

ANNUAL REPORT

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

For the year ended 31 December 2018

(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

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Directors of the Manager

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LAU Che Loon David

Trustee

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Administrator and Custodian

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Participating Dealers

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CLSA Limited

Registrar

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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 2018, the dealing Net Asset Value (“NAV”) per unit of the XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product was HK\$7.3065 with a total of 500,000 units outstanding, aggregating a total dealing NAV of approximately HK\$3,653,260.

A summary of the performance of the XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product is given below (as at 31 December 2018).^(a)

	1 Month ^(f)	3 Months ^(g)	6 Months ^(h)	12 Months ^(e)
FTSE N Share (2x) Daily Leveraged Index Total Return (Net) ^(b)	-15.82%	-35.41%	-56.83%	-56.06%
XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product NAV-to-NAV ^(c)	-16.23%	-36.18%	-57.51%	-57.47%
XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product Market-to-Market ^(d)	-8.59%	-33.14%	-55.74%	-55.20%

- (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 year ended to 31 December 2018.
- (f) Represents performance figures for the period from 1 December 2018 to 31 December 2018.
- (g) Represents performance figures for the period from 1 October 2018 to 31 December 2018.
- (h) Represents performance figures for the period from 1 July 2018 to 31 December 2018.

Source: Enhanced Investment Products Limited, Bloomberg

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 year ended 31 December 2018.

Cititrust Limited
26 April 2019

Independent auditor's report

To the unitholders of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product

(a 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 (a sub-fund of XIE Shares Trust III and referred to as the "Sub-Fund") set out on pages 9 to 37, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the 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 period. 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

(a sub-fund of XIE Shares Trust III)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Net loss on the settlement of financial assets and liabilities at fair value through profit or loss</i>	
<p>During the year ended 31 December 2018, the net loss on the settlement of financial assets and liabilities at fair value through profit or loss of the Sub-Fund amounted to HK\$23.30 million.</p> <p>We focused on this area because it represented the significant component of profit or loss.</p> <p>Disclosures for the net loss on financial assets and financial liabilities at fair value through profit or loss are set out in the summary of significant accounting policies and note 11 to the financial statements.</p>	<p>We obtained the swap agreements and performed a 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 loss on the settlement of 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 change in unrealised gains/losses on derivative contracts at fair value through profit or loss included in the net loss on the settlement of financial assets and financial 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>
<i>Existence of cash and cash equivalents</i>	
<p>As at 31 December 2018, the cash and cash equivalents amounting to HK\$3.02 million represented a 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 significant 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 2018, and agreed the balances to the accounting records and bank statements.</p> <p>We checked the foreign exchange rate used by the management to translate the bank balances from United States dollar to Hong Kong dollar.</p>

Independent auditor's report (continued)

To the unitholders of XIE Shares Chimerica FTSE N Share Daily (2x) Leveraged Product

(a sub-fund of XIE Shares Trust III)

Other information included in the Annual Report

The Manager and the Trustee are responsible for the other information. The other information comprises the information included in the Annual Report, 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 the Manager and the Trustee for the financial statements

The Manager and the Trustee are responsible for the preparation of the financial statements that give a true and fair view 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 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 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 a supplemental deed 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 Code") 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

(a 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, in accordance with our agreed terms of engagement, 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 judgement and maintain professional scepticism 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's and the Trustee's use of the going concern basis of accounting. When such use is inappropriate and the Manager and the Trustee use an alternative basis of accounting, we conclude on the appropriateness of the Manager's and the Trustee's use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- 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

(a 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 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 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, 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 relevant disclosure provisions of Appendix E of 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
26 April 2019

XIE Shares Trust III

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$	2017 HK\$
Assets			
Interest receivable		-	59,247
Cash and cash equivalents	5, 12	3,018,408	75,568,515
Total assets		<u>3,018,408</u>	<u>75,627,762</u>
Liabilities			
Financial liabilities at fair value through profit or loss	10, 11	98,251	357,654
Management fee payable	5	16,980	55,482
Other payables		389,595	139,847
Total liabilities		<u>504,826</u>	<u>552,983</u>
Equity			
Net assets attributable to unitholders	9	<u>2,513,582</u>	<u>75,074,779</u>
Number of units in issue	9	<u>500,000</u>	<u>4,250,000</u>
Net asset value per unit		<u>5.0272</u>	<u>17.6647</u>

The financial statements on pages 9 to 37 were approved by the Manager on 26 April 2019.

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

For the year ended 31 December 2018

		For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
Income			
Interest income		1,073,093	500,187
Net (loss)/gain on the settlement of financial assets and liabilities at fair value through profit and loss	11	(23,297,823)	38,246,136
Net foreign exchange gain		331,063	319,207
		<hr/>	<hr/>
Total net (loss)/income		(21,893,667)	39,065,530
Operating expenses			
Management fees	5	515,675	442,341
Audit fees		100,774	100,226
Preliminary expenses		51,588	1,640,531
Legal and professional fees		2,850	-
Financial statements preparation fee	5	35,273	35,123
Registration fees		12,001	12,000
Bank charges		2,055	1,619
Other operating expenses		244,699	65,186
		<hr/>	<hr/>
Total operating expenses		964,915	2,297,026
		<hr/>	<hr/>
Operating (loss)/profit		(22,858,582)	36,768,504
		<hr/>	<hr/>
Total comprehensive income for the period		(22,858,582)	36,768,504
		<hr/>	<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

For the year ended 31 December 2018

	For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
Balance at the beginning of the year/period	<u>75,074,779</u>	<u>–</u>
Proceeds on issue of units	9,921,400	38,306,275
Payment on redemption of units	<u>(59,624,015)</u>	<u>–</u>
Net increase from unit transactions	<u>(49,702,615)</u>	<u>38,306,275</u>
Total comprehensive (loss)/income for the year/period	<u>(22,858,582)</u>	<u>36,768,504</u>
Balance at the end of the year/period	<u><u>2,513,582</u></u>	<u><u>75,074,779</u></u>

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

XIE Shares Trust III

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
Operating activities		
Net (loss)/gain on the settlement of financial assets and liabilities at fair value through profit and loss	(23,557,226)	38,603,790
Interest received	1,132,340	440,940
Management fee paid	(554,177)	(386,859)
Preliminary expenses paid	(51,588)	(1,640,531)
Others receipts and payments	(147,904)	(74,307)
Cash (used in)/generated from operating activities	<u>(23,178,555)</u>	<u>36,943,033</u>
Financing activities		
Proceeds from issue of units	9,921,400	38,306,275
Redemption paid on redemption of units	(59,624,015)	–
Cash (used in)/generated from financing activities	<u>(49,702,615)</u>	<u>38,306,275</u>
Net (decrease)/increase in cash and cash equivalents	(72,881,170)	75,249,308
Cash and cash equivalents at beginning of year/period	75,568,515	–
Net foreign exchange gain	331,063	319,207
Cash and cash equivalents at end of year/period	12 <u>3,018,408</u>	<u>75,568,515</u>
Analysis of balances of cash and cash equivalents		
Cash at bank	3,018,408	20,602,428
Short-term deposits	–	54,966,087
	12 <u>3,018,408</u>	<u>75,568,515</u>

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

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, 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 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.

Pursuant to the written resolution of the Board of Directors of the Manager dated 21 March 2019, the Manager has decided to exercise its power under clause 34.6(A) of the Trust Deed and proposed to seek the termination, delisting and deauthorisation of the Sub-Fund on or around 5 July 2019 (the "termination date"). The Manager has given written notice to the Trustee notifying the Trustee of its proposal to terminate the Sub-Fund pursuant to clause 34.6(A) of the Trust Deed and the Trustee does not object to this proposal.

The last trading day of the units of the Sub-Fund will be on 3 May 2019 or the last day on which investors may buy or sell units on the SEHK and the last day for creation and redemption of units in accordance with the usual trading arrangements currently in place. The units of the Sub-Fund will cease trading from the trading cessation date which means it shall not be possible for investors to buy or sell units on the SEHK and no creation and redemption of units will be possible from the trading cessation date onwards.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. THE TRUST (continued)

The Manager will aim to realise all of the assets of the Sub-Fund effective from the trading cessation date. Accordingly, from the trading cessation date onwards:

- (i) There will be no further trading units of Sub-Fund and no further creation and redemption of units of the Sub-Fund;
- (ii) The manager will start to realise all the assets of the Sub-Fund and the Sub-Fund will therefore cease to track the index and will not be able to meet its investment objective of tracking the performance of the index;
- (iii) The Sub-Fund will no longer be marketed to the public;
- (iv) The Sub-Fund will mainly hold cash; and
- (v) The Sub-Fund will only be operated in a limited manner

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 liabilities classified at fair value through profit or loss ("FVPL") that have been measured at fair value. These financial statements are presented in Hong Kong Dollar ("HKD"), which is the functional currency of the Sub-Fund, and all values are rounded to the nearest HKD except when otherwise indicated.

As mentioned in note 1 to the financial statements, the Board of Directors of the Manager has resolved to terminate and delist the Sub-Fund on or around 5 July 2019 by the resolution dated 21 March 2019. Accordingly, the going concern basis of accounting was no longer appropriate and the financial statements have been prepared on a liquidation basis. Under a liquidation basis, all assets of the Sub-Fund have been written down to their estimated net realisable values. All expenses associated with termination of the Sub-Fund amounting to HK\$175,566 have been accrued in the statement of financial position as at 31 December 2018.

Due to the change of basis of preparation in the current year, amounts presented in the financial statements and related notes for the year ended 31 December 2018 are not entirely comparable with amounts presented for the year ended 31 December 2017 which were extracted from the financial statements for the period ended 31 December 2017 that were prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The Sub-Fund applied, for the first time, certain standards and amendments, which are effective for annual periods on or after 1 January 2018.

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

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 Financial Instruments

The Sub-Fund adopted IFRS 9 Financial Instruments on its effective date of 1 January 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 January 2018, the date of initial application.

(a) Classification and measurement

The Sub-Fund has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- (i) All financial assets previously held at fair value continue to be measured at fair value.
- (ii) Debt instruments and equity instruments are acquired for the purpose of generating short-term profit. Therefore, they meet the held-for-trading criteria and are required to be measured at "FVPL".
- (iii) Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments continue to be measured at amortised cost under IFRS 9.
- (iv) The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated as at FVPL attributable to changes in credit risk. IFRS 9 requires that such element be recognised in other comprehensive income (OCI), unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss. The Sub-Fund has not designated any financial liabilities at FVPL. Therefore, this requirement has not had an impact on the Sub-Fund.

(b) Impairment

IFRS 9 requires the Sub-Fund to record expected credit losses (ECLs) on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the Sub-Fund to credit risk, this amendment has not had a material impact on the financial statements. The Sub-Fund only holds receivables with no financing component and that have maturities of less than 12 months at amortised cost. Therefore, it has adopted an approach similar to the simplified approach to ECLs.

(c) Hedge accounting

The Sub-Fund has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

Impact of adoption of IFRS 9

The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2019, however, the Sub-Fund has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Impact of adoption of IFRS 9 (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Sub-Fund's financial assets and financial liabilities as at 1 January 2018.

1 January 2018	IAS 39 classification	IAS 39 measurement HK\$	IFRS 9 classification	IFRS 9 measurement HK\$
<i>Financial liabilities</i>				
Financial liabilities at fair value through profit or loss	Held for trading at FVPL	357,654	FVPL	357,654

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than as adjusted for the adoption of the liquidation basis in the current year as further explained in note 2.1 to the financial statements, the principal accounting policies applied in the preparation of the financial statements are set out below.

Financial instruments

In the current year, the Sub-Fund has adopted IFRS 9 Financial Instruments. See Note 2.2 for an explanation of the impact. Comparative figures for the year ended 31 December 2017 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39.

(i) Classification

Policy effective from 1 January 2018 (IFRS 9)

In accordance with IFRS 9, the Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below. In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets

The Sub-Fund classifies its financial assets as subsequently measured at amortised cost or measured at FVPL on the basis of both:

- the entity's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Classification (continued)

Policy effective from 1 January 2018 (IFRS 9) (continued)

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding. The Sub-Fund includes in this category cash and cash held by brokers, interests and dividends receivables, prepayments and other receivables.

Financial assets measured at FVPL

A financial asset is measured at FVPL if:

- (1) its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; or
- (2) it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (3) at initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Fund includes in this category, equity instruments, debt instruments and derivative contracts that are classified as financial instruments held for trading.

Financial liabilities

Financial liabilities measured at FVPL

A financial liability is measured at FVPL if it meets the definition of held for trading. The Sub-Fund includes in this category, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Financial assets measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Sub-Fund includes in this category its short-term payables.

Policy effective before 1 January 2018 (IAS 39)

The Sub-Fund classifies its investments as financial assets and financial liabilities at initial recognition into the following categories in accordance with IAS 39.

Financial assets and liabilities held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes equity instruments, fixed income instruments, equity options, futures contracts, and contract for differences. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading.

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 due from prime broker and other short-term receivables.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Classification (continued)

Policy effective before 1 January 2018 (IAS 39) (continued)

Other financial liabilities

This category includes all financial liabilities, other than those classified as held for trading. The Sub-Fund includes in this category amounts relating to other short-term payables.

(ii) Recognition

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

All purchases and sales of financial instruments that require delivery within the timeframe established by regulation or market convention are recognised on the trade date, which is the date on which the Sub-Fund commits to purchase or sell the investment.

(iii) Initial measurement

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. All transaction costs for such investments are recognised in the statement of comprehensive income.

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

Realised gains and losses on disposals of financial instruments are calculated using the first-in, first-out basis and are recorded in the statement of comprehensive income as “net realised gains/ (losses) on investments at fair value through profit or loss”.

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at FVPL. Subsequent changes of those financial instruments are recorded in “net unrealised gains or losses on investments at fair value through profit or loss”. Interest and dividend earned or paid of these instruments are recorded separately in “Interest income” and “Dividend income”, respectively. Dividend expenses related to short positions are recognised in ‘Dividends on securities sold but not yet purchased’. The fair value of investments is based on their quoted market prices on a recognised exchange at the statement of financial position date without any deduction for estimated future selling costs.

Loans and receivables are carried at amortised cost using 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, other than those classified at FVPL, are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as the through the amortisation process.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Subsequent measurement

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss 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 asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Sub-Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected 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.

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a 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 the Sub-Fund has:

- (a) Transferred substantially all the risks and rewards of the asset; or
- (b) 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 right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all 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, cancelled or expired.

Impairment of financial assets

Policy effective from 1 January 2018 (IFRS 9)

The Sub-Fund holds only trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for ECL under IFRS 9 to all its trade receivables. Therefore, the Sub-Fund does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Sub-Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Sub-Fund uses the provision matrix as a practical expedient to measure ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy effective before 1 January 2018 (IAS 39)

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is 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 ECLs that have not yet been incurred) discounted using the asset's original EIR. 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 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 a previous write-off is later recovered, the recovery is credited to the credit loss expense.

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

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amounts reported in the statement of financial position if, and only if, there is 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. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

Fair value measurement

The Sub-Fund measures its financial instruments at fair value at each reporting date.

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. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

For assets and liabilities that are measure at fair value on a recurring basis, the Sub-Fund identifies transfers between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the beginning of each reporting period.

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the Sub-Fund operates. The majority of the Sub-Fund's returns are HK dollar-based, the capital is raised in HK dollar, the performance is evaluated and its liquidity is managed in HK dollar. Therefore, the Sub-Fund concludes that HK dollar is its functional currency.

The Sub-Fund's presentation currency is also in HK dollar.

Foreign currency translations

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 determined.

Foreign currency translations (continued)

Foreign currency transaction gains and losses on financial instruments classified as at FVPL are included in the statement of comprehensive income as part of the net gain or loss on financial assets and liabilities at fair value through profit or loss. Realised and unrealised exchange gains or losses on other foreign currency transactions are dealt with in the statement of comprehensive income as "net foreign exchange gain or losses".

Amounts due to and from brokers

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date. Refer to the accounting policy for financial liabilities, other than those classified as at FVPL, for recognition and measurement.

Amounts due from brokers include cash, cash collateral, margin accounts and receivables for securities sold (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date. Refer to the accounting policy for loans and receivables for recognition and measurement. Margin account represents cash deposits held with brokers as collateral against open derivatives and investment securities.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Classification of redeemable shares

Redeemable shares are classified as equity instruments when:

- (a) the redeemable shares entitle the holder to a pro rata share of the Sub-Fund's net assets in the event of the Sub-Fund's liquidation
- (b) the redeemable shares are in the class of instruments that is subordinate to all other classes of instruments
- (c) all redeemable shares in the class of instruments that is subordinate to all other classes of instruments have identical features
- (d) the redeemable shares do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Sub-Fund's net assets
- (e) the total expected cash flows attributable to the redeemable shares over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets of the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

In addition to the redeemable shares having all the above features, the Sub-Fund must have no other financial instrument or contract that has:

- total cash flows based substantially on the profit or loss, the change in the recognised net assets of the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund, and;
- the effect of substantially restricting or fixing the residual return to redeemable shareholders.

The Sub-Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features, or meet all the conditions set out, to be classified as equity, the Sub-Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable shares subsequently have all the features and meet the conditions to be classified as equity, the Sub-Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification. The issuance, acquisition and cancellation of redeemable shares are accounted for as equity transactions.

Upon the issuance of shares, the consideration received is included in equity. Transaction costs incurred by the Sub-Fund in issuing or acquiring its own equity instruments are accounted for as deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Distribution to shareholders

Dividends are at the discretion of the Sub-Fund. A dividend to the Sub-Fund's shareholders is accounted for as a deduction from retained earnings. An interim dividend is recognised as a liability in the period in which it is irrevocable declared by the Board of Directors. A final dividend is recognised as a liability in the period in which it is approved by the annual general meeting of shareholders.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash in bank and short-term deposits in banks 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

For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

Dividend income and expense

Dividend income is recognised on the date when the Sub-Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which is disclosed separately in the statement of comprehensive income. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

Net gain or loss on financial assets and liabilities at fair value through profit or loss

Net gains or losses on financial assets and liabilities at FVPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVPL and exclude interest and dividend income and expenses.

Unrealised gains and losses 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. Realised gains and losses on disposals of financial instruments classified as at FVPL are calculated using the first-in, first-out (FIFO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

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.

Other payables

Other payables include accrued expenses.

Taxation

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. Liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

As discussed in Note 1, the Sub-fund will be terminated and delisted on the SEHK on or around 5 July 2019. In the opinion of the Manager, the going concern basis is no longer applicable and the financial statements for the year ended 31 December 2018 have therefore been prepared on a liquidation basis.

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 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:

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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 year ended 31 December 2018 and for the period from 2 February 2017 (date of inception) to 31 December 2017:

	For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 to 31 December 2017 HK\$
Management fees	515,675	442,341
Management fee payable	2018 HK\$ 16,980	2017 HK\$ 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 2018 and for the period from 2 February 2017 (date of inception) to 31 December 2017 is as follows:

	2018 HK\$	2017 HK\$
Bank balance	<u>3,018,408</u>	<u>20,602,428</u>

Transaction fee

Pursuant to the prospectus, the Sub-Fund receives a transaction fee of HK\$7,500(year/period ended 31 December 2017: HK\$7,500) per total aggregate issue and redemption order from the Participating Dealer on behalf of the Trustee. As at 31 December 2018 and 2017, there were no outstanding transaction fees payable to the Trustee of the Sub-Fund.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Transaction with the Directors of the Manager

As at 31 December 2018 and 2017, the Directors of the Manager held units of the Sub-Fund as follow:

	Number of units	2018 % of NAV	Fair value HK\$
Directors' holding	-	-	-

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

Preliminary expenses

The preliminary expenses payable included the preliminary expenses of HK\$51,588 (period ended 31 December 2017: HK\$1,640,531) paid by the Manager on behalf of the Sub-Fund. As at 31 December 2018 and 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 year ended 31 December 2018 and for the period from 2 February 2017 (date of inception) to 31 December 2017.

	For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 to 31 December 2017 HK\$
Financial statements preparation fee	35,273	35,123

	2018 HK\$	2017 HK\$
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.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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 year ended 31 December 2018 and for the period from 2 February 2017 (date of inception) to 31 December 2017 were as follows:

	For the year ended 31 December 2018 HK\$	For the period from 2 February 2017 to 31 December 2017 HK\$
Units in issue at the beginning of the year/period	4,250,000	–
Issue of units	500,000	4,250,000
Redemption of units	<u>(4,250,000)</u>	<u>–</u>
Units in issue at the end of the year/period	<u>500,000</u>	<u>4,250,000</u>
	At last trade market price	
	2018	2017
	HK\$	HK\$
Dealing net asset value at the end of the year/period	3,653,260	76,523,728
Dealing net asset value per unit at the end of the year/period	7.3065	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.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. THE REDEEMABLE UNITS (continued)

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.

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 2018 and for the period from 2 February 2017 (date of inception) to 31 December 2017 was reconciled below:

	2018 HK\$	2017 HK\$
Dealing NAV	3,653,260	76,523,728
Adjustment for preliminary expenses	<u>(1,139,678)</u>	<u>(1,448,949)</u>
Accounting NAV as reported in the statement of financial position	<u>2,513,582</u>	<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

For the year ended 31 December 2018

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:	2 May 2018
Termination Date:	15 February 2019
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 2018 year end:	148 units
Initial Equity Notional Amount per Unit:	USD10,000

The following derivative contracts were unsettled as at 31 December 2018.

Type of contract	Expiration	Notional amount	Fair value
Total return swaps	15 February 2019	USD\$483,278	HK\$98,251

11. NET (LOSS)/GAIN 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 year ended 31 December 2018 HK\$	For the period from 2 February 2017 (date of inception) to 31 December 2017 HK\$
Net realised (losses)/gains on derivative contracts at fair value through profit or loss	(23,557,226)	38,603,790
Net change in unrealised gains/losses on derivative contracts at fair value through profit or loss	<u>259,403</u>	<u>(357,654)</u>
	<u>(23,297,823)</u>	<u>38,246,136</u>

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. CASH AND CASH EQUIVALENTS

	2018 HK\$	2017 HK\$
Cash at bank	3,018,408	20,602,428
Short-term deposits	—	54,966,087
	<u>3,018,408</u>	<u>75,568,515</u>

The cash at bank 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 2018 and 2017 for XIE Shares FTSE Chimerica FTSE N Share Daily (2x) Leveraged Product.

There were no constituent securities of 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 2018 and for the period ended 31 December 2017.

During the year ended 31 December 2018, the FTSE N Share (2x) Daily Leveraged Index decreased by 56.06% (period ended 31 December 2017: 135.69%), while the net asset value per unit of the Sub-Fund decreased by 69.55% (period ended 31 December 2017: increased by 125.08% since inception).

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 objective 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 2018, the Sub-Fund's fair value of investments exposed to price risk was as follows:

	Fair value HK\$	% of NAV
As at 31 December 2018		
Derivative - financial liabilities at fair value through profit or loss		
- Total return swaps	98,251	3.65%
As at 31 December 2017		
Derivative - financial liabilities at fair value through profit or loss		
- Total return swaps	357,654	0.48%

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

(a) Market risk (continued)

(i) Market price risk (continued)

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

As at 31 December 2018, if the FTSE N Share (2x) Daily Leveraged Index had increased by 3% (period ended 31 December 2017: 3%) with all other variables held constant, this would have increased the net asset value of the Sub-Fund by approximately HK\$80,674 (period ended 31 December 2017: HK\$2,252,243). Conversely, if the FTSE N Share (2x) Daily Leveraged Index had decreased by 3% (period ended 31 December 2017: 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.

(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 2018, 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 (continued)

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

For the year ended 31 December 2018

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 2018 together with their credit ratings of senior long-term debt by Standard & Poor's (S&P) rating services:

	For the year ended 31 December 2018		Period ended 31 December 2017	
	S&P credit rating	Net exposure to counterparties HK\$	S&P credit rating	Net exposure to counterparties HK\$
Bank / Custodian				
Citibank N.A.	A+	3,018,408	A+	20,602,428
- Cash and cash equivalents				
Bank of China				
- Cash and cash equivalents	A	<u>–</u>	A	<u>54,966,087</u>
		<u>3,018,408</u>		<u>75,568,515</u>
SWAP Counterparty				
Societe Generale	A		A	
- Financial liabilities at fair value through profit and loss		<u>(98,251)</u>		<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

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

For the year ended 31 December 2018

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

Risk management (continued)

(c) Liquidity risk

As at 31 December 2018, all of the Sub-Fund financial liabilities have contractual maturities not later than one month. As at 31 December 2018, 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 2018</u>	Maturity less than 1 month HK\$	Maturity 1 to 3 months HK\$	No stated maturity HK\$	Total HK\$
Cash and cash equivalents	3,018,408			3,018,408
Total financial assets	3,018,408			3,018,408
Financial liabilities at fair value through profit or loss	98,251			98,251
Management fee payable	16,980			16,980
Other payables	389,595			389,595
Total financial liabilities	504,826			504,826
<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
Total financial assets	75,627,762	-	-	75,627,762

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2017	Maturity less than 1 month HK\$	Maturity 1 to 3 months HK\$	No stated maturity HK\$	Total HK\$
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
Total financial liabilities	552,983	-	-	552,983

(d) Termination risks

If the Index Provider terminates the index license 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.

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.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Risk management (continued)

(e) Fair value estimation (continued)

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 2018.

<u>As at 31 December 2018</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	–	(98,251)	–	(98,251)
	–	(98,251)	–	(98,251)
<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)
	–	(357,654)	–	(357,654)

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 year ended 31 December 2018, there were no transfers between levels.

XIE Shares Trust III

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, the Sub-Fund was not subject to any master netting arrangement with their counterparties.

15. EVENTS AFTER THE REPORTING PERIOD

On 14 February 2019, the Sub-Fund signed the index swap agreement with SOCIETE GENERALE with effective date on 15 February 2019 and termination date of 15 August 2019.

As explained in Note 1 to the financial statements, the Board of the Directors of the Manager resolved to terminate and delist the Sub-Fund on or around 5 July 2019 by the resolution dated 21 March 2019. Redemption requests for all shares have been made and are expected to be paid during 2019.

16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 26 April 2019.

XIE Shares Trust III

**Investment portfolio (Unaudited)
As at 31 December 2018**

Investments

	Fair value HK\$	% of net assets
Total return swaps issued by		
Societe Generale	(98,251)	(3.91)
	<hr/>	<hr/>
Total investments	(98,251)	(3.91)
	<hr/>	<hr/>
Other net assets	2,611,833	103.91
	<hr/>	<hr/>
Net assets attributable to unitholders at 31 December 2018	2,513,582	100.00
	<hr/>	<hr/>
Total investments, at cost	-	
	<hr/> <hr/>	

XIE Shares Trust III**Investment portfolio (Unaudited) (continued)
As at 31 December 2017****Investments**

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

XIE Shares Trust III

Movements in investment portfolio (Unaudited) For the year ended 31 December 2018

	Fair value as at 1 April 2018 HK\$	Fair value change HK\$	Fair value as at 31 December 2018 HK\$
Total return swaps issued by			
Societe Generale	(357,654)	259,403	(98,251)

XIE Shares Trust III

Movements in investment portfolio (Unaudited) (continued)

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 year ended 31 December 2018

Net asset value attributable to unitholders

	Dealing net asset value per unit HK\$	Dealing net asset value of the Sub-Fund HK\$
At end of financial year/period dated		
31 December 2018	7.3065	3,653,260
31 December 2017	18.0056	76,523,728

Highest and lowest net asset value per unit

	Lowest HK\$	Highest HK\$
For the year ended 31 December 2018	<u>7.2975</u>	<u>22.9904</u>
For the period from 2 February 2017 (date of inception) to 31 December 2017	<u>8.0000</u>	<u>19.3533</u>

During the year ended 31 December 2018, the FTSE N Share (2x) Daily Leveraged Index decreased by 56.06% (period ended 31 December 2017: increase by 135.69%), while the net asset value per unit of the Sub-Fund decreased by 71.54% (period ended 31 December 2017: increase by 125.08%^(a)).

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 2018.

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