



VALUE CHINA ETF (3046 HK)

SEMI-ANNUAL REPORT 2011

For the six months ended 30 September 2011

Sensible Asset Management Hong Kong Limited

9th Floor, Nexus Building,
41 Connaught Road Central, Hong Kong

Tel : (852) 2880 9263

Fax : (852) 2564 8487

Email : operations@valueETF.com.hk

Website : www.valueETF.com.hk

In the event of inconsistency, the English text of this Semi-Annual Report shall prevail over the Chinese text.

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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

(resigned on 10 June 2011)

Mr Martin Tornberg

(appointed on 11 August 2010
and resigned on 25 July 2011)

Mr So Chun Ki Louis

Mr Tam Raymond Hin Tat

Ms Yang Ledong

(resigned on 24 March 2011)

Ms Zhang Jianying

(appointed on 24 March 2011
and resigned on 25 July 2011)

Trustee and Registrar

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

Legal Advisor

Simmons & Simmons
35th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

Auditor

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Information available from:

Sensible Asset Management Hong Kong Limited
9th Floor, Nexxus Building
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Hong Kong

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GENERAL INFORMATION (Continued)

Awards

Value China ETF	
2010	<ul style="list-style-type: none">Value China ETF (3046 HK) Asian ETFs Awards 2010 Best New ETF in Asia – Republic Partners Limited, a provider on ETFs research

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.

We are pleased to present the semi-annual report of the Value China ETF for the period from 1 April 2011 to 30 September 2011.

Investment philosophy

The Fund’s investment is through the selection of a range of diversified, relatively under-valued and top-quality stocks, spanning H shares, Red Chips and P Chips (defined as the companies listed on the SEHK, which derive 50% or more of their sales revenue or operating assets from mainland China). The index methodology includes a stringent value screening process which includes valuation quality and contrarian screening criteria. Value screening helps to identify under-value companies based on forecast price-to-earnings, and dividend yield. Quality screening is applied to avoid value traps, based on three fundamental factors that include 3-year average return on equity, operating profit margin and net gearing. Contrarian screening is then used which aims to avoid consensus analysts’ “buy” calls that have lagged behind market movements. In all, the performance reflects our discipline of bottom-up stock selection captured under our 3R principles – selecting the Right Business, run by the Right People, at the Right Price.

Fund performance

The Value China ETF seeks to provide investment results, before fees and expenses, that closely correspond to the performance of the FTSE Value-Stocks China Index in Hong Kong dollar (“HKD”) terms. As at 30 September 2011, the Net Asset Value (“NAV”) per unit of the Fund was HKD29.47, and 7,200,000 units were outstanding. The total size of the Fund was approximately HKD212 million.

MANAGER'S REPORT (Continued)

A summary of the performance of the FTSE Value-Stocks China Index is given below.

Total Return in HKD	From 1 Apr to 30 Sep 2011	2011 YTD (as at 30 Sep)	2010	Since Inception
FTSE Value-Stocks China Index	-28.6%	-25.2%	+13.5%	-15.5%
Value China ETF	-29.2%	-26.2%	+11.7%	-17.8%

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 27 basis points on an annualized basis since its inception on 10 December 2009.

Fund activities

The average daily trading volume for the Value China ETF during the period (from 1 April 2011 to 30 September 2011) was reported by Bloomberg to be approximately HKD817,360.

Index activities

The FTSE Value-Stocks China Index underwent one regular review as at 31 March 2011 during the period and had made the following changes on 18 April 2011, which constituted a two-way turnover of 51.61%:

Inclusions		Exclusions	
Company	Code	Company	Code
China Overseas Land & Inv (Red Chip)	688 HK	Petrochina (H)	857 HK
China Coal Energy (H)	1898 HK	China Communications Construction (H)	1800 HK
Dongfeng Motor Group (H)	489 HK	Shimao Property Holdings	813 HK
Zijin Mining Group (H)	2899 HK	BBMG Corp. (H)	2009 HK
Guangzhou Automobile Group (H)	2238 HK	Soho China Ltd.	410 HK
Weichai Power (H)	2338 HK	China Communications Services (H)	552 HK
Great Wall Motor Company (H)	2333 HK	KWG Property Holding	1813 HK
Shenzhen International Hdgs (Red Chip)	152 HK	Kingboard Laminates Holdings	1888 HK

MANAGER'S REPORT (Continued)

Market commentary

During the period, there was a global panic sell-off triggered by the Euro sovereign debt crisis and the possibility of a hard landing for the China economy. Under such circumstances, Value China ETF managed to perform roughly in line with the market and fell 26.2% year-to-date. For reference, the Hang Seng China Enterprises Index ("HSCEI") and MSCI China Index declined by 27.9% and 24.5% year-to-date, respectively. For the six months ended 30 September 2011, the Fund retreated 29.2%. For reference, the HSCEI and the said MSCI index retreated 31.3% and 26.6%, respectively in the reporting period.

Although very disappointing, we see the third quarter loss as a temporary setback only. Our experience with the value-investing discipline has been successful, yielding profits from market efficiencies over the long run. During the third quarter when there was a global wave of panic selling, our approach didn't work because good stock-picking wasn't getting rewarded. Such abnormal periods are relatively rare, however, and we remain very well positioned to exploit the usual market inefficiencies when they re-appear, as they always do.

Since August, global panic sell-off has driven down valuations of China-related stocks to only around 5% from the trough of the financial crisis in 2008, with HSCEI's 2011 price-to-earnings at only 7.3 times by quarter-end. At the same time, FTSE Value-Stocks China Index was trading at a much lower 2011 price-to-earnings ratio which was only 6. Keeping things in perspective, the correction in the HK and China markets has gone deeper than that in the US and current market valuation is substantially below the HSCEI's average of 9.2 times PE during the fourth quarter of 2008. In the past 15 years, there have been only four times that the market remained at the 9.2 times level, and each time it lasted for only around 3 months and then was followed by a strong rebound. To judge whether china-related stocks are now oversold, maybe one should ask if the fundamentals of the China market are worse than those in Europe and in the US?

MANAGER'S REPORT (Continued)

Amid global turmoil, China economy remained resilient. As at 30 September 2011, China GDP year-on-year growth is 9.4% and year-on-year inflation rate was stabilized at 6.1%. BNP's China Economist, Chen Xing Dong anticipates net exports to contribute only 0.5% to China's growth, while maintaining a 9.4% forecast for the full year growth. Therefore, even if exports weaken more than expected, China's domestic demand and investment will remain a growth driver – a hard landing is unlikely to happen.

Sensible Asset Management Hong Kong Limited

18 November 2011

All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV, with dividends reinvested, updated as at 30 September 2011. Performance data is net of all fees.

Investors should note that investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the prospectus for details and risk factors in particular those associated with investment in emerging markets and the arrangement in the event that the Fund is de-listed. Investors should also note that the Fund is different from a typical retail investment fund, in particular, units in the Fund may only be created or redeemed directly by a participating dealer in large unit sizes.

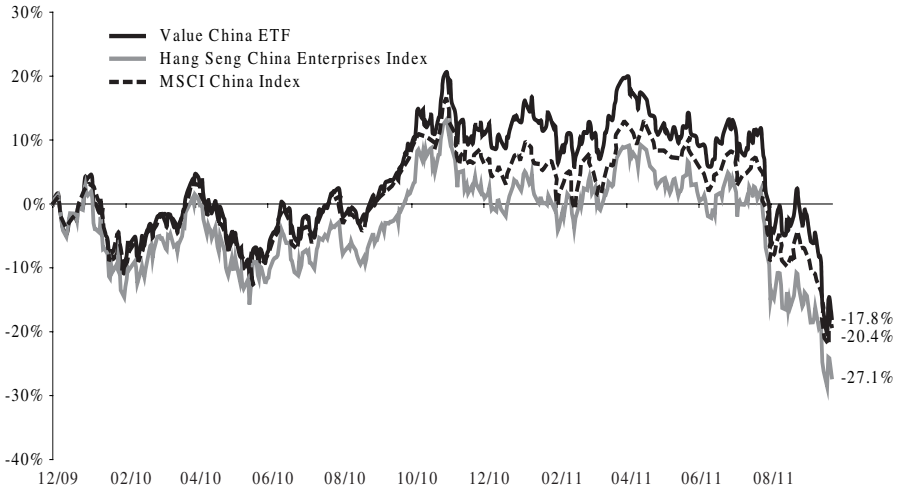
MANAGER'S REPORT (Continued)

Value China ETF

NAV per share = HK\$29.47 (as at 30 September 2011)

Since launch return compared to indices

From 10 December 2009 to 30 September 2011



Source: HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV, with dividends reinvested. Performance data is net of fees.

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2011 (UNAUDITED)

	30.9.2011 <i>HK\$</i>	31.3.2011 <i>HK\$</i>
Assets		
Financial assets at fair value through profit or loss	209,200,707	323,585,228
Cash and cash equivalents	2,183,399	1,301,155
Dividends receivable	99,204	–
Prepayment	157,749	43,459
	<hr/>	<hr/>
Total assets	211,641,059	324,929,842
	<hr/>	<hr/>
Liabilities		
Manager's fees payable	135,925	184,956
Audit fee payable	92,548	235,000
Trustee and registrar fees payable	86,301	86,165
Accruals and other payables	43,225	73,180
	<hr/>	<hr/>
Total liabilities	357,999	579,301
	<hr/>	<hr/>
Total equity	211,283,060	324,350,541
	<hr/>	<hr/>
Represented by:		
Net assets attributable to unitholders (at last traded prices)	212,187,504	324,791,216
Adjustment from last traded prices to bid prices	(904,444)	(440,675)
	<hr/>	<hr/>
	211,283,060	324,350,541
	<hr/>	<hr/>
Net asset value per unit at last traded prices based on 7,200,000 (31.3.2011: 7,800,000) units outstanding	29.47	41.64
	<hr/>	<hr/>
	01.4.2011 to 30.9.2011 <i>HK\$</i>	10.12.2009 (date of inception) to 30.9.2010 <i>HK\$</i>
Interim distribution		
(2011: HK\$1.13 per unit based on 6,800,000 units outstanding as at 18 November 2011; 2010: HK\$1.33 per unit based on 9,400,000 units outstanding distributed on 28 December 2010)	7,684,000	12,502,000
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INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 30 SEPTEMBER 2011

	Holdings	Fair value HK\$	% of net asset
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Listed equity securities			
<i>Hong Kong</i>			
Bank of China Ltd – H Shares	12,529,008	30,570,779	14.47
Bank of Communications Co Ltd – H Shares	3,560,940	16,629,590	7.87
Chaoda Modern Agriculture (Holdings) Ltd	1,338,984	1,472,882	0.70
China High Speed Transmission Equipment Group Co Ltd	559,404	2,002,666	0.95
China Merchants Bank Co Ltd – H Shares	1,590,876	18,963,242	8.97
China Minsheng Banking Corporation Ltd – H Shares	1,679,004	8,025,639	3.80
China National Materials Co Ltd – H Shares	581,184	1,638,939	0.78
China Petroleum & Chemical Corporation – H Shares	4,845,636	37,166,028	17.59
CNOOC Ltd	2,639,556	34,208,646	16.19
Country Garden Holdings Co Ltd	1,358,712	2,934,818	1.39
Dongfeng Motor Group Co Ltd – H Shares	1,051,560	11,209,630	5.30
Dongyue Group Ltd	427,032	1,665,425	0.79
Fosun International Ltd	785,664	3,095,516	1.46
Shougang Fushan Resources Group Ltd	1,093,464	2,864,876	1.36
Geely Automobile Holdings Ltd	1,502,424	2,569,145	1.22
Great Wall Motor Co Ltd – H Shares	445,572	4,010,148	1.90
Kingboard Chemical Holdings Ltd	260,748	5,540,895	2.62
Lee & Man Paper Manufacturing Ltd	763,128	2,007,027	0.95
Minth Group Ltd	326,304	2,329,811	1.10
Poly (Hong Kong) Investments Ltd	732,960	1,744,445	0.82
Renhe Commercial Holdings Co Ltd	3,441,456	2,821,994	1.34
Shimao Property Holdings Ltd	575,928	3,397,975	1.61
Sino-Ocean Land Holdings Ltd	1,720,116	4,317,491	2.04
Skyworth Digital Holdings Ltd	796,788	2,159,295	1.02
Weichai Power Co Ltd – H Shares	164,664	5,853,805	2.77

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30 SEPTEMBER 2011

	Holdings	Fair value HK\$	% of net asset
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)			
Total financial assets at fair value through profit or loss		209,200,707	99.01
Cash and cash equivalents		2,183,399	1.03
Other net liabilities		(101,046)	(0.04)
		<u>211,283,060</u>	<u>100.00</u>
Total net assets		<u>211,283,060</u>	<u>100.00</u>
Total investments, at cost		<u>269,542,096</u>	

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (UNAUDITED)

	% of net assets	
	30.9.2011	31.3.2011
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed equity securities		
Hong Kong	99.01	99.76
Total financial assets at fair value through profit or loss	99.01	99.76
Cash and cash equivalents	1.03	0.40
Other net liabilities	(0.04)	(0.16)
Total net assets	100.00	100.00