



# VALUE TAIWAN ETF (Stock code: 3060)

A Sub-fund of Value ETFs Trust

## ANNUAL REPORT 2014

For the year ended 31 March 2014

**Sensible Asset Management Hong Kong Limited**  
**(Chinese name: 盛寶資產管理香港有限公司)**

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

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# VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

## GENERAL INFORMATION

### Investment Manager

Sensible Asset Management Hong Kong Limited  
(Chinese name: 盛寶資產管理香港有限公司)  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Sub-investment Manager

Value Partners Hong Kong Limited  
(Chinese name: 惠理基金管理香港有限公司)  
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

### Auditor

Ernst & Young  
*(with effect from 1 January 2014)*  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

### KPMG

*(up to 31 December 2013)*  
8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

### Information available from:

Sensible Asset Management Hong Kong Limited  
(Chinese name: 盛寶資產管理香港有限公司)  
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Website : [www.valueETF.com.hk](http://www.valueETF.com.hk)

## GENERAL INFORMATION (Continued)

### Recent awards and achievements

| Corporate awards |   |
|------------------|---|
| 2012             | <ul style="list-style-type: none"><li>• 2012 The Asset Triple A Investment Awards<br/>Highly Commended ETF House for Hong Kong<br/>– <i>The Asset</i></li></ul> |

# VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

## MANAGER'S REPORT

Value Taiwan 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 Taiwan Index (“the Index”) by holding a portfolio of the constituent stocks of the Index. The Index comprises 50 value stocks amongst Taiwanese companies’ shares listed on The Taiwan Stock Exchange Corporation and GreTai Securities Market, which is a market regulated and supervised by the Taiwan Financial Supervisory Commission.

As at 31 March 2014, the Net Asset Value (“NAV”) per unit of the Fund was TWD137.0634, and 2,700,000 units were outstanding. The total size of the Fund was approximately TWD370 million.

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

|                                | From 1 Apr 2013<br>to 31 Mar 2014 | 2014 YTD<br>(as at 31 Mar) | Since inception<br>(from 23 May 2012<br>to 31 Mar 2014) |
|--------------------------------|-----------------------------------|----------------------------|---|
| <b>Total return in TWD</b>     |                                   |                            |   |
| FTSE Value-Stocks Taiwan Index | 15.5%                             | 4.5%                       | 36.2%   |
| Value Taiwan ETF               | 11.7%                             | 4.1%                       | 26.0%   |

The difference in performance between the FTSE Value-Stocks Taiwan Index and the Value Taiwan 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 Taiwan Index was at 45 basis points on an annualized basis since its inception on 23 May 2012.

### Sensible Asset Management Hong Kong Limited

(Chinese name: 盛寶資產管理香港有限公司)

16 July 2014

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in TWD, NAV to NAV with dividends reinvested, as at 31 March 2014. Performance data is net of all fees.*

*Investors should note that investment involve 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 size.*

## STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

### Manager's responsibilities

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

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

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

### Trustee's responsibilities

The Trustee of the Sub-fund is required to:

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

## VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

### **TRUSTEE'S REPORT TO THE UNITHOLDERS OF VALUE ETFs TRUST – VALUE TAIWAN ETF**

We hereby confirm that, in our opinion, the Manager has in all material respects, managed Value Taiwan ETF in accordance with the provisions of the Trust Deed dated 21 March 2012.

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

Trustee,  
16 July 2014



## **INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE ETFs TRUST – VALUE TAIWAN ETF**

We have audited the financial statements of Value Taiwan ETF (a sub-fund of Value ETFs (the “Trust”) and referred to as the “Sub-Fund”) set out on pages 9 to 40, which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, the 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 Sub-fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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. In addition, the Trustee and the Manager also have a responsibility to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of Trust Deed of the Sub-fund dated 21 March 2012 (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”).

### **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, and whether the financial statements have been properly prepared 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 ETFs TRUST – VALUE TAIWAN 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 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 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 Sub-Fund as at 31 March 2014, 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 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

16 July 2014

## STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2014

|   | <i>Note</i> | <b>31.3.2014</b>          | <b>31.3.2013</b>          |
|---|-------------|---------------------------|---------------------------|
|   |             | <i>TWD</i>                | <i>TWD</i>                |
| <b>Assets</b>   |             |                           |                           |
| Financial assets at fair value through profit or loss | 3, 9        | 366,569,071               | 329,181,288               |
| Prepayments   |             | 706,070                   | 125,970                   |
| Cash and cash equivalents                             | 3, 6(c)     | 4,583,785                 | 7,858,534                 |
| <b>Total assets</b>                                   |             | <u>371,858,926</u>        | <u>337,165,792</u>        |
| <b>Liabilities</b>                                    |             |                           |                           |
| Audit fees payable                                    |             | 491,018                   | 666,400                   |
| Management fees payable                               | 6(a)        | 420,675                   | 201,570                   |
| Trustee and registrar fees payable                    | 6(b)        | 459,593                   | 246,174                   |
| Amounts payable on purchase of investments            |             | 375,216                   | 1,128,045                 |
| Other payables  |             | 41,136                    | 4,192,470                 |
| <b>Total liabilities</b>                              |             | <u>1,787,638</u>          | <u>6,434,659</u>          |
| <b>Total equity</b>                                   |             | <u><u>370,071,288</u></u> | <u><u>330,731,133</u></u> |

The notes on pages 14 to 40 form part of these financial statements.

# VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

## STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 MARCH 2014

|   | <i>Note</i> | <b>31.3.2014</b><br><i>TWD</i> | <b>31.3.2013</b><br><i>TWD</i> |
|---|-------------|--------------------------------|--------------------------------|
| <b>Represented by:</b>  |             |                                |                                |
| Net assets attributable to unitholders<br>(at last traded price)  |             | 370,071,288                    | 331,162,484                    |
| Adjustment from last traded prices to bid prices  |             | —                              | (431,351)                      |
|   |             | <u>370,071,288</u>             | <u>330,731,133</u>             |
| <b>Net asset value per unit on 2,700,000<br/>(2013: 2,700,000) units outstanding<br/>(at last traded price)</b> |             |                                |                                |
|   | 7           | <u>137.0634</u>                | <u>122.6528</u>                |

Approved and authorised for issue by the Manager and the Trustee on 16 July 2014.

Signed by:

**Sensible Asset Management Hong Kong Limited** (盛寶資產管理香港有限公司), *Manager*

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

The notes on pages 14 to 40 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

|   |             | <b>Year ended</b><br><b>31.3.2014</b><br><i>TWD</i> | <b>Period from</b><br><b>23.5.2012</b><br><b>(date of</b><br><b>inception)</b><br><b>to 31.3.2013</b><br><i>TWD</i> |
|---|-------------|---|---|
|   | <i>Note</i> |   |   |
| Dividend income   |             | 12,765,618  | 15,154,152  |
| Net gains from financial assets at fair value<br>through profit or loss             | 4           | 37,462,401  | 36,342,619  |
| Net foreign exchange loss   |             | (19,703)  | (52,686)  |
| Other income  |             | –   | 226,711   |
|   |             | <hr/>   | <hr/>   |
| <b>Net investment income</b>  |             | <b>50,208,316</b>                                   | <b>51,670,796</b>   |
|   |             | <hr style="border-top: 1px dashed black;"/>         | <hr style="border-top: 1px dashed black;"/>   |
| Management fees   | 6(a)        | 2,426,149   | 1,897,289   |
| Trustee and registrar fees  | 6(b)        | 2,340,274   | 1,249,974   |
| Transaction fees  |             | 805,115   | 679,959   |
| Sub-custodian fees  |             | 313,704   | 303,487   |
| Auditors' remuneration  |             | 298,262   | 659,702   |
| Preliminary expenses  |             | –   | 3,807,805   |
| Professional fees   |             | 178,769   | 172,641   |
| Bank charges  | 6(c)        | 1,407   | 637   |
| Other operating expenses  |             | 1,506,895   | 1,792,614   |
|   |             | <hr/>   | <hr/>   |
| <b>Operating expenses</b>   |             | <b>7,870,575</b>                                    | <b>10,564,108</b>   |
|   |             | <hr style="border-top: 1px dashed black;"/>         | <hr style="border-top: 1px dashed black;"/>   |
| <b>Profit before taxation</b>   |             | <b>42,337,741</b>                                   | <b>41,106,688</b>   |
| Withholding tax   | 5           | (2,997,586)   | (3,236,995)   |
|   |             | <hr/>   | <hr/>   |
| <b>Profit after taxation and total comprehensive<br/>income for the year/period</b> |             | <b>39,340,155</b>                                   | <b>37,869,693</b>   |
|   |             | <hr style="border-top: 3px double black;"/>         | <hr style="border-top: 3px double black;"/>   |

The notes on pages 14 to 40 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 MARCH 2014

|   |   | <b>Year ended<br/>31.3.2014<br/>TWD</b> | <b>Period from<br/>23.5.2012<br/>(date of<br/>inception)<br/>to 31.3.2013<br/>TWD</b> |
|---|---|---|---|
| <b>Balance at the beginning of the period</b>                               |   | 330,731,133                             | —   |
| Issue of redeemable units   | 7 | —                                       | 305,032,500   |
| Net increase from unit transactions   |   | —                                       | 305,032,500   |
| Distributions to unitholders  | 8 | —                                       | (12,171,060)  |
| Total transactions with unitholders   |   | —                                       | 292,861,440   |
| Profit after taxation and total comprehensive<br>income for the year/period |   | 39,340,155                              | 37,869,693  |
| <b>Balance at the end of the year/period</b>                                |   | <b>370,071,288</b>                      | <b>330,731,133</b>  |

The notes on pages 14 to 40 form part of these financial statements.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2014

|  | <b>Year ended<br/>31.3.2014<br/>TWD</b> | <b>Period from<br/>23.5.2012<br/>(date of<br/>inception)<br/>to 31.3.2013<br/>TWD</b> |
|--|---|---|
| <b>Operating activities</b>  |   |   |
| Dividends received   | 12,765,618                              | 15,154,152  |
| Proceeds from sale of investments  | 238,442,651                             | 136,135,989   |
| Purchase of investments  | (238,368,033)                           | (428,974,658)   |
| Operating expenses paid  | (13,117,399)                            | (4,081,394)   |
| Withholding tax paid   | <u>(2,997,586)</u>                      | <u>(3,236,995)</u>  |
| <b>Cash flows used in operating activities</b>                           | <u>(3,274,749)</u>                      | <u>(285,002,906)</u>  |
| <b>Financing activities</b>  |   |   |
| Proceeds from issue of redeemable units                                  | –                                       | 305,032,500   |
| Distributions paid to unitholders  | <u>–</u>                                | <u>(12,171,060)</u>   |
| <b>Cash flows generated from financing activities</b>                    | <u>–</u>                                | <u>292,861,440</u>  |
| <b>Net (decrease)/increase in cash<br/>and cash equivalents</b>          | (3,274,749)                             | 7,858,534   |
| <b>Cash and cash equivalents at<br/>the beginning of the year/period</b> | <u>7,858,534</u>                        | <u>–</u>  |
| <b>Cash and cash equivalents<br/>at the end of the year/period</b>       | <u><u>4,583,785</u></u>                 | <u><u>7,858,534</u></u>   |

The notes on pages 14 to 40 form part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 1 GENERAL

Value ETFs Trust (the “Trust”) is an open ended umbrella unit trust established under the laws of Hong Kong pursuant to a Trust Deed dated 21 March 2012 (the “Trust Deed”).

The Trust is able to issue redeemable units in various sub-funds and as at 31 March 2014, the Value Japan ETF, Value Korea ETF and Value Taiwan ETF have been launched. The Value Japan ETF, Value Korea ETF and Value Taiwan ETF commenced operations on 22 May 2012, 23 May 2012 and 23 May 2012, respectively.

The accompanying financial statements have been prepared for the Value ETFs Trust – Value Taiwan ETF (the “Sub-fund”). The financial statements of Value Korea ETF and Value Japan ETF have been prepared individually and consequently are not included in these financial statements.

The Sub-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 “SFC Code”). The Sub-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 Sub-fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE Value-Stocks Taiwan Index (the “Index”).

In seeking to achieve the Sub-fund’s investment objective, Sensible Asset Management Hong Kong Limited (Chinese name: 盛寶資產管理香港有限公司) (the “Manager”) will primarily use a replication strategy through investing directly in securities included in the Index in substantially the same weightings in which they are included in the Index. The Manager may also invest in financial derivative instruments linked to the performance of the securities included in the Index, the Index and/or (after considering various factors such as transaction costs, availability, liquidity and degree of correlation with the Index) another index that collectively has an investment profile similar to the profile of the Index.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 1 GENERAL (Continued)

The Manager may also use a representative sampling strategy, which means that the Sub-fund will invest directly in a representative sample of securities that collectively has an investment profile that aims to reflect the profile of the Index. The securities constituting the representative sample may or may not themselves be constituents of the Index. The Sub-fund may also invest in financial derivative instruments linked to the performance of a representative sample of securities that collectively has an investment profile that aims to reflect the profile of the Index and/or (after considering various factors such as transaction costs, availability, liquidity and degree of correlation with the Index) another index that collectively has an investment profile similar to the profile of the Index.

The Sub-fund may also use financial derivative instruments limited to listed or over-the-counter futures contracts, options and warrants related to the Index and the securities included in the Index for hedging or non-hedging purposes. Non-hedging purposes include cost reduction and investment purposes.

### 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 Standard Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds of the SFC (the “SFC Code”). A summary of the significant accounting policies adopted by the Sub-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 Sub-fund.

The Sub-fund has not applied any amendments and new standards that are not yet effective for the current accounting period (see note 13).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Basis of preparation

The functional currency of the financial statements is the Taiwan dollar (“TWD”) reflecting the fact that most of the transactions are denominated in TWD.

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 TWD.

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.

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 TWD 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Foreign currency translation (Continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to TWD 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 Sub-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 Sub-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 FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

##### (ii) Recognition

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

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

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

##### (iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments 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 losses, if any.

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

## NOTES TO 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 Sub-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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Sub-fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Sub-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

## NOTES TO 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 (Continued)

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 Sub-Funds determine 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.

##### (v) Derecognition

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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 Sub-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 gain/(loss) 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 Sub-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 Sub-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 FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Redeemable units

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

The Sub-fund has only one class of redeemable units in issue and they are the most subordinate class of financial instrument in the Sub-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 Sub-fund's net assets at each redemption date and also in the event of the Sub-fund's liquidation.

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Redeemable units (Continued)

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

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

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

#### *Repurchase of redeemable units*

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

#### (l) Related parties

A party is considered to be related to the Sub-fund if:

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

or

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Related parties (Continued)

(b) An entity is related to the Sub-fund if any of the following conditions applies:

- (i) the entity and the Sub-fund are members of the same group;
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Sub-fund are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-fund or an entity related to the Fund;
- (vi) The entity is controlled or jointly controlled by a person identified in (a); or
- (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).

#### (m) Segment reporting

An operating segment is a component of the Sub-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 Sub-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 Sub-fund is identified as the Manager.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT

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

The Sub-fund invests in listed securities and it is exposed to market risk, credit risk and liquidity risk arising from the financial instruments held.

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

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

#### (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 Sub-fund's overall currency positions are monitored on a daily basis by the Manager.

As at 31 March 2014 and 2013, the Sub-fund is not exposed to significant foreign currency risk. The majority of assets and liabilities are denominated in TWD, which is the functional currency of the Sub-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 Sub-fund may trade in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, to take advantage of market movements.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

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

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 Sub-fund's overall market positions are monitored on a daily basis by the Manager.

As at 31 March 2014 and 2013, the Sub-fund's overall market exposures and estimated market sensitivity are as follows:

|                   | Percentage change |        | Estimated impact |               |
|-------------------|-------------------|--------|------------------|---------------|
|                   | 2014              | 2013   | 2014             | 2013          |
|                   |                   |        | TWD              | TWD           |
| FTSE Value-Stocks |                   |        |                  |               |
| Taiwan Index      | +/-20%            | +/-20% | +/-73,309,886    | +/-65,828,399 |

##### (iii) Interest rate risk

The majority of the Sub-funds financial assets and liabilities are non-interest-bearing. As a result, the Sub-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 Sub-fund. Potential credit risk to the Sub-fund principally relates to financial assets, bank balances and receivables.

The Sub-fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings 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 received payment. In a purchase, payment is made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail. Accordingly, there is no significant concentration of credit risk.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

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

| Counterparty | Credit rating |      | 31.3.2014<br>TWD | 31.3.2013<br>TWD |
|--------------|---------------|------|------------------|------------------|
|              | 2014          | 2013 |                  |                  |
| Bank A       | AA-           | AA-  | 4,583,785        | 7,858,534        |
| Custodian A  | AA-           | AA-  | 366,569,071      | 329,181,288      |

#### (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 Sub-fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis.

The Sub-fund's equity investments are considered to be readily realisable under normal market conditions as they are all publicly traded.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Concentration risk

The SFC Code allows the Sub-fund to invest in constituent securities issued by a single issuer for more than 10% of the Sub-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 Sub-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.

Constituent securities that account for more than 10% of the net asset value of the Fund as at 31 March 2014 and 2013 are as follows:

|  | Respective weighting<br>in the tracked index | Respective weighting in the<br>Sub-fund's net asset value |
|--|--|---|
| <b>As at 31 March 2014</b>                   |  |   |
| Hon Hai Precision Ind. Co., Ltd              | 10.88%                                       | 10.50%  |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 10.69%                                       | 10.55%  |
| <b>As at 31 March 2013</b>                   |  |   |
| Taiwan Semiconductor Manufacturing Co Ltd.   | 12.01%                                       | 11.10%  |

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 4 NET GAINS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                   | <b>Year ended</b><br><b>31.3.2014</b><br><i>TWD</i> | <b>Period from</b><br><b>23.5.2012</b><br><b>(date of</b><br><b>inception)</b><br><b>to 31.3.2013</b><br><i>TWD</i> |
|-----------------------------------|---|---|
| Net realised gains                | 27,357,904  | 7,740,944   |
| Change in unrealised gains/losses | <u>10,104,497</u>                                   | <u>28,601,675</u>   |
|                                   | <u><u>37,462,401</u></u>                            | <u><u>36,342,619</u></u>  |

### 5 TAXATION

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

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

|                                       | <b>Year ended</b><br><b>31.3.2014</b><br><i>TWD</i> | <b>Period from</b><br><b>23.5.2012</b><br><b>(date of</b><br><b>inception)</b><br><b>to 31.3.2013</b><br><i>TWD</i> |
|---------------------------------------|---|---|
| Withholding tax on cash dividends     | 2,565,038   | 2,952,929   |
| Withholding tax on non-cash dividends | <u>432,548</u>                                      | <u>284,066</u>  |
|                                       | <u><u>2,997,586</u></u>                             | <u><u>3,236,995</u></u>   |



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 6 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS

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

#### (a) Management fees

The Sub-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 Sub-fund. The fees are accrued daily and calculated as at each dealing day and payable monthly in arrears.

Management fees of TWD2,426,149 (2013: TWD1,897,289) were charged to profit or loss during the year. Included in liabilities as at 31 March 2014 is management fees payable of TWD420,675 (2013: TWD201,570).

#### (b) Trustee and registrar fees

The Sub-fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive trustee and registrar fees accrued daily and calculated as at each dealing day and payable monthly in arrears, which are determined based on the daily net asset value of the Sub-fund as below:

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

**(b) Trustee and registrar fees (Continued)**

**Trustee and registrar fees per annum shown as % of net asset value**

**Net asset value**

|   |       |
|---|-------|
| First HK\$800 million (approximately TWD 3,140 million**) | 0.10% |
| Next HK\$800 million (approximately TWD 3,140 million**)  | 0.08% |
| Next HK\$800 million (approximately TWD 3,140 million**)  | 0.07% |
| Thereafter  | 0.06% |

Starting from 26 November 2013, the trustee and registrar fees are subject to a minimum of HK\$39,000 (approximately TWD153,000). For the period from 1 April 2013 to 25 November 2013, the minimum fee was HK\$64,000 (approximately TWD 251,000 (2013: TWD 246,000)\*\*) per month, which will be reduced by 50% for the first 12 months from the launch date of the Sub-fund. The Trustee is also entitled to receive an establishment fee for the Sub-fund of HK\$40,000 (approximately TWD157,000 (2013: TWD154,000)\*\*).

\*\* *Based on exchange rates as at 31 March 2014 and 31 March 2013, respectively*

Trustee and registrar fees of TWD2,340,274 (2013: TWD1,249,974) were charged to profit or loss during the year. Included in liabilities as at 31 March 2014 is trustee and registrar fees payable of TWD459,593 (2013: TWD246,174).

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

The Sub-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:

|               | 2014                        | 2013                        |
|---------------|-----------------------------|-----------------------------|
|               | TWD                         | TWD                         |
| Bank balances | 4,583,785                   | 7,858,534                   |
| Bank charges  | 1,407                       | 637                         |
|               | <u>                    </u> | <u>                    </u> |

#### (d) Manager's and its related parties' holding in the Sub-fund

As at 31 March 2014 and 31 March 2013, units held by the related parties of the Manager and the Sub-investment Manager are listed below:

|                          | Number of units             |                             |
|--------------------------|-----------------------------|-----------------------------|
|                          | 2014                        | 2013                        |
| Dato' Cheah Cheng Hye*   | 1,508,000                   | 30,800                      |
| Value Partners Limited** | 300,000                     | 300,000                     |
|                          | <u>                    </u> | <u>                    </u> |

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

7 REDEEMABLE UNITS IN ISSUE

|  | Number of units                              |  |
|--|--|--|
|  | Year ended<br><b>31.3.2014</b><br><i>TWD</i> | Period from<br><b>23.5.2012</b><br>(date of<br>inception)<br>to <b>31.3.2013</b><br><i>TWD</i> |
| <b>At the beginning of the year/period</b> | 2,700,000                                    | –  |
| Issue of redeemable units                  | –  | 2,700,000  |
| <b>At the end of the year/period</b>       | <u>2,700,000</u>                             | <u>2,700,000</u>   |

The rights attaching to each unit are as follows:

The holders of the units have the right to receive notice of, attend and vote at meetings of the Sub-fund, and are entitled to receive all dividends declared and paid by the Sub-fund.

Any distributable profits of the Sub-fund may be accumulated or distributed by the Manager, in its absolute discretion. Where distributions are made, 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 Sub-fund does not have any externally imposed capital requirements.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

8 DISTRIBUTIONS TO UNITHOLDERS

|  | Year ended<br>31.3.2014<br>TWD | Period from<br>23.5.2012<br>(date of<br>inception)<br>to 31.3.2013<br>TWD |
|--|--------------------------------|---|
| <b>Amount available for distribution brought forward</b> | 30,163                         | —   |
| Dividend income  | 12,765,618                     | 15,154,152  |
| Withholding tax  | (2,997,586)                    | (2,952,929)   |
|  | 9,768,032                      | 12,201,223  |
| <b>Distributions to unitholders</b>                      | —                              | (12,171,060)  |
| <b>Amount available for distribution carried forward</b> | 9,798,195                      | 30,163  |

**Distribution history**

|                                       |             |                  |
|---------------------------------------|-------------|------------------|
| Distribution per unit                 |             |                  |
| - HK\$1.2 per unit on 2,700,000 units | <i>note</i> | 4.5078           |
| Date of distribution                  | <i>note</i> | 28 December 2012 |

*note:*

On 4 July 2014, final dividend was proposed by the Manager. The dividend per unit will be determined and paid on 18 July 2014 and 13 August 2014 respectively.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 9 FAIR VALUE INFORMATION

The Sub-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.

#### (a) Financial instruments carried at fair value

The following tables 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.

|                          | <b>31.3.2014</b> | <b>31.3.2013</b> |
|--------------------------|------------------|------------------|
|                          | <i>TWD</i>       | <i>TWD</i>       |
| <b>Level 1</b>           |                  |                  |
| Listed equity securities | 366,569,071      | 329,181,288      |

During the year ended 31 March 2014 and 2013, there were no significant transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy (2013: nil).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 9 FAIR VALUE INFORMATION (Continued)

#### (b) Financial instruments carried at other than fair value

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

### 10 SEGMENT REPORTING

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

The Manager considers that the Sub-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 Sub-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 Sub-fund is established and domiciled in Hong Kong. The majority of the Sub-fund's investment income is derived from its investments domiciled in Taiwan for the year ended 31 March 2014 and 2013.

The Sub-fund has no assets classified as non-current as at 31 March 2014 (2013: nil).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 11 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 Sub-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 Sub-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 Sub-fund generally will pay customary full service brokerage rates where execution, research and other services cannot be unbundled for the same commission rate.

In particular case where execution, research and other services can be unbundled, the Sub-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 Sub-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 Sub-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.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 12 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Sub-fund re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Sub-fund. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 9 of the financial statements.

### 13 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

#### (i) IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 as issued, reflects the first phase of the International Accounting Standards Board ("IASB")'s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In 2013, the IASB added the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. IAS 39 is aimed to be replaced by IFRS 9 in its entirety. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now.

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

### **13 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)**

#### **(ii) IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32**

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Sub-fund’s financial position or performance.

### **14 EVENTS AFTER THE REPORTING DATE**

On 4 July 2014, final dividend was proposed by the Manager. Details are provided in note 8 of the financial statements.

### **15 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Manager and Trustee on 16 July 2014.

## INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 MARCH 2014

|  | Holdings  | Fair value<br>TWD | % of net<br>assets |
|--|-----------|-------------------|--------------------|
| <b>FINANCIAL ASSETS AT FAIR VALUE<br/>THROUGH PROFIT OR LOSS</b> |           |                   |                    |
| <b>Listed equity securities</b>                                  |           |                   |                    |
| <i>Taiwan</i>  |           |                   |                    |
| Advanced Semiconductor Engineering, Inc.                         | 538,110   | 18,188,118        | 4.91               |
| Asustek Computer Inc.  | 63,660    | 19,195,299        | 5.19               |
| Catcher Technology Co., Ltd.                                     | 64,152    | 14,145,516        | 3.82               |
| Cheng Uei Precision Industry Co., Ltd.                           | 32,760    | 2,113,020         | 0.57               |
| Chicony Electronics Co., Ltd.                                    | 49,212    | 3,887,748         | 1.06               |
| China Motor Corporation  | 61,398    | 1,670,026         | 0.45               |
| Chin-Poon Industrial Co., Ltd.                                   | 30,456    | 1,687,262         | 0.46               |
| Chipbond Technology Corp.  | 55,134    | 2,966,209         | 0.80               |
| Chong Hong Construction Co., Ltd.                                | 14,634    | 1,352,182         | 0.37               |
| Compal Electronics, Inc.   | 369,972   | 7,991,395         | 2.16               |
| Coretronic Corporation   | 61,020    | 2,221,128         | 0.60               |
| CTBC Financial Holding Co., Ltd.                                 | 1,156,014 | 22,022,066        | 5.95               |
| Ctci Corporation   | 60,282    | 2,751,873         | 0.74               |
| E.sun Financial Holding Company                                  | 446,526   | 8,193,752         | 2.21               |
| Elan Microelectronics Corp.                                      | 34,704    | 2,033,654         | 0.55               |
| Far Eastern International Bank                                   | 150,030   | 1,620,324         | 0.44               |
| Farglory Land Development Co., Ltd.                              | 29,195    | 1,515,221         | 0.41               |
| Flexium Interconnect Inc.  | 16,056    | 1,454,673         | 0.39               |
| Fubon Financial Holding Co., Ltd.                                | 646,866   | 26,715,566        | 7.22               |
| Grand Pacific Petrochemical Corporation                          | 77,220    | 1,428,570         | 0.39               |
| Hon Hai Precision Ind. Co., Ltd.                                 | 450,414   | 38,870,728        | 10.50              |
| Huaku Development Co., Ltd.                                      | 20,628    | 1,538,848         | 0.42               |
| Jih Sun Financial Holdings Co., Ltd.                             | 178,740   | 1,501,416         | 0.41               |
| Kenda Rubber Industrial Co., Ltd.                                | 50,922    | 3,696,937         | 1.00               |
| King Yuan Electronics Co., Ltd.                                  | 96,696    | 2,441,574         | 0.66               |
| King's Town Bank   | 90,594    | 2,559,281         | 0.69               |
| Lite-on Technology Corp.   | 187,884   | 8,529,934         | 2.30               |
| Mega Financial Holding Company Ltd.                              | 755,784   | 17,836,502        | 4.82               |
| Phison Electronics Corp.   | 11,646    | 2,282,616         | 0.62               |
| Pou Chen Corporation   | 107,370   | 4,611,542         | 1.25               |
| Powertech Technology Inc.  | 64,152    | 2,954,200         | 0.80               |
| Quanta Computer Inc.   | 235,422   | 19,304,604        | 5.22               |

# VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

## INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 MARCH 2014

|  | Holdings  | Fair<br>value<br>TWD | % of net<br>assets |
|--|-----------|----------------------|--------------------|
| <b>FINANCIAL ASSETS AT FAIR VALUE<br/>THROUGH PROFIT OR LOSS (Continued)</b> |           |                      |                    |
| <b>Listed equity securities (Continued)</b>                                  |           |                      |                    |
| <i>Taiwan (Continued)</i>  |           |                      |                    |
| Radiant Opto-Electronics Corp.   | 39,348    | 4,839,804            | 1.31               |
| Realtek Semiconductor Corp.  | 41,400    | 3,800,520            | 1.03               |
| Richtek Technology Corp.   | 12,060    | 2,188,890            | 0.59               |
| Simplo Technology Co., Ltd.  | 25,794    | 3,740,130            | 1.01               |
| Sinopac Financial Holding Co.  | 672,102   | 9,846,294            | 2.66               |
| Synex Technology International Corp.   | 115,398   | 5,654,502            | 1.53               |
| Taishin Financial Holding Co., Ltd.  | 665,532   | 9,184,342            | 2.48               |
| Taiwan Semiconductor Manufacturing Co., Ltd.                                 | 329,562   | 39,053,097           | 10.55              |
| TPK Holding Co., Ltd.  | 22,122    | 3,993,021            | 1.08               |
| Transcend Information, Inc.  | 25,218    | 2,496,582            | 0.67               |
| Tripod Technology Corp.  | 44,712    | 2,678,249            | 0.72               |
| TSRC Corp.   | 61,380    | 2,813,265            | 0.76               |
| United Microelectronics Corp.  | 1,086,894 | 13,966,588           | 3.77               |
| Tung Ho Steel Enterprise Corp.   | 72,234    | 1,867,249            | 0.50               |
| USI Corp.  | 76,032    | 1,497,830            | 0.40               |
| Vanguard International Semiconductor Corp.                                   | 64,638    | 2,934,565            | 0.79               |
| Wistron Corp.  | 205,452   | 5,146,573            | 1.39               |
| Yuen Foong Yu Paper Mfg Ltd.   | 114,912   | 1,585,786            | 0.43               |
| <b>Total financial assets at fair value<br/>through profit or loss</b>       |           | 366,569,071          | 99.05              |
| Cash and cash equivalents  |           | 4,583,785            | 1.24               |
| Other net liabilities  |           | (1,081,568)          | (0.29)             |
| <b>Total net assets</b>  |           | <u>370,071,288</u>   | <u>100.00</u>      |
| <b>Total investments, at cost</b>  |           | <u>327,880,899</u>   |                    |

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

FOR THE YEAR ENDED 31 MARCH 2014

|  | % of net assets |               |
|--|-----------------|---------------|
|  | 31.3.2014       | 31.3.2013     |
| <b>FINANCIAL ASSETS AT FAIR VALUE<br/>THROUGH PROFIT OR LOSS</b>   |                 |               |
| <b>Listed equity securities</b>                                    |                 |               |
| Taiwan   | 99.05           | 99.53         |
| <b>Total financial assets at fair value through profit or loss</b> | 99.05           | 99.53         |
| Cash and cash equivalents  | 1.24            | 2.38          |
| Other net liabilities  | (0.29)          | (1.91)        |
| <b>Total net assets</b>  | <b>100.00</b>   | <b>100.00</b> |

## VALUE TAIWAN ETF

A Sub-fund of Value ETFs Trust  
(A Hong Kong Umbrella Unit Trust)

### PERFORMANCE RECORD (UNAUDITED)

FOR THE YEAR ENDED 31 MARCH 2014

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

|                     | Net asset<br>value per unit<br><i>TWD</i> | Net asset value<br><i>TWD</i> |
|---------------------|---|-------------------------------|
| As at 31 March 2014 | 137.0634                                  | 370,071,288                   |
| As at 31 March 2013 | 122.6528                                  | 331,162,484                   |

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

|                            | Highest net<br>asset value<br>per unit<br><i>TWD</i> | Lowest net<br>asset value<br>per unit<br><i>TWD</i> |
|----------------------------|--|---|
| Year ended 31 March 2014   | 137.0634   | 118.6018  |
| Period ended 31 March 2013 | 123.3910   | 108.5886  |