



# VALUE CHINA ETF (3046 HK)

## ANNUAL REPORT 2012

For the year ended 31 March 2012

## Sensible Asset Management Hong Kong Limited

9<sup>th</sup> Floor, Nexus Building,  
41 Connaught Road Central, Hong Kong

Tel : (852) 2880 9263

Fax : (852) 2564 8487

Email : [operations@valueetf.com.hk](mailto:operations@valueetf.com.hk)

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

*In the event of inconsistency, the English text of this 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

and reappointed on 25 October 2011)

Mr Martin Tornberg

(resigned on 25 July 2011)

Mr So Chun Ki Louis

Mr Tam Raymond Hin Tat

(appointed on 10 June 2011

and resigned on 25 October 2011)

Ms Zhang Jianying

(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  
13/F, One Pacific Place  
88 Queensway  
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  
41 Connaught Road Central  
Hong Kong

Telephone : (852) 2880 9263

Fax : (852) 2564 8487

Email : [operations@valueetf.com.hk](mailto:operations@valueetf.com.hk)

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

## GENERAL INFORMATION (Continued)

### Recent awards and achievements

Value China ETF (3046 HK)		
2010	•	Asian ETFs Awards 2010 – Best New ETF in Asia – Republic Partners Ltd., September 2010

## 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 annual report of the Fund for the period from 1 April 2011 to 31 March 2012.

### Investment philosophy

The Fund aims to provide investment results that closely correspond to the performance of the FTSE Value-Stocks China Index. The Index goes through three selection criteria, namely valuation screening, quality screening and contrarian screening.

Valuation screening approach helps to identify relatively under-valued Chinese companies in a range of diversified stocks, including H shares, Red Chips and P Chips (P Chips are defined as the companies listed on the SEHK, which derive 50% or more of their sales revenue or operating assets from Mainland China), by looking at the dividend yield and forecast price-to-earnings ratio of these stocks.

Quality screening is then applied to avoid value traps, based on three fundamental factors that include 3-year average return on equity, operating profit margin and net gearing. Chinese companies in the range of diversified stocks will be ranked according to each of the above three factors and the worst 15% among the companies will then be removed.

Contrarian screening is then used which aims to avoid consensus analysts’ “buy” calls that have lagged behind market movements. Chinese companies in the range of diversified stocks covered by more than ten analysts in the forecast recommendations, with a “buy” recommendation from over 80% of analysts, will be screened out.

Chinese companies in the range of diversified stocks that pass all the three selection criteria are ranked by P/E ratio. The 25 companies with the lowest P/E ratio are selected to be constituents of the Index. This process is conducted twice a year.

## MANAGER'S REPORT (Continued)

### Fund Performance

As at 31 March 2012, the Net Asset Value ("NAV") per unit of the Fund was HKD35.06, and 5,600,000 units were outstanding. The total size of the Fund was approximately HKD196.31 million.

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

Total Return in HKD	2012 year-to-date (as at 31 March)	From 1 April 2011 to 31 March 2012	Since inception (Cumulative)
FTSE Value-Stocks China Index	9.4%	-11.3%	5.0%
Value China ETF	9.1%	-12.9%	1.1%

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 Index was at 32 basis points on an annualized basis from 1 April 2011 to 31 March 2012.

### Fund activities

The average daily trading volume for the Fund during the period (from 1 April 2011 to 31 March 2012) was reported by Bloomberg to be approximately HKD613,432.

## MANAGER'S REPORT (Continued)

### Index activities

The FTSE Value-Stocks China Index underwent two regular reviews during the reporting period as at 31 March 2012, and had made the following changes on 18 April 2011 and 19 September 2011, which constituted a two-way turnover of 56.61% and 83.02%, respectively:

#### Review as of 18 April 2011:

Inclusion Company	Code	Exclusion Company	Code
China Overseas Land & Investment (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 (Red Chip)	152 HK	Kingboard Laminates Holdings	1888 HK

#### Review as of 19 September 2011:

Inclusion Company	Code	Exclusion Company	Code
China Merchants Bank (H)	3968 HK	China Mobile (Red Chip)	941 HK
Renhe Commercial Holdings	1387 HK	China Overseas Land & Investment (Red Chip)	688 HK
Shimao Property Holdings	813 HK	China Citic Bank (H)	998 HK
Shougang Fushan Resources Group	639 HK	China Coal Energy (H)	1898 HK
Skyworth Digital Holdings	751 HK	Zijin Mining Group (H)	2899 HK
Minth Group	425 HK	Guangzhou Automobile Group (H)	2238 HK
Geely Automobile Holdings	175 HK	Agile Property Holdings	3383 HK
Dongyue Group	189 HK	Shenzhen International (Red Chip)	152 HK
Poly (Hong Kong) Investments (Red Chip)	119 HK	Shenzhen Investment (Red Chip)	604 HK
Lee & Man Paper Manufacturing	2314 HK	China Dongxiang Group	3818 HK
China National Materials (H)	1893 HK	Hidili Industry International Development	1393 HK



## MANAGER'S REPORT (Continued)

### Market commentary

The Fund gained a net 9.1% in the first quarter of 2012. We are hopeful that the China-related stockmarkets, which are our focus, have started on a recovery path, after having underperformed the world in the past two years. A Chinese soft landing is in sight.

Although we made a nice profit in these three months, our performance is in line with the market indices, with the Hang Seng and MSCI China indices rising by 11.9% and 9.9%, respectively, during the same period.

Currently, markets are highly volatile and liquidity driven, heavily influenced by anticipation of Central Bank actions. Our investing has always followed a consistent discipline of bottom-up stock-picking based on fundamental screening. Such a style may or may not produce market-beating results over short-term periods, but to us what counts is that over medium to long-term periods, so far it has provided an attractive blend of defensiveness and out-performance.

For the Fund, we have seen a net gain of 0.5% per annum, compounded, since inception in December 2009; for reference, respective same-period per-annum returns of 0.5% and -2.5% were seen by the Hang Seng and MSCI China indices.

China is migrating towards a more sustainable economic model. As Premier Wen Jiabao indicated at the National People's Congress in 2012, China is undertaking a structural transformation—a rebalancing of the growth dynamics. Previously it was export- and investment-driven growth; from now on we will see a more consumer-driven model. The transition, with a stress on services industries, technological innovations and environmental improvements, will help increase market efficiency, raise overall productivity, bridge gaps in wealth in different regions and improve quality of life. This change in the system is what we needed to further drive the mainland economy forward. Effectively implemented, this will affect not only the stockmarkets but also the global economy in the coming decades. We are still firm believers in the China story.

### Long window for rebound

We have already seen a few years of a bear run in the A-share market, which suggests a rebound is long overdue for China-related stocks given the country's strong fundamentals. On the Chinese mainland, about 100 million individuals own stocks, with some having invested their life savings, and the government faces pressure from these investors to stabilize the stockmarket. In April, the CSRC announced expansion of QFII and RQFII quotas by US\$50 billion and RMB50 billion, respectively, and so far more than 20 RQFIIs have been approved. These point to a possible turning point particularly given the central government's policy-driven approach to support the stockmarket with QFII, RQFII and other financial reforms.

## MANAGER'S REPORT (Continued)

For this year, we expect to see more gradual loosening as inflationary pressure continues to ease, with headline inflation staying moderate in March at 3.6% year-on-year. While we do not expect heavy-handed measures or rates cut by the People's Bank of China (PBOC) soon, there is room for open market operations and further reserve requirement ratio (RRR) cuts in the near future to boost liquidity. This will help sustain domestic demand against even a global slowdown. The central government is ready and able to introduce more tax cuts, which will benefit both individuals and small businesses, and the latter will in turn boost the job market.

In the property market, while Beijing is resolute in its tightening to curb speculative investment, we are likely to see selective easing. In February, the PBOC already requested that banks should provide support for mortgage demand from first-home buyers, and we saw in March that many banks were pricing such mortgages below the benchmark rate. Meanwhile, public housing will continue to support the real estate market. The government has committed 23% more on public housing spending this year, amounting to RMB211.8 billion. Such measures, in our view, will likely help avert any property crash or hard landing scenario.

### Sensible Asset Management Hong Kong Limited

19 July 2012

*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 31 March 2012. 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.*

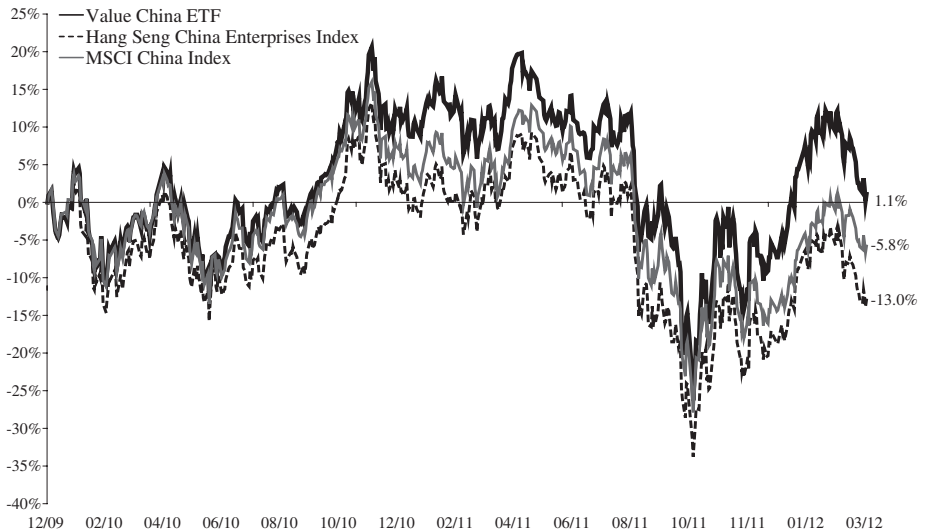
**MANAGER'S REPORT (Continued)**

**Value China ETF**

**NAV per unit = HK\$35.06 (as of 31 March 2012)**

**Since launch return**

From 10 December 2009 to 31 March 2012



*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 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 year and of the transactions for the year 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,  
19 July 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE CHINA ETF**

We have audited the financial statements of Value China ETF (the "Fund") set out on pages 14 to 38, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity, and cash flow statement 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 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 misstatement, 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, 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").

### **Auditor's 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 AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE CHINA ETF (Continued)**

### **Auditor's 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 auditor's 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 auditor considers 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 Fund as at 31 March 2012 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, and the relevant disclosure requirements set out in the Code.

### **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
19 July 2012

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 MARCH 2012

	<i>Note</i>	<b>31.3.2012</b> <i>HK\$</i>	<b>31.3.2011</b> <i>HK\$</i>
<b>Assets</b>			
Financial assets at fair value			
through profit or loss	<i>3, 5, 13</i>	195,378,555	323,585,228
Cash and cash equivalents	<i>3, 4, 10(c)</i>	722,793	1,301,155
Prepayment		<u>46,689</u>	<u>43,459</u>
<b>Total assets</b>		<u>196,148,037</u>	<u>324,929,842</u>
<b>Liabilities</b>			
Audit fee payable		165,000	235,000
Manager's fee payable	<i>8, 10(a)</i>	117,465	184,956
Trustee and registrar fee payable	<i>7, 10(b)</i>	83,584	86,165
Other payables		<u>–</u>	<u>73,180</u>
<b>Total liabilities</b>		<u>366,049</u>	<u>579,301</u>
<b>Total equity</b>	<i>11</i>	<u><u>195,781,988</u></u>	<u><u>324,350,541</u></u>

The notes on pages 19 to 38 form part of these financial statements.



**STATEMENT OF FINANCIAL POSITION (Continued)**

AS AT 31 MARCH 2012

	<i>Note</i>	<b>31.3.2012</b> <i>HK\$</i>	<b>31.3.2011</b> <i>HK\$</i>
<b>Represented by:</b>			
Net assets attributable to unitholders (at last traded prices)		196,314,805	324,791,216
Adjustment from last traded prices to bid prices		<u>(532,817)</u>	<u>(440,675)</u>
		<u>195,781,988</u>	<u>324,350,541</u>
<b>Net asset value per unit at last traded prices based on 5,600,000 units outstanding (2011: 7,800,000 units)</b>	<i>11</i>	<u>35.06</u>	<u>41.64</u>

Approved and authorised for issue by the Manager and the Trustee on 19 July 2012

Signed by:

**Sensible Asset Management Hong Kong Limited, *Manager***

**HSBC Institutional Trust Services (Asia) Limited, *Trustee***

The notes on pages 19 to 38 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 MARCH 2012

	<i>Note</i>	<b>Year ended 31.3.2012 HK\$</b>	<b>Period from 10.12.2009* to 31.3.2011 HK\$</b>
Dividend income		8,449,719	13,809,787
Net (loss)/gain from financial assets at fair value through profit or loss	6	(45,900,555)	48,840,260
Net foreign exchange (loss)/gain		<u>(14)</u>	<u>6,789</u>
<b>Net investment (expense)/income</b>		<u>(37,450,850)</u>	<u>62,656,836</u>
Manager's fee	8, 10(a)	1,784,739	3,402,629
Trustee and registrar fees	7, 10(b)	982,419	941,181
Transaction fees		516,277	359,626
Professional fees		339,765	240,405
License fee		271,881	291,604
Auditor's remuneration		171,000	235,000
Bank charges	10(c)	39,465	63,170
Listing fee		15,000	45,000
Other operating expenses		<u>134,630</u>	<u>124,557</u>
<b>Operating expenses</b>		<u>4,255,176</u>	<u>5,703,172</u>
<b>(Loss)/profit before taxation</b>		(41,706,026)	56,953,664
Withholding tax	9	<u>737,745</u>	<u>1,229,709</u>
<b>(Loss)/profit after taxation and total comprehensive income for the year/period</b>		<u>(42,443,771)</u>	<u>55,723,955</u>

\* *Date of inception*

The notes on pages 19 to 38 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

	<i>Note</i>	<b>Year ended 31.3.2012 HK\$</b>	<b>Period from 10.12.2009* to 31.3.2011 HK\$</b>
<b>Balance at the beginning of the year/period</b>		324,350,541	—
Issue of redeemable units	<i>11</i>	—	482,588,839
Redemption of redeemable units	<i>11</i>	<u>(78,440,782)</u>	<u>(201,460,253)</u>
Net (decrease)/increase from unit transactions		(78,440,782)	281,128,586
Distributions to unitholders	<i>12</i>	<u>(7,684,000)</u>	<u>(12,502,000)</u>
Total transactions with unitholders		<u>(86,124,782)</u>	<u>268,626,586</u>
(Loss)/profit after taxation and total comprehensive income for the year/period		<u>(42,443,771)</u>	<u>55,723,955</u>
<b>Balance at the end of the year/period</b>		<u><u>195,781,988</u></u>	<u><u>324,350,541</u></u>

\* *Date of inception*

The notes on pages 19 to 38 form part of these financial statements.

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 MARCH 2012

	<i>Note</i>	<b>Year ended 31.3.2012 HK\$</b>	<b>Period from 10.12.2009* to 31.3.2011 HK\$</b>
<b>Operating activities</b>			
Dividends received		8,449,719	13,809,787
Proceeds from sale of investments		203,349,307	165,747,428
Purchase of investments		(199,220,302)	(160,125,346)
Operating expenses paid		(4,471,672)	(5,160,541)
Withholding tax paid		(737,745)	(1,229,709)
		<u>7,369,307</u>	<u>13,041,619</u>
<b>Cash flows generated from operating activities</b>			
		7,369,307	13,041,619
<b>Financing activities</b>			
Proceeds from issue of redeemable units		–	1,909,203
Payments on redemption of redeemable units		(263,669)	(1,147,667)
Distributions paid to unitholders		(7,684,000)	(12,502,000)
		<u>(7,947,669)</u>	<u>(11,740,464)</u>
<b>Cash flows used in financing activities</b>			
		(7,947,669)	(11,740,464)
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		(578,362)	1,301,155
<b>Cash and cash equivalents at the beginning of the year/period</b>			
		<u>1,301,155</u>	<u>–</u>
<b>Cash and cash equivalents at the end of the year/period</b>			
	4	<u><u>722,793</u></u>	<u><u>1,301,155</u></u>

**Major non-cash transactions:**

- i) During the period ended 31 March 2011, unitholders subscribed for 13,000,000 units of the Fund by tendering a basket of constituent stocks of FTSE Value-Stocks China Index with market value of HK\$480,679,636. There were no such transactions for the year ended 31 March 2012.
- ii) During the year ended 31 March 2012, unitholders tendered 2,200,000 units of the Fund (2011: 5,200,000) in exchange for a basket of constituent stocks of FTSE Value-Stocks China Index with market value of HK\$78,177,113 (2011: HK\$200,312,586).

\* *Date of inception*

The notes on pages 19 to 38 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 (the “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. Such 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”) and interpretations adopted by the International Accounting Standards Board (“IASB”), the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements of the Code issued by the SFC. 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 first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the 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 Hong Kong dollars (“HKD”) reflecting the fact that most of the transactions are denominated in HKD, and units of the Fund are issued in HKD.

The financial statements are presented in HKD.

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

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of financial position, income and expense. 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) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of other developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Fund has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Fund's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Fund because the Fund is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Fund's financial instruments in note 13 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Foreign currency translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to HKD 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 HKD 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.

#### (e) 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.

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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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 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 at fair value through profit or loss (Continued)**

(iv) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the date of the statement of financial position without any deduction for estimated future selling costs. Financial assets are measured at current bid prices, while financial liabilities are measured at current asking prices.

(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.

(f) **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 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) **Specific instruments**

*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.

(h) **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.

(i) **Dividend income**

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

In some cases, the Fund may receive or 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.

(j) **Expenses**

All expenses, including manager's fees and trustee and registrar fees, are recognised in the statement of comprehensive income on an accrual basis.

(k) **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 gain* 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) 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.

Dividend and interest income received by the Fund may be subject to withholding tax imposed in the country of origin. Investment income is recorded gross of such taxes and the withholding tax is recognised in the statement of comprehensive income as incurred.

#### (m) 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;

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Redeemable units (Continued)

- 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 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 Fund over the life of the instrument.

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.

#### (n) Related parties

For the purpose of these financial statements, parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating decisions. Related parties may be individuals or entities.

#### (o) 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 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 therefore the Fund is exposed to market risk (including price risk and interest rate risk), credit risk and liquidity 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.

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 2012, the Fund is not exposed to significant foreign currency risk. The majority of assets and liabilities were denominated in HKD, which is the reporting 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, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (ii) Price risk (Continued)

The 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 Trust Deed. The Fund's overall market positions are monitored on a daily basis by the Manager.

As at 31 March 2012, the Fund's overall market exposures and estimated market sensitivity were as follows:

	Fair value <i>HK\$</i>	Relevant benchmark index for the Fund	Reasonably possible change of the relevant benchmark index	Estimated change in operating profit and equity <i>HK\$</i>
As at 31 March 2012	<u>195,378,555</u>	MSCI China Index	+/-20%	<u>+/-44,600,066</u>
As at 31 March 2011	<u>323,585,228</u>	MSCI China Index	+/-30%	<u>+/-102,125,697</u>

##### (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 amount of risk due to fluctuations in the prevailing levels of market interest rates.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (iii) Interest rate risk (Continued)

The Fund's interest rate risk arises from bank balances of HK\$722,793 (2011: HK\$1,301,155). The bank balances expose the Fund to cash flow interest rate risk.

Based on the bank balances as at 31 March 2012, if the interest rate had been 50 basis points higher or lower with all other variables held constant, the operating profit and total equity would have been approximately HK\$3,614 (2011: HK\$6,506) higher or lower, gross of fees, for the year ended 31 March 2012, as a result of higher or lower interest income on bank balances.

#### (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. Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of financial assets held with custodians, 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 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.

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	31.3.2012 HK\$	31.3.2011 HK\$
Bank A	AA-	722,793	1,301,155
Custodian A	AA-	195,378,555	323,585,228
		<u>196,101,348</u>	<u>324,886,383</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Credit risk (Continued)

The Fund may 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.

#### (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 cash 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 month.

### 4 CASH AND CASH EQUIVALENTS

	31.3.2012 <i>HK\$</i>	31.3.2011 <i>HK\$</i>
Current deposits with banks	<u>722,793</u>	<u>1,301,155</u>

### 5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.3.2012 <i>HK\$</i>	31.3.2011 <i>HK\$</i>
Listed equity securities	<u>195,378,555</u>	<u>323,585,228</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**6 NET (LOSS)/GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Year ended 31.3.2012 HK\$	Period from 10.12.2009* to 31.3.2011 HK\$
Net realised (loss)/gain	(2,363,039)	13,090,382
Change in unrealised gain or loss	<u>(43,537,516)</u>	<u>35,749,878</u>
	<u><u>(45,900,555)</u></u>	<u><u>48,840,260</u></u>

\* *Date of inception*

**7 TRUSTEE AND REGISTRAR FEES**

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive a trustee and registrar fees of 0.15% per annum of the net asset value of the Fund, subject to a minimum of HK\$50,000 per month in the first year and HK\$80,000 per month thereafter. The fee is accrued daily and calculated as at each dealing day and payable monthly in arrears.

The Trustee is also entitled to receive a service fee of HK\$25,000 (2011: HK\$25,000) per annum accrued daily and payable quarterly in arrears as well as ad-hoc valuation fees of HK\$4,000 (2011: HK\$4,000) per calculation of net asset value other than at the valuation point on a regular dealing day.

**8 MANAGER’S FEE**

The Manager is entitled to receive a manager’s fee of 0.70% per annum of the net asset value of the Fund. The fee is accrued daily and calculated as at each dealing day and payable monthly in arrears.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 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 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. During the year the average withholding tax rate suffered by the Fund was 10%.

### 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 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) The Fund appointed the Manager, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. Manager's fee of HK\$1,784,739 (2011: HK\$3,402,629) was charged to the statement of comprehensive income during the year. Included in liabilities as at 31 March 2012 is manager's fee payable of HK\$117,465 (2011: HK\$184,956).
- (b) The Fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. Trustee and registrar fees of HK\$982,419 (2011: HK\$941,181) were charged to the statement of comprehensive income during the year. Included in liabilities as at 31 March 2012 is trustee and registrar fees payable of HK\$83,584 (2011: HK\$86,165).
- (c) 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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) (Continued)

	<b>31.3.2012</b> <i>HK\$</i>	<b>31.3.2011</b> <i>HK\$</i>
Bank balances	<u>722,793</u>	<u>1,301,155</u>
	<b>Year ended</b> <b>31.3.2012</b> <i>HK\$</i>	<b>Period from</b> <b>10.12.2009*</b> <b>to 31.3.2011</b> <i>HK\$</i>
Bank charges	<u>39,465</u>	<u>63,170</u>

\* *Date of inception*

**11 REDEEMABLE UNITS IN ISSUE**

	<b>Number of units</b>	
	<b>Year ended</b> <b>31.3.2012</b>	<b>Period from</b> <b>10.12.2009*</b> <b>to 31.3.2011</b>
At the beginning of the year/period	7,800,000	–
Issue of redeemable units	–	13,000,000
Redemption of redeemable units	<u>(2,200,000)</u>	<u>(5,200,000)</u>
At the end of the year/period	<u>5,600,000</u>	<u>7,800,000</u>

\* *Date of inception*

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11 REDEEMABLE UNITS IN ISSUE (Continued)

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. However, for the financial reporting purposes under IFRSs, the net assets are required to be valued at bid prices of the underlying financial instruments respectively.

### 12 DISTRIBUTIONS TO UNITHOLDERS

	Year ended 31.3.2012 HK\$	Period from 10.12.2009* to 31.3.2011 HK\$
<b>Amount available for distribution brought forward</b>	78,078	–
Dividend income	8,449,719	13,809,787
Withholding tax	(737,745)	(1,229,709)
	<u>7,790,052</u>	<u>12,580,078</u>
Distributions to unitholders	<u>(7,684,000)</u>	<u>(12,502,000)</u>
<b>Amount available for distribution carried forward</b>	<u><u>106,052</u></u>	<u><u>78,078</u></u>
<b>Distribution history</b>		
Distribution per unit	1.13	1.33
Date of distribution	28 December 2011	28 December 2010

\* *Date of inception*

### 13 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 amounts due from/to brokers, accounts receivables, accounts payables and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13 FAIR VALUE INFORMATION (Continued)

#### (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 as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

*As at 31 March 2012*

	<b>Level 1</b> <i>HK\$</i>
<b>Assets</b>	
Listed equity securities	<u>195,378,555</u>

*As at 31 March 2011*

	<b>Level 1</b> <i>HK\$</i>
<b>Assets</b>	
Listed equity securities	<u>323,585,228</u>

During the year ended 31 March 2012, 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 statement of financial position approximated their fair values.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 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 (31 March 2012: 100%).

The Fund has no assets classified as non-current as at 31 March 2012.

### 15 SOFT COMMISSION ARRANGEMENTS

The Manager and/or any company associated with it and its delegates 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 permitted under applicable rules and regulations) from brokers and other persons through whom investment transactions are carried out (the "brokers") provided that the quality of transaction execution is consistent with best execution standards. The Manager will consider many judgemental factors deemed relevant in determining whether a broker will provide best execution, which may include the provision of research products and investment ideas, introductory services to potential investee companies, access to investment opportunities and initial public offerings and placements which are for the benefit of the Fund. The commission rates charged by brokers in these circumstances may be higher than those charged by other brokers who do not offer such services or by the same broker if it only provides execution services. Examples of research products and services that the Manager may receive from brokers include analyses and reports concerning industries, securities and, economic factors and trends. The Fund generally will pay customary full service brokerage rates where execution, research and other services cannot be unbundled for the same commission rate.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 SOFT COMMISSION ARRANGEMENTS (Continued)

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

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

### 16 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to IFRS 7, <i>Financial instruments: Disclosures</i> – <i>Transfers of financial assets</i>	1 July 2011
IFRS 9, <i>Financial instruments</i>	1 January 2015
IFRS 13, <i>Fair value measurement</i>	1 January 2013

The Fund is in the process of making an assessment of what the impact of these amendments, Interpretations and new standard is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.



**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 31 MARCH 2012

	<b>Holdings</b>	<b>Fair value HK\$</b>	<b>% of net assets</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed equity securities</b>			
<i>Hong Kong</i>			
Bank of China Ltd – H Shares	11,922,792	37,199,111	19.00
Bank of Communications Co Ltd – H Shares	2,541,476	14,943,879	7.63
Chaoda Modern Agriculture (Holdings) Ltd	1,338,984	–	0.00
China High Speed Transmission Equipment Group Co Ltd	399,252	1,656,896	0.85
China Merchants Bank Co Ltd – H Shares	1,135,428	17,962,471	9.17
China Minsheng Banking Corp Ltd – H Shares	1,198,344	8,400,391	4.29
China National Materials Co Ltd – H Shares	414,792	1,298,299	0.66
China Petroleum & Chemical Corp – H Shares	3,458,392	29,223,412	14.93
CNOOC Ltd	1,883,896	29,991,624	15.32
Country Garden Holdings Co Ltd	969,724	2,889,778	1.48
Dongfeng Motor Group Co Ltd	750,512	10,492,158	5.36
Dongyue Group Ltd	307,832	2,191,764	1.12
Fosun International Ltd	560,728	2,590,563	1.32
Geely Automobile Holdings Ltd	1,072,288	3,238,310	1.65
Great Wall Motor Co Ltd – H Shares	299,992	4,517,880	2.31
Kingboard Chemical Holdings Ltd	186,116	5,015,826	2.56
Lee & Man Paper Manufacturing Ltd	544,656	1,960,762	1.00
Minth Group Ltd	232,876	2,093,555	1.07
Poly Hong Kong Investment Ltd	523,124	1,888,478	0.96
Renhe Commercial Holdings Co Ltd	3,070,256	1,657,938	0.85
Shimao Property Holdings Ltd	402,528	3,324,881	1.70
Shougang Fushan Resources Group Ltd	780,416	2,052,494	1.05
Sino-Ocean Land Holdings Ltd	1,227,660	4,468,682	2.28
Skyworth Digital Holdings Ltd	577,024	2,088,827	1.07
Weichai Power Co Ltd – H Shares	117,516	4,230,576	2.16

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

AS AT 31 MARCH 2012

	<b>Holdings</b>	<b>Fair value HK\$</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>Hong Kong (Continued)</i>			
<b>Total financial assets at fair value through profit or loss</b>		<u>195,378,555</u>	<u>99.79</u>
Cash and cash equivalents		722,793	0.37
Other net liabilities		<u>(319,360)</u>	<u>(0.16)</u>
<b>Total net assets</b>		<u><u>195,781,988</u></u>	<u><u>100.00</u></u>
<b>Total investments, at cost</b>		<u><u>203,166,193</u></u>	

**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**

FOR THE YEAR ENDED 31 MARCH 2012

	% of net assets	
	31.3.2012	31.3.2011
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities</b>		
Hong Kong	99.79	99.76
<b>Total financial assets at fair value through profit or loss</b>	99.79	99.76
Cash and cash equivalents	0.37	0.40
Other net liabilities	(0.16)	(0.16)
<b>Total net assets</b>	100.00	100.00

**PERFORMANCE RECORD (UNAUDITED)**

*FOR THE YEAR ENDED 31 MARCH 2012*

**Net asset value (at last traded prices)**

	<b>Net asset value per unit</b> <i>HK\$</i>	<b>Net asset value</b> <i>HK\$</i>
As at 31 March 2012	35.06	196,314,805
As at 31 March 2011	41.64	324,791,216

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

	<b>Highest net asset value per unit</b> <i>HK\$</i>	<b>Lowest net asset value per unit</b> <i>HK\$</i>
Year ended 31 March 2012	42.98	26.43
Period ended 31 March 2011	44.69	32.34