

## **ANNUAL REPORT**

XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product\*  
(\*This is a synthetic product) (Stock Code: 7210)

**For the period from 2 February 2017 (date of inception) to 31 December 2017**

**(Sub-Fund of XIE Shares Trust III\*) (\*This is a synthetic product)**

## **XIE Shares Trust III**

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## **XIE Shares Trust III**

### **MANAGEMENT AND ADMINISTRATION**

#### **Manager and Listing Agent**

Enhanced Investment Products Limited  
337 New Henry House  
10 Ice House Street  
Central  
Hong Kong

#### **Directors of the Manager**

BLAND Tobias Christopher James  
LAU Che Loon David  
BEATTIE Nigel John (resigned on 09 November 2017)  
GLADSTONE Xenophon Thomas (resigned on 09 November 2017)

#### **Trustee**

Cititrust Limited  
50/F, Champion Tower  
Three Garden Road  
Central  
Hong Kong

#### **Administrator and Custodian**

Citibank N.A.  
50/F, Champion Tower  
Three Garden Road  
Central  
Hong Kong

#### **Participating Dealers**

BNP Paribas Securities Services  
CLSA Limited

#### **Registrar**

Computershare Hong Kong Investor Services Limited  
46/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

#### **Service Agent**

HK Conversion Agency Services Limited  
1/F One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

#### **Legal Counsel to the Manager**

Simmons & Simmons  
13/F, One Pacific Place  
88 Queensway  
Hong Kong

#### **Auditor**

Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

#### **Market Makers**

Bluefin HK Limited  
CLSA Limited  
Commerz Securities Hong Kong Ltd

## XIE Shares Trust III

### REPORT OF THE MANAGER TO THE UNITHOLDERS

#### Introduction

XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product (“Leveraged ETF”) seeks to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE N Share (2x) Daily Leveraged Index (the “Index”) in Hong Kong dollar (“HK\$”) terms.

#### Performance of the Sub-Fund

As of 31 December 2017, the dealing Net Asset Value (“NAV”) per unit of the XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product was HK\$18.0056 with a total of 4,250,000 units outstanding, aggregating a total dealing NAV of approximately HK\$76,523,728.

A summary of the performance of the XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product is given below (as at 31 December 2017).<sup>(a)</sup>

	1 Month <sup>(f)</sup>	3 Months <sup>(g)</sup>	6 Months <sup>(h)</sup>	Since Inception <sup>(e)</sup>
FTSE N Share (2x) Daily Leveraged Index Total Return (Net) <sup>(b)</sup>	9.17%	4.62%	44.36%	135.69%
XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product NAV-to-NAV <sup>(c)</sup>	8.78%	3.94%	41.82%	125.08%
XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product Market-to-Market <sup>(d)</sup>	8.93%	5.61%	40.22%	125.75%

- (a) Past performance figures shown are not indicative of the future performance of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product.
- (b) Calculated on total return (net of tax) basis in HK\$.
- (c) Unit's NAV in HK\$. Units in XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product can be created and redeemed at their NAV in exchange for cash at the primary market.
- (d) Market closing price in HK\$. Market returns are calculated using historical market closing prices of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product in the secondary market. They do not represent the returns you would receive if you trade units at other times.
- (e) Represents performance figures for the period from 2 February 2017 (date of inception) to 31 December 2017.
- (f) Represents performance figures for the period from 1 December 2017 to 31 December 2017.
- (g) Represents performance figures for the period from 1 October 2017 to 31 December 2017.
- (h) Represents performance figures for the period from 1 July 2017 to 31 December 2017.

Source: Enhanced Investment Products Limited, Bloomberg

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DAVID LAU  
DIRECTOR  
FOR AND ON BEHALF OF  
ENHANCED INVESTMENT PRODUCTS LIMITED  
AS MANAGER OF XIE SHARES TRUST III  
XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product\* (\*This is a synthetic product)

## **XIE Shares Trust III**

### **REPORT OF THE TRUSTEE TO THE UNITHOLDERS**

We hereby confirm that, in our opinion, the Manager of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product\* (\*This is a synthetic product), the sub-fund (the "Sub-Fund") of XIE Shares Trust III (the "Trust") has, in all material respects, managed the Sub-Fund in accordance with the provisions of the Trust Deed dated 4 January 2017, as amended by supplemental deeds dated 4 January 2017 and 9 June 2017 for the period from 2 February 2017 (date of inception) to 31 December 2017 except for the following:

Exception noted: Subsequent to the period end date, the Manager notified us about the announcement in relation to the incident on the revision of the offering documents of the Trust and the Sub-Fund published on 9 January 2018 in The Stock Exchange of Hong Kong Limited's website.

Cititrust Limited  
25 April 2018

**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF XIE SHARES CHIMERICA FTSE N SHARE DAILY (2X) LEVERAGED  
PRODUCT  
(Sub-fund of XIE Shares Trust III)**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product ("Sub-Fund" of XIE Shares Trust III) set out on pages 9 to 34, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders, and statement of cash flows for the period from 2 February 2017 (date of inception) to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Sub-Fund as at 31 December 2017, and of its financial performance and cash flows for the period from 2 February 2017 (date of inception) to 31 December 2017 in accordance with International Financial Reporting Standards ("IFRSs").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Sub-Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

**INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE UNITHOLDERS OF XIE SHARES CHIMERICA FTSE N SHARE DAILY (2X) LEVERAGED  
PRODUCT  
(Sub-fund of XIE Shares Trust III)**

**Key Audit Matters (continued)**

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<b><i>Net gain/(loss) on the settlement of financial assets and liabilities at fair value through profit or loss</i></b>	
<p>For the period from 2 February 2017 (date of inception) to 31 December 2017, the net gain/(loss) on the settlement of financial assets and liabilities at fair value through profit or loss of the Sub-Fund amounted to HK\$38,246,136.</p> <p>We focused on this area because it represented the significant component of the statement of profit or loss and other comprehensive income.</p> <p>Disclosures for the net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss are set out in the summary of accounting policies and note 11 to its financial statements.</p>	<p>We obtained the swap agreements and performed walkthrough on the swap reset process of the Sub-Fund to assess the effectiveness of the controls established by the management in recording the net gain/(loss) on financial assets and liabilities at fair value through profit or loss.</p> <p>We selected samples based on the daily reset income and expense recorded by the Sub-Fund.</p> <p>We have obtained the last price of the underlying index of the swap contract from Bloomberg to recompute the net gain/(loss) on financial assets and liabilities at fair value through profit or loss.</p> <p>We obtained bank statements of selected transactions and agreed the details of the swap settlements to the accounting records.</p>
<b><i>Existence of cash and cash equivalents</i></b>	
<p>As at 31 December 2017 the cash and cash equivalents amounting to HK\$75,568,515 represented the majority of the net asset value of the Sub-Fund. We focused on this area because the cash and cash equivalents represented the key component of the financial statements.</p> <p>Disclosures of the cash and cash equivalents are set out in the summary of accounting policies and note 12 to the financial statements.</p>	<p>We obtained independent confirmation from the banks with which the Sub-Fund held accounts as at 31 December 2017, agreed the balances to the accounting records and bank statement.</p> <p>We checked the foreign exchange rate used by the management to translate the bank balances from USD to HKD.</p>

**INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE UNITHOLDERS OF XIE SHARES CHIMERICA FTSE N SHARE DAILY (2X) LEVERAGED  
PRODUCT  
(Sub-fund of XIE Shares Trust III)**

**Other information included in the Annual Report**

The Manager and Trustee are responsible for the other information. The other information comprises all the information included in this Reports and Financial Statements, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Manager and Trustee for the Financial Statements**

The Manager and the Trustee of the Sub-Fund are responsible for the preparation of the financial statements in accordance with IFRSs, 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 preparing the financial statements, the Manager and the Trustee of the Sub-Fund are responsible for assessing the Sub-Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee either intend to liquidate the Sub-Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 4 January 2017 as amended by supplemental deeds dated 4 January 2017 and 9 June 2017 (the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds (the "SFC") issued by the Hong Kong Securities and Futures Commission.



**INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE UNITHOLDERS OF XIE SHARES CHIMERICA FTSE N SHARE DAILY (2X) LEVERAGED  
PRODUCT  
(Sub-fund of XIE Shares Trust III)**

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Sub Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee.
- Conclude on the appropriateness of the Manager and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Fund's abilities to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sub-Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT (continued)  
TO THE UNITHOLDERS OF XIE SHARES CHIMERICA FTSE N SHARE DAILY (2X) LEVERAGED  
PRODUCT  
(Sub-fund of XIE Shares Trust III)**

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

We communicate with the Manager and the Trustee of the Sub-Fund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager and the Trustee of the Sub-Fund with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Manager and the Trustee of the Sub-Fund, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on matters under the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code**

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

The engagement partner on the audit resulting in this independent auditor's report is Tsang Yu Heng, Alpha.

**Certified Public Accountants**

Hong Kong  
25 April 2018

## XIE Shares Trust III

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$
<b>Assets</b>		
Interest receivable		59,247
Cash and cash equivalents	5, 12	<u>75,568,515</u>
<b>Total assets</b>		<u>75,627,762</u>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	10, 11	357,654
Management fee payable	5	55,482
Other payables		<u>139,847</u>
<b>Total liabilities</b>		<u>552,983</u>
<b>Equity</b>		
<b>Net assets attributable to unitholders</b>	9	<u>75,074,779</u>
<b>Number of units in issue</b>	9	<u>4,250,000</u>
<b>Net asset value per unit</b>		<u>17.6647</u>

The financial statements on pages 9 to 34 were approved by the Manager on 25 April 2018.

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Enhanced Investment Products Limited  
as Manager of the Trust

The accompanying notes are an integral part of these financial statements.

## XIE Shares Trust III

### STATEMENT OF COMPREHENSIVE INCOME

Period from 2 February 2017 (date of inception) to 31 December 2017

	Notes	Period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
<b>Income</b>		
Interest income		500,187
Net gain/loss on the settlement of financial assets and liabilities at fair value through profit and loss	11	38,246,136
Net foreign exchange gain		319,207
		<hr/>
<b>Total net income</b>		<b>39,065,530</b>
		<hr/>
<b>Operating expenses</b>		
Management fees	5	442,341
Audit fees		100,226
Preliminary expenses		1,640,531
Financial statements preparation fee	5	35,123
Registration fees		12,000
Bank charges		1,619
Other operating expenses		65,186
		<hr/>
<b>Total operating expenses</b>		<b>2,297,026</b>
		<hr/>
<b>Operating profit</b>		<b>36,768,504</b>
		<hr/>
<b>Total comprehensive income for the period</b>		<b>36,768,504</b>
		<hr/>

The accompanying notes are an integral part of these financial statements.

**XIE Shares Trust III**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

**Period from 2 February 2017 (date of inception) to 31 December 2017**

	Period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
<b>Balance at the beginning of the period</b>	—
Proceeds on issue of units	38,306,275
Payment on redemption of units	—
Net increase from unit transactions	38,306,275
Total comprehensive income for the period	36,768,504
<b>Balance at the end of the period</b>	<u>75,074,779</u>

The accompanying notes are an integral part of these financial statements.

## XIE Shares Trust III

### STATEMENT OF CASH FLOWS

Period from 2 February 2017 (date of inception) to 31 December 2017

	Note	Period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
<b>Operating activities</b>		
Net gain/loss on the settlement of financial assets and liabilities at fair value through profit and loss		38,603,790
Interest received		440,940
Management fee paid		(386,859)
Preliminary expenses paid		(1,640,531)
Others receipts and payments		(74,307)
		<u>36,943,033</u>
<b>Cash generated from operating activities</b>		
<b>Financing activities</b>		
Proceeds from issue of units		<u>38,306,275</u>
<b>Cash generated from financing activities</b>		
		<u>38,306,275</u>
<b>Net increase in cash and cash equivalents</b>		
		75,249,308
Cash and cash equivalents at beginning of period		—
Net foreign exchange gain		<u>319,207</u>
<b>Cash and cash equivalents at end of period</b>		
	12	<u>75,568,515</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash at bank		20,602,428
Short-term deposits		<u>54,966,087</u>
	12	<u>75,568,515</u>

The accompanying notes are an integral part of these financial statements.

## **XIE Shares Trust III**

### **NOTES TO FINANCIAL STATEMENTS**

**Period from 2 February 2017 (date of inception) to 31 December 2017**

#### **1. THE TRUST**

XIE Shares Trust III (the “Trust”) is an umbrella unit trust governed by its trust deed and supplemental deed dated 4 January 2017 (collectively, the “Trust Deed”) between Enhanced Investment Products Limited (the “Manager”) and Cititrust Limited (the “Trustee”). The Trust Deed is governed by Hong Kong law.

As at 31 December 2017, the Trust has established XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product\* (\*This is a synthetic product) (the “Sub-Fund”), which is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”) pursuant to section 104(1) of the Securities and Futures Ordinance. The Sub-Fund adopts a “synthetic replication investment strategy”, pursuant to which the relevant Product will enter into one or more unfunded swaps (each an “Unfunded Swap”), which are over-the counter financial derivative instruments entered into with one or more counterparties (each a “Swap Counterparty”), whereby the relevant Product will receive from the Swap Counterparties an exposure to the economic gain or loss in the performance, the inverse performance or the leveraged performance (as the case may be) of the relevant Index (net of swap costs) on a daily basis.

The first reporting period for the Sub-Fund will cover the period from 2 February 2017 (date of inception) to 31 December 2017.

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 N Share (2x) Daily Leveraged Index, which aims to reflect the leveraged, two times (2x) Daily performance of the FTSE China N Share All Cap Capped Net Tax Index less financing cost and liquidity spread.

The Trustee shall establish a separate pool of assets within the Trust (each such separate pool of assets a “Sub-Fund”) and the Trustee may issue different classes of units for each Sub-Fund. The assets of a Sub-Fund will be invested and administered separately from the other assets of the Trust. The Manager reserves the right to establish other Sub-Fund and to issue further classes of units in the future.

The Trust’s investment activities are managed by the Manager. The Manager was incorporated in Hong Kong with limited liability in 2002 and is licensed by the SFC to conduct type 4 (advising in securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance.

Under the Trust Deed, the monies forming part of each Sub-Fund are invested, at the direction of the Manager, in accordance with the Trust Deed. The Manager is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of each Sub-Fund. The Manager is also the Listing Agent for each Sub-Fund.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 2.1 BASIS OF PREPARATION

These 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"). The Sub-Fund has adopted for the first time all the applicable and effective IFRSs.

They have been prepared under the historical cost basis, except for financial assets classified at fair value through profit or loss that have been measured at fair value. These financial statements are presented in Hong Kong Dollar ("HKD") and all values are rounded to the nearest HKD except when otherwise indicated.

#### 2.2 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") AND INTERNATIONAL ACCOUNTING STANDARDS ("IAS")

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") adopted in the year commencing 1 January 2017:

The nature and the impact of each new standard and amendment are described below:

##### *Amendments IAS 7 Disclosure Initiative*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments have had no significant impact on the financial statements of the Sub-Fund.

#### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Sub-Fund has not early applied any of the new and revised IFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2017, in these financial statements. Among the new and revised IFRSs, the following are expected to be relevant to the Sub-Fund's financial statements upon becoming effective:

IFRS 9 *Financial Instruments*<sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018



## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Sub-Fund plans to adopt the new standard on the required effective date. During 2017, the Sub-Fund has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information being made available to the Sub-Fund in the future. Overall, the Sub-Fund expects no significant impact on their statement of net assets.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Sub-Fund.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Financial instruments

##### (i) Foreign currency translation

###### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Sub-Fund operates (the “functional currency”). The performance of the Sub-Fund is measured and reported to the Unitholders in HKD. The Management considers the HKD as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in HKD, which is the Sub-Fund’ functional and presentation currency.

###### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within “net foreign exchange gain”.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within “net gain on investments”.

##### (ii) Classification

The Sub-Fund classifies its financial assets and liabilities into the categories below in accordance with IAS 39.

###### *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities designated as at fair value through profit or loss upon initial recognition: these include derivative contracts. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Sub-Fund.

###### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to cash and cash equivalents.

###### *Financial liabilities*

This category includes all financial liabilities, other than those measured at fair value through profit and loss. The Sub-Fund includes in this category amounts relating to management fee payable and other payables.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

##### (iii) Recognition

The Sub-Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets or financial liabilities that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Sub-Fund commits to purchase or sell the financial asset.

##### (iv) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

Loans and receivables and financial liabilities are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

##### (v) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net change in unrealised gains/losses on financial assets and financial liabilities at fair value through profit or loss. Interest and dividend earned on these instruments are recorded separately as interest income and dividend income.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, Sub-Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

##### (vi) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired or the Sub-Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either

- the Sub-Fund has transferred substantially all the risks and rewards of the asset, or
- the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Sub-Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Fund's continuing involvement in the asset. In that case, the Sub-Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Fund has retained. The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged.

##### Fair value measurement

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 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 to 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.

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 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - 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-Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets

The Sub-Fund assess at the end of each reporting period whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'credit loss expense'.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the profit or loss.

Interest revenue on impaired financial assets is recognised using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss.

##### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits, short-term deposits in banks and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as cash and cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Redeemable units

The Sub-Fund issues redeemable units which are redeemable at the holder's option and represents puttable financial instruments of the Sub-Fund. The Sub-Fund classifies their puttable financial instruments as equity in accordance with IAS 32 (Amendment), "Financial instruments: Presentation" as those puttable financial instruments meet all the following criteria:

- the puttable instruments entitle the holder to a pro-rata share of net assets;
- the puttable instruments are the most subordinated unit in issue and unit features are identical;
- there are no contractual obligations to deliver cash or another financial asset; and
- the total expected cash flows from the puttable instrument over its life are based substantially on the profit or loss of the Sub-Fund.

Units are issued and redeemed at the holder's option at a price based on the Sub-Fund's net asset value per unit at the time of issue or redemption. The Sub-Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of the units with total number of outstanding units. In accordance with the provisions of the Trust's regulations, investment positions are valued based on the official closing price, or if unavailable, the last traded price on the market.

##### Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as it accrues, using the effective interest method.

##### Expenses

All expenses are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

##### Preliminary expense

Preliminary expense is recognised as an expense in the period in which it is incurred.

##### Net gain/loss on the settlement of financial assets and liabilities at fair value through profit and loss

Net gain/loss on the settlement of financial assets and liabilities at fair value through profit and loss are changes in the fair value of financial assets and liabilities designated upon initial recognition in a swap contract and exclude interest and dividend income and expenses.

Net change in unrealised loss on derivative contracts designated at fair value through profit or loss comprise changes in the fair value of financial instruments for the period and from reversal of the prior period's unrealised gains and losses for financial instruments which were realised in the reporting period. It represents the cash payments or receipts made on derivative contracts.

**NOTES TO FINANCIAL STATEMENTS**

**Period from 2 February 2017 (date of inception) to 31 December 2017**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

These financial statements are presented in HKD, which is the Sub-Fund's functional and presentation currency. Foreign currency transactions recorded by the Sub-Fund is initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or transaction of monetary items are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Functional currency

The Sub-Fund's functional currency is HKD, which is the currency of the primary economic environment in which it operates. The Sub-Fund's performance is evaluated and its liquidity is managed in HKD. Moreover, the net asset value per unit at the time of issue or redemption is determined and units quoted on the SEHK are denominated in HKD.

Therefore, the HKD is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Sub-Fund's presentation currency is also HKD.

Taxes

In some jurisdictions, dividend income, interest income and capital gains are subject to withholding income tax deducted at the source of the income. The Sub-Fund presents the withholding income tax and capital gains tax separately from gross investment gains in the statement of comprehensive income.

For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding income taxes and capital gains taxes, when applicable.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Related parties

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

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the 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

- (b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the group 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 Sub-Fund;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND CHANGES IN ACCOUNTING ESTIMATES

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

##### Going concern

The Manager has made an assessment of the Sub-Fund's ability to continue as a going concern and is satisfied that the Sub-Fund has the intention and resources to continue in business for the 12 months after the year end date. Furthermore, the Manager is not aware of any material uncertainties that may cast significant doubt upon the Sub-Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.



## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 5. TRANSACTIONS WITH THE TRUSTEE AND MANAGER AND THEIR CONNECTED PERSONS

The following is a summary of significant related party transactions entered into during the period between the Sub-Fund, the Trustee, the Manager and their Connected Persons. Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the period between the Sub-Fund and the Manager and their Connected Persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with Connected Persons except for those disclosed below:

##### Management fees

The Manager is entitled to receive a management fees, currently at the annual rate of 0.88% of the NAV for the Sub-Fund. The fee is accrued daily and calculated as at each dealing day and payable monthly in arrears. Pursuant to the prospectus, management fees include trustee fee and administration fee only and the registrar fee and audit fee have to be borne by each of the Sub-Fund.

The following are the management fees and management fee payable to the Manager of the Sub-Fund for the period from 2 February 2017 (date of inception) to 31 December 2017.

	2017 HK\$
Management fees	442,341
Management fee payable	55,482

##### Bank balance held by the Custodian

Bank balance is maintained in interest bearing account with Citibank N.A., the Administrator and Custodian of the Sub-Fund. Bank balance held by the Custodian as at 31 December 2017 is as follows:

	2017 HK\$
Bank balance	<u>20,602,428</u>

##### Transaction fee

Pursuant to the prospectus, the Sub-Fund receives a transaction fee of HK\$7,500 per total aggregate issue and redemption order from the Participating Dealer on behalf of the Trustee. As at 31 December 2017, there were no outstanding transaction fees payable to the Trustee of the Sub-Fund.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 5. TRANSACTIONS WITH THE TRUSTEE AND MANAGER AND THEIR CONNECTED PERSONS (continued)

##### Transaction with the Directors of the Manager

As at 31 December 2017, the Directors of the Manager held units of the Sub-Fund as follow:

	2017		Fair value HK\$
	Number of units	% of NAV	
Directors' holding	6,000	0.14%	105,988

##### Preliminary expenses

The preliminary expenses payable included the preliminary expenses of HK\$1,640,531 paid by the Manager on behalf of the Sub-Fund. As at 31 December 2017, there were no outstanding preliminary expenses payable to the Manager of the Sub-Fund.

##### Financial statements preparation fee

The Administrator is entitled to receive financial statements preparation fee for the Sub-Fund. The fee is accrued daily and calculated as at each dealing day and payable monthly in arrears.

The following are the financial statements preparation fee and financial statements preparation fee payable to the Administrator of the Sub-Fund for the period 2 February 2017 (date of inception) to 31 December 2017.

	2017 HK\$
Financial statements preparation fee	35,123
Financial statements preparation fee payable	31,876

#### 6. SOFT COMMISSION ARRANGEMENTS

The Manager confirms that there has been no soft commission arrangement existing during the period in relation to directing transactions of the Sub-Fund through a broker or dealer.

#### 7. TAXATION

No provision for Hong Kong profits tax has been made for the Sub-Fund as they are authorised as collective investment schemes under section 104 of the Hong Kong Securities and Futures Ordinance and are therefore exempt from Hong Kong Profits Tax under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 8. DISTRIBUTION

The Manager may in its absolute discretion distribute income to unitholders at such time or times as it may determine in each financial year or determine that no distribution shall be made in any financial year. The amount to be distributed to unitholders, if any, will be derived from the net income of the Sub-Fund.

The Manager does not intend to pay or make any distributions or dividends.

#### 9. THE REDEEMABLE UNITS

The movements of the redeemable units of the Sub-Fund for the period from 2 February 2017 (date of inception) to 31 December 2017 were as follows:

	For the period from 2 February 2017 (date of inception) to 31 December 2017 Number of units
Units in issue at the beginning of the period	—
Issue of units	4,250,000
Redemption of units	—
	<hr/>
Units in issue at the end of the period	<u>4,250,000</u>
	At last trade market price 2017 HK\$
Dealing net asset value at the end of the period	76,523,728
Dealing net asset value per unit at the end of the period	18.0056

As stated in Note 3, redeemable units of the Sub-Fund, which are represented by assets less liabilities, are classified as equity and accounted for in accordance with IFRS (the "Accounting NAV"). For the purpose of determining the NAV per unit for subscriptions and redemptions and for various fee calculations (the "Dealing NAV"), the Management ensures that the calculation of the Dealing NAV is in accordance with the provisions of the Sub-Fund's Trust Deed, which may be different from the accounting policies under IFRS.

In accordance with the prospectus of the Trust, the preliminary expenses of establishing the Trust will be allocated proportionately to the Sub-Fund. The preliminary expenses will be amortised over the first five accounting periods of the Trust. However, with respect to the Trust and the Sub-Fund for the purpose of financial statements preparation in compliance with IFRS, their accounting policy is to expense the preliminary expenses in the statement of comprehensive income as incurred.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 9. THE REDEEMABLE UNITS (continued)

The difference between the Accounting NAV reported in the statement of financial position and the Dealing NAV for the purpose of calculating the net asset value per unit for processing subscriptions and redemptions and for various fee calculations as at 31 December 2017 was reconciled below:

	2017 HK\$
Dealing NAV	76,523,728
Adjustment for preliminary expenses	<u>(1,448,949)</u>
Accounting NAV as reported in the statement of financial position	<u>75,074,779</u>

The creation and redemption of units of the Sub-Fund can only be facilitated by or through participating dealers. Investors other than the participating dealers make a request to create or redeem units through a participating dealer, and if the investor is a retail investor, such request must be made through a stockbroker which has opened an account with a participating dealer.

The Trustee shall receive subscription proceeds from the participating dealers for the creation of units and pay redemption proceeds for the redemption of units to the relevant participating dealer in such form and manner as prescribed by the Trust Deed.

Units are denominated in HKD and no fractions of a unit shall be created or issued by the Trustee. Units of the Sub-Fund are offered and issued at their dealing net asset value only in aggregations of a specified number of application units (the "Application Unit"). Units are redeemable only in an Application Unit or multiple thereof at the dealing net asset value. Currently, creation and redemption of units are effected in cash.

#### 10. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

##### *Swap agreements*

Swap agreements ("Swaps") represent agreements between two parties to make payments based upon the performance of certain underlying assets. The Sub-Fund is obligated to pay, or entitled to receive as the case may be, the net difference in the value determined at the onset of the Swaps versus the value determined at the termination or reset date of the Swaps. Therefore, amounts required for the future satisfaction of the Swaps may be greater or less than the amount recorded. The ultimate gain or loss depends upon the prices at which the underlying financial instrument of the Swaps is valued, at the Swap's settlement date.

In managing a Sub-Fund, the Manager adopted a synthetic replication investment strategy, pursuant to which the relevant Sub-Fund will enter into one or more unfunded swaps (which are over-the-counter financial derivative instruments entered into with one or more counterparties) whereby the relevant Sub-Fund will receive or pay the economic gain or loss in respectively the inverse or leveraged performance of the Index (net of swap fees).

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 10. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

*Swap agreements (continued)*

Below are the general terms of the index swap agreement:

Initial Date:	3 February 2017
Termination Date:	5 February 2018
Counterparty:	SOCIETE GENERALE
Index:	FTSE N Share 2X Daily Leverage Index (Bloomberg Ticker: FCNACL2X Index)
Exchange(s):	New York Stock Exchange and NASDAQ Global Market
Number of Units as at 2017 year end:	421 units
Initial Equity Notional Amount per Unit:	USD10,000

The following derivative contracts were unsettled as at 31 December 2017.

Type of contract	Expiration	Notional amount	Fair value
Total return swaps	5 February 2018	USD\$9,847,211	HK\$357,654

#### 11. NET GAIN/LOSS ON THE SETTLEMENT OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The following is a breakdown of net gain/loss on the settlement of financial assets and liabilities at fair value through profit or loss

	For the period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
Net realised gains/losses on derivative contracts designated at fair value through profit or loss	38,603,790
Net change in unrealised loss on derivative contracts designated at fair value through profit or loss	(357,654)
	<u>38,246,136</u>

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 12. CASH AND CASH EQUIVALENTS

	2017 HK\$
Cash at bank	20,602,428
Short-term deposits	<u>54,966,087</u>
	<u>75,568,515</u>

The cash at bank amounted to HK\$20,602,428 are held with the Administrator and Custodian was placed into interest bearing accounts. Short-term deposits are the balance held by Bank of China.

#### 13. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

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 is exceeded as a result of changes in the composition of the index and the excess is only transitional and temporary in nature.

The SFC Code further provides that, if the investment limits stated above are breached, the management company should take as a priority objective all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the unitholders. The Trust Deed of the Trust also contains provisions mirroring the above provisions of the SFC Code.

The Manager and the Trustee have confirmed that the Sub-Fund has complied with this limit during the year/period ended 31 December 2017 for XIE Shares FTSE Chimerica FTSE N Share Daily (2x) Leveraged Product.

There were no constituent securities of that FTSE N Share (2x) Daily Leveraged Index accounted for more than 10% of the weighting of FTSE N Share (2x) Daily Leveraged Index as at 31 December 2017.

During the period from 2 February 2017 (date of inception) to 31 December 2017, the FTSE N Share (2x) Daily Leveraged Index increased by 135.69%, while the net asset value per unit of the Sub-Fund increased by 125.08% since inception.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

##### Risk management

Risk is inherent in the Sub-Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Manager is responsible for identifying and controlling risks. In perspective of risk management, the Sub-Fund's objective is to create and protect value for unitholders.

The investment objectives of the Sub-Fund is to provide investment results that, before deduction of fees and expenses, closely correspond to the performance of the FTSE N Share (2x) Daily Leveraged Index, which aims to reflect the leveraged, two times (2x) daily performance of the FTSE China N Shares All Cap Capped Net Tax Index.

The following is a summary of the main risks and risk management policies.

(a) Market risk

(i) Market 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, either caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Sub-Fund is designated to track the performance of their respective Underlying Indices, therefore the exposures to market risk in the Sub-Fund will be substantially the same as those tracked indices. The Manager manages the Sub-Fund's exposures to market risk by ensuring that the key characteristics of the portfolio, such as security weight and industry weight, are closely aligned with the characteristics of the tracked Underlying Indices.

As at 31 December 2017, the Sub-Fund's fair value of investments exposed to price risk was as follows:

	Fair value HK\$	% of NAV
<b>As at 31 December 2017</b>		
Derivative - financial liabilities at fair value through profit or loss		
- Total return swaps	357,654	0.48%

##### *Sensitivity analysis in the event of a possible change in the index by 3% as assumed by the Manager*

As at 31 December 2017, if the FTSE N Share (2x) Daily Leveraged Index had increased by 3% with all other variables held constant, this would have increased the net asset value of the Sub-Fund by approximately HK\$2,252,243. Conversely, if the FTSE N Share (2x) Daily Leveraged Index had decreased by 3%, this would have decreased the net asset value of the Sub-Fund by equal amounts.

The Manager has made assumptions of what would constitute a "reasonable shift" in the relevant market to on changes for use in the market sensitivity analysis above.

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in market index percentage are revised annually depending on the Manager's current view of market volatility and other relevant factors.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Risk management (continued)

##### (a) Market risk (continued)

##### (ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in market interest rates. As at 31 December 2017, interest rate risk arises only from bank balances. As these interest bearing assets are short-term in nature, the Manager considers that changes in their future cash flows in the event of a change in market interest rates will not be material. Therefore, no sensitivity analysis has been disclosed for these bank balances.

##### (iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Sub-Fund holds assets and incurs liabilities which are mainly denominated in their functional currency, HKD and the United States dollar ("USD"). The Manager considers that there is insignificant currency risk to the USD which is a linked currency with the HKD.

##### (b) Credit and counterparty risk

Credit risk is the risk of loss to the Sub-Fund that may arise on outstanding financial instruments should a counterparty default on its obligations. The Sub-Fund minimizes exposure to credit risk by only dealing with creditworthy counterparties.

The Sub-Fund limits their exposures to credit and counterparty risk by transacting the majority of their investments and contractual commitment activity with well-established broker-dealers, banks and regulated exchanges.

The exposure of the Sub-Fund to the Underlying Index is primarily achieved through the derivative contracts.



## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Risk management (continued)

##### (b) Credit and counterparty risk (continued)

The following tables set out the net exposure of the Sub-Fund to counterparties as at 31 December 2017 together with their credit ratings of senior long-term debt by Standard & Poor's (S&P) rating services:

	2017	
	S&P	Net exposure to
	credit rating	counterparties
		HK\$
<b>Bank / Custodian</b>		
Citibank N.A.	A+	20,602,428
- Cash and cash equivalents		
Bank of China		
- Cash and cash equivalents	A	<u>54,966,087</u>
		<u>75,568,515</u>
<b>SWAP Counterparty</b>		
Societe Generale	A	
- Financial liabilities at fair value through profit and loss		<u>(357,654)</u>

The maximum exposure to credit risk at period end is the carrying amount of the financial assets as shown on the statement of financial position. None of the assets are impaired nor past due but not impaired.

The Sub-Fund is exposed to counterparty default risk and may suffer significant losses if a Swap Counterparty fails to perform its obligations under the Unfunded Swap. The value of Invested Assets may be affected by market events and may diverge substantially from the performance of the Index, which may cause the Product's exposure to Swap Counterparty to exceed 0% and therefore result in significant losses.

##### (c) Liquidity risk

Liquidity risk is the risk that the Sub-Fund may not be able to generate sufficient cash or resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Risk management (continued)

##### (c) Liquidity risk (continued)

As at 31 December 2017, all of the Sub-Fund financial liabilities have contractual maturities not later than one month. As at 31 December 2017, the Sub-Fund held liquid assets, comprising bank balances and other receivables that are expected to readily generate cash inflows for managing liquidity risk within one month.

<u>As at 31 December 2017</u>	Maturity less than 1 month HK\$	Maturity 1 to 3 months HK\$	No stated maturity HK\$	Total HK\$
Interest receivable	59,247	–	–	59,247
Cash and cash equivalents	75,568,515	–	–	75,568,515
<b>Total financial assets</b>	<b>75,627,762</b>	<b>–</b>	<b>–</b>	<b>75,627,762</b>
Financial liabilities at fair value through profit or loss	357,654	–	–	357,654
Management fee payable	55,482	–	–	55,482
Other payables	139,847	–	–	139,847
<b>Total financial liabilities</b>	<b>552,983</b>	<b>–</b>	<b>–</b>	<b>552,983</b>

##### (d) Termination risks

If the Index Provider terminates the index licence agreement or the Index or otherwise does not allow the Sub-Fund to use the Index, and there is no successor index or if its fund size falls below HK\$100 million, the Sub-Fund may be terminated and investors may suffer a loss. Please refer to the section headed "Termination" of the Prospectus in the web-site for details of events which may cause the Sub-Fund to be terminated.

##### (e) Fair value estimation

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the period end date. The Sub-Fund used last traded market prices as their fair valuation inputs for financial assets.

An active market is a market in which transactions for the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Risk management (continued)

##### (e) Fair value estimation (continued)

IFRS 13 requires the Sub-Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the assets or liabilities.

The determination of what constitutes “observable” requires significant judgement by the Sub-Fund. The Sub-Fund considers observable data as market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant markets.

##### Financial liabilities carried at fair value

The following tables analyse within the fair value hierarchy the Sub-Fund’s financial liabilities (by class) measured at fair value as at 31 December 2017.

<u>As at 31 December 2017</u>	Quoted prices in active markets Level 1 HK\$	Significant observable inputs Level 2 HK\$	Significant unobservable inputs Level 3 HK\$	Total HK\$
Financial liabilities at fair value through profit or loss:				
-Total return swaps	—	(357,654)	—	(357,654)
	<u>—</u>	<u>(357,654)</u>	<u>—</u>	<u>(357,654)</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include active listed equities. The Sub-Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently.

During the period from 2 February 2017 (date of inception) to 31 December 2017, there were no transfers between levels.

## XIE Shares Trust III

### NOTES TO FINANCIAL STATEMENTS

Period from 2 February 2017 (date of inception) to 31 December 2017

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Risk management (continued)

##### (e) Fair value estimation (continued)

##### Capital management

The Sub-Fund's capital is represented by the net assets attributable to unitholders. The Sub-Fund's objective is to provide investment results that, before deduction of fees and expenses, closely correspond to the twice (2x) the daily performance of the underlying index relevant to the Sub-Fund.

The Manager may:

- Redeem and issue new units in accordance with the constitutive documents of the Sub-Fund;
- Exercise discretion when determining the amount of distributions of the Sub-Fund to the Unitholders; and
- Suspend the issue and redemption of units under certain circumstances stipulated in the prospectus.

##### Offsetting and amounts subject to master netting arrangements and similar agreements

As at 31 December 2017, the Sub-Fund was not subject to any master netting arrangement with their counterparties.

#### 15. EVENTS AFTER THE REPORTING PERIOD

On 2 February 2018, the Sub-Fund has signed the Index SWAP agreement with Societe Genrale with the effective date 2 May 2018 and termination date of 15 February 2019.

Subsequent to the reporting period, there were subscriptions of 250,000 units on 7 February 2018 and 7 March 2018.

#### 16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 25 April 2018.

**XIE Shares Trust III**

**Investment portfolio (Unaudited)  
As at 31 December 2017**

**Investments**

	<b>Fair value HK\$</b>	<b>% of net assets</b>
<b>Total return swaps issued by</b>		
Societe Generale	(357,654)	(0.48)
	<hr/>	<hr/>
<b>Total investments</b>	<u>(357,654)</u>	<u>(0.48)</u>
<b>Other net assets</b>	75,432,433	100.48
	<hr/>	<hr/>
<b>Net assets attributable to unitholders at 31 December 2017</b>	<u>75,074,779</u>	<u>100.00</u>
<b>Total investments, at cost</b>	<u>—</u>	

### XIE Shares Trust III

#### Movements in investment portfolio (Unaudited)

For the period from 2 February 2017 (date of inception) to 31 December 2017

	Fair value as at 2 February 2017 (date of inception) HK\$	Fair value change HK\$	Fair value as at 31 December 2017 HK\$
Total return swaps issued by			
Societe Generale	–	(357,654)	(357,654)

## XIE Shares Trust III

### Performance record (Unaudited)

For the period from 2 February 2017 (date of inception) to 31 December 2017

#### Net asset value attributable to unitholders

	<b>Dealing net asset value per unit HK\$</b>	<b>Dealing net asset value of the Sub-Fund HK\$</b>
At end of financial period dated		
31 December 2017	18.0056	76,523,728

#### Highest and lowest net asset value per unit

	<b>Lowest HK\$</b>	<b>Highest HK\$</b>
For the period from 2 February 2017 (date of inception) to 31 December 2017	<u>8.0000</u>	<u>19.3533</u>

During the period from 2 February 2017 (date of inception) to 31 December 2017, the FTSE N Share (2x) Daily Leveraged Index increased by 135.69%, while the net asset value per unit of the Sub-Fund increased by 125.08%<sup>(a)</sup>.

There were no constituent securities of that FTSE N Share (2x) Daily Leveraged Index accounted for more than 10% of the weighting of FTSE N Share (2x) Daily Leveraged Index as at 31 December 2017.

The date of inception for this Sub-Fund was on 2 February 2017. Therefore, comparative figures are unavailable.

a) This is the return of the Sub-Fund (net of fees and expenses) from 2 February 2017 (date of inception) to 31 December 2017