West Bay Road  
Grand Cayman KY1-1106  
Cayman Islands

### **Service Provider to Trustee and Registrar**

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

### **Auditors**

Ernst & Young  
62 Forum Lane  
Camana Bay  
P.O. Box 510  
Grand Cayman  
Cayman Islands  
British West Indies

### **Legal Adviser**

Sidley Austin  
39th Floors  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

### **Cayman Island Legal Advisers to the Manager**

Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O.Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

31 December 2008

## Markets Review

2008 was a year of many historical events - from the first elected African-American U.S. president to the collapse of one of the world's biggest investment banks to the \$700 billion bailout package issued by the Treasury in the US. Despite the stock market producing a modest gain in the final month of the year, the Dow Jones Industrial Average suffered its worst annual performance since the Great Depression. On a total return basis, the DJIA fell -33.8% in 2008, wiping out over 5 years worth of gains. The S&P 500 index fell -38.5%, suffering its worst annual performance since 1957 when the index was created. The Federal Open Market Committee (FOMC) cut the target rate to a range of 0-0.25% from 1% in December.

The China market could not be spared from the global financial crisis as investors were worried about the future earnings of property and financial stocks. The government expressed concern on the economic slow-down and is taking every effort to maintain a stable economic growth. The stringent money and fiscal policies in the first half of the year were reviewed and abolished. The central government now focuses on boosting the domestic consumption and protecting the export growth. A State Council meeting chaired by Premier Wen Jiabao in December set measures to ensure the stability of the real estate market.

The Hong Kong economy contracted on a sequential (seasonally-adjusted) basis for the third consecutive quarter. The YOY real GDP growth dipped into negative territory at -2.5%, down from 1.7% growth in 3Q08 and 5.8% in 1H08. A small and open economy like Hong Kong is extremely vulnerable to external shocks. On the bright side, China unveiled 14 measures to help Hong Kong. The measures include allowing more Chinese citizens to visit Hong Kong, opening more mainland service industries, strengthening Hong Kong's basic infrastructure etc.

In Taiwan, the economy is experiencing a deep recession, with 8.36% YOY contraction in 4Q08 real GDP, leading to an overall growth of 0.12% YOY through 2008. The employment outlook is the major drag, with unemployment rates rising to unprecedented levels to the highest level since February 2002. The CBC cut the discount rate and other policy rates by 25bp immediately after the GDP release, citing that global economic downturn, shrinking external demand, weakening domestic demand and receding inflation pressure as the reasons behind the scene. We expect low interest rates and the government's stimulus package will gradually show their effects in the future.

As a result, the Shanghai and Shenzhen A-Share index fell 62.37% and 53.84% respectively, while the Hang Seng China Enterprise Index dropped 52.27%. The Taiwan Weighted TWSE also came down by 47.11% during the period (Table 1).

31 December 2008

**Markets Review** (continued)**Table 1**

<b>Market Performance 19 November 2007 - 31th December 2008</b>	<b>% change</b>
Hang Seng China-Affiliated Corporations Index (HSCCI)	-43.49
Taiwan TAIEX Index (TWSE)	-47.11
Hang Seng Index (HSI)	-47.61
MSCI AC GOLDEN Dragon (Net)* (NDLEACGD)	-49.15
MSCI Emerging Markets China (MSELTCF)	-52.18
Hang Seng China Enterprises Index (HSCEI)	-52.27
Shenzhen SE A Share Index	-53.84
Guotai Junan Greater China Growth Fund	-57.04
Shanghai SE A Share Index	-62.37

\* MSCI AC Golden Dragon (Net) is a total return index with dividends income (after deduction of withholding tax) reinvested.

**Markets Outlook**

The global recessions continue to curb investors' appetite. However, the swift and determined policy response by the Chinese government proved to be remedy for frayed investor sentiment. The market will continue to be extremely sensitive on any stimulus policies and negative news flow. On the positive side, China has the good track record that fiscal stimulus could offset a sharp fall in exports, which can be seen from the Asian Financial Crisis in 1998, when China managed to grow 7.8% YOY even as exports collapsed to 0.5% from 21% in 1997. The substantial financial muscle that the Chinese government has to finance fiscal measures should therefore prevent a sharp fall off in GDP growth. More, the aggressive loosening of monetary policy, combined with a banking system which is largely focused on the domestic economy and deposit base should therefore relatively insulated from the global credit crisis, which gives China the best chance to outperform other major countries in the coming year.

In the first stage of government pushing out fiscal stimulus measures to combat the global recession, beneficiaries are infrastructure-related sectors such as cement and railway construction. Now, in the second stage, Chinese policymakers have been focusing on boosting domestic consumption, rather than overstimulating investment that could result in overcapacity and overinvestment. The government should particularly focus on encouraging consumer spending, including property, cars, and electronic appliances, which should provide a larger boost to consumption. We expect the Chinese government's aggressive stimulus measures could result in an improvement in economic growth in 2H09. Our strategy remains defensive in the coming months. On the sector side, we continue prefer consumer staples, telecoms, and selective infrastructure companies for their relative earnings security and defensiveness.

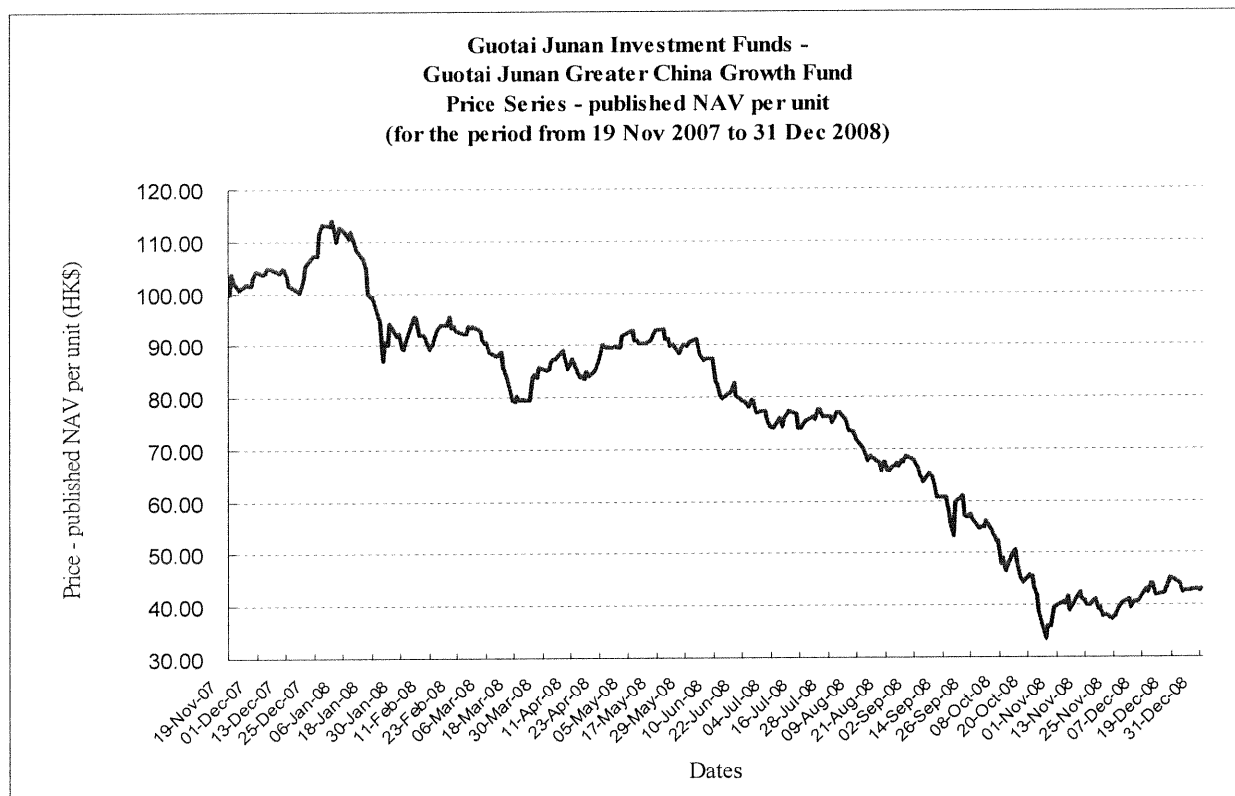
31 December 2008

**Markets Outlook** (continued)

As an export-oriented country, Taiwan is highly vulnerable to any slowdown in global demand. With tech sector peak season passing and global demand outlook bleak, the earnings outlook of the tech sector remains challenging. On the bright side, China announced 10 measures for enhancing economic cooperation with Taiwan, during the 4th Cross-Straits Economic, Trade and Cultural Forum held in Shanghai in December - China banks will offer RMB50bn (US\$7.3bn) each to finance Taiwanese-funded enterprises in two to three years. China will also purchase US\$2bn worth of TFT-LCD panels from Taiwanese panel makers. Although US\$2bn worth of panels is not too meaningful to the bottom line results, all these measures give positive sentiment to Taiwanese enterprises. Given the improving ties between China and Taiwan, Taiwan is expected to benefit from more agreements to be made with China. The MOU is scheduled to be signed in the third Chen-Chiang talk in March 09. We believe that Taiwan will suffer most among its Asian neighbors during this economic downturn, but could see a relatively strong rebound once recovery begins. We will focus on companies or sectors which could benefit from the domestic infrastructure and the expansion of cross-strait relations.

**Performance**

As of 31 December 2008, the Sub-Fund fell 57.04% since inception. The top three holdings of the Sub-Fund were Ishares A50 Tracker China (02823.hk), Bank of China Limited (03988.hk) and China Telecom Corp Limited (00728.HK). The Fund’s performance was due to the factors explained in Markets Review above. Below is the graph of the price series of the Sub-Fund which indicates the price changes of the Sub-Fund in the reporting period.



GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

REPORT OF THE MANAGER

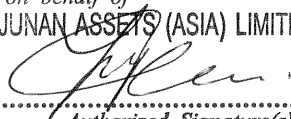
31 December 2008

**Investment Strategy**

The Manager intends to make investments primarily through a portfolio consisting of listed securities of companies that derive or are expected to derive a significant portion of their revenues from goods produced or sold, investments made or services performed in Greater China, which includes the People's Republic of China (PRC), the Special Administrative Regions of Hong Kong and Macau and Taiwan. The Manager believes that the value of these companies would increase through benefiting from the economic growth of the Greater China region.

The Sub-Fund will be managed based on a value-oriented investment strategy, which means that the Manager will invest in assets which are considered to be undervalued, compared to their intrinsic value.

*For and on behalf of*  
GUOTAI JUNAN ASSETS (ASIA) LIMITED



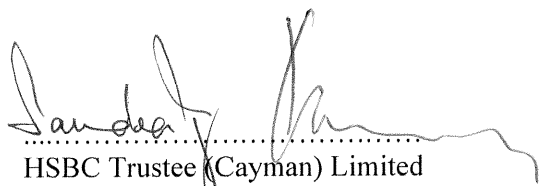
.....  
*Authorized Signature(s)*

.....  
Guotai Junan Assets (Asia) Limited  
22 April 2009

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

REPORT OF THE TRUSTEE

We hereby confirm that, in our opinion, the Manager of the Trust has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 29 August 2007, for the period from 19 November 2007 (date of establishment) to 31 December 2008.



.....  
HSBC Trustee (Cayman) Limited  
22 April 2009



## Report of the Independent Auditors

To the Trustee and Unitholders  
Guotai Junan Investment Funds (the “Trust”)

We have audited the financial statements of Guotai Junan Greater China Growth Fund (the “Sub-Fund”) of the Trust on pages 9 to 23, which comprise statement of assets and liabilities as at 31 December 2008, and the revenue statement, distribution statement, statement of changes in net assets attributable to holders of redeemable units and cash flow statement for the period from 19 November 2007 (date of establishment) to 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

### **Trustee’s and Manager’s Responsibilities for the Financial Statements**

The Trustee and the Manager of the Trust are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the relevant disclosure provisions of the constitutive documents of the Sub-Fund of the Trust (the “Constitutive Documents”) and the disclosure requirements the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the “SFC Code”). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors’ Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with the disclosure requirements of Appendix E of the SFC Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement, and whether the financial statements are in accordance with the relevant disclosure provision of the Constitutive Documents and the disclosure requirements of Appendix E of the SFC Code.

## Report of the Independent Auditors (continued)

### **Auditors' Responsibility (continued)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee and the Manager, as well as evaluating the overall presentation of the financial statements.

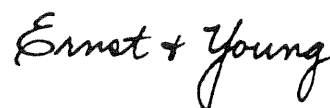
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Sub-Fund of the Trust as at 31 December 2008 and of its financial performance and its cash flows for the period from 19 November 2007 (date of establishment) to 31 December 2008 in accordance with Hong Kong Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Constitutive Documents and the disclosure requirements of the SFC Code

A handwritten signature in cursive script that reads 'Ernst & Young'.

22 April 2009

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

REVENUE STATEMENT

For the period from 19 November 2007 (date of establishment) to 31 December 2008

	Note	HK\$
Income		
Dividend income, net of withholding tax		1,287,679
Interest income		21,025
		<hr/>
Total income		1,308,704
		<hr/>
Expenses		
Administration and custodian fee	3	460,537
Valuation fee		106,295
Audit fee		280,000
Brokerage and handling expenses	3	871,140
Management fee	3	1,135,803
Preliminary expenses		1,310,995
Transaction fees		84,392
Registrar fee	3	43,595
Miscellaneous expenses		220,206
		<hr/>
Total expenses		4,512,963
		<hr/>
Loss before investment loss and exchange differences		(3,204,259)
Investment and exchange differences		
Net unrealized loss on investments		(39,618,891)
Net realized loss on investments		(16,093,570)
Foreign exchange differences, net		468,098
		<hr/>
		(55,244,363)
		<hr/>
Loss for the period and decrease in net assets attributable to holders of redeemable units		(58,448,622)
		<hr/> <hr/>

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND  
DISTRIBUTION STATEMENT

For the period from 19 November 2007 (date of establishment) to 31 December 2008

	HK\$
At 19 November 2007 (date of establishment)	-
Loss for the period and decrease in net assets attributable to holders of redeemable units from operations	(58,448,622)
Distributions	-
	<hr/>
Undistributed loss carried forward	<u>(58,448,622)</u>

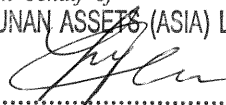
GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF ASSETS AND LIABILITIES

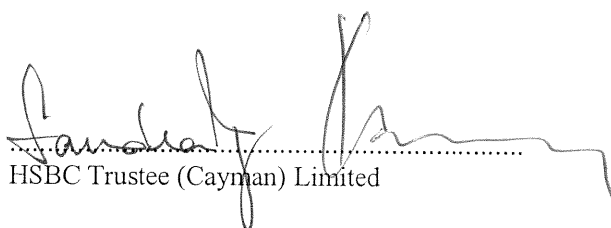
31 December 2008

	Notes	HK\$
<b>Assets</b>		
Financial assets at fair value through profit or loss	5	33,841,164
Due from brokers		1,632,066
Cash and bank balances	6	8,845,238
<b>Total assets</b>		<u><u>44,318,468</u></u>
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>		
Accounts payable and accruals		437,342
<b>Net assets attributable to holders of redeemable units</b>	7	<u>43,881,126</u>
<b>Total liabilities and equity</b>		<u><u>44,318,468</u></u>
<b>Number of issued redeemable units</b>	7	<u>1,029,824.58</u>
<b>Net asset value per redeemable unit</b>	7,8	<u><u>42.61</u></u>

For and on behalf of  
 GUOTAI JUNAN ASSETS (ASIA) LIMITED

  
 .....  
 Authorized Signature(s)

.....  
 Guotai Junan Assets (Asia) Limited

  
 .....  
 HSBC Trustee (Cayman) Limited

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the period from 19 November 2007 (date of establishment) to 31 December 2008

	HK\$
Net assets attributable to holders of redeemable units at 19 November 2007 (date of establishment)	-
Issue of redeemable units during the period	115,388,568
Redemption of redeemable units during the period	(13,058,820)
Decrease in net assets attributable to holders of redeemable units for the period	<u>(58,448,622)</u>
Net assets attributable to holders of redeemable units at 31 December 2008	<u><u>43,881,126</u></u>

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND  
CASH FLOW STATEMENT

For the period from 19 November 2007 (date of establishment) to 31 December 2008

HK\$

**Cash flows from operating activities**

Loss for the period and change in net assets attributable to holders of redeemable units ( 58,448,622)

Adjustments for:

Interest income ( 21,025)

Net unrealized loss on disposal of investments 39,618,891

Net realized loss on investments 16,093,570

( 2,757,186)

Purchase of financial assets at fair value through profit or loss (146,064,403)

Proceeds from disposals of financial assets at fair value through profit or loss 56,510,778

Increase in due from brokers ( 1,632,066)

Increase in accounts payable and accruals 437,342

Net cash used in operations ( 93,505,535)

Interest received 21,025

Net cash outflow from operating activities ( 93,484,510)

**Cash flows from financing activities**

Proceeds from issue of units 115,388,568

Payments on redemption of units ( 13,058,820)

Net cash inflow from financing activities 102,329,748

**Net increase in cash and cash equivalents and cash and cash equivalents at end of year 8,845,238**

**Analysis on balances of cash and cash equivalents**

Bank balances 8,845,238

NOTES TO FINANCIAL STATEMENTS

31 December 2008

1. THE TRUST

Guotai Junan Investment funds (the “Trust”), is a unit trust established under the Laws of Cayman islands and governed by a Trust Deed dated 29 August 2007 (the “Trust Deed”) between Guotai Junan Assets (Asia) Limited (the “Manager”) and HSBC Trustee (Cayman) Limited (the “Trustee”). The Trust will continue for a period of 100 years from the date of the Trust Deed or until it is terminated by the Manager or the Trustee. The Trust is a regulated mutual fund under the Cayman Islands Mutual Funds Law and is registered with Cayman Islands Monetary Authority. The Trust is currently consists of one sub-fund which is Guotai Junan Greater China Growth Fund (the “Sub-Fund”) has been authorized by the Hong Kong Securities and Future Commission (the “SFC”).

Authorization by the SFC does not imply official approval or recommendation.

The investment objective of the Sub-Fund seeks to provide investors with medium to long term capital appreciation through investment in PRC-related securities listed overseas. The Sub-Fund intends to invest its Segregated Portfolio Assets in Hong Kong listed “H” shares, “Red Chips”, Shanghai and Shenzhen listed “B” shares, although the Manager may in its absolute discretion determine to invest on behalf of the Sub-Fund in investments listed on other stock exchanges. The Manager may also invest in Shanghai and Shenzhen listed “A” shares through institutions which have obtained Qualified Foreign Institutional Investor status in the Mainland China. Depending upon market conditions, the Manager may invest in securities not falling within the above descriptions such as bonds and financial derivatives.

2.1 BASIS OF PREPARATION

The financial statements for the Sub-Fund of the Trust have been prepared on the basis of the relevant disclosure provisions of the Trust Deed, the relevant disclosure provisions as set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds established by the SFC (the “Code”) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for investments which have measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”).

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Sub-Fund has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting period from 19 November 2007 (date of establishment) to 31 December 2008, in these financial statements. Among the new and revised HKFRSs, the following is expected to be relevant to the Sub-Fund’s financial statements upon them becoming effective:

HKAS 1 (Revised)

Presentation of Financial Statements



NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 1 (Revised) was issued in December 2007 and shall be applied for financial years beginning on or after 1 January 2009. The revised standard separates owner and non-owner changes in equity. The statement of changes in net assets attributable to holders of redeemable units will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income, with all items of recognized income and expenses being presented either in one single statement or in two linked statements. The Sub-Fund is still evaluating whether it will have one or two statements.

Apart from the above, the HKICPA has issued the Improvements to HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, these amendments shall be applied for annual periods beginning on or after 1 January 2009. The Sub-Fund is in the process of making an assessment of the impact of these amendments upon initial application. These amendments are unlikely to have a significant impact on the financial position or performance of the Sub-Fund.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial assets at fair value through profit or loss

**(i) Classification**

The Sub-Fund of the Trust has classified all of its investments as financial assets at fair value through profit or loss, which comprise financial instruments designated as at fair value through profit or loss upon initial recognition. These financial instruments are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis in accordance with the risk management and/or investment strategy as set out in the Sub-Fund's Explanatory Memorandum ("EM").

**(ii) Initial measurement**

All purchases and sales of investments that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised on the trade date, which is the date on which the Sub-Fund of the Trust commits to purchase or sell the investment.

Realized gains and losses on investments are calculated on the weighted average cost basis and are dealt with in the revenue statement.

All investments are measured initially at fair value, with transaction costs for such instruments being recognised in the revenue statement.

**(iii) Subsequent measurement**

After initial measurement, all investments are re-measured at their fair values. Fair values for investments in equities are based on their quoted market prices in recognized exchange or sourced from a reputable broker/counterparty. Financial assets are priced at their current bid price.

Subsequent changes in fair value of financial assets are recognized in the revenue statement as they arise.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Sub-Fund of the Trust retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Sub-Fund of the Trust has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Sub-Fund of the Trust has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Sub-Fund's continuing involvement in the asset.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respect carrying amounts is recognized in revenue statement.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Sub-Fund and when the revenue can be measured reliably, on the following bases:

- (a) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the further cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets; and
- (b) dividend income is recognised, net of withholding taxes, when the shareholders' right to receive the payments is established, which is taken as being the date on which equities are quoted as ex-dividend.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translations

These financial statements are presented in HK\$, which is the Sub-Fund of the Trust's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to revenue statement.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts payable and accruals are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognized in the revenue statement when the liabilities are derecognized as well as through the amortization process.

Redeemable units

Redeemable units are redeemable at the unitholder's option and are classified as financial liabilities.

The units can be put back to the Sub-Fund on any dealing day for cash equal to a proportionate share of the Sub-Fund's net asset value.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Sub-Fund's financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognized in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

*Functional currency*

The primary objective of the Sub-Fund is to generate returns in HK\$, its capital-rising currency. The liquidity of the Sub-Fund is managed on a day-to-day basis in HK\$ in order to handle the issue, acquisition and resale of the Sub-Fund's redeemable units. The Sub-Fund's performance is evaluated in HK\$. Therefore, the management considers the HK\$ as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

3. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS

The following is a summary of transactions entered into during the year between the Sub-Fund and the Manager and its connected persons. Connected persons of the Manager are those as defined in the Code. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

Manager's holding in the Sub-Fund

The directors of the Manager may transact in the units of the Sub-Fund as principal provided that prior written notice is obtained from the Trustee. As at 31 December 2008, the directors of the Manager and the affiliate of the Manager, Guotai Junan Investments (Hong Kong) Limited, together held 262,781.05 units in the Sub-Fund.

Management fee

The Manager is entitled to receive a management fee at 1.5% per annum of the net asset value of the Sub-Fund. The management fee is calculated and accrued as at each valuation day and payable monthly in arrears. The management fee for the period from 19 November 2007 (date of establishment) to 31 December 2008 was HK\$1,135,803. As at 31 December 2008, a management fee of HK\$59,508 was payable to the Manager.

Trustee fees

The Trustee is entitled to receive from the Sub-Fund, an annual fee at a sliding scale with a maximum rate of 0.14% per annum of the net asset value of the Sub-Fund as at the relevant Valuation Point subject to a minimum annual fee of HK\$412,000 in relation to the Sub-Fund. This fee will be calculated and accrued on each Valuation Day and be paid monthly in arrears.

In addition, the Trustee will receive a one time establishment fee of HK\$31,200 in respect of the Sub-Fund, payable upon the close of the Initial Offer Period. The Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager.

The trustee fee for the period from 19 November 2007 (date of establishment) to 31 December 2008 was HK\$460,537. As at 31 December 2008, a trustee fee of HK\$36,824 was payable to the Trustee.

Registrar fee

The Trustee is also entitled to receive a fee for services in its capacity as Registrar which will be fixed at HK\$39,000 per annum initially, such fee may vary depending on the number of holders of redeemable units in the Sub-Fund and will be calculated and paid quarterly in arrears to the Trustee. There is no maximum amount applicable to the Registrar Fees.

The registrar fee for the period from 19 November 2007 (date of establishment) to 31 December 2008 was HK\$43,595. As at 31 December 2008, a registrar fee of HK\$3,300 was payable to the Registrar.

Further, the Trustee may appoint sub-custodians to safe-keep the assets of the Sub-Fund. All sub-custodian fees will be charged to the Sub-Fund and are calculated and paid monthly in arrears, in addition, to, any fees and expenses payable to the Trustee. The sub-custodian is entitled to recover all out-of-pocket expenses incurred in the performance of its duties in connection with the relevant Sub-Fund.

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2008

3. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS (continued)

Brokerage and handling fee

Guotai Junan Securities (Hong Kong) Limited (“GJS”), the fellow subsidiary of the Manager, charged the Sub-Fund a brokerage and handling fee at a fixed rate of 1% per annum for each initial public offering subscription and 0.25% per annum for each listed securities transaction. During the period, the Sub-Fund incurred in the brokerage and handling fee to GJS of HK\$328,235 and no amounts in relation to the brokerage and handling fee were payable by the Sub-Fund as at 31 December 2008.

Bank balances and interest income

Bank balances are maintained with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”), Hong Kong Branch, an affiliate of the Trustee. Bank balances deposited with affiliates of the Trustee at 31 December 2008 of HK\$8,845,238 and interest income earned during the period on these bank balances was HK\$21,025.

4. TAX

The Sub-Fund of the Trust are exempt from Hong Kong profits tax on income arising from its authorized activities under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

The Trust has obtained an undertaking from the Governor-in-Council of the Cayman Islands on 18 September 2007 that, in accordance with Section 81 of the Trust Law (2001 Revision) of the Cayman Islands, for a period of 50 years from the date of creation of the Trust, no laws of the Cayman Islands thereafter enacted imposing any tax or duty to be levied on income or on capital assets, gains or appreciation or any tax in the nature of estate duty or inheritance tax shall apply to any property comprised in or any income arising under the Trust, or the Sub-Fund or the Trustee or the holders of redeemable units in respect of any property or income.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 HK\$
Investments, at cost	73,460,055
Unrealized losses	(39,618,891)
	<hr/>
Investments, at fair value	33,841,164
	<hr/> <hr/>

A detailed portfolio listing as at 31 December 2008 is set out on page 24.

6. CASH AND BANK BALANCES

The cash at bank, HSBC, was held in interest bearing accounts as at the balance sheet date.

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2008

7. NET ASSET VALUE PER UNIT

The calculation of the net asset value per unit of the Sub-Fund is based on the net asset of the Sub-Fund as at 31 December 2008 and the number of units in issue as at that date respectively.

	2008 HK\$
Net assets	43,881,126
Movement in the number of participating shares issued and fully paid:	
At 19 November 2007 (date of establishment)	-
Issued during the period	1,219,268.74
Redeemed during the period	( 189,444.16)
At 31 December 2008	1,029,824.58
Net asset value per redeemable unit	42.61

8. RECONCILIATION BETWEEN NET ASSET VALUE PER STATEMENT OF ASSETS AND LIABILITIES AND PUBLISHED NET ASSET VALUE

	2008 HK\$
Net asset value used for calculating published net asset value per redeemable units	44,245,110
Adjustment to fair value of financial assets at fair value through profit or loss*	( 363,984)
Net asset value per financial statements	43,881,126
Number of redeemable units in issue	1,029,824.58
Published net asset value per redeemable unit	42.96

\* The published net asset value per redeemable participating share issued is calculated using last traded price at the close of business on the balance sheet date in determining the fair value of investment securities, in accordance with the offering memorandum, instead of using last bid price for financial assets at fair value through profit or loss, as required under HKFRSs.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

9. SOFT COMMISSION ARRANGEMENTS

Neither the Manager nor any of its connected persons has entered into any soft commission arrangements with brokers or dealers in respect of the transactions for the account of the Sub-Fund of the Trust.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Sub-Fund is subject to various risks as the Sub-Fund invested in a number of financial instruments including listed equity securities during the period.

The investment objective, strategy and restrictions apply to any investment at the time that investment is made. The Manager will be responsible for ensuring compliance at all times with the investment policies. Where any policy is breached, the Manager will ensure that immediate corrective action will be taken, except where the breach is due to appreciation or depreciation in the value of investments.

The Manager will also be managing the assets of the Sub-Fund and will minimize risk by applying a combination of bottom-up and top-down approaches including macroeconomic, industrial and company specific analysis so as to develop a high quality investment portfolio. Further, the Sub-Fund invests substantially all of its assets in Hong Kong listed “H” shares, “Red Chips”, Shanghai and Shenzhen listed “B” shares and are broadly diversified with numerous exchange traded investments.

(a) Market risk

Market risk (including equity price risk, foreign currency risk and interest rate risk) is the risk that the value of financial assets will fluctuate as a result of changes in market prices, foreign currency and interest rates whether those changes are caused by factors specific to the individual assets or factors affecting all assets in the market.

The Sub-Fund is exposed to market risk on its investments. The Sub-Fund minimizes its exposure to market risk by diversifying its listed investments broadly and monitoring its investments constantly on a real time basis by a team of fund managers.

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The trading equity price risk exposure arises from the Sub-Fund’s investment portfolio.

At 31 December 2008, if equity market index of various Asian markets had increased or decreased by 5% with all other variables held constant, this would have increased or decreased respectively in net assets attributable to holders of redeemable units for the period by approximately HK\$1,300,000. This is based on management’s best estimate with all other variables held constant. In practice, the actual results may differ and the difference could be material.

31 December 2008

10. FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk*

Foreign currency risk is the risk that the value of financial assets or liabilities will fluctuate due to changes in foreign exchange rates. Such risk exposures arise from trading in securities in currencies other than the Sub-Fund's functional currency. Fluctuations in exchange rates between the HK\$ and United State dollars ("US\$") may affect its financial condition and results of operations, whereas the Manager considers the US\$/HK\$ exposure is minimal as HK\$ is pegged to US\$. Also the Sub-Fund does not expose to significant foreign currency risk as majority of its operations and transactions are in HK\$ and denominated in HK\$.

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in market interest rates. The Sub-Fund is exposed to interest rate risk as all its cash and bank balances are placed in interest bearing accounts.

The Manager is responsible for monitoring and managing the interest rate exposure of the Sub-Fund. Due to the current balance sheet structure of the Sub-Fund, emphasis is placed on managing the interest rate risk of cash and bank balances. In terms of sensitivity to movements in interest rates, the Sub-Fund did not experience a substantial loss on the finance cost affected by the interest rate movements as the Sub-Fund's financial instruments were predominantly equity securities and cash at bank, which are either interest-free or at minimal interest rate bearing at 31 December 2008.

(b) Liquidity risk

Liquidity risk is the risk that the Sub-Fund will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Sub-Fund's exposure to liquidity risk is minimal as most of its investments are listed and actively traded.

The contractual undiscounted cash flows of the Sub-Fund's financial liabilities are same as their carrying values as at 31 December 2008 of HK\$44,318,468 as they are repayable less than three months.



NOTES TO FINANCIAL STATEMENTS

31 December 2008

10. FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk

Credit risk relates to the extent to which failures by counterparties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand as at the balance sheet date. The Sub-Fund minimizes exposure to credit risk by only dealing with counterparties with high credit ratings.

The Sub-Fund is mainly exposed to credit risk on its investments placed with the brokers and amounts due from brokers. The Sub-Fund monitors its risk by monitoring the credit quality of brokers on a regular basis. If the credit quality or the financial position of brokers deteriorates significantly the Manager will deal with other providers. In addition, substantially all of the cash and bank balances of the Sub-Fund are held by the reputable financial institutions located in Hong Kong.

The Sub-Fund's maximum exposure to credit risk in the event of counterparties failing to perform their obligations as of balance sheet date in relation to each class of recognized financial assets approximates to the carrying amount of those assets as indicated in the balance sheet. The Sub-Fund adopts the method of deliver-against-payment in the settlement of all its transactions. This arrangement is effectively avoid the counterparty risk from brokers.

(d) Capital management

The primary objective of the Sub-Fund capital management is to safeguard the Sub-Fund's ability to continue as a going concerns and to maintain healthy capital ratios in order to support its business and maximize holders of redeemable units' value.

The Sub-Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristic of the financial assets. To maintain or adjust the capital structure, the Sub-Fund may adjust the investments held.

The Sub-Fund defines capital as the net assets attributable to holders of redeemable units. The Manager believes it has mitigated the risks to capital by following the investment guideline.

11. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized by the Manager and the Trustee on 22 April 2009.

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

INVESTMENT PORTFOLIO

31 December 2008

<b>Listed Investments</b>	<b>Holdings</b>	<b>Market Value HK\$</b>	<b>% of Net Assets</b>
<b>Equities</b>			
<u>China</u>			
Inner Mongolia Yitai Coal Co	80,000	1,523,960	3.47
<u>Hong Kong</u>			
China Resources Enterprise	60,000	800,400	1.82
Huabao International Holding	80,000	406,400	0.93
China Petroleum & Chemical	250,000	1,172,500	2.67
Gome Electrical Appliances *	832,000	338,624	0.77
Shandong Molong Petroleum	1,292,000	529,720	1.21
Shougang Concord Intl Ent Co	1,500,000	1,290,000	2.94
Tencent Holdings Ltd	25,000	1,248,750	2.85
China Telecom Corp Ltd	950,000	2,736,000	6.24
Air China Ltd	66,000	155,760	0.35
Lenovo Group Ltd	500,000	1,050,000	2.39
China Southern Airlines Co	1,221,000	1,575,090	3.59
China Pharmaceutical Ltd	500,000	1,340,000	3.05
China Railway Construction	100,000	1,152,000	2.63
Minmetals Resources Ltd	280,000	310,800	0.71
Industrial and Commercial Bank of China	150,000	612,000	1.39
China Communications const	18,000	171,900	0.39
Shandong Chenming Paper	50,000	134,500	0.31
China Coal Energy Co	40,000	246,800	0.56
China Mengniu Dairy Co	100,000	1,008,000	2.30
BOC Hong Kong Holdings Ltd	100,000	867,000	1.98
Aluminum Corp of China Ltd	100,000	408,000	0.93
China Life Insurance Co	50,000	1,177,500	2.68
Ishares A50 China Tracker	390,000	3,260,400	7.43
China Oilfield Services	250,000	1,562,500	3.56
Xinyu Hengdeli Holdings Ltd	200,000	238,000	0.54
China Bluechemical Ltd	816,000	2,594,880	5.91
Bank of China Ltd	1,300,000	2,756,000	6.28
Tianjin Binhai Teda Logi	3,194,000	2,076,100	4.73
<u>Taiwan</u>			
Cathay Financial holding co	73,500	633,534	1.44
AV Tech Corporation	24,200	464,046	1.06
<b>TOTAL INVESTMENTS</b>		<b>33,841,164</b>	<b>77.11</b>
<b>TOTAL INVESTMENTS, AT COST</b>		<b>73,460,055</b>	

\* Since 24 November 2008, the security has been suspended from trading on the Hong Kong Stock Exchange due to market price sensitive information. The fair value was determined by the Manager and consented with the Trustee as at balance sheet date.

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

PERFORMANCE RECORD

31 December 2008

	19/11/2007	Holdings		Bonus/Splits Factor Adj/ Maturity	31/12/2008
		Additions	Disposals		
<b>Hong Kong</b>					
<b>Listed investments</b>					
<b>Equities</b>					
<b>Consumer Discretionary</b>					
China Resources Enterprise	-	120,000	(60,000)	-	60,000
GOME Electrical Appliances Holdings Ltd	-	300,000	(92,000)	624,000	832,000
Xinyu Hengdeli Holdings Ltd	-	340,000	(140,000)	-	200,000
China Mengniu Dairy Co Ltd	-	100,000	-	-	100,000
Uni-President China Holdings Ltd	-	1,200,000	(1,200,000)	-	-
Yantai North Andre Juice Co	-	1,900,000	(1,900,000)	-	-
<b>Energy</b>					
China Coal Energy Co	-	100,000	(60,000)	-	40,000
China Oilfield Services Ltd	-	250,000	-	-	250,000
China Petroleum & Chemical Corp	-	450,000	(200,000)	-	250,000
China Shenhua Energy Co Ltd	-	25,000	(25,000)	-	-
Inner Mongolia Yitai Coal Co	-	130,000	(50,000)	-	80,000
Shandong Molong Petroleum Machinery Co Ltd	-	2,000,000	(708,000)	-	1,292,000
<b>Finance</b>					
Bank of China Ltd	-	2,500,000	(1,200,000)	-	1,300,000
BOC Hong Kong Holdings Ltd	-	100,000	-	-	100,000
Cathay Financial Holding Co Ltd	-	70,000	-	3,500	73,500
China Life Insurance Co Ltd	-	50,000	-	-	50,000
China Merchants Bank Co Ltd	-	25,000	(25,000)	-	-
Hong Kong Exchanges and Clearing Ltd	-	20,000	(20,000)	-	-
Industrial & Commercial Bank of China	-	300,000	(150,000)	-	150,000
<b>Health Care</b>					
China Pharmaceutical Group Ltd	-	500,000	-	-	500,000
Lijun International Pharmaceutical Holding Ltd	-	2,000,000	(2,000,000)	-	-
<b>Index Fund</b>					
iShares Asia Trust - iShares FTSE/Xinhua A50 China Tracker	-	390,000	-	-	390,000
<b>Industrials</b>					
Air China Ltd	-	280,000	(214,000)	-	66,000
China Communications Construction Co Ltd	-	38,000	(20,000)	-	18,000
China Eastern Airlines Corp Ltd	-	302,000	(302,000)	-	-
China National Materials Co Ltd	-	114,000	(114,000)	-	-
China Railway Construction Corp Ltd	-	430,000	(330,000)	-	100,000
China Railway Group Ltd	-	316,000	(316,000)	-	-
China Southern Airlines Co Ltd	-	1,250,000	(654,000)	625,000	1,221,000
Sinotrans Shipping Ltd	-	1,000,000	(1,000,000)	-	-
Sinotruk Hong Kong Ltd	-	25,000	(25,000)	-	-
Tianjin Binhai Teda Logistics Group Corp Ltd	-	3,600,000	(406,000)	-	3,194,000
<b>Information Technology</b>					
AV Tech Corp	-	40,000	(20,000)	4,200	24,200
Lenovo Group Ltd	-	700,000	(200,000)	-	500,000
Tencent Holdings Ltd	-	31,000	(6,000)	-	25,000
TPV Technology Ltd	-	500,000	(500,000)	-	-
<b>Materials</b>					
Aluminum Corp of China Ltd	-	100,000	-	-	100,000
China BlueChemical Ltd	-	1,016,000	(200,000)	-	816,000
China Sunshine Paper Holdings Co Ltd	-	740,000	(740,000)	-	-
Huabao International Holdings Ltd	-	460,000	(380,000)	-	80,000
Minmetals Resources Ltd	-	280,000	-	-	280,000
Shandong Chenming Paper Holdings Ltd	-	50,000	-	-	50,000
Shougang Concord International Enterprises Co Ltd	-	1,500,000	-	-	1,500,000
Zijin Mining Group Co Ltd	-	500,000	(500,000)	-	-
<b>Telecommunication Services</b>					
China Mobile Ltd	-	41,000	(41,000)	-	-
China Telecom Corp Ltd	-	1,500,000	(550,000)	-	950,000

GUOTAI JUNAN INVESTMENT FUNDS - GUOTAI JUNAN GREATER CHINA GROWTH FUND

PERFORMANCE RECORD

31 December 2008

**Net asset value**

	HK\$
31 December 2008	<u>43,881,126</u>

**Net asset value per unit**

	HK\$
31 December 2008	<u>42.61</u>

**Highest and lowest net asset value per unit**

	Highest HK\$	Lowest HK\$
Financial period ended 31 December 2008 (since establishment)	<u>113.18</u>	<u>33.52</u>