

# CHINESE MAINLAND FOCUS FUND

A Sub-fund of Value Partners Intelligent Funds

ANNUAL REPORT 2015  
For the year ended 31 December 2015

**Value Partners Limited**

9th Floor, Nexxus Building

41 Connaught Road Central, Hong Kong

Tel: (852) 2880 9263 Fax: (852) 2565 7975

Email: [vp1@vp.com.hk](mailto:vp1@vp.com.hk)

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

*In the event of inconsistency, the English text of this Annual Report shall prevail over the Chinese text. This report shall not constitute an offer to sell or a solicitation of an offer to buy shares in any of the funds. Subscriptions are to be made only on the basis of the information contained in the explanatory memorandum, as supplemented by the latest semi-annual and annual reports.*

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## GENERAL INFORMATION

### Manager

Value Partners Limited  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Directors of the Manager

Dato' Cheah Cheng Hye  
Mr. Ho Man Kei  
Mr. So Chun Ki Louis

### Trustee, Registrar, Administrator and Principal Office

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

### Custodian and Registrar's Agent

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

### Legal Advisors

*With respect to Cayman Islands law:*  
Maples and Calder  
53rd Floor, The Center  
99 Queen's Road Central  
Hong Kong

*With respect to Hong Kong law:*  
King & Wood Mallesons  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### Auditors

KPMG  
P.O. Box 493  
Century Yard  
Cricket Square  
Grand Cayman KY1-1106  
Cayman Islands

### Information available from:

Value Partners Limited  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

Investor hotline : (852) 2143 0688  
Fax : (852) 2565 7975  
Email : [fis@vp.com.hk](mailto:fis@vp.com.hk)  
Website : [www.valuepartners.com.hk](http://www.valuepartners.com.hk)

## GENERAL INFORMATION (Continued)

### Recent awards and achievements

#### Corporate awards

- |      |  |
|------|--|
| 2016 | <ul style="list-style-type: none"> <li>• <b>Thomson Reuters Lipper Fund Awards 2016</b><br/><b>Best Equity Group (Hong Kong)</b><br/>– <i>Thomson Reuters</i></li> <li>• <b>2015 Best of the Best Performance Awards</b><br/><b>Value Partners: 20-Year Award for Greater China</b><br/>– <i>Asia Asset Management</i></li> <li>• <b>2015 Best of the Best Regional Awards</b><br/><b>Value Partners: Longevity Awards – Best Asset Management House over the last 20 Years (Co-Winner)</b><br/>– <i>Asia Asset Management</i></li> <li>• <b>International Financial Annual Champion Awards 2015</b><br/><b>Value Partners: Best Asset Management Service Provider</b><br/>– <i>Caixin Media and Hexun.com</i></li> </ul>  |
| 2015 | <ul style="list-style-type: none"> <li>• <b>China Securities Golden Bauhinia Award- Best Fund House</b><br/>– <i>China Securities Golden Bauhinia Award Organizing Committee and Tai Kung Pao</i></li> <li>• <b>2015 – Asia Hedge Fund 25</b><br/><b>Value Partners was ranked no. 2 in 2015 and 2014, and was the largest Asian hedge fund firm from 2010 to 2013</b><br/>– <i>Institutional Investor's Alpha Magazine, September 2015</i></li> <li>• <b>Forbes "Asia's 200 Best Under A Billion"</b><br/><b>Value Partners Group was ranked among the top 200 leading listed companies in the Asia-Pacific with annual revenue between US\$5 million and US\$1 billion.</b><br/>– <i>Forbes Asia</i></li> <li>• <b>The Asset Triple A, Investor and Fund Management Awards 2015</b><br/><b>Fund Management Company of the Year (Hong Kong)</b><br/>– <i>The Asset</i></li> <li>• <b>Asset Management Awards for Excellence 2014/15</b><br/><b>Best Fund Provider – China Equity</b><br/>– <i>Asian Private Banker</i></li> <li>• <b>2015 Hong Kong's Best Cross-Border Financial Institutions</b><br/><b>Outstanding Fund Management Business</b><br/>– <i>Hong Kong's Wen Wei Po</i></li> </ul> |

#### Chinese Mainland Focus Fund

- |      |  |
|------|--|
| 2013 | <ul style="list-style-type: none"> <li>• <b>Lipper Fund Awards 2013 – Hong Kong</b><br/><b>Best China Equity – 5 Years</b><br/>– <i>Lipper*</i></li> </ul>           |
| 2012 | <ul style="list-style-type: none"> <li>• <b>Lipper Fund Awards 2012 – Hong Kong</b><br/><b>Best China Equity – 3 Years</b><br/>– <i>Lipper*</i></li> </ul>           |
| 2011 | <ul style="list-style-type: none"> <li>• <b>Top 100 Funds of the Year 2010 – China Equity – Best in Class</b><br/>– <i>Benchmark Magazine<sup>▲</sup></i></li> </ul> |

\* The 2013 and 2012 awards are based on the returns as of year end 2012 and 2011 respectively.

▲ Based on fund size, track record, Morningstar's Star rating and one year absolute ranking as at month end October 2010.

## MANAGER'S REPORT

The Chinese stockmarket went through a bumpy ride in 2015 and started the new year with a selling frenzy. The stockmarket suspensions in the first trading week sparked a new wave of global market panics and negative news flow.

Experienced China investors like us are no stranger to such extreme volatilities. In the past 25 years of the A-share market history, there were more than 25 market crashes with a decline of more than 20%. Wild market swings are distinct in the domestic Chinese stockmarket because, as of 2014, 85% of the A-share market turnover was dominated by retail investors who tend to invest based on their hopes, greed and fears.

### **Value investing – an anchor amid volatilities**

In the current uncertain climate, good stock-picking is the key to performance – this was the case for us in 2015, when we largely succeeded in preserving capital in a difficult market. In 2016, which is looking like another volatile year, knowing our markets really well and accuracy in stock-picking is going to be critical, and that's where we have a well-established advantage. Because of all the worries, China-related stocks have seldom been this cheap, and stock-pickers like us are spoilt for choice.

In the 12 months ended 31 December 2015, Chinese Mainland Focus Fund (the "Fund") gained 1.7%, it outperformed the broad market as MSCI China Index dropped 7.8% over the same period. The Fund captured the rally in the first half more than the market and protected the downside as the sharp corrections came in the second half of the year. As a result, the Fund continued to rank in the first quartile among its peers over one-, three-, five- and ten-year periods<sup>1</sup>, attesting to the outperformance of value investing in the long run.

### **Moderating growth but not a hard landing**

The current panic selling shows fears over a hard landing in China, as well as doubts that the country has to depreciate the renminbi to boost growth. We think the extreme pessimism is overdone.

It is true that China's economy has weakened substantially and we continue to see fatigues in the "old economy" sectors – China's National Bureau of Statistics' manufacturing PMI remained in contractionary territory for the fifth-straight month in December, pointing to slowing industrial activities in China. However, there are increasing signs that activities may have started to stabilize, e.g. housing prices are steady and retail sales are strengthening.

## **MANAGER'S REPORT (Continued)**

### **Moderating growth but not a hard landing (Continued)**

Besides, new economic indicators including movie box office, the number of airline passengers, auto sales and 4G mobile subscriptions all pointed to an expanding “new economy” in China last year, and the contribution of real tertiary output to China’s economic growth has increased to close to 60% in the first nine months of 2015. As the government pushes ahead with the necessary reforms, the “old economy” sectors will continue to drag on China’s growth, and this is perhaps the price to pay for a more sustainable economy in the long term. The structural rebalancing will be a multi-year process and more bumps are expected along the way. We will continue to be very careful with our stock picking in this transitional period.

### **CNY weakened against USD but the trade-weighted index largely stable**

China’s central bank is now managing the renminbi against a basket of trade-weighted currencies rather than the dollar alone. We believe the recent adjustment of the renminbi is more about the dollar strength than the renminbi weakness. China needs relative currency stability to avoid financial panic and maintain confidence in its policy, and it is not in its interest to substantially devalue the trade-weighted exchange rate, although the renminbi may become increasingly decoupled against the USD. Allowing the renminbi to fall against the dollar helps pave the way for further monetary easing by the central bank, and this has nothing to do with a big competitive devaluation to boost exports as China’s export growth has actually been holding up better than some Asian countries which have devalued their currencies.

### **Policy easing expected to step up**

We believe stimulus spending will continue to support the Chinese economy – monetary policy is expected to stay accommodative in 2016 and the central government is anticipated to step up fiscal effort to stabilize the economy. While the room for further rate cuts comes down, most monetary easing in 2016 may come from cuts in the reserve requirement ratio. It will be a policy priority to maintain the momentum of government spending, and the unofficial fiscal deficit can also increase given restrictions on bond issues by local government financing vehicles have been lifted and official local government bond issues are rising.



## MANAGER'S REPORT (Continued)

### Offshore Chinese stocks offer attractive values

Valuations of Chinese stocks in offshore markets, e.g. H-shares in Hong Kong, have returned to a very compelling level. It is worthy to note that these stocks listed in an international free market dominated by institutional and professional investors are at a 40% discount to the policy-driven A-share market. In 2015, H-shares (as represented by the Hang Seng China Enterprises Index) slumped 16.8%, dragging its valuation to the same level as the trough during the 2008 Global Financial Crisis. After the recent corrections, we believe prices have already reflected the negative repercussions of the reforms, and the fragilities in the Chinese economy are largely factored in. As a value investor, this is the time for us to actively look for opportunities.

### Portfolio strategy review and outlook

From a portfolio perspective, our A-share positions contributed positively in the first five months of the year. After the strong stockmarket rally in the middle of 2015, we started to de-risk the portfolio by trimming A-share exposures and increasing cash level gradually throughout the third quarter of 2015. As a result, the cash holdings of the Fund increased from -11% at the end of May 2015 to 13% at the end of October 2015. Our strategy paid off as the Shanghai Composite Index plunged over 40% from its peak afterwards. During the fourth quarter of 2015, when companies with attractive valuations and respectful fundamentals emerged after the major stockmarket correction in the previous quarter, we started to deploy more cash to capture opportunities in the stockmarkets. As always, we will continue to optimize our cash deployment strategies in accordance with the fast-changing investment environment.

Looking forward, global stockmarkets are still full of headwinds and valuation traps abound, this is where active asset management comes into play. By proactively identifying China's new growth engines, we will be placing special focus on six key investment themes – Chinese insurance stocks, high-dividend stocks, Chinese policy stocks, Chinese pharmaceutical stocks, valuation discrepancies among A-, B- and H-shares and Chinese consumption stocks. While China's economic outlook remains challenging this year, our flexible investment approach empowers us to excel among peers during uptrends, and to stay defensive when the market loses ground.



## MANAGER'S REPORT (Continued)

### Corporate update

Value Partners continued its growth story in 2015, with our assets under management increased 21% to US\$15.6 billion as of 31 December 2015. Our growth in size has provided us with the necessary resources to strengthen our investment management team and enhance our infrastructure to create more value for our investors. Today, we are running an on-the-ground investment management team in Asia with over 60 professionals uncovering attractively valued stocks that are neglected by the market. On top of winning support from our investors, Value Partners has won 20 new awards in 2015, extending our list of accolades to close to 120 since our establishment in 1993.

As we venture into 2016, we'd like to express our heartfelt gratitude to our investors who have been with us albeit market volatilities. We look forward to achieve another year of outperformance for our investors through our unwavering dedication to value investing disciplines.

### Value Partners Limited

22 April 2016

1. *Based on performance data as of 31 December 2015, among peer funds under China Equity Morningstar Category.*

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in US\$ terms on NAV-to-NAV basis with dividends reinvested) as at 31 December 2015. Performance data is net of all fees.*

*Individual stock performance is not indicative of fund performance.*

*The views expressed are the views of Value Partners Limited only and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.*

**MANAGER'S REPORT (Continued)****Chinese Mainland Focus Fund:****5 biggest holdings of securities as at 31 December 2015**

Stock	Industry	Valuation (2016 Estimates)	Remarks
CGN Power (Code: 1816 HK)  Market cap: US\$17.0 billion	Nuclear power producer	Price: HKD2.90 P/E: 13.3x P/B: 1.5x Yield: 2.4%	Listed in Hong Kong in December 2014, CGN Power is the leading nuclear power producer in China with the biggest total installed capacity as of June 2014. Its nuclear power stations are strategically located in economically developed regions in China that have a strong demand for electricity. Within China's energy spectrum, nuclear power is unique in that it has the lowest earnings volatility. As the Chinese government supports clean energy development, CGN Power is well positioned to benefit from the potential growth of the nuclear power industry in the coming years.
China Resources Gas (Code: 1193 HK)  Market cap: US\$6.6 billion	Downstream gas distributor	Price: HKD23.15 P/E: 14.3x P/B: 2.4x Yield: 1.4%	China Resources Gas ("CR Gas") is the biggest gas distributor in China in terms of gas sales volume. With its state-owned background and flexible mechanism, the company has great advantage in mergers and acquisitions (M&A). While a corruption investigation against its ex-Chairman casted a shadow over the company's M&A activities, CR Gas's recent acquisitions of two large prefecture-level projects, Qingdao and Qinhuangdao, are good indications that the company has come out from the negative haze of the incident. Meanwhile, demand may recover in 2015 with China's first gas price cut in the first quarter, and CR Gas is well-positioned to benefit from the potential rise in gas usage over the long term.
China Traditional Chinese Medicine (Code: 570 HK)  Market cap: US\$3.0 billion	Drug manufacturer	Price: HKD5.24 P/E: 13.3x P/B: 1.5x Yield: 0.0%	China Traditional Chinese Medicine ("CTCM") is a Chinese pharmaceutical company specialized in the research and development, production, and sale of traditional Chinese medicine ("TCM"). It offers its products under the Xianling, Tongjitang, Xianling Gubao, Dezhong, and Feng Liao Xing brands. The company recently announced an acquisition which will further diversify its product portfolio and enable it to gain immediate access to the high-growth TCM granule market with a considerable market share. With its first mover advantage, leading market share and extensive hospital coverage, we believe CTCM will continue to lead the TCM formula granule market with strong growth potential ahead.

**MANAGER'S REPORT (Continued)****Chinese Mainland Focus Fund: (Continued)****5 biggest holdings of securities as at 31 December 2015 (Continued)**

Stock	Industry	Valuation (2016 Estimates)	Remarks
Harbin Electric (Code: 1133 HK)  Market cap: US\$0.7 billion	Power equipment manufacturer	Price: HKD3.67 P/E: N/A P/B: 0.3x Yield: 0.0%	Harbin Electric, formerly Harbin Power Equipment, is one of three major power equipment manufacturers in China. It is mainly engaged in the manufacturing of thermal power equipment, hydropower equipment, nuclear power equipment as well as alternating current (AC)/direct current (DC) motors. In face of a declining thermal equipment market and looming excess capacity, power equipment makers have been competing fiercely on thermal equipment prices in recent years. While Harbin Electric posted disappointing result for the fiscal year 2014 due to collapsed gross margin and sluggish new orders, it is expected to see improving gross margin in 2015 on the back of better cost management. Meanwhile, it may also benefit from industrial consolidation in China's SOE reform.
Tencent Holdings (Code: 700 HK)  Market cap: US\$185.0 billion	Internet	Price: HKD152.50 P/E: 28.5x P/B: 7.7x Yield: 0.4%	Tencent Holdings ("Tencent") is a leading provider of online games, premium messaging services, internet value added services, and advertising and ecommerce services in China. Its instant messenger "QQ" has the largest online community base with over 800 million accounts. Leveraging its large active user base, it offers good long-term monetization potential.

*Note: The above investments made up 19.6% of Chinese Mainland Focus Fund as at 31 December 2015. The stock prices are based on the closing of 31 December 2015.*

*Individual stock performance/yield is not necessarily indicative of overall fund performance.*

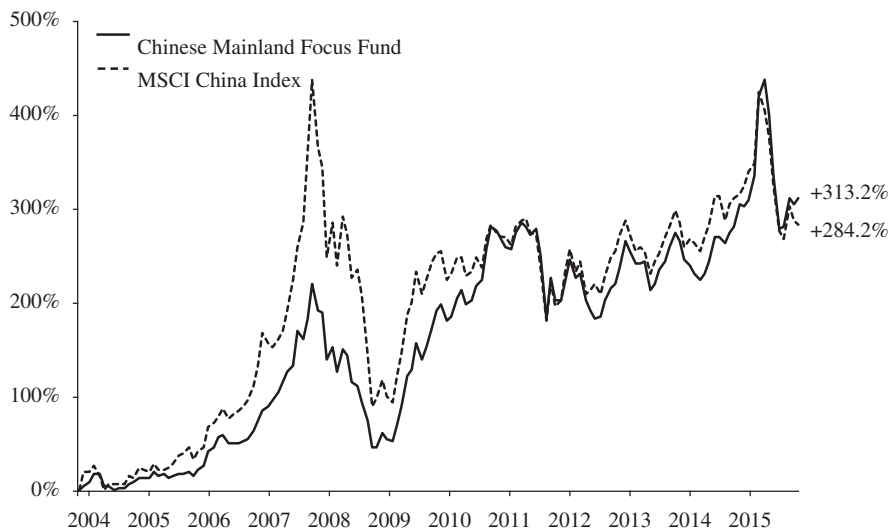
## MANAGER'S REPORT (Continued)

### Chinese Mainland Focus Fund

NAV per share = US\$41.32 (as at 31 December 2015)

### Since launch return compared to index

From 27 November 2003 to 31 December 2015



## STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

### Manager's responsibilities

The Manager of the Chinese Mainland Focus Fund (the “Sub-fund”) is required by the Hong Kong Code on Unit Trusts and Mutual Funds established by the Hong Kong Securities and Futures Commission and the Trust Deed to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Sub-fund at the end of that period and of the transactions for the period then ended. In preparing these financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are prudent and reasonable; and
- prepare the financial statements on the basis that the Sub-fund will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the Sub-fund in accordance with the Trust Deed and take reasonable steps for the prevention and detection of fraud and other irregularities.

### Trustee's responsibilities

The Trustee of the Sub-fund is required to:

- ensure that the Sub-fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Sub-fund and rights attaching thereto; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Sub-fund.

**TRUSTEE'S REPORT TO THE UNITHOLDERS OF  
VALUE PARTNERS INTELLIGENT FUNDS –  
CHINESE MAINLAND FOCUS FUND**

We hereby confirm that, in our opinion, the Manager has in all material respects, managed the Chinese Mainland Focus Fund (the “Sub-fund”) in accordance with the provisions of the Trust Deed dated 21 June 2000 and supplemental Trust Deeds dated 22 October 2001, 3 November 2003, 10 November 2003 and 10 December 2004 and the Deed of Substitution dated 31 May 2005 and supplemental Trust Deed to the Deed of Substitution dated 30 March 2007, 24 June 2011 and 25 June 2013 of the Sub-fund for the year ended 31 December 2015.

For and on behalf of

**Bank of Bermuda (Cayman) Limited**

Trustee,

22 April 2016

## **INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE PARTNERS INTELLIGENT FUNDS – CHINESE MAINLAND FOCUS FUND (THE “SUB-FUND”)**

*(A Cayman Islands Unit Trust)*

### **Report on the financial statements**

We have audited the financial statements of Chinese Mainland Focus Fund (the “Sub-fund”), a sub-fund of Value Partners Intelligent Funds (the “Trust”), set out on pages 15 to 57, which comprise the statement of financial position as at 31 December 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Manager and the Trustee of the Sub-fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material statement, whether due to fraud or error.

In addition, the Manager and the Trustee also have a responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (“the Code”).

### **Auditors’ Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, 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 about whether the financial statements are free from material misstatement.



**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF  
VALUE PARTNERS INTELLIGENT FUNDS –  
CHINESE MAINLAND FOCUS FUND (THE “SUB-FUND”) (Continued)**

*(A Cayman Islands Unit Trust)*

**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' judgement, 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 of financial statements that give a true and fair view 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 Manager and the Trustee, 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 financial position of the Sub-fund as at 31 December 2015, and of its transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Disclosure Requirements under the Code**

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in the Code.

**KPMG**

Cayman Islands  
22 April 2016

**STATEMENT OF FINANCIAL POSITION***AS AT 31 DECEMBER 2015*

	<i>Note</i>	<b>2015</b> <i>US\$</i>	2014 <i>US\$</i>
<b>Assets</b>			
Financial assets at fair value through profit or loss	6, 10(f), 12	146,692,874	153,284,170
Interest, dividends and other receivables		43,999	4,333
Amounts due from unitholders		32,154	43,794
Amounts due from brokers	5	717,674	81,331
Cash and cash equivalents	4, 10(d)	<u>11,699,871</u>	<u>1,183,099</u>
<b>Total assets</b>		<u>159,186,572</u>	<u>154,596,727</u>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	6, 12	2,919,962	—
Bank overdraft	4, 10(d)	9,357,518	8,967,187
Amounts due to unitholders		29,994	761,992
Amounts due to brokers	5	3,820,706	328,875
Management fees payable	10(a)	148,878	155,774
Performance fees payable	10(b)	424,805	2,860,778
Trustee fees payable	10(c)	20,247	21,185
Tax provision	9	14,076	272,633
Accrued expenses and other payables		<u>199,679</u>	<u>41,098</u>
<b>Total liabilities</b>		<u>16,935,865</u>	<u>13,409,522</u>
<b>Total equity</b>		<u>142,250,707</u>	<u>141,187,205</u>

The notes on pages 20 to 57 form part of these financial statements.

**STATEMENT OF FINANCIAL POSITION (Continued)**

AS AT 31 DECEMBER 2015

	<i>Note</i>	<b>2015</b> <i>US\$</i>	2014 <i>US\$</i>
<b>Represented by:</b>			
– Net assets attributable to unitholders (at last traded prices)		<u>142,250,707</u>	<u>141,187,205</u>
<b>Net asset value per unit at last traded prices based on 3,442,555 (31 December 2014: 3,474,553) units outstanding</b>	<i>11</i>	<u>41.32</u>	<u>40.63</u>

Approved and authorised for issue by the Manager and the Trustee on 22 April 2016.

Signed by:

**Value Partners Limited, *Manager***

**Bank of Bermuda (Cayman) Limited, *Trustee***

The notes on pages 20 to 57 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME***FOR THE YEAR ENDED 31 DECEMBER 2015*

	<i>Note</i>	<b>2015</b> <i>US\$</i>	2014 <i>US\$</i>
Interest income	10(d)	58,488	6,549
Dividend income		2,924,268	4,221,115
Net gains from financial assets and financial liabilities at fair value through profit or loss	7	3,448,118	13,977,630
Net foreign exchange losses		(543,776)	(4,206)
Other income		<u>122,040</u>	<u>16,357</u>
<b>Net investment income</b>		<u>6,009,138</u>	<u>18,217,445</u>
Performance fees	10(b)	(424,805)	(2,860,778)
Management fees	10(a)	(1,938,223)	(1,886,197)
Transaction fees		(1,649,711)	(1,524,998)
Trustee fees	8, 10(c)	(263,598)	(256,523)
Professional fees		(23,756)	(26,982)
Auditors' remuneration		(40,364)	(38,609)
Interest expenses	10(d)	(253,563)	(188,792)
Dividend expenses		(27,539)	—
Bank charges	10(d)	(22,874)	(19,953)
Stock loan fee expenses	10(d)	(2,619)	—
Annual fees		(2,459)	(3,690)
Commission expenses		—	(253)
Other operating expenses		<u>(275,437)</u>	<u>(81,226)</u>
<b>Operating expenses</b>		<u>(4,924,948)</u>	<u>(6,888,001)</u>
<b>Profit before taxation</b>		1,084,190	11,329,444
Taxation	9	<u>(332,655)</u>	<u>315,906</u>
<b>Profit and total comprehensive income for the year</b>		<u><u>751,535</u></u>	<u><u>11,645,350</u></u>

The notes on pages 20 to 57 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY***FOR THE YEAR ENDED 31 DECEMBER 2015*

	<i>Note</i>	<b>2015</b> <i>US\$</i>	2014 <i>US\$</i>
<b>Balance as at 1 January</b>		<u>141,187,205</u>	<u>190,822,510</u>
Profit and total comprehensive income for the year		<u>751,535</u>	<u>11,645,350</u>
Issue of redeemable units	<i>11</i>	23,104,780	5,201,750
Redemption of redeemable units	<i>11</i>	<u>(22,792,813)</u>	<u>(66,482,405)</u>
Net subscription/(redemption)		<u>311,967</u>	<u>(61,280,655)</u>
<b>Balance as at 31 December</b>		<u><u>142,250,707</u></u>	<u><u>141,187,205</u></u>

The notes on pages 20 to 57 form part of these financial statements.

**STATEMENT OF CASH FLOWS***FOR THE YEAR ENDED 31 DECEMBER 2015*

	<b>2015</b>	<b>2014</b>
<i>Note</i>	<i>US\$</i>	<i>US\$</i>
<b>Operating activities</b>		
Interest received	48,625	7,136
Interest paid	(253,563)	(188,792)
Dividends received (net of withholding tax)	2,722,020	3,996,862
Dividends paid	(27,539)	–
Other income received	122,040	19,175
Proceeds from sale of investments	374,521,624	281,062,999
Purchase of investments	(358,706,760)	(216,556,426)
Tax paid	(418,767)	(2,510)
Operating expenses paid	<u>(7,472,848)</u>	<u>(3,903,320)</u>
<b>Cash flows generated from operating activities</b>	<u>10,534,832</u>	<u>64,435,124</u>
<b>Financing activities</b>		
Proceeds from issue of redeemable units	23,116,420	5,160,714
Payments on redemption of redeemable units	<u>(23,524,811)</u>	<u>(69,452,372)</u>
<b>Cash flows used in financing activities</b>	<u>(408,391)</u>	<u>(64,291,658)</u>
<b>Net increase in cash and cash equivalents</b>	10,126,441	143,466
<b>Cash and cash equivalents as at 1 January</b>	<u>(7,784,088)</u>	<u>(7,927,554)</u>
<b>Cash and cash equivalents as at 31 December</b>	<u>4</u> <u>2,342,353</u>	<u>(7,784,088)</u>

The notes on pages 20 to 57 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 GENERAL

Value Partners Intelligent Funds (the “Trust”) is an open-ended umbrella unit trust established under the laws of the Cayman Islands pursuant to a Trust Deed dated 21 June 2000 (as amended) (the “Trust Deed”). The Trust was registered under the Mutual Funds Law of the Cayman Islands on 30 June 2000.

The Trust issues redeemable units in various sub-funds and as at 31 December 2015, the China Convergence Fund, JA-VP China New Century Fund, Chinese Mainland Focus Fund and JA-VP Chugokutairiku Focus Fund have been launched. The China Convergence Fund, JA-VP China New Century Fund and Chinese Mainland Focus Fund commenced operations on 17 July 2000, 7 March 2002 and 27 November 2003 respectively. The JA-VP Chugokutairiku Focus Fund commenced operations on 2 September 2004 and has been terminated with effect from 31 October 2012. The JA-VP China New Century Fund is not authorised in Hong Kong and not available to the general public in Hong Kong.

Each separate sub-fund may be represented in whole or in part by a separate portfolio and be maintained with separate accounting records. However, notwithstanding the operation of separate sub-funds and/or portfolios, the Trust may be treated as one entity. Thus all of the assets of the Trust may be available to meet all of the liabilities of the Trust, regardless of the separate sub-fund or portfolio to which such assets or liabilities are attributable. In practice, cross-unit liability will usually only arise where any sub fund becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. In this case, all of the assets of the Trust attributable to the other sub-funds may be applied to cover the liabilities of the insolvent sub-fund.

The accompanying financial statements have been prepared for the Value Partners Intelligent Funds – Chinese Mainland Focus Fund (the “Sub-fund”). The financial statements of China Convergence Fund and JA-VP China New Century Fund have been prepared individually and consequently are not included in these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 GENERAL (Continued)

As at 31 December 2015 and 2014, the combined net assets of the Trust are as follows:

Name of sub-funds	Combined net assets	
	2015	2014
	US\$	US\$
China Convergence Fund	519,593,169	342,160,429
Chinese Mainland Focus Fund	142,250,707	141,187,205
JA-VP China New Century Fund	<u>8,254,639</u>	<u>9,178,240</u>
Value Partners Intelligent Funds	<u><u>670,098,515</u></u>	<u><u>492,525,874</u></u>

The investment activities of the Sub-fund are managed by Value Partners Limited (the “Manager”) and the administration of the Sub-fund is handled by Bank of Bermuda (Cayman) Limited (the “Administrator”) which has delegated its role to HSBC Institutional Trust Services (Asia) Limited.

The Sub-fund is authorised by the Hong Kong Securities and Futures Commission under Section 104 of the Hong Kong Securities and Futures Ordinance. The Sub-fund is also recognised by the Monetary Authority of Singapore as a restricted scheme under paragraph 3 of the Sixth Schedule of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”), the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements of the Hong Kong Code on Unit Trusts and Mutual Funds issued by Hong Kong Securities and Futures Commission. A summary of the significant accounting policies adopted by the Sub-fund is set out below.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Statement of compliance (Continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Sub-fund. Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Sub-fund for the current and prior accounting periods reflected in these financial statements.

#### (b) Basis of preparation

The measurement currency of the financial statements is United States dollars (“USD”) and not Cayman Islands dollars reflecting the fact that most of the transactions are denominated in USD as well as Hong Kong dollars (“HKD”) which is pegged to the USD. Units of the Sub-fund are issued in USD and distributions to investors are also made in USD.

The financial statements are presented in USD.

The financial statements are prepared on a fair value basis for financial instruments at fair value through profit or loss and derivative financial instruments. Other financial assets and financial liabilities are stated at amortised cost.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of financial position, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of financial position that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Foreign currency translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to USD at the foreign currency closing exchange rate ruling at the date of the statement of financial position. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to USD at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to trading investments are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the statement of comprehensive income.

#### (d) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Sub-fund. Of these, the following developments are relevant to the Sub-fund's financial statements and have been adopted since 1 January 2015:

- IFRS 13, Fair Value Measurement <sup>(i)(ii)</sup>
- IAS 24, Related Party Disclosures <sup>(i)</sup>

(i) *Issued as part of the Annual Improvements to IFRSs 2010-2012 Cycle*

(ii) *Issued as part of the Annual Improvements to IFRSs 2011-2013 Cycle*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Changes in accounting policies (Continued)

None of these developments have had a material effect on how Sub-fund's results and financial position for the current or prior periods have been prepared or presented. The Sub-fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

#### (e) Financial assets and financial liabilities

##### (i) *Classification*

The Sub-fund designates all its investments in equity securities, investment funds, debt securities, participation notes and warrants as financial assets and financial liabilities at fair value through profit or loss category. The category of financial assets and financial liabilities at fair value through profit or loss comprises financial instruments held for trading and financial instruments designated at fair value through profit or loss upon initial recognition.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

Financial assets that are classified as loans and receivables include balance due from unitholders and brokers and account receivables.

Financial liabilities that are not held for trading include balances due to unitholders and brokers and account payables.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial assets and financial liabilities (Continued)

##### (ii) Recognition

The Sub-fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of International Accounting Standard 39 (“IAS 39”).

##### (iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments held for trading are expensed immediately.

Subsequent to initial recognition, all trading instruments are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities are measured at amortised cost using the effective interest rate.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial assets and financial liabilities (Continued)

##### (iv) Fair value measurement principles

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Sub-fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Sub-fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as “active” if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Sub-fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Sub-fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Net gains and losses on investments are included in statement of comprehensive income. Net realised gains and losses from financial instruments at fair value through profit or loss are calculated using the average cost method.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Financial assets and financial liabilities (Continued)

##### (v) *Derecognition*

The Sub-fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Sub-fund uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

#### (f) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at the date of each statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Cash and cash equivalents

Cash comprises cash held with banks and bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bank overdrafts that are repayable on demand form an integral part of the Sub-fund cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (h) Securities sold short and associated securities borrowing

Securities sold short are those positions where the Sub-fund has sold a security that it does not own in anticipation of a decline in the market value of the security and are classified as financial liabilities at fair value through profit or loss held for trading. To enter a short sale, the Sub-fund may need to borrow the security for delivery to the buyer. On each day, obligations to deliver securities borrowed by the Sub-fund to fulfil its short sale contracts are marked to market and an unrealised gain or loss is recorded in net gains on investments in the statement of comprehensive income. While the transaction is open the Sub-fund will also incur an expense for any dividends or interest that will be paid to the lender of the securities.

#### (i) Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Dividend income and expense

Dividend income relating to exchange-traded equity securities and dividend expense relating to securities sold short are recognised in the statement of comprehensive income on the ex-dividend date.

In some cases, the Sub-fund may choose to receive dividends in the form of additional shares rather than cash. In such cases the Sub-fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

#### (k) Expenses

All expenses, including management fees, performance fees, trustee fees and custodian fees, are recognised in the statement of comprehensive income on an accrual basis.

#### (l) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments held for trading are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, net foreign exchange (loss)/gain are foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as held for trading.

#### (m) Taxation

Under the current system of taxation in the Cayman Islands, the Sub-fund is exempt from paying taxes on income, profits or capital gains. The Trust has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from tax for a period of 50 years since inception of the Trust.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Taxation (Continued)

Capital gains, dividend and interest income received by the Sub-fund may be subject to withholding tax imposed in the country of origin. Capital gains and Investment income are recorded gross of such taxes and the withholding tax is recognised in the statement of comprehensive income as incurred. Movement in deferred tax liabilities arising from taxable temporary differences on unrealised gains on investments and their tax bases are recognised in the statement of comprehensive income. Refer to Note 9 for more details.

#### (n) Redeemable units

The Sub-fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Sub-fund has only one class of redeemable units in issue and they are the most subordinate class of financial instruments in the Sub-fund. The redeemable units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Sub-fund's net assets at each redemption date and also in the event of the Sub-fund's liquidation.

A puttable financial instrument that includes a contractual obligation for the Sub-fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Sub-fund's net assets in the event of Sub-fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Sub-fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Redeemable units (Continued)

- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-fund over the life of the instrument.

The Sub-fund's redeemable units meet these conditions and are classified as equity.

Incremental costs directly attributable to the issue or redemption of redeemable units are recognised directly in equity as a deduction from the proceeds or part of the acquisition cost.

#### *Repurchase of redeemable units*

When redeemable units recognised as equity are redeemed, the amount paid on the redemption of the units is presented as a deduction from total equity.

#### (o) Related parties

- (1) A person, or a close member of that person's family, is related to the Sub-fund if that person:
  - (i) has control or joint control over the Sub-fund;
  - (ii) has significant influence over the Sub-fund; or
  - (iii) is a member of the key management personnel of the Sub-fund.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Related parties (Continued)

- (2) An entity is related to the Sub-fund if any of the following conditions applies:
- (i) The entity and the Sub-fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is controlled or jointly controlled by a person identified in (1); or
  - (vi) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3 FINANCIAL RISK MANAGEMENT

The investment objective of the Sub-fund is to achieve medium to long-term capital appreciation by investing primarily in investments which are related to the mainland of the People's Republic of China ("PRC") and investments whose value the Manager believes would be boosted by a Renminbi appreciation. The Manager will also invest in investments whose value the Manager believes would increase even if the RMB exchange rate remains unchanged.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

In terms of geographical area, the Sub-fund focuses primarily on the mainland of the PRC and at least 70 per cent of the Sub-fund's latest available net asset value are related to the mainland of PRC at all times. This will not preclude the Sub-fund from investing in other markets where opportunities can be identified.

#### (a) Market risk

The Sub-fund invests in listed and unlisted equity securities, debt security, investment funds, participation notes, rights and warrants and therefore is exposed to market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments held.

The Sub-fund's overall financial risk management program focuses on the analysis, evaluation and management of financial risks and seeks to minimise potential adverse effects on the Sub-fund's financial performance.

The risk and respective risk management policies employed by the Sub-fund to manage these risks are discussed below:

#### (i) Foreign exchange risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Sub-fund's overall currency positions are monitored on a daily basis by the Manager.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## (a) Market risk (Continued)

## (i) Foreign exchange risk (Continued)

As at 31 December 2015, had the USD weakened by 0.5% (2014: 0.5%) in relation to respective currencies, with all other variables held constant, the net asset value would have increased by the amounts shown below.

	Net foreign currency exposures US\$	Change in net asset value if the USD weakened by 0.5% US\$
<b>As at 31 December 2015</b>		
Chinese renminbi	40,218,892	201,094
British pounds	4	—
Korean won	8	—
Singapore dollar	1,287,139	6,436
New Taiwan dollar	2,811	14
	<u>41,508,854</u>	<u>207,544</u>
<b>As at 31 December 2014</b>		
Chinese renminbi	37,554,395	187,772
British pounds	4	—
Korean won	8	—
Singapore dollar	1,833,661	9,168
New Taiwan dollar	2,917	15
	<u>39,390,985</u>	<u>196,955</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk (Continued)

##### (i) Foreign exchange risk (Continued)

As the HKD is pegged to the USD, the Sub-fund does not expect any significant movements in HKD/USD exchange rate. A 0.5% (2014: 0.5%) appreciation of the USD against the above currencies would have resulted in an equal but opposite effect on the financial statements on the basis that all other variables remain constant.

##### (ii) Price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Sub-fund trades in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, to take advantage of market movements.

All securities investments present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits stated in the Explanatory Memorandum. The Sub-fund's overall market positions are monitored on a daily basis by the Manager.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 FINANCIAL RISK MANAGEMENT (Continued)

## (a) Market risk (Continued)

## (ii) Price risk (Continued)

As at 31 December 2015 and 2014, the Sub-fund's overall market exposures and estimated market sensitivity were as follows:

	Fair value US\$	Relevant benchmark index for the Sub-fund	Reasonably possible change of the relevant benchmark index	Estimated change in net asset value US\$
<b>As at 31 December 2015</b>				
Financial assets at fair value through profit or loss	<u>146,692,874</u>	MSCI China Index	+/-20%	<u>+/-32,403,286</u>
Financial liabilities at fair value through profit or loss	<u>(2,919,962)</u>	MSCI China Index	+/-20%	<u>-/+327,023</u>
<b>As at 31 December 2014</b>				
Financial assets at fair value through profit or loss	<u>153,284,170</u>	MSCI China Index	+/-20%	<u>+/-17,906,003</u>

The Sub-fund is subject to certain inherent risks arising from selling securities short. The ultimate cost to the Sub-fund to acquire these securities may exceed the liabilities reflected in these financial statements. There were no significant concentrations of risk as at 31 December 2015 or 31 December 2014. No exposure to any individual investments exceeded 10% of the net assets attributable to the unitholders either at 31 December 2015 or at 31 December 2014.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk (Continued)

##### (iii) Interest rate risk

The majority of the Sub-fund's financial assets and liabilities are non-interest bearing. As a result, the Sub-fund is not subject to significant amount of risk due to fluctuations in the prevailing levels of market interest rates.

The Sub-fund's interest rate risk arises from bank balances of US\$11,699,871 (2014: US\$1,183,099) and bank overdraft of US\$9,357,518 (2014: US\$8,967,187). As at 31 December 2015, the maturity dates of the majority of interest-bearing assets are within 3 months. The bank balances and bank overdraft expose the Sub-fund to cash flow interest rate risk.

Debt security is also subject to interest rate risk. The interest rate risk is not considered significant and no sensitivity was deemed necessary.

#### (b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Sub-fund. Financial assets which potentially subject the Sub-fund to concentrations of credit risk consist principally of financial assets held with custodians, bank balances and receivables.

The Sub-fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Manager considers to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made when the broker has received payment. In a purchase, payment is made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail. Accordingly, there is no significant concentration of credit risk.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****3 FINANCIAL RISK MANAGEMENT (Continued)****(b) Credit risk (Continued)**

The table below shows the major counterparties at the date of the statement of financial position. The credit ratings are issued by Moody's:

Counterparty	Credit rating	2015 US\$	2014 US\$
Bank A	A1	11,699,871	1,183,099
Custodian A	A1	<u>146,692,874</u>	<u>153,284,170</u>
		<u>158,392,745</u>	<u>154,467,269</u>

The Sub-fund may invest in debt instruments which are unrated or rated with low credit ratings. These securities are subject to greater risk of loss of principal and interest than securities with higher credit ratings. The Sub-fund may also invest in emerging markets where the clearing, settlement and registration systems available to effect trades are less developed than those in more mature markets. These can result in delays and other difficulties in settling trades and registering transfers of securities.

At 31 December, the Sub-fund invested in a debt security with the following credit quality:

	2015 US\$	2014 US\$
<b>Credit rating</b>		
Not rated	<u>774,184</u>	<u>—</u>

**(c) Liquidity risk**

Liquidity risk is the risk that the Sub-fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Sub-fund.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

The markets in which the Sub-fund invests may be relatively illiquid and the liquidity of these markets generally has fluctuated substantially over time. Investment of the Sub-fund's assets in relatively illiquid securities may restrict the ability of the Sub-fund to dispose of its investments at a price and time that it wishes. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market for such transactions, and the prices will be established solely by dealers in those transactions. The Manager monitors the liquidity of the Sub-fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis.

The Sub-fund is exposed to daily cash redemption of units. The Manager considered that there is no significant liquidity risk on redemption of units as, according to the provisions of the Trust Deed dated 21 June 2000 (as amended) of the Sub-fund, the Manager may limit the total number of units redeemed on any dealing day to 10% of the total number of units in issue. The contractual maturity of all other liabilities is less than one month.

#### (d) Specific instrument

##### *Derivative*

The Sub-fund had the following holdings in derivatives translated into USD at 31 December 2015 and none as at 31 December 2014.

Type of contract	Expiration	Underlying	Fair value assets
Rights	January 2016	GCL-Poly Energy Holdings Ltd	US\$ 7,158

### 4 CASH AND CASH EQUIVALENTS

	2015 US\$	2014 US\$
Cash held with bank	11,699,871	1,183,099
Bank overdraft	(9,357,518)	(8,967,187)
	<u>2,342,353</u>	<u>(7,784,088)</u>

US\$1,479,626 of cash held is restricted as disclosed in note 10(d).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****5 AMOUNTS DUE FROM/TO BROKERS**

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
Amount receivable on sales of investments	<u>717,674</u>	<u>81,331</u>
Amount payable on purchase of investments	<u>3,820,706</u>	<u>328,875</u>

**6 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
<b>Financial assets at fair value through profit or loss</b>		
Listed equity securities	144,738,097	131,763,598
Debt security	774,184	—
Investment fund	10,947	15,052
Participation notes	1,162,488	10,423,496
Rights	7,158	—
Warrants	<u>—</u>	<u>11,082,024</u>
	<u>146,692,874</u>	<u>153,284,170</u>

**Financial liabilities at fair value through profit or loss**

Listed equity securities sold short	<u>2,919,962</u>	<u>—</u>
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)****7 NET GAINS FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
<b>Net gains from financial assets and financial liabilities at fair value through profit or loss</b>		
Net realised gains	43,737,973	3,995,516
Change in unrealised gains or losses	(40,289,855)	9,982,114
	<u>3,448,118</u>	<u>13,977,630</u>

**8 TRUSTEE FEES**

Bank of Bermuda (Cayman) Limited, the Trustee of the Sub-fund, is entitled to receive monthly trustee fees determined based on the daily net asset value of the Sub-fund as below:

<b>Net asset value</b>	<b>Trustee fee per annum shown as % of net asset value</b>
First US\$400 million	0.17%
Next US\$400 million	0.15%
Thereafter	0.13%

The trustee fees are subject to a monthly minimum of US\$3,000 (2014: US\$3,000).

Under the terms of the Trust Deed (as amended), the Trustee is also entitled to a fixed annual fee of US\$3,000 (2014: US\$3,000).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 TAXATION

- (a) There are no taxes on income or gains in the Cayman Islands as the Trust has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital gains taxes until 2050. Accordingly, no provision for income taxes is included in these financial statements.
- (b) No provision for Hong Kong Profits Tax has been made in the financial statements as the Trust is exempt from taxation under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.
- (c) In preparing these financial statements, the Manager has made certain assumptions and used various estimates concerning the tax exposure which is dependent on what might happen in the future. The resulting accounting estimates may not equal the related actual results.

The Sub-fund invests in derivative instruments linked to “A” shares, issued by one or more Qualified Foreign Institutional Investors (“QFIIs”) or their affiliates as well as “A” shares of companies listed in the PRC, via the Manager’s QFII quota. A 10% tax is withheld by the QFIIs or custodian on all PRC sourced dividends and realised capital gains.

*Notice issued on 14 November 2014*

On 14 November 2014, the Ministry of Finance of the PRC (the “MoF”), the State Administration of Taxation of the PRC (“SAT”) and the China Securities Regulatory Commission (the “CSRC”) jointly issued the “Notice on temporary exemption of Corporate Income Tax on capital gains derived from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII” (the “Notice”).



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 TAXATION (Continued)

(c) (Continued)

According to the Notice, amongst other things:

- (i) QFIIs and RQFIIs, which do not have an establishment or place of business in the PRC or have an establishment or place in the PRC but the income so derived in the PRC is not effectively connected with such establishment, will be temporarily exempt from corporate income tax on gains derived from the transfer of PRC equity investment assets (including China “A” shares) effective from 17 November 2014;
- (ii) PRC corporate income tax will be imposed on gains by QFIIs and RQFIIs from transfer of equity investment assets (including China “A” shares) realised prior to 17 November 2014 in accordance with laws.

As a result of the issue of the Notice, the Manager has decided on the following changes to the tax provisioning policy of the Sub-fund:

- (i) The Sub-fund has ceased to provide PRC withholding income tax for realised gains on derivative instrument linked to “A” shares and “A” shares on or after 17 November 2014;
- (ii) No PRC withholding income tax provision is made for unrealized gains for China A-shares. The tax provision made in relation to unrealised gains on the Sub-fund’s investments in derivatives on China equities and “A” shares has been released on 17 November 2014.

In June 2015, the Third Branch of Shanghai Municipal Office of the State Administration of Taxation issue a notice and a tax filing deadline of 30 September 2015 for all QFII/RQFII to declare and report the tax-related matters in relation to capital gains realised from the disposal of PRC equity investments prior to 17 November 2014.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****9 TAXATION (Continued)****(c) (Continued)**

The Manager has engaged a tax advisor to file their tax return and required documents by 30 September 2015 and the Sub-Fund has made payment for PRC taxes on the gross realised gains derived from the disposal of “A” Shares prior to 17 November 2014.

The Sub-fund directly invests in “B” shares of companies listed in the PRC for subscription by foreign investors and may be subject to PRC withholding tax of 10% on dividend income. A 10% withholding tax may also be payable on the capital gains derived from the sale of “B” shares. Under current PRC tax laws, gains derived from the transfer of shares of PRC companies by non-residents should be subject to a withholding tax of 10%, unless exempt under relevant tax treaties. The SAT has remained silent on the collection of withholding tax for capital gains and until further clarification is issued by the SAT, the Manager considers that there is significant uncertainty in respect of whether the Sub-fund has any liability and the extent of such liability with respect to tax on capital gains derived from the sale of PRC “B” shares. In making this assessment, the Manager has considered (i) the current position of the SAT, (ii) the absence of a withholding mechanism of the relevant tax and (iii) current market practice. Accordingly, as at 31 December 2015 and 2014, the Sub-fund had not made any provision for the tax on capital gains on “B” shares based on the above judgments made by the Manager.

The Manager will continually reassess the withholding income tax provisioning approach on an on-going basis taking into account any recent development in the market.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****9 TAXATION (Continued)**

(c) (Continued)

Taxation in statement of comprehensive income represents:

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
Dividend withholding tax	172,445	300,514
Interest withholding tax	—	529
Withholding tax on realised gains on investments	160,210	150,802
Reversal of deferred tax recognised on realised gain on investments	—	(767,751)
	<u>332,655</u>	<u>(315,906)</u>

Provision for taxation in the statement of financial position represents:

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
PRC withholding tax provision relating to prior year	272,633	891,563
PRC withholding tax provision for the year	160,210	150,803
Tax paid	(418,767)	—
Reversal of provision on movement in unrealised gains on investments	—	(769,733)
	<u>14,076</u>	<u>272,633</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Sub-fund entered into the following material related party transactions for the year. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

**(a) Management fee**

Under the Investment Management Agreement, the Manager receives a management fee monthly in arrears at an annual rate of 1.25% of the total net asset value on each valuation day as defined in the Explanatory Memorandum. Management fees of US\$1,938,223 (2014: US\$1,886,197) were charged to the statement of comprehensive income during the year. Included in liabilities as at 31 December 2015 are management fees payable of US\$148,878 (2014: US\$155,774).

**(b) Performance fees**

Under the Investment Management Agreement, the Manager is also entitled to a performance fee, calculated at a high-on-high basis, if the net asset value per unit as at the last valuation day of a financial year (prior to the accrual of any performance fee for that financial year) exceeds the higher of:

- (i) the net asset value per unit as at the close of business on the last valuation day in the last financial year in respect of which a performance fee was paid to the Manager in respect of the Sub-fund, after payment of such performance fee; and
- (ii) the initial offer price at which the units were first offered.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS (Continued)

#### (b) Performance fees (Continued)

The rate of performance fee payable is 15% and is calculated by multiplying this fee rate by the product of the excess of the net asset value per unit (calculated as stated above) and the average of the number of units in issue immediately after each valuation day in the relevant financial year.

Performance fee of US\$424,805 (2014: US\$2,860,778) was charged to the statement of comprehensive income during the year. Performance fees payable of US\$424,805 is included in liabilities as at 31 December 2015 (2014: US\$2,860,778).

#### (c) Trustee fees

The Trustee, a licensed trust company incorporated in the Cayman Islands, has certain duties and responsibilities as specified in the Explanatory Memorandum. The Trustee is entitled to receive a trustee fee calculated on the basis described in note 8. Trustee fees of US\$263,598 (2014: US\$256,523) were charged to the statement of comprehensive income during the year. Included in liabilities as at 31 December 2015 are trustee fees payable of US\$20,247 (2014: US\$21,185).

#### (d) Transactions/balances with the group company of the Trustee

The Sub-fund maintains bank accounts which are held as collateral for transactions involving borrowed securities with The Hongkong and Shanghai Banking Corporation Limited, which is a group company of the Trustee of the Sub-fund. Cash deposits of US\$1,479,626 were held as collateral as at 31 December 2015 (2014: US\$Nil). Information relating to the transactions/balances with The Hongkong and Shanghai Banking Corporation are set out below:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS (Continued)****(d) Transactions/balances with the group company of the Trustee (Continued)**

	<b>2015</b>	<b>2014</b>
	<i>US\$</i>	<i>US\$</i>
<b>Bank accounts</b>		
Bank balance	11,699,871	1,183,099
Bank overdraft	(9,357,518)	(8,967,187)
Interest income	58,488	6,549
Interest expenses	(253,563)	(188,792)
Bank charges	(22,874)	(19,953)
<b>Borrowed securities</b>		
Stock lending expenses	(2,619)	—

**(e) Manager's and its related parties' holding in the Sub-fund**

As at 31 December 2015, 593,716 units (2014: 593,716 units) of the Sub-fund were held by the Manager. Units held by the related parties of the Manager are listed out below:

	<b>Number of units</b>	
	<b>2015</b>	<b>2014</b>
Directors of the Manager	63,598	63,598

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS (Continued)****(f) Investment in a fund managed by a related party of the Manager**

As at 31 December 2015, the Sub-fund held 68,420 units (2014: 68,420 units) of Value Partners Strategic Equity Fund, a fund managed by a related party of the Manager, with a fair value of US\$10,947 (2014: US\$15,052). No cash distribution (2014: US\$Nil) was received from Value Partners Strategic Equity Fund during the year.

**(g) Cross-trades with other funds managed by the Manager**

During the year ended 31 December 2015, the Sub-fund had no transactions with other funds managed by the Manager.

In 2014, the Sub-fund transacted with Value Partners China A Share Opportunity Fund, which is another fund also managed by the Manager. The Sub-fund purchased two securities amounting to US\$248,231. The transactions were carried out at the fair value of investments on the date of transaction. The decision was in the best interest of the Sub-fund and fell within the investment objectives and policies of the Sub-fund. The transactions were executed on arm's length terms.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****11 REDEEMABLE UNITS IN ISSUE**

	<b>Number of units</b>	
	<b>2015</b>	<b>2014</b>
As at 1 January	3,474,553	5,194,403
Issue of redeemable units	481,218	143,756
Redemption of redeemable units	<u>(513,216)</u>	<u>(1,863,606)</u>
As at 31 December	<u><u>3,442,555</u></u>	<u><u>3,474,553</u></u>

The rights attaching to each unit are as follows:

The holders of the units have the right to receive notice of, attend and vote at meetings of the Sub-fund. The holder of each such unit has the right to one vote for each such unit registered in his name. The holders are entitled to receive all dividends declared and paid by the Sub-fund. Upon winding up, the holders are entitled to a return of capital based on the net asset value per unit of the Sub-fund.

Any distributable profits of the Sub-fund may be accumulated or distributed by the Manager, in its absolute discretion. Where distributions are made, unless unitholders indicate otherwise to the Manager, any such distributions will automatically be reinvested in further units in the Sub-fund to be issued to such unitholders in proportion to the number of units held by them on the distribution date as defined in the Trust Deed (as amended).

The Trust and the Sub-fund do not have any externally imposed capital requirements.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 FAIR VALUE INFORMATION

The Sub-fund's investments are carried at fair value on the statement of financial position. The carrying amounts of other financial assets and liabilities approximate fair value due to the immediate or short-term nature of these financial instruments.

The Sub-fund's accounting policy on fair value measurements is discussed in note 2(e)(iv).

The Sub-fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****12 FAIR VALUE INFORMATION (Continued)**

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>As at 31 December 2015</b>				
<b>Financial assets at fair value through profit or loss</b>				
Listed equity securities	137,247,321	–	7,490,776	144,738,097
Debt security	–	774,184	–	774,184
Investment fund	–	–	10,947	10,947
Participation notes	–	1,162,488	–	1,162,488
Rights	–	7,158	–	7,158
	<u>137,247,321</u>	<u>1,943,830</u>	<u>7,501,723</u>	<u>146,692,874</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Listed equity securities sold short	<u>(2,919,962)</u>	<u>–</u>	<u>–</u>	<u>(2,919,962)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 12 FAIR VALUE INFORMATION (Continued)

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>As at 31 December 2014</b>				
<b>Financial assets at fair value through profit or loss</b>				
Listed equity securities	130,244,919	–	1,518,679	131,763,598
Investment fund	–	–	15,052	15,052
Participation notes	–	10,423,496	–	10,423,496
Warrants	–	11,082,024	–	11,082,024
	<u>130,244,919</u>	<u>21,505,520</u>	<u>1,533,731</u>	<u>153,284,170</u>

The following table presents the changes in the Level 3 fair value category for the years ended 31 December 2015 and 2014. The Sub-fund classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. The equity investment and investment fund classified as level 3 were valued based on last transacted price and unquoted NAV per unit respectively. The changes in the unobservable inputs to valuation models do not have a significant effect on the net asset value of the Sub-fund.

	As at 1 January US\$	Purchases, issuances and settlements (net) US\$	Transfer into Level 3 US\$	Net (losses)/ gains included in the statement of comprehensive income US\$	As at 31 December US\$	Unrealised (loss)/gain* US\$
<b>Year 2015</b>						
Listed equity securities	<u>1,518,679</u>	<u>5,048,618</u>	<u>1,416,284</u>	<u>(492,805)</u>	<u>7,490,776</u>	<u>(67,708)</u>
Investment fund	<u>15,052</u>	<u>–</u>	<u>–</u>	<u>(4,105)</u>	<u>10,947</u>	<u>(4,105)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 12 FAIR VALUE INFORMATION (Continued)

	As at 1 January US\$	Purchases, issuances and settlements (net) US\$	Transfer into Level 3 US\$	Net (losses)/ gains included in the statement of comprehensive income US\$	As at 31 December US\$	Unrealised (loss)/gain* US\$
<b>Year 2014</b>						
Portfolio investments	<u>237,429</u>	<u>–</u>	<u>1,281,296</u>	<u>(46)</u>	<u>1,518,679</u>	<u>(46)</u>
Investments fund	<u>1,368</u>	<u>–</u>	<u>–</u>	<u>13,684</u>	<u>15,052</u>	<u>13,684</u>

\* Represents the amount of total (loss)/gain recognised in the statement of comprehensive income for assets held at the end of the year.

During the year ended 31 December 2015, listed equity security amounting to US\$1,416,284 (2014: US\$1,281,296) have been transferred from Level 1 to Level 3 because quoted price for this investment was no longer available in an active market. There were no transfers between Level 1 and Level 2 of the fair value hierarchy.

## 13 INTEREST IN INVESTMENT FUND

Included in financial assets at fair value through profit or loss on the Sub-fund's statement of financial position are certain investment in investment fund (see note 6) in which they have been designed so that voting or similar rights are not the dominant factor in deciding who controls this investment fund. This investment fund represents investment in a private equity fund established by a related company. This scheme provides the Sub-fund with a variety of investment opportunities through managed investment strategies.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13 INTEREST IN INVESTMENT FUND (Continued)

The table below describes the types of structured entity that the Sub-fund does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Sub-fund
Investment fund	To manage assets on behalf of the investors and earn fees.	Investments in units issued by the fund
	This vehicle is financed through the issue of units to investors.	

The table below sets out interests held by the Sub-fund in unconsolidated structured entity. The maximum exposure to loss is the carrying amount of the financial assets held by the Sub-fund.

As at 31 December 2015

	Number of invested funds by the Sub-fund	Total net assets of the structured entity	Carrying amount included in investment at fair value through profit or loss	Carrying amount as a % of total net assets attributable to unitholders
Unlisted open-ended investment fund	1	US\$719,548	US\$10,947	0.01%

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****13 INTEREST IN INVESTMENT FUND (Continued)**

As at 31 December 2014

	Number of invested funds by the sub-fund	Total net assets of the structured entity	Carrying amount included in investment at fair value through profit or loss	Carrying amount as a % of total net assets attributable to unitholders
Unlisted open-ended investment fund	1	US\$3,870,744	US\$15,052	0.01%

During the year, the Sub-fund did not provide financial support nor have any outstanding capital commitments to this investment fund and has no intention of providing financial or other support.

**14 SOFT COMMISSION ARRANGEMENTS**

The Manager and/or any company associated with it and its delegates may enter into soft dollars/commission sharing arrangements with brokers through which brokerage transactions are entered on behalf of clients under management. The Manager may receive, and are entitled to retain, research products and services (known as soft dollar benefits) which are of demonstrable benefit to the Sub-fund (as may be permitted under applicable rules and regulations) from brokers and other persons through whom investment transactions are carried out (the “brokers”). Soft dollars may be received from them provided that the quality of transaction execution is consistent with best execution standards and brokerage rates are not in excess of the customary full-service brokerage rates.

Such soft dollar benefits may include research and advisory services; economic and political analysis; portfolio analysis, including valuation and performance measurement; market analysis, data and quotation services and software incidental to the above goods and services; clearing and custodian services and investment related publications. For the avoidance of doubt, soft dollar benefits do not include travel, accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employee salaries or direct money payments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 SOFT COMMISSION ARRANGEMENTS (Continued)

The Manager will consider many judgemental factors deemed relevant in determining whether a broker will provide best execution. In general, investment orders will be allocated to brokers based on the range and overall quality of services offered by the broker. The core factors in determining the quality of services are the execution performance and capability of the broker. Other factors, such as the quality and quantity of research and investment ideas offered, access to potential investee companies and commission rate charges, would also be taken into consideration. Soft dollar benefits received from brokers should not be a determinant factor on allocating orders among brokers. The Manager has implemented policies and procedures to ensure that transactions executed with brokers pursuant to a soft dollar commission sharing arrangement are conducted in the best execution standard. Soft dollars benefits received by the Manager are used to facilitate in the Manager's investment management process, such benefits assist the Manager in fulfilling its overall duty to clients and may be used in servicing any or all of the Manager's client accounts over which the Manager exercises investment discretion. The Manager does not usually attempt to allocate/attribute the soft dollar benefits to individual client account, as goods and services obtained may be beneficial to all clients in general, including those client accounts that do not generate credit to acquire the soft dollar benefits.

### 15 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Sub-fund.

	Effective for accounting periods beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 28, <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
IFRS 9, <i>Financial instruments</i>	1 January 2018

The Sub-fund is in the process of assessing the impact of these amendments and new standards on the Sub-fund.

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 31 DECEMBER 2015

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed equity securities</b>			
<i>China</i>			
Beijing Dinghan Technology Co Ltd A Shares	606,322	2,782,450	1.96
Beijing HualuBaina Film & Tv Co Ltd A Shares	444,500	2,436,854	1.71
Beijing Sanfo Outdoor Products Co Ltd A Shares	500	4,800	—
Beijing UniStrong Science & Technology Co Ltd A share	502,496	3,122,367	2.19
China International Travel Service Corp Ltd A Shares	351,400	3,209,501	2.26
China Minmetals Rare Earth Co Ltd A Shares	863,782	2,753,482	1.93
China National Accord Medicines Co Ltd B Shares	275,649	1,416,284	1.00
Chongqing Zongshen Power Machinery Co Ltd A Shares	1,315,400	2,799,456	1.97
Daqin Railway Co Ltd A Shares	2,063,945	2,739,764	1.92
Jiangsu Hengrui Medicine Co Ltd A Shares	181,900	1,375,938	0.97
Kingenta Ecological Engineering Group Co Ltd A Shares	449,883	1,409,154	0.99
Kweichow Moutai Co Ltd A Shares	91,750	3,082,824	2.17
Midea Group Co Ltd A Shares	310,400	1,568,802	1.10
Ping An Insurance (Group) Co of China Ltd A Shares	248,386	1,377,011	0.97
Shanghai Bailian Group Co Ltd B Shares	773,193	1,510,046	1.06
Shenzhen Overseas Chinese Town Co Ltd A Shares	1,048,000	1,420,207	1.00
Vatti Corp Ltd A Shares	701,487	1,920,698	1.35
Xinjiang Ba Yi Iron & Steel Co Ltd A Shares	1,055,200	1,600,585	1.13
		36,530,223	25.68



**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)***AS AT 31 DECEMBER 2015*

	<b>Holdings</b>	<b>Fair value US\$</b>	<b>% of net assets</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed equity securities (Continued)</b>			
<i><b>Hong Kong – H Shares</b></i>			
AviChina Industry & Technology Co Ltd H Shares	1,010,000	794,957	0.56
BBMG Corp H Shares	2,333,000	1,586,420	1.11
CGN Power Co Ltd H Shares	15,078,000	5,642,018	3.97
China International Capital Corp Ltd H Shares	659,600	1,074,070	0.76
China National Materials Co Ltd H Shares	5,384,000	1,028,157	0.72
China Reinsurance Group Corp H Shares	2,554,000	781,020	0.55
CSSC Offshore and Marine Engineering Group Co Ltd H Shares	626,000	1,266,523	0.89
Guangzhou R&F Properties Co Ltd H Shares	1,300,000	1,601,915	1.13
Harbin Electric Co Ltd H Shares	11,382,000	5,389,858	3.79
Huadian Fuxin Energy Corp Ltd H Shares	8,044,000	2,304,187	1.62
Huadian Power International Corp Ltd H Shares	3,204,000	2,087,741	1.47
Huaneng Renewables Corp Ltd H Shares	7,114,000	2,129,583	1.50
Huatai Securities Co Ltd H Shares	1,192,200	2,781,251	1.95
Ping An Insurance (Group) Co of China Ltd H Shares	510,000	2,829,641	1.99
Shandong Luoxin Pharmaceutical Group Stock Co Ltd H Shares	1,048,000	1,676,778	1.18
Shanghai Fudan Microelectronics Group Co Ltd H Shares	1,416,000	1,054,221	0.74
Shanghai Industrial Urban Development Group Ltd H Shares	7,596,000	1,499,578	1.05
Shanghai Jin Jiang International Hotels (Group) Co Ltd H Shares	4,758,000	2,007,543	1.41
Yunnan Water Investment Co Ltd H Shares	728,000	483,762	0.34
Zhuzhou CSR Times Electric Co Ltd H Shares	674,000	3,917,846	2.75
		<u>41,937,069</u>	<u>29.48</u>

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2015

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed equity securities (Continued)</b>			
<i>Hong Kong – Red Chips</i>			
BeijingWest Industries International Ltd	105,016,000	4,268,337	3.00
China Everbright Ltd	588,000	1,352,003	0.95
China Power International Development Ltd	2,642,000	1,527,227	1.07
China Power New Energy Development Co Ltd	34,860,000	3,418,485	2.40
China Resources Gas Group Ltd	1,880,000	5,615,669	3.95
China Resources Land Ltd	538,000	1,568,857	1.10
China Traditional Chinese Medicine Co Ltd	8,200,000	5,544,186	3.90
CNOOC Ltd	2,744,000	2,857,264	2.01
Shanghai Industrial Holdings Ltd	645,000	1,693,623	1.19
TCL Multimedia Technology Holdings Ltd	1,772,000	1,124,920	0.79
Technovator International Ltd	3,282,000	2,104,687	1.48
		<u>31,075,258</u>	<u>21.84</u>

*Hong Kong – Other*

China Creative Home Group Ltd	7,080,000	639,476	0.45
China Dongxiang Group Co Ltd	5,722,000	1,365,879	0.96
Concord New Energy Group Ltd	47,870,000	2,872,163	2.02
Future Land Development Holdings Ltd	8,546,000	1,477,612	1.04
GCL-Poly Energy Holdings Ltd	6,934,000	1,037,850	0.73
GOME Electrical Appliances Holding Ltd	10,157,000	1,690,627	1.19
Jutal Offshore Oil Services Ltd	4,084,000	316,176	0.22
Logan Property Holdings Co Ltd	5,476,000	1,858,283	1.31

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)***AS AT 31 DECEMBER 2015*

	<b>Holdings</b>	<b>Fair value US\$</b>	<b>% of net assets</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed equity securities (Continued)</b>			
<i><b>Hong Kong – Other (Continued)</b></i>			
Modern Dental Group Ltd	1,266,000	671,380	0.47
Nine Dragons Paper Holdings Ltd	4,337,000	2,568,590	1.81
Real Gold Mining Ltd	1,315,000	169,675	0.12
Sunac China Holdings Ltd	6,573,000	5,088,708	3.58
Tencent Holdings Ltd	291,900	5,743,765	4.04
Tiangong International Co Ltd	13,378,000	1,139,273	0.80
Uni-President China Holdings Ltd	1,717,000	1,322,627	0.93
Vinda International Holdings Ltd	699,000	1,385,355	0.97
Xingda International Holdings Ltd	5,721,000	1,166,331	0.82
		<u>30,513,770</u>	<u>21.46</u>
<b>Total Hong Kong</b>		<u>103,526,097</u>	<u>72.78</u>
<i><b>Singapore</b></i>			
SIIC Environment Holdings Ltd	2,376,580	1,287,139	0.90
<i><b>United States</b></i>			
Momo Inc	211,900	3,394,638	2.39
<b>Total listed equity securities</b>		<u>144,738,097</u>	<u>101.75</u>

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2015

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Unlisted equity security</b>			
<i>Hong Kong – Other</i>			
Peace Mark Holdings Ltd	1,030,000	-----	-----
<b>Debt security</b>			
Petro-King Oiled Service Conv 5% 03/30/2018	6,000,000	----- 774,184	----- 0.54
<b>Investment fund</b>			
Value Partners Strategic Equity Fund	68,420	----- 10,947	----- 0.01
<b>Participation notes</b>			
CICC Financial Trading Ltd (Daqin Railway Co Ltd A Shares) P Note 10/03/2017	876,027	----- 1,162,488	----- 0.82
<b>Rights</b>			
GCL-Poly Energy Holdings Ltd Rights 01/20/2016	1,386,800	----- 7,158	----- 0.01
<b>Total financial assets at fair value through profit or loss</b>		----- 146,692,874	----- 103.13

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2015

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed equity securities sold short</b>			
<i>Hong Kong – Other</i>			
Hengan International Group Co Ltd	(150,000)	(1,416,756)	(1.00)
Samsonite International SA	(500,000)	<u>(1,503,206)</u>	<u>(1.06)</u>
		<u>(2,919,962)</u>	<u>(2.06)</u>
<b>Total financial liabilities at fair value through profit or loss</b>		<u>(2,919,962)</u>	<u>(2.06)</u>
<b>Total investments</b>		143,772,912	101.07
Cash and cash equivalents		2,342,353	1.64
Other net liabilities		<u>(3,864,558)</u>	<u>(2.71)</u>
<b>Total net assets</b>		<u>142,250,707</u>	<u>100.00</u>
<b>Total investments, at cost</b>		<u>157,883,802</u>	

**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)***FOR THE YEAR ENDED 31 DECEMBER 2015*

	% of net assets	
	2015	2014
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities</b>		
China	25.68	38.10
Hong Kong	72.78	51.48
Singapore	0.90	1.30
United States	<u>2.39</u>	<u>2.45</u>
	<u>101.75</u>	<u>93.33</u>
<b>Unlisted equity securities</b>		
Hong Kong	<u>—</u>	<u>—</u>
<b>Debt security</b>		
	<u>0.54</u>	<u>—</u>
<b>Investment fund</b>		
	<u>0.01</u>	<u>0.01</u>
<b>Participation notes</b>		
	<u>0.82</u>	<u>7.38</u>
<b>Rights</b>		
	<u>0.01</u>	<u>—</u>
<b>Warrants</b>		
	<u>—</u>	<u>7.85</u>
<b>Total financial assets at fair value through profit or loss</b>		
	<u>103.13</u>	<u>108.57</u>

# STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

## (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

	% of net assets	
	2015	2014
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities sold short</b>		
Hong Kong	(2.06)	—
<b>Total financial liabilities at fair value through profit or loss</b>	(2.06)	—
<b>Total investments</b>	101.07	108.57
Cash and cash equivalents	1.64	(5.52)
Other net liabilities	(2.71)	(3.05)
<b>Total net assets</b>	100.00	100.00

**PERFORMANCE RECORD (UNAUDITED)***FOR THE YEAR ENDED 31 DECEMBER 2015***Net asset values (at last traded prices)**

	<b>Net asset value per unit US\$</b>	<b>Net asset value US\$</b>
As at		
– 31 December 2015	41.32	142,250,707
– 31 December 2014	40.63	141,187,205
– 31 December 2013	36.73	190,822,510

**Highest issue and lowest redemption prices (at last traded prices)**

	<b>Highest issue price US\$</b>	<b>Lowest redemption price US\$</b>
Financial year ended		
– 31 December 2015	55.81	35.75
– 31 December 2014	40.63	31.65
– 31 December 2013	37.67	29.99
– 31 December 2012	34.65	27.92
– 31 December 2011	38.71	26.74
– 31 December 2010	38.50	28.14
– 31 December 2009	29.85	15.17
– 31 December 2008	26.99	14.60
– 31 December 2007	32.12	18.89
– 31 December 2006	18.76	13.40