



VALUE CHINA ETF (Stock code: 3046)

ANNUAL REPORT 2016

For the year ended 31 March 2016

Sensible Asset Management Hong Kong Limited

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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 prospectus, as supplemented by the latest semi-annual and annual reports.

CONTENTS

	<i>Pages</i>
General information	2-3
Manager's report	4
Statement of responsibilities of the Manager and the Trustee	5
Trustee's report to the unitholders	6
Independent auditors' report to the unitholders	7-8
Audited financial statements	
– Statement of financial position	9
– Statement of comprehensive income	10
– Statement of changes in equity	11
– Statement of cash flows	12
– Notes to financial statements	13-36
Investment portfolio (unaudited)	37-38
Statement of movements in portfolio holdings (unaudited)	39
Performance record (unaudited)	40

GENERAL INFORMATION

Investment Manager

Sensible Asset Management Hong Kong Limited
9th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

Sub-investment Manager

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

Directors of the Investment Manager

Mr. Chow Wai Chiu William
Mr. So Chun Ki Louis

Trustee and Registrar

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

Legal Advisor

Simmons & Simmons
13th Floor, One Pacific Place
88 Queensway
Hong Kong

Auditors

Ernst & Young
22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

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GENERAL INFORMATION (Continued)

Recent awards and achievements

Corporate awards (ETF)	
2016	<ul style="list-style-type: none"> • Value Partners ETF and Indexing Awards 2016 – Best ETF Launch <i>– ETFI Asia</i> • Value Partners ETF and Indexing Awards 2016 – Best Commodity ETF <i>– ETFI Asia</i> • Value Partners ETF and Indexing Awards 2016 – Best Smart Beta ETF <i>– ETFI Asia</i>
Value China ETF	
2010	<ul style="list-style-type: none"> • Asian ETFs Awards 2010 – Best New ETF in Asia <i>– Republic Partners Ltd., September 2010</i>

MANAGER'S REPORT

Value China ETF (“the Fund”) is an index-tracking exchange traded fund whose units are listed and traded on the Stock Exchange of Hong Kong Limited (“SEHK”). The Fund aims to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE Value-Stocks China Index (“the Index”) by holding a portfolio of the constituent stocks of the Index. The Index comprises 25 value stocks amongst Chinese companies’ shares listed in Hong Kong.

As at 31 March 2016, the net asset value (“NAV”) per unit of the Fund was HKD32.50, and 3,200,000 units were outstanding. The total size of the Fund was approximately HKD104 million.

A summary of the performance of the Index and the Fund is given below.

Total return in HKD	From 1 Apr 2015 to 31 Mar 2016	2016 YTD (as at 31 Mar)	Since inception
FTSE Value-Stocks China Index	-13.7%	-6.7%	25.8%
Value China ETF	-14.6%	-7.0%	12.0%

The difference in performance between the FTSE Value-Stocks China Index and the Value China ETF is mainly attributed to fees and expenses, and security misweightings. The historical tracking error for the NAV of the Fund against the FTSE Value-Stocks China Index was at 49 basis points on an annualised basis since its inception on 10 December 2009.

Sensible Asset Management Hong Kong Limited

20 July 2016

All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV with dividends reinvested, as at 31 March 2016. Performance data is net of all fees.

Investors should note that investments involve risk. The price of units may go down as well as up and past performance is not indicative of future results.

STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

The Manager of Value China ETF (the "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 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 Fund will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the 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 Fund is required to:

- ensure that the 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 Fund and rights attaching thereto; and
- report to the unitholders for each annual period on the conduct of the Manager in the management of the Fund.

TRUSTEE'S REPORT TO THE UNITHOLDERS OF VALUE CHINA ETF

We hereby confirm that, in our opinion, the Manager has, in all material respects, managed Value China ETF in accordance with the provisions of the Trust Deed dated 20 November 2009.

For and on behalf of
HSBC Institutional Trust Services (Asia) Limited

Trustee
20 July 2016

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE CHINA ETF

We have audited the financial statements of Value China ETF (a Hong Kong Unit Trust and referred to as the "Fund") set out on pages 9 to 36, which comprise the statement of financial position as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustee's and Manager's responsibilities for the financial statements

The Trustee and the Manager of the 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 are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed of the Fund dated 20 November 2009 (the "Trust Deed") and the disclosure requirements specified in Appendix E to the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the "SFC Code"), and for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, 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 International Standards on Auditing. 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. We are also required to assess whether the financial statements have been properly prepared, in all material aspects, in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE CHINA ETF (Continued)

Auditors' responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Fund'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 Trustee and the Manager, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.

Ernst & Young

Certified Public Accountants

Hong Kong

20 July 2016

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	<i>Notes</i>	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Assets			
Financial assets at fair value			
through profit or loss	<i>4, 10</i>	103,089,844	119,182,300
Prepayments and other receivable		65,864	51,561
Cash and cash equivalents	<i>4, 7(c)</i>	1,198,738	800,507
Total assets		<u>104,354,446</u>	<u>120,034,368</u>
Liabilities			
Audit fees payable		216,133	252,164
Management fees payable	<i>7(a)</i>	60,200	354,770
Trustee and registrar fees payable	<i>7(b)</i>	16,570	57,030
Other payables		58,907	–
Total liabilities		<u>351,810</u>	<u>663,964</u>
Total equity		<u>104,002,636</u>	<u>119,370,404</u>
Represented by:			
Net assets attributable to unitholders		<u>104,002,636</u>	<u>119,370,404</u>
Net asset value per unit based on			
3,200,000 (2015: 3,000,000)			
units outstanding	<i>8</i>	<u>32.50</u>	<u>39.79</u>

Approved and authorised for issue by the Manager and the Trustee on 20 July 2016

Signed by:

Sensible Asset Management Hong Kong Limited, Manager

HSBC Institutional Trust Services (Asia) Limited, Trustee

The notes on pages 13 to 36 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	<i>Notes</i>	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Dividend income		5,229,465	8,804,391
Interest income		2	–
Net (losses)/gains from financial assets at fair value through profit or loss	5	(20,731,560)	31,690,534
Net foreign exchange (losses)/gains		(69)	2,306
Net investment (losses)/income		<u>(15,502,162)</u>	<u>40,497,231</u>
Management fees	7(a)	815,049	987,313
Trustee and registrar fees	7(b)	164,723	465,780
Transaction fees		142,146	293,467
Licence fees		206,278	220,764
Auditors' remuneration		80,000	211,449
Professional fees		13,325	59,190
Bank charges	7(c)	24,556	41,058
Listing fees		3,729	30,000
Other operating expenses		148,130	102,177
Operating expenses		<u>1,597,936</u>	<u>2,411,198</u>
(Loss)/profit before taxation		(17,100,098)	38,086,033
Withholding tax	6	(337,325)	(705,104)
(Loss)/profit after taxation and total comprehensive income for the year		<u><u>(17,437,423)</u></u>	<u><u>37,380,929</u></u>

The notes on pages 13 to 36 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

	<i>Notes</i>	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Balance at the beginning of the year		119,370,404	157,777,305
Issue of redeemable units	8	6,839,655	–
Redemption of redeemable units	8	–	(67,975,830)
Net increase/(decrease) from unit transactions		6,839,655	(67,975,830)
Distributions to unitholders	9	(4,770,000)	(7,812,000)
Total transactions with unitholders		2,069,655	(75,787,830)
(Loss)/profit after taxation and total comprehensive income for the year		(17,437,423)	37,380,929
Balance at the end of the year		104,002,636	119,370,404

The notes on pages 13 to 36 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	2016 HK\$	2015 HK\$
Operating activities		
Dividends received	5,229,465	8,804,391
Interest received	1	–
Proceeds from sale of investments	58,038,083	187,834,501
Purchase of investments	(62,677,187)	(117,315,260)
Operating expenses paid	(1,924,461)	(2,437,266)
Withholding tax paid	(337,325)	(705,104)
	<u>(1,671,424)</u>	<u>76,181,262</u>
Cash flows (used in)/from operating activities		
Financing activities		
Proceeds from issue of redeemable units	6,839,655	–
Payments on redemption of redeemable units	–	(67,600,914)
Distributions paid to unitholders	(4,770,000)	(7,812,000)
	<u>2,069,655</u>	<u>(75,412,914)</u>
Cash flows from/(used in) financing activities		
	398,231	768,348
Net increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	<u>800,507</u>	<u>32,159</u>
Cash and cash equivalents at the end of the year	<u><u>1,198,738</u></u>	<u><u>800,507</u></u>

The notes on pages 13 to 36 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

Value China ETF (the “Fund”) is an open ended unit trust governed by its Trust Deed dated 20 November 2009 (the “Trust Deed”), as amended from time to time under the laws of Hong Kong. The Fund is authorised by the Hong Kong Securities and Futures Commission (the “SFC”) under Section 104(1) of the Hong Kong Securities and Futures Ordinance (“HKSF”), and is governed by the Hong Kong Code on Unit Trusts and Mutual Funds of the SFC (the “SFC Code”). The Fund is also listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (a subsidiary of the Hong Kong Exchanges and Clearing Limited).

The investment objective of the Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE Value-Stocks China Index (the “Index”).

To achieve the investment objective, Sensible Asset Management Hong Kong Limited (the “Manager”) intends primarily to use a full replication strategy to track the performance of the Index. Depending on the market conditions, the Manager may also utilise a representative sampling strategy or invest in derivatives to achieve the Fund’s investment objective.

Although the Fund will invest primarily in securities included in the Index, the Fund may also invest in other investments including, but not limited to, futures contracts, options on futures contracts, options, swaps, warrants and other financial instruments related to the Index or its constituents, local currency and foreign currency exchange contracts, cash and cash equivalents and other financial instruments which the Manager believes will help the Fund achieve its investment objective.

In order to maximise portfolio management efficiency, minimise transaction costs and tracking error, exposure to the Index may also be obtained through other index-tracking strategies or financial instruments from which the return to the Fund will substantially reflect the performance of the Index. These strategies and instruments will be chosen based on their correlation to the Index or its constituents and cost efficiency in order to reflect the characteristics of the Index.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the relevant disclosure provision of the Trust Deed and the relevant disclosure provisions specified in Appendix E of the SFC Code. A summary of the significant accounting policies adopted by the Fund is set out below.

The IASB has issued certain new and revised IFRSs that are available for early adoption for the current accounting period of the Fund.

The Fund has not applied any amendments and new standards that are not yet effective for the current accounting period (see note 14).

(b) Basis of preparation

The functional currency of the financial statements of the Fund is Hong Kong dollars (“HK\$”) reflecting the fact that most of the transactions are denominated in HK\$, and units of the Fund are issued in HK\$.

The financial statements are prepared under the historical cost convention, except for financial instruments at fair value through profit or loss. These financial statements are presented in HK\$.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts recognised in the financial statements and disclosure of contingent liabilities. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is 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.

(c) Foreign currency translation

Transactions in foreign currencies are translated at foreign currency exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to HK\$ 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 profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to HK\$ 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) Financial assets and financial liabilities at fair value through profit or loss

(i) Classification

The Fund designates all its equity securities into the financial assets at fair value through profit or loss category. The category of financial assets 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 of the Fund's investments are designated as financial assets at fair value through profit or loss. These investments are managed, evaluated and reported internally on a fair value basis upon initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

(i) Classification (Continued)

Financial assets that are classified as loans and receivables include prepayments.

Financial liabilities that are not designated at fair value through profit or loss include accounts payables.

(ii) Recognition

The 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 designated at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all financial instruments are measured at fair value with changes in their fair value recognised in profit or loss.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment loss, 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)

(d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

(iv) Fair value measurement principles

The Fund measures its equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on their quoted market price at the date of the statement of financial position without any deduction for estimated future selling cost. The Fund utilises the last traded price for both listed financial assets and liabilities.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

(v) Derecognition

The 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 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.

(e) Other financial assets

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 profit or loss 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 profit or loss.

(f) Cash and cash equivalents

Cash comprises current deposits with banks. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income

Interest income is recognised in profit or loss on a time-proportionate basis using the effective interest method.

Dividend income relating to exchange-traded equity securities are recognised in profit or loss on the ex-dividend date. In some cases, the Fund may choose to receive dividends in the form of additional shares rather than cash. In such cases the Fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

(h) Expenses

All expenses, including management fees and trustee and registrar fees, are recognised in profit or loss on an accrual basis. Preliminary expenses incurred in establishing the Fund are expensed immediately in accordance with IAS 38.

(i) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments designated at fair value through profit or loss are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, Net foreign exchange gains/(losses) are foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as designated at fair value through profit or loss.

(j) Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund is exempt from taxation under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Fund presents the withholding tax separately from the gross investment income in the statement of comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Redeemable units

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

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

A puttable financial instrument that includes a contractual obligation for the 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 Fund's net assets in the event of the 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 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
- the total expected cash flows attributable to the instrument over its life are based substantially on 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 Fund over the life of the instrument.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Redeemable units (Continued)

The 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.

(l) Related parties

A party is considered to be related to the Fund if:

- (a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Fund;
- (ii) has significant influence over the Fund; or
- (iii) is a member of the key management personnel of the Fund or of a parent of the Fund;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Fund are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Fund are joint ventures of the same third party;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Related parties (Continued)

- (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 a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Fund or to the parent of the Fund.

(m) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Fund's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4. FINANCIAL RISK MANAGEMENT

The investment objective of the Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the Index.

The Fund invests in listed securities and it is exposed to market risk (which includes foreign exchange risk, price risk and interest rate risk), credit risk, liquidity risk and concentration risk arising from the financial instruments held.

The 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 Fund's financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

The risk and respective risk management policies employed by the Fund to manage these risks are discussed below.

(a) Market risk

(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 Fund's overall currency positions are monitored on a daily basis by the Manager.

As at 31 March 2016 and 2015, the Fund is not exposed to significant foreign currency risk. The majority of assets and liabilities are denominated in HK\$, which is the functional currency of the Fund.

(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. Those changes may be caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Fund may trade 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 makes investments in accordance with the provisions and specific limits as stated in the Trust Deed. The Fund's overall market positions are monitored on a daily basis by the Manager.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

As at 31 March 2016 and 2015, the Fund's overall market exposures and estimated market sensitivity are as follows:

	Percentage change		Estimated impact on net assets	
	2016	2015	2016 HK\$	2015 HK\$
FTSE Value-Stocks				
China Index	+/- 20%	+/- 20%	+/- 20,618,957	+/- 23,836,494

(iii) Interest rate risk

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

(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 Fund. Potential credit risk to the Fund principally relates to financial assets, bank balances and receivables.

The 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 or good reputation, 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 made payment. In a purchase, payment is made when the securities have been delivered 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)

4. 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 Standard & Poor's:

Counterparty	Credit rating		2016 HK\$	2015 HK\$
	2016	2015		
Bank A	AA-	AA-	1,198,738	800,507
Custodian A	AA-	AA-	103,089,844	119,182,300

(c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability or selling a financial asset quickly at close to its fair value. The Manager monitors the liquidity of the Fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis.

The Fund's equity investments are considered to be readily realisable under normal market conditions as they are all listed on the Stock Exchange.

The Fund is exposed to daily redemption of units. The Manager considered that there is no significant liquidity risk on redemption of units. The contractual maturity of all other liabilities is less than one year.

(d) Concentration risk

The SFC Code allows the Fund to invest in constituent securities issued by a single issuer for more than 10% of the Fund's net asset value provided that:

- (a) the investment is limited to any constituent securities that each accounts for more than 10% of the weighting of the index; and
- (b) the Fund's holding of any such constituent securities may not exceed their respective weightings in the index, except where weightings are exceeded as a result of changes in the composition of the indices and the excess is only transitional and temporary in nature.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Concentration risk (Continued)

Constituent securities that account for more than 10% of the net asset value of the Fund as at 31 March 2016 and 2015 are as follows:

	Respective weighting in the tracked index	Respective weighting in the Fund's net asset value
As at 31 March 2016		
Agricultural Bank of China Ltd	10.77%	10.67%
China Merchants Bank Co Ltd	11.18%	11.09%
CITIC Limited	11.29%	11.19%
As at 31 March 2015		
Agricultural Bank of China Ltd	12.88%	12.86%
Bank of China Ltd	16.17%	16.15%
China Merchants Bank Co Ltd	11.29%	11.27%

5. NET (LOSSES)/GAINS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 <i>HK\$</i>	2015 <i>HK\$</i>
Net realised gains/(losses)	7,439,150	(1,486,041)
Change in unrealised gains/losses	(28,170,710)	33,176,575
	<u>(20,731,560)</u>	<u>31,690,534</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund is exempt from taxation under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Certain dividends received by the Fund are subject to withholding tax imposed in the country of origin. Dividend income is recorded gross of such taxes and the withholding tax is recognised in profit or loss as incurred.

7. 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 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 fees

The Fund appointed the Manager, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. The Manager is entitled to receive management fees of 0.70% per annum of the net asset value of the Fund. The fees are accrued daily and calculated as at each dealing day and payable monthly in arrears. Management fees of HK\$815,049 (2015: HK\$987,313) were charged to profit or loss during the year. Included in liabilities as at 31 March 2016 are a management fees payable of HK\$60,200 (2015: HK\$354,770).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(b) Trustee and registrar fees

The Fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. For the period from 1 April 2015 to 31 March 2016, HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive trustee and registrar fees of 0.12% (2015: 0.12%) per annum of the net asset value of the Fund, subject to a minimum of HK\$39,000 per month. For the period from 1 April 2015 to 31 March 2016, the minimum fee was waived. The fees are accrued daily and calculated as at each dealing day and payable monthly in arrears.

The Trustee is also entitled to receive service fees of HK\$25,000 (2015: HK\$25,000) per annum accrued daily and payable quarterly in arrears as well as ad-hoc valuation fees of HK\$4,000 (2015: HK\$4,000) per calculation of net asset value other than at the valuation point on a regular dealing day. Trustee and registrar fees of HK\$164,723 (2015: HK\$465,780) were charged to profit or loss during the year. Included in liabilities as at 31 March 2016 are trustee and registrar fees payable of HK\$16,570 (2015: HK\$57,030).

(c) Transactions/balances with the group company of the Trustee

The Fund maintains a bank account with The Hongkong and Shanghai Banking Corporation Limited, which is an intermediate holding company of the Trustee. Information relating to the bank account is set out below:

	2016	2015
	<i>HK\$</i>	<i>HK\$</i>
Bank balances	1,198,738	800,507
Bank charges	24,556	41,058
	<u>1,223,294</u>	<u>841,565</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Manager's and its related parties' holdings in the Fund

Units held by the related parties of the Manager and the Sub-investment Manager as at the 31 March 2016 and 31 March 2015 are listed out below:

	Number of units	
	2016	2015
Dato' Cheah Cheng Hye*	200,000	200,000
Mr. Chow Wai Chiu William**	10,000	8,000
Mr. Ho Man Kei, Norman***	504,700	504,700
Value Partners Limited****	138,000	138,000
	138,000	138,000

* *Dato' Cheah Cheng Hye is a director of the Sub-investment Manager*

** *Mr. Chow Wai Chiu William is a director of the Manager*

*** *Mr. Ho Man Kei, Norman is a director of the Sub-investment Manager*

**** *Value Partners Limited is a fellow subsidiary of the Manager*

8. REDEEMABLE UNITS IN ISSUE

	Number of units	
	2016	2015
At the beginning of the year	3,000,000	4,800,000
Issue of redeemable units	200,000	–
Redemption of redeemable units	–	(1,800,000)
	3,200,000	3,000,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. REDEEMABLE UNITS IN ISSUE (Continued)

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 Fund, and are entitled to receive all dividends declared and paid by the Fund.

Any distributable profits of the Fund may be accumulated or distributed by the Manager, in its absolute discretion. Where distributions are made, the distributable amounts are allocated rateably among the unitholders of the relevant class in accordance with the number of units of the relevant class held by the unitholders respectively on the final record date.

The Fund does not have any externally imposed capital requirements.

In accordance with the Trust Deed, the net assets of the Fund are computed at last traded prices of the underlying financial instruments for the purpose of calculating redemption amounts of the redeemable units.

9. DISTRIBUTIONS TO UNITHOLDERS

	2016 HK\$	2015 HK\$
Amount available for distribution brought forward	1,799,483	1,512,196
Dividend income	5,229,465	8,804,391
Withholding tax	(337,325)	(705,104)
	4,892,140	8,099,287
Distributions to unitholders	(4,770,000)	(7,812,000)
Amount available for distribution carried forward	1,921,623	1,799,483

Distribution history

Distribution per unit	HK\$1.59	HK\$2.17
Date of distribution	29 December 2015	29 December 2014

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FAIR VALUE INFORMATION

The Fund's financial instruments are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including accounts payables and accrued expenses, the carrying amounts approximate to their fair values due to the immediate or short-term nature of these financial instruments.

(a) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, Financial instruments: Disclosures, with the fair value of the financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined in note 2(d)(iv) to the financial statements.

	31.3.2016 <i>HK\$</i>	31.3.2015 <i>HK\$</i>
Level 1		
Listed equity securities	<u>103,089,844</u>	<u>119,182,300</u>

During the years ended 31 March 2016 and 2015, there were no significant transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

(b) Financial instruments carried at other than fair value

The carrying amounts of all the Fund's financial assets and financial liabilities at the date of the statement of financial position approximated to their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. SEGMENT REPORTING

The Manager makes strategic resource allocation and assesses performance on behalf of the Fund and has determined the operating segments based on the reports reviewed which are used to make strategic decisions.

The Manager considers that the Fund has a single operating segment which is investing in a diversified portfolio of equity securities with the objective as stated in the investment objective and policies of the Fund.

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of financial position.

The Fund is established and domiciled in Hong Kong. The majority of the Fund's investment income is derived from its investments domiciled in Hong Kong for the years ended 31 March 2016 and 2015.

The Fund has no assets classified as non-current as at 31 March 2016 (2015: nil).

12. 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 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SOFT COMMISSION ARRANGEMENTS (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Fund has adopted the following IFRSs for the first time for the current year's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related Party Disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Fund's related party disclosures as the Fund does not obtain key management personnel services from management entities.

14. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt applicable standards when they become effective.

IFRS 9 Financial Instruments – Classification and Measurement (effective 1 January 2018)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Fund is currently assessing the impact of the standard upon adoption.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

Amendments to IAS 1 – Disclosure Initiative (effective 1 January 2016)

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significant change, existing IAS 1 requirements. The amendments clarify the following:

- (i) the materiality requirement in IAS 1;
- (ii) that specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and Trustee on 20 July 2016.

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 MARCH 2016

	Holdings	Fair value HK\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Listed equity securities			
<i>Hong Kong</i>			
Agricultural Bank of China Ltd	3,978,080	11,098,843	10.67
Bank of Communications Co Ltd	1,240,656	6,327,346	6.08
China Communications Construction Co Ltd	682,128	6,323,327	6.08
China Merchants Bank Co Ltd	707,296	11,528,925	11.09
China Everbright Bank Co Ltd	507,952	1,914,979	1.84
China Galaxy Securities Co Ltd	573,040	4,326,452	4.16
China Minsheng Banking Corp Ltd	1,004,128	7,269,887	6.99
China Resources Cement Holdings Ltd	301,312	714,109	0.69
China Resources Power Holdings Co Ltd	293,024	4,248,848	4.08
China Shenhua Energy Co Ltd	523,600	6,387,920	6.14
Chongqing Rural Commercial Bank Co Ltd	429,840	1,762,344	1.69
CITIC Ltd	986,000	11,634,800	11.19
Country Garden Holdings Co	1,113,616	3,429,937	3.30
Dongfeng Motor Group Co Ltd	451,328	4,368,855	4.20
Great Wall Motor Co Ltd	477,520	3,008,376	2.89
Guangzhou Automobile Group Co Ltd	340,992	2,751,805	2.65
Kingboard Chemical Holdings Ltd	104,272	1,395,159	1.34
Shanghai Industrial Holdings Ltd	69,936	1,278,430	1.23
Shenzhen Investment Ltd	454,896	1,401,080	1.35
Shimao Property Holdings Ltd	192,224	2,206,732	2.12
Sino-Ocean Land Holdings Ltd	452,064	1,659,075	1.60
Sinopec Engineering Group Co Ltd	170,544	1,071,016	1.03

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 MARCH 2016

	Holdings	Fair value HK\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)			
Listed equity securities (Continued)			
<i>Hong Kong (Continued)</i>			
Wheelock and Co Ltd	125,152	4,336,517	4.17
Xinyi Glass Holdings Ltd	302,096	1,561,836	1.50
Yuexiu Property Co Ltd	967,184	<u>1,083,246</u>	<u>1.04</u>
Total financial assets at fair value through profit or loss		103,089,844	99.12
Cash and cash equivalents		1,198,738	1.15
Other net liabilities		<u>(285,946)</u>	<u>(0.27)</u>
Total net assets		<u>104,002,636</u>	<u>100.00</u>
Total investments, at cost		<u>115,746,309</u>	

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 MARCH 2016

	% of net assets	
	2016	2015
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed equity securities		
Hong Kong	99.12	99.84
Total financial assets at fair value through profit or loss	99.12	99.84
Cash and cash equivalents	1.15	0.67
Other net liabilities	(0.27)	(0.51)
Total net assets	100.00	100.00

PERFORMANCE RECORD (UNAUDITED)

FOR THE YEAR ENDED 31 MARCH 2016

Net asset value (at last traded prices)

	Net asset value per unit <i>HK\$</i>	Net asset value <i>HK\$</i>
As at 31 March 2016	32.50	104,002,636
As at 31 March 2015	39.79	119,370,404
As at 31 March 2014	32.87	157,777,305

Highest and lowest net asset value per unit (at last traded prices)

	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
Year ended 31 March 2016	50.24	27.11
Year ended 31 March 2015	41.34	31.82
Year ended 31 March 2014	39.41	30.18
Year ended 31 March 2013	41.69	30.10
Year ended 31 March 2012	42.98	26.43
Period ended 31 March 2011	44.69	32.34