

E FUND LEVERAGED AND INVERSE SERIES

ANNUAL REPORT

E FUND YUANTA HANG SENG INDEX DAILY (-1X) INVERSE PRODUCT

E FUND YUANTA HANG SENG INDEX DAILY (2X) LEVERAGED PRODUCT

31 December 2018

(SUB-FUNDS OF E FUND LEVERAGED AND INVERSE SERIES)



E FUND LEVERAGED AND INVERSE SERIES

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E FUND LEVERAGED AND INVERSE SERIES

REPORT OF THE MANAGER TO THE UNITHOLDERS

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

Introduction

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product ("HSII") is a sub-fund of E Fund Leveraged and Inverse Series, an umbrella unit trust established under Hong Kong law. Units of HSII (the "Units") are traded on The Stock Exchange of Hong Kong Limited (the "SEHK") like stocks. The investment objective is to provide daily investment results, before fees and expenses, which closely correspond to the inverse (-1x) of the daily performance of the Hang Seng Index (the "Index"). The Manager of HSII is E Fund Management (Hong Kong) Co., Limited. HSBC Institutional Trust Services (Asia) Limited retired as trustee of the HSII and Cititrust Limited was appointed as trustee of the HSII with effect from 3 July 2018.

Fund Performance

HSII seeks to provide daily investment results, before fees and expenses, which closely correspond to the inverse (-1x) of the daily performance of the Index. HSII does not seek to achieve its stated investment objective over a period of time greater than one day. As of 31 December 2018, the net asset value ("NAV") per unit of HSII was HKD 5.22, and there were 12,800,000 units outstanding. The total size of HSII was approximately HKD 66.83 million.

A summary of the performance of HSII is given below.

	Since Launch ¹	1 Month	3 Months	6 Months	1 Year
HSII (HKD) *	-15.7%	2.1%	5.8%	7.3%	7.3%
Index (Price Return) ²	5.5%	-2.5%	-7.0%	-10.7%	-13.6%

Source: Bloomberg and Hang Seng Index

*NAV-to-NAV return, net return with dividend (if any) not reinvested.

¹Since launch of HSII, calculated from 20 March 2017.

²The benchmark of HSII is Hang Seng Index

Note:

Past performance information is not indicative of future performance. Investors may not get back the full amount invested. The computation basis of the performance is based on the calendar year/period end, NAV-to-NAV, with dividend not reinvested. These figures show by how much HSII increased or decreased in value during the calendar year/period being shown. Performance data has been calculated in HKD, including ongoing charges and excluding subscription fee and redemption fee you might have to pay. Where no past performance is shown there was insufficient data available in that period to provide performance.

Fund Activities

The average daily trading volume for HSII during the year was reported by Bloomberg to be approximately HKD2,248,013. As of 31 December 2018, HSII comprised of 12,800,000 outstanding units.

Index Activities

The Index measures the performance of the largest and most liquid companies listed in Hong Kong. It comprises a representative sample of stocks quoted on the SEHK. It is denominated in HKD. The Index was launched on 24 November 1969 and had a base level of 100 on 31 July 1964.

E FUND LEVERAGED AND INVERSE SERIES

REPORT OF THE MANAGER TO THE UNITHOLDERS

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

Introduction

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product ("HSIL") is a sub-fund of E Fund Leveraged and Inverse Series, an umbrella unit trust established under Hong Kong law. Units of HSIL (the "Units") are traded on The Stock Exchange of Hong Kong Limited (the "SEHK") like stocks. The investment objective of HSIL is to provide daily investment results, before fees and expenses, which closely correspond to twice (2x) the daily performance of the Hang Seng Index (the "Index"). The Manager of HSIL is E Fund Management (Hong Kong) Co., Limited. HSBC Institutional Trust Services (Asia) Limited retired as trustee of the HSIL and Cititrust Limited was appointed as trustee of the HSIL with effect from 3 July 2018.

Fund Performance

HSIL seeks to provide daily investment results, before fees and expenses, which closely correspond to the inverse (2x) of the daily performance of the Index. HSIL does not seek to achieve its stated investment objective over a period of time greater than one day. As of 31 December 2018, the net asset value ("NAV") per unit of HSIL was HKD5.33, and there were 9,200,000 units outstanding. The total size of HSIL was approximately 49.07 HKD million.

A summary of the performance of HSIL is given below.

	Since Launch ¹	1 Month	3 Months	6 Months	1 Year
HSIL (HKD)*	-17.1%	-6.0%	-16.1%	-21.7%	-27.0%
Index (Price Return) ²	-7.2%	-2.5%	-7.0%	-10.7%	-13.6%

Source: Bloomberg and Hang Seng Index

*NAV-to-NAV return, net return with dividend (if any) not reinvested.

¹Since launch of HSIL, calculated from 25 Aug 2017.

²The benchmark of HSIL is Hang Seng Index

Note:

Past performance information is not indicative of future performance. Investors may not get back the full amount invested. The computation basis of the performance is based on the calendar year/period end, NAV-to-NAV, with dividend not reinvested. These figures show by how much HSIL increased or decreased in value during the calendar year/period being shown.

Performance data has been calculated in HKD, including ongoing charges and excluding subscription fee and redemption fee you might have to pay. Where no past performance is shown there was insufficient data available in that period to provide performance.

Fund Activities

The average daily trading volume for HSIL during the year was reported by Bloomberg to be approximately HKD 1,502,276. As of 31 December 2018, HSIL comprised of 9,200,000 outstanding units.

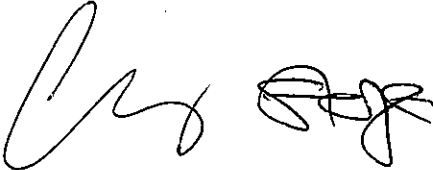
Index Activities

The Index measures the performance of the largest and most liquid companies listed in Hong Kong. It comprises a representative sample of stocks quoted on the SEHK. It is denominated in HKD. The Index was launched on 24 November 1969 and had a base level of 100 on 31 July 1964.

E FUND LEVERAGED AND INVERSE SERIES

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, E Fund Management (Hong Kong) Co., Limited, the Manager of E Fund Leveraged and Inverse Series (the "Trust") has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 7 March 2017, as amended by the first supplemental deed dated 7 March 2017 and the second supplemental deed dated 12 July 2017, the third supplemental deed dated 4 June 2018 and amended and restated trust deed dated 3 July 2018 (collectively, the "Trust Deed"), for the year ended 31 December 2018.



Cititrust Limited
30 April 2019

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

MANAGER'S RESPONSIBILITIES

The Manager of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product, the sub-funds of E Fund Leveraged and Inverse Series (collectively, the "Sub-Funds"), is required by the Code on Unit Trusts and Mutual Funds (the "SFC Code") established by the Securities & Futures Commission of Hong Kong and the Trust Deed to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Sub-Funds at the end of that year/period and of the transactions for the year/period then ended. In preparing these financial statements the Manager is required to:

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

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

E Fund Leveraged and Inverse Series is an umbrella unit trust governed by its Trust Deed. As at 31 December 2018, the Trust has established two Sub-Funds, namely, E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product.

TRUSTEE'S RESPONSIBILITIES

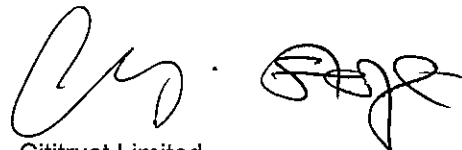
The Trustee of the Sub-Funds is required to:

- ensure that the Sub-Funds are managed by the Manager, in all material respects, in accordance with the Trust Deed and that exercise reasonable care to ensure that the investment and borrowing powers are complied with;
- safeguard the property of the Sub-Funds and rights attaching thereto; and
- report to the Unitholders for each annual accounting year on the conduct of the Manager in the management of the Sub-Funds.

For and on behalf of
E Fund Management (Hong Kong) Co., Limited
易方達資產管理(香港)有限公司

.....
Authorized Signature(s)

E Fund Management (Hong Kong) Co., Limited
30 April 2019



Cititrust Limited
30 April 2019



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INDEPENDENT AUDITOR'S REPORT

To the unitholders of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product (Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product (sub-funds of E Fund Leveraged and Inverse Series, referred to as the "Sub-Funds") set out on pages 11 to 52, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders, and 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 accompanying financial statements give a true and fair view of the financial position of the Sub-Funds as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

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-Funds 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.

INDEPENDENT AUDITOR'S REPORT (continued)

To the unitholders of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product (Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)

Key Audit Matters (continued)

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.

Key audit matter	How our audit addressed the key audit matter
<p><i>Existence and valuation of financial assets and financial liabilities at fair value through profit or loss</i></p>	
<p>As at 31 December 2018, the financial assets and financial liabilities at fair value through profit or loss of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product (the "Sub-funds") represented the majority of the net assets of these Sub-Funds. These financial assets and financial liabilities consist of investments in an investment fund, namely E Fund (HK) HK Dollar Money Market Fund, and investments in exchange traded futures traded on Hong Kong Futures Exchange Limited. They were measured at fair value as at 31 December 2018. We focused on this area because the financial assets and financial liabilities at fair value through profit or loss represented the principal element of the financial statements.</p> <p>Disclosures of the financial assets and financial liabilities at fair value through profit or loss are set out in the summary of significant accounting policies and note 9(g) to the financial statements.</p>	<p>We obtained independent confirmations from the custodian and counterparties of the investment portfolio held as at 31 December 2018, agreeing the quantities held to the accounting records. We tested the design and operating effectiveness of controls for the valuation of financial instruments. In addition, we checked the valuation of exchange traded futures classified as financial assets and financial liabilities at fair value through profit or loss that are quoted in active markets by independently agreeing the valuation of financial assets and financial liabilities to third party vendor sources such as Reuters or Bloomberg as at 31 December 2018.</p> <p>For the valuation of investment fund which is not quoted in an active market, we evaluated the valuation techniques applied and validated the observable inputs by examining the available external data.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

**To the unitholders of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product
(Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)**

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Existence of cash and cash equivalents</i></p> <p>As at 31 December 2018 the cash and cash equivalents amounted to HK\$54,628,065 for E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and HK\$25,710,461 for E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product which represented the majority of the net asset value of the Sub-Funds. We focused on this area because the cash and cash equivalents represented the principal element 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 9(c) to the financial statements.</p>	<p>We obtained independent confirmations from the banks which the Sub-Funds held accounts with as at 31 December 2018 and agreed the balances to the accounting records and bank statements.</p>
<p><i>Net realised gain/(loss) on sale of financial assets and financial liabilities at fair value through profit or loss</i></p> <p>For the year ended 31 December 2018, the net realised gain/(loss) on sale of financial assets and financial liabilities classified as 'at fair value through profit or loss' of the Sub-Funds amounted to HK\$4,527,371 E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and HK\$(20,516,529) for E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product which represented a significant amount of the statement of total comprehensive income for the period.</p> <p>Disclosures of the net realised gain/(loss) on sale of financial assets and financial liabilities at fair value through profit or loss are set out in the summary of significant accounting policies and note 5 to the financial statements.</p>	<p>We tested the net realised gain/(loss) on sale of financial assets and financial liabilities at fair value through profit or loss by obtaining the trade confirmations and bank statements of selected trades and agreeing the details of the disposal of financial assets and financial liabilities at fair value through profit or loss to the accounting records.</p>



INDEPENDENT AUDITOR'S REPORT (continued)

**To the unitholders of E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product
(Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)**

Other information included in the Annual Report

The Manager of the Sub-Funds is 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 Manager of the Sub-Funds for the Financial Statements

The Manager of the Sub-Funds is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by IASB, and for such internal control as the Manager determines 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 of the Sub-Funds is responsible for assessing the Sub-Funds' 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 of the Sub-Funds either intends to liquidate the Sub-Funds or to cease operations or has no realistic alternative but to do so.

In addition, the Manager of the Sub-Funds is required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 7 March 2017, as amended by the first supplemental deed dated 7 March 2017 and the second supplemental deed dated 12 July 2017, the third supplemental deed dated 4 June 2018 and amended and restated trust deed dated 3 July 2018 (collectively, 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 E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product
(Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)**

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-Funds 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-Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager'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-Funds' 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-Funds 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 E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product
(Sub-funds of E Fund Leveraged and Inverse Series, an umbrella unit trust established under the laws of Hong Kong)**

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

We communicate with the Manager and the Trustee of the Sub-Funds 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-Funds 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-Funds, 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 Ms. Hui Wing Yee.



Certified Public Accountants
Hong Kong
30 April 2019

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	
		2018	2017	2018	2017
		HK\$	HK\$	HK\$	HK\$
ASSETS					
Financial assets at fair value through profit or loss	7(c),9(g),10	13,014,443	46,915,562	13,578,032	37,598,091
Interest receivable on bank deposits		-	49,532	-	8,554
Amounts due from brokers	10	11,704,530	14,639,764	10,805,726	32,821,994
Subscription receivable		3,799,464	-	-	-
Other receivables		252,681	-	202,939	-
Cash and cash equivalents		54,628,065	95,837,211	25,710,461	55,908,655
Total assets		83,399,183	157,442,069	50,297,158	126,337,294
LIABILITIES					
Financial liabilities at fair value through profit or loss	9(g),10	1,109,200	1,517,026	850	-
Management fee payable	7(a)	46,257	231,501	34,024	158,646
Trustee fee payable	7(b)	4,995	16,817	3,732	12,298
Redemption payable		14,618,520	-	-	-
Establishment costs accrual	7(d)	583,387	876,637	707,387	934,558
Other payables		739,589	103,710	1,082,110	675,462
Total liabilities		17,101,948	2,745,691	1,828,103	1,780,964
Equity					
Net assets attributable to unitholders	4	66,297,235	154,696,378	48,469,055	124,556,330

The financial statements on pages 11 to 52 were approved by the Manager on 30 April 2019 and were signed on their behalf.

For and on behalf of

For and on behalf of
E FUND MANAGEMENT (HONG KONG) CO., LIMITED
易方達資產管理(香港)有限公司

.....
Authorized Signature(s)
.....

E Fund Management (Hong Kong) Co., Limited
as the Manager

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

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	
		Year ended 31 December 2018 HK\$	For the period from 20 March 2017 (date of inception) to 31 December 2017 HK\$	Year ended 31 December 2018 HK\$	For the period from 25 August 2017 (date of inception) to 31 December 2017 HK\$
INCOME					
Interest income on bank deposits		591,605	413,813	434,275	113,549
Interest income on debt securities		-	139,179	-	-
Net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss	5	5,031,313	(39,074,636)	(21,305,493)	17,084,136
Net foreign exchange (losses)/gains		(53,535)	174,015	(36,144)	17,342
Other income		1,782	888	-	-
Reversal of over-provision of establishment costs		281,000	-	214,921	-
Total net income/(loss)		5,852,165	(38,346,741)	(20,692,441)	17,215,027
EXPENSES					
Management fee	7(a)	(972,925)	(1,037,037)	(738,939)	(306,803)
Trustee fee	7(b)	(352,790)	(155,555)	(103,667)	(46,021)
Custody fee		(6,591)	-	(5,153)	-
Transaction costs on investments		(82,298)	(84,059)	(116,491)	(51,126)
Audit fee		(130,500)	(141,534)	(131,536)	(180,000)
Bank charge		(4,308)	(1,523)	(16,406)	-
Interest expense on debt securities		-	(33,611)	-	-
Establishment costs		-	(1,262,500)	-	(1,192,500)
Other operating expenses		(979,456)	(685,002)	(973,642)	(656,247)
Total operating expenses		(2,528,868)	(3,400,821)	(2,085,834)	(2,432,697)
Total comprehensive income/(loss) for the year/period		3,323,297	(41,747,562)	(22,778,275)	14,782,330

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

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2018

	Note	E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	
		Year ended 31 December 2018 HK\$	For the period from 20 March 2017 (date of inception) to 31 December 2017 HK\$	Year ended 31 December 2018 HK\$	For the period from 25 August 2017 (date of inception) to 31 December 2017 HK\$
Net assets attributable to unitholders at the beginning of the year/period		154,696,378	-	124,556,330	-
Subscription of units		118,531,800	228,665,940	13,730,000	112,557,560
Redemption of units		(210,254,240)	(32,222,000)	(67,039,000)	(2,783,560)
Net (decrease)/increase from unit transactions		(91,722,440)	196,443,940	(53,309,000)	109,774,000
Total comprehensive income/(loss) for the year/period		3,323,297	(41,747,562)	(22,778,275)	14,782,330
Net assets attributable to unitholders at the end of the year/period	4	66,297,235	154,696,378	48,469,055	124,556,330

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

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	
	Year ended 31 December 2018 HK\$	For the period from 20 March 2017 (date of inception) to 31 December 2017 HK\$	Year ended 31 December 2018 HK\$	For the period from 25 August 2017 (date of inception) to 31 December 2017 HK\$
OPERATING ACTIVITIES				
Purchase of financial assets and financial liabilities at fair value through profit or loss	(23,360,232)	(226,927,200)	(16,866,103)	(35,187,075)
Proceeds from sale of financial assets and financial liabilities at fair value through profit or loss	61,884,838	142,454,028	19,581,519	14,673,120
Interest received on bank deposits	641,137	364,281	442,829	104,995
Interest income on debt securities	-	139,179	-	-
Interest expense on debt securities	-	(33,611)	-	-
Other income received	1,782	888	-	-
Management fee paid	(1,158,169)	(805,536)	(863,561)	(148,157)
Transaction costs paid	(82,298)	(84,059)	(116,491)	(51,126)
Trustee fee paid	(364,612)	(138,738)	(112,233)	(33,723)
Audit fee, bank charges and other operating expenses paid	(791,192)	(550,334)	(959,172)	(143,443)
Margin deposit receipt/(paid)	2,935,234	(14,639,764)	22,016,268	(32,821,994)
Establishment costs paid	(12,250)	(385,863)	(12,250)	(257,942)
Net cash from/(used in) operating activities	39,694,238	(100,606,729)	23,110,806	(53,865,345)
FINANCING ACTIVITIES				
Proceeds from subscription of units	114,732,336	228,665,940	13,730,000	112,557,560
Payments on redemption of units	(195,635,720)	(32,222,000)	(67,039,000)	(2,783,560)
Net cash (used in)/from financing activities	(80,903,384)	196,443,940	(53,309,000)	109,774,000
(Decrease)/increase in cash and cash equivalents	(41,209,146)	95,837,211	(30,198,194)	55,908,655
Cash and cash equivalents at the beginning of the year/period	95,837,211	-	55,908,655	-
Cash and cash equivalents at the end of the year/period	54,628,065	95,837,211	25,710,461	55,908,655
Analysis of balances of cash and cash equivalents				
Bank balances	54,628,065	95,837,211	25,710,461	55,908,655

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

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

1. GENERAL INFORMATION

E Fund Leveraged and Inverse Series (the "Trust") is an umbrella unit trust constituted by its trust deed dated 7 March 2017, as amended by the first supplemental deed dated 7 March 2017 and the second supplemental deed dated 12 July 2017, the third supplemental deed dated 4 June 2018 and amended and restated trust deed dated 3 July 2018 (collectively, the "Trust Deed") and authorised by the Securities and Futures Commission of Hong Kong (the "SFC") pursuant to section 104(1) of the Hong Kong Securities and Futures Ordinance (the "SFO"). The terms of the Trust Deed are governed by the laws of Hong Kong. As at 31 December 2018 and 2017, the Trust has established two Sub-Funds, namely, E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product ("HSII") and E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product ("HSIL") (collectively the "Sub-Funds") which are authorised by the SFC. The date of inception of HSII was 20 March 2017 and that of HSIL was 25 August 2017. HSII and HSIL were listed on The Stock Exchange of Hong Kong Limited (a subsidiary of The Hong Kong Exchange and Clearing Limited) on 20 March 2017 and 25 August 2017 respectively.

The manager of the Sub-Funds is E Fund Management (Hong Kong) Co., Limited (the "Manager"). Pursuant with the third supplemental deed dated 4 June 2018, HSBC Institutional Trust Services (Asia) Limited retired as trustee of the Sub-Funds and Cititrust Limited (the "Trustee") was appointed as trustee of the Sub-Funds with effect from 3 July 2018. Pursuant to Clause 17.2 of the Trust Deed, the Manager and the Trustee appointed Computershare Hong Kong Investor Services Limited as the Registrar in place of HSBC Institutional Trust Services (Asia) Limited with effect from 3 July 2018. On the same day, Citibank, N.A., Hong Kong Branch was appointed as the administrator of the Sub-Funds.

The investment objective of the HSII is to provide investment results that, before deduction of fees and expenses, closely correspond to the inverse (-1x) of the daily performance of the Hang Seng Index. HSII does not seek to achieve its stated investment objective over a period of time greater than one day.

In order to achieve the investment objective of HSII, the Manager will adopt a futures based replication strategy through investing directly in spot month Hang Seng Futures ("HSI Futures") contracts and spot month Mini-Hang Seng Index Futures ("Mini-HSI Futures") contracts that replicate the inverse daily performance of the underlying index.

The investment objective of the HSIL is to provide investment results that, before deduction of fees and expenses, closely correspond to twice (2x) of the daily performance of the Hang Seng Index. HSIL does not seek to achieve its stated investment objective over a period of time greater than one day.

In order to achieve the investment objective of the HSIL, the Manager will adopt a futures based replication strategy through investing directly in spot month HSI Futures contracts and spot month Mini-HSI Futures contracts that replicate the leveraged daily performance of the underlying index.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Sub-Funds have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS 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 Fund of the SFC (the "SFC Code").

The financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities classified as at fair value through profit or loss ("FVPL") that have been measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the Manager (known as the "Management") to exercise their judgement in the process of applying the Sub-Funds' accounting policies.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 to these financial statements.

All references to Net Asset Value ("NAV") throughout these financial statements refer to net assets attributable to unitholders unless otherwise stated.

The financial statements of HSII and HSIL for 2017 were issued for the period from 20 March 2017 (date of inception) to 31 December 2017 and from 25 August 2017 (date of inception) to 31 December 2017, respectively, since it was the first period of the Sub-Funds' operations. As such, the financial statements for 2017 were presented for a period shorter than one year and are not entirely comparable to the 2018 information.

(b) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous year, except for the following amendments to the IFRSs effective as of 1 January 2018:

IFRS 9 Financial Instruments: Classification and Measurement
IFRS15 Revenue from Contracts with Customers

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

The nature and the impact of the amendments are described below:

IFRS 9 *Financial Instruments*

The Sub-Funds adopted IFRS 9 on its effective date of 1 January 2018. IFRS 9 replaces International Accounting Standard ("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-Funds have assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- All financial assets previously held at fair value continue to be measured at fair value.
- 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 ("SPPI"). Thus, such instruments continue to be measured at amortised cost under IFRS 9.
- 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.

(b) *Impairment*

For financial assets carried at amortised cost, including other receivable and amounts due from participating dealers, the expected credit loss ("ECL") is based on the 12-month ECL. This represents the portion of lifetime ECL that results from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Manager has closely monitored the credit qualities and the collectability of other financial assets at amortised cost and considers that the ECL is immaterial.

(c) *Hedge accounting*

The Sub-Funds have 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 2018. However, the Sub-Funds have chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

IFRS 9 *Financial Instruments* (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-Funds' financial assets and financial liabilities as at 1 January 2018:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

1 January 2018	IAS 39 classification	IAS 39 measurement HK\$	IFRS 9 classification	IFRS 9 measurement HK\$
Financial assets				
Financial assets at fair value through profit or loss	Held for trading at FVPL	46,915,562	FVPL	46,915,562
Interest receivable on bank deposits	Loans and receivables	49,532	Amortised cost	49,532
Amounts due from brokers	Loans and receivables	14,639,764	Amortised cost	14,639,764
Cash and cash equivalents	Loans and receivables	95,837,211	Amortised cost	95,837,211
Financial liabilities				
Financial liabilities at fair value through profit or loss	Held for trading at FVPL	1,517,026	FVPL	1,517,026
Management fee payable	Other financial liabilities	231,501	Amortised cost	231,501
Trustee fee payable	Other financial liabilities	16,817	Amortised cost	16,817
Other payables	Other financial liabilities	103,710	Amortised cost	103,710

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

IFRS 9 *Financial Instruments* (continued)

Impact of adoption of IFRS 9 (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

1 January 2018	IAS 39 classification	IAS 39 measurement HK\$	IFRS 9 classification	IFRS 9 measurement HK\$
Financial assets				
Financial assets at fair value through profit or loss	Held for trading at FVPL	37,598,091	FVPL	37,598,091
Interest receivable on bank deposits	Loans and receivables	8,554	Amortised cost	8,554
Amounts due from brokers	Loans and receivables	32,821,994	Amortised cost	32,821,994
Cash and cash equivalents	Loans and receivables	55,908,655	Amortised cost	55,908,655
Financial liabilities				
Management fee payable	Other financial liabilities	158,646	Amortised cost	158,646
Trustee fee payable	Other financial liabilities	12,298	Amortised cost	12,298
Other payables	Other financial liabilities	675,462	Amortised cost	675,462

In line with the characteristics of the Sub-Funds' financial instruments as well as its approach to their management, the Sub-Funds neither revoked nor made any new designations on the date of initial application. IFRS 9 has not resulted in changes in the carrying amount of the Sub-Funds' financial instruments due to changes in measurement categories. All financial assets that were classified as FVPL under IAS 39 are still classified as FVPL under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortised cost continue to be measured at amortised cost.

In addition, the application of the ECL mode under IFRS 9 has not significantly changed the carrying amounts of the Sub-Funds' amortised cost financial assets. No ECL allowance has been recorded against the Sub-Funds' interest receivable on bank deposits, amounts due from brokers and cash and cash equivalents under both IFRS 9 and IAS 39.

The carrying amounts of amortised cost instruments continued to approximate these instruments' fair values on the date of transition after transitioning to IFRS 9.

IFRS 15 *Revenue from Contracts with Customers*

The Sub-Funds adopted IFRS 15 on its effective date of 1 January 2018. IFRS 15 replaces IAS 18 *Revenue* and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Sub-Funds.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Issued but not yet effective IFRSs

The Sub-Funds have not applied the following new and revised HKFRSs that has been issued but is not yet effective in these financial statements.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*¹

¹ Effective for annual periods beginning on or after 1 January 2020

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Effective for annual periods beginning on or after 1 January 2019. The Sub-Funds expect to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Sub-Funds' financial statements.

Except for the new amendment to HKFRSs mentioned below, the Manager anticipates that the application of all other new and amendments to HKFRSs will have no material impact on the Sub-Funds' financial statements.

(d) Financial instruments

(i) Classification – policy effective from 1 January 2018 under IFRS 9

In accordance with IFRS 9, the Sub-Funds classify 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:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- (b) 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
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(i) Classification – policy effective from 1 January 2018 under IFRS 9 (continued)

Financial assets

The Sub-Funds classify its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

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

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 the principal amount outstanding. The Sub-Funds include in this category interest receivable on bank deposits, amount due from brokers, subscription receivable and cash and cash equivalent.

Financial assets measured at FVPL

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal amount outstanding; or
- (b) 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
- (c) 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.

(ii) Classification – policy effective from 1 January 2018 under IFRS 9

Financial assets

Financial assets measured at FVPL

The Sub-Funds include in this category equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

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-Funds includes derivative contracts in a liability position in this category since it is classified as held for trading.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at FVPL. The Sub-Funds include in this category management fee payable, trustee fee payable, redemption payable and other payables.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(iii) Classification – policy effective before 1 January 2018 under IAS 39

The Sub-Funds classify their financial assets and liabilities at initial recognition into the following categories, in accordance with IAS 39.

Financial assets and financial liabilities at FVPL

The Sub-Funds classify their investments as financial assets and financial liabilities at FVPL. These financial assets and financial liabilities are designated by the Management at FVPL at inception. Financial assets and financial liabilities designated at FVPL at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Sub-Funds' documented investment strategies. The Sub-Funds' policies require the Management to evaluate the information about these financial assets and financial liabilities on a fair value basis together with other related financial information.

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-Funds include in this category interest receivable on bank deposits, amounts due from brokers and cash and cash equivalents.

Other financial liabilities

This category includes all financial liabilities, other than those classified as held-for-trading. The Sub-Funds include in this category management fees payable, trustee fee payable, redemption payable and other payables.

(iv) Recognition

The Sub-Funds recognise 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 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-Funds commit to purchase or sell the asset.

(v) Initial measurement

Financial assets and financial liabilities at FVPL are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(vi) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at FVPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVPL in the statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense in the statement of comprehensive income.

Interest receivable on bank deposits, amounts due from brokers, subscription receivable and other receivables are measured at amortised cost using the effective interest method ("EIR") less any allowance for impairment. Gains and losses are recognised in profit or loss when the financial assets are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at FVPL, are measured at amortised cost using the EIR. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The 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 ECLs. 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.

(vii) 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-Funds have transferred their 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-Funds have transferred substantially all the risks and rewards of the asset, or
- the Sub-Funds have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

(vi) Derecognition (continued)

When the Sub-Funds have transferred their rights to receive cash flows from an asset (or have entered into a pass-through arrangement), and have 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-Funds' continuing involvement in the asset.

In that case, the Sub-Funds also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Funds have retained. The Sub-Funds derecognise a financial liability when the obligation under the liability is discharged, cancelled or expired.

(e) Fair value estimation

The Sub-Funds measure their financial assets and financial liabilities at FVPL 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 the market participants at the measurement date. The fair values of financial assets and 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 reporting date. The Sub-Funds utilise the last traded market price for both listed financial assets and liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the management will determine the point within the bid-ask spread that is most representative of fair value.

The fair values of financial assets and financial liabilities that are not traded in an active market (for example, over-the-counter derivatives) are determined by using broker quotes or valuation techniques. Details of the fair value estimation of these securities are discussed in note 9(g) of these financial statements.

Investments in investment fund are valued at their last traded prices as provided by the administrators of such schemes. Where last traded prices are not available, investments in the investment fund are valued at its net asset value per unit as provided by the administrator of the investment fund.

All derivative financial instruments are recorded on a mark-to-market basis. Fair values are determined by using quoted market prices for futures contracts or calculated by reference to changes in specified prices of an underlying asset or otherwise determined notional amount for swap contracts. All derivatives are carried as assets when amounts are receivable by the Sub-Funds and as liabilities when amounts are payable by the Sub-Funds.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Funds determine whether transfers have occurred between levels in the hierarchy by 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.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment

(a) Policy effective from 1 January 2018 under IFRS 9

The Sub-Funds apply the expected credit loss model on all the financial assets that are subject to impairment.

For interest receivable on bank deposits, amounts due from brokers, subscription receivable, other receivables and cash and cash equivalents, impairment allowances are recognised under the general approach where ECLs are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Sub-Funds are required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

The Sub-Funds' 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-Funds use the provision matrix as a practical expedient to measuring ECLs on other receivable and amounts due from participating dealers, 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.

(b) Policy effective before 1 January 2018 under IAS 39

Financial assets and financial liabilities that are stated at cost or amortised cost are reviewed at the end of the reporting period to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

(g) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(h) Interest income

Interest income is recognised using the effective interest method. Interest income on bank deposits is disclosed separately on the face of the statement of comprehensive income.

(i) Expenses

Expenses are accounted for on an accrual basis.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Distribution to unitholders

The Manager does not intend to pay or make any distributions or dividends to the Sub-Funds' unitholders.

However, the Manager may pay special dividends upon making an announcement in respect of the relevant distribution amount (in HK\$ only).

Distributions will not be paid out of capital or effectively out of capital of the Sub-Funds.

(k) Amounts due from/to participating dealers

Amounts due from/to participating dealers represent the subscription receivable and redemption payable to the participating dealer at the end of the reporting period. The amounts are non-interest-bearing and repayable on demand.

(l) Amounts due from/to brokers

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the reporting date respectively.

Amounts due from brokers include margin accounts that represent cash deposits held with brokers as collateral against open futures contracts.

(m) Other receivables and payables

Other receivables and payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

(n) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks 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 maturity of three months or less.

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 appropriate.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Foreign currencies 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-Funds operate (the "functional currency"). The performance of the Sub-Funds are measured and reported to the unitholders in Hong Kong Dollar ("HK\$"). The Management considers HK\$ as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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 period end date.

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

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 gains/(losses) on financial assets and financial liabilities at fair value through profit or loss".

(p) Redeemable units

The Sub-Funds issue redeemable units which are redeemable at the holder's option represents puttable financial instruments of the Sub-Funds. The Sub-Funds classify 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 financial instruments entitle the holder to a pro-rata share of net asset value;
- the puttable financial instruments are the most subordinated units 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 financial instrument over its life are based substantially on the profit or loss of the respective Sub-Funds.

In addition to the redeemable units having all of the above features, the Sub-Funds 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 or the change in the fair value of the recognised and unrecognised net assets of the Sub-Funds
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Redeemable units (continued)

The Sub-Funds continuously assess the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Sub-Funds 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 units subsequently have all the features and meet the conditions to be classified as equity, the Sub-Funds will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

Units are issued and redeemed at the holder's option at prices based on the Sub-Funds' net asset value per unit at the time of issue or redemption. The Sub-Funds' net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units.

In accordance with the Prospectus of the Sub-Funds dated 01 December 2017, 14 June 2018 and 03 July 2018 (the "Prospectus"), investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for creations and redemptions of the Sub-Funds.

(q) Taxation

In some jurisdictions, dividend income, interest income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Funds present the withholding tax separately from the 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 taxes, when applicable.

(r) Establishment costs

The cost of establishing the Trust and the Sub-Funds including the preparation of the prospectus, inception fees, the costs of seeking and obtaining the listing and authorisation by the SFC and all initial legal and printing costs including, if considered appropriate by the Manager, any additional costs of determining the stock code, will be borne by the Sub-Funds and amortised over the first five financial years of the respective Sub-Funds or such other period as determined by the Manager. However, with respect to the preparation of the Sub-Funds' financial statements in compliance with IFRS, establishment costs are recognised as an expense in the period in which they are incurred.

(s) Transactions costs

Transactions costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transactions costs, when incurred, are immediately recognised in profit or loss as an expense.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties

A party is considered to be related to the Sub-Funds 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-Funds;
 - (ii) has significant influence over the Sub-Funds; or
 - (iii) is a member of the key management personnel of the Sub-Funds;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Sub-Funds 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-Funds or an entity related to the Sub-Funds;
 - (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-Funds or to the parent of the Sub-Funds.

(u) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Sub-Funds consider of their investments in E Fund US Dollar Money Market Fund and E Fund (HK) HK Dollar Money Market Fund (2017: E Fund US Dollar Money Market Fund) (the "Investee Funds") to be investments in unconsolidated structured entities. The Sub-Funds invest in the Investee Funds whose objective is to invest in short-term deposits and debt securities. The Investee Funds seek to achieve a return in Hong Kong dollars in line with prevailing money market rates, with primary considerations of both capital security and liquidity. The Investee Funds are managed by the same asset manager and applies various investment strategies to accomplish its investment objective. The Investee Funds finance its operations by issuing redeemable units which are puttable at the holder's option and entitles the holder to a proportional stake in the respective fund's net assets. The Sub-Funds' interests in the Investee Funds are the fair value of the investment in such Investee Funds as at the end of reporting date and the related net gains/(losses) recognised in profit or loss during the year/period.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Assessment of investment funds as structured entities

The Sub-Funds have assessed whether the Investee Funds in which they invest should be classified as a structured entity. The Sub-Funds have considered the voting rights and other similar rights afforded to investors in this Investee Funds, including the rights to remove the fund manager or redeem holdings. The Sub-Funds have concluded as to whether these rights are the dominant factor in controlling the Investee Funds, or whether the contractual agreement with the investee fund manager is the dominant factor in controlling this Investee Funds. The Sub-Funds have concluded that E Fund (HK) HK Dollar Money Market Fund and E Fund US Dollar Money Market Fund are structured entities as disclosed in note 2(u) of these financial statements.

Taxation

In preparing these financial statements, the Manager has made certain assumptions and used various estimates concerning the tax exposure which is dependent on what might happen in the future. The resulting accounting estimates may not equal the related actual results.

4. NUMBER OF UNITS IN ISSUE AND NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT

The Sub-Funds' capital are represented by the units in the Sub-Funds, and shown as "net assets attributable to unitholders" in the statement of financial position in accordance with IFRSs (the "Accounting NAV"). Subscriptions and redemptions of units during the year/period are shown in the statement of changes in net assets attributable to unitholders. In order to achieve the investment objectives, the Sub-Funds endeavour to invest their capital in accordance with the investment policies, whilst maintaining sufficient liquidity to meet redemption requests. Such liquidity is augmented by the holding of liquid investments.

In accordance with the provisions of the Sub-Funds' Trust Deed and the Prospectus, investments are stated at the official closing price or the last traded price on the market on the valuation day for the purpose of determining net asset value per unit for subscriptions and redemptions and for various fee calculations (the "Dealing NAV").

As stated in note 2(p) of these financial statements, redeemable units of the Sub-Funds are classified as equity and they are carried at the redemption amount that would be payable at the reporting date if the unitholder exercised the right to redeem the units in the Sub-Funds.

The Sub-Funds' objectives and policies for managing their obligations to redeem units are included in note 9(h) of these financial statements on capital risk management.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

4. NUMBER OF UNITS IN ISSUE AND NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT (continued)

The movements of the redeemable units for the year/period ended 31 December 2018 and 2017 for the Sub-Funds are as follows:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	Year ended 31 December 2018	Period from 20 March 2017 (date of inception) to 31 December 2017
Number of units in issue at the beginning of the year/period	32,000,000	-
Units issued	24,000,000	37,200,000
Units redeemed	(43,200,000)	(5,200,000)
	<u>12,800,000</u>	<u>32,000,000</u>
Number of units in issue at the end of the year/period	<u>12,800,000</u>	<u>32,000,000</u>
	2018 HK\$	2017 HK\$
Accounting NAV per unit at the end of the year/period	<u>5.1795</u>	<u>4.8343</u>
Dealing NAV per unit at the end of the year/period	<u>5.2209</u>	<u>4.8675</u>

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	Year ended 31 December 2018	Period from 25 August 2017 (date of inception) to 31 December 2017
Number of units in issue at the beginning of the year/period	17,200,000	-
Units issued	2,000,000	17,600,000
Units redeemed	(10,000,000)	(400,000)
	<u>9,200,000</u>	<u>17,200,000</u>
Number of units in issue at the end of the year/period	<u>9,200,000</u>	<u>17,200,000</u>
	2018 HK\$	2017 HK\$
Accounting NAV per unit at the end of the year/period	<u>5.2684</u>	<u>7.2416</u>
Dealing NAV per unit at the end of the year/period	<u>5.3335</u>	<u>7.3054</u>

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

4. NUMBER OF UNITS IN ISSUE AND NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT (continued)

Reconciliation between net assets attributable to unitholders per the financial statements

In accordance with the Sub-Funds' Prospectus, the establishment costs of the Sub-Funds will be amortised over the first five years. However, the accounting policy of the Sub-Funds for the purpose of the preparation of the financial statements in compliance with IFRSs is to expense establishment costs in the statement of comprehensive income as incurred. The differences between expensing the establishment costs as incurred in accordance with IFRSs and capitalisation and amortisation of the establishment costs indicated in the Sub-Funds' Prospectus resulted in adjustments in the net asset value.

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	2018 HK\$	2017 HK\$
Accounting NAV as reported in the statement of financial position	66,297,235	154,696,378
Adjustment for unamortised establishment costs	811,285	1,063,959
Adjustment for reversal of over-provision of establishment costs	(281,000)	-
NAV in accordance with Sub-Fund's Prospectus	<u>66,827,520</u>	<u>155,760,337</u>

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	2018 HK\$	2017 HK\$
Accounting NAV as reported in the statement of financial position	48,469,055	124,556,330
Adjustment for unamortised establishment costs	814,006	1,095,811
Adjustment for reversal of over-provision of establishment costs	(214,921)	-
NAV in accordance with Sub-Fund's Prospectus	<u>49,068,140</u>	<u>125,652,141</u>

5. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	Year ended 31 December 2018 HK\$	Period from 20 March 2017 (date of inception) to 31 December 2017 HK\$
Net realised losses on sale of financial assets and financial liabilities at fair value through profit or loss	4,527,371	(37,557,072)
Net change in unrealised gains/(losses) on financial assets and financial liabilities at fair value through profit or loss	503,942	(1,517,564)
	<u>5,031,313</u>	<u>(39,074,636)</u>

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

5. NET GAINS/(LOSSES) ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	Year ended 31 December 2018 HK\$	Period from 25 August 2017 (date of inception) to 31 December 2017 HK\$
Net realised (losses)/gains on sale of financial assets and financial liabilities at fair value through profit or loss	(20,516,529)	14,673,120
Net change in unrealised (losses)/gains on financial assets and financial liabilities at fair value through profit or loss	(788,964)	2,411,016
	<u>(21,305,493)</u>	<u>17,084,136</u>

6. TAXATION

No provision for Hong Kong profits tax has been made for the Sub-Funds as the Trust was authorised as collective investment schemes under Section 104 of the SFO and the Sub-Funds are therefore exempt from Hong Kong profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

7. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND MANAGER'S CONNECTED PERSONS

The following is a summary of significant related party transactions entered into during the year/period between the Sub-Funds and the Trustee, the Manager and their Connected Persons. Connected Persons of the Manager are those as defined in the SFC Code. All transactions entered into during the year/period between the Sub-Funds and the Manager and its 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-Funds do not have any other transactions with Connected Persons and the Trustee and its affiliate except for those disclosed below.

(a) Management fee

In accordance with the Prospectus, the maximum management fee is 1.5% per annum of the NAV for the Sub-funds. Currently, The Manager is entitled to receive a management fee equal to a percentage of the NAV of each Sub-Fund, accrued daily and calculated as at each dealing day and payable monthly in arrears, as follows:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product	0.8% per annum
E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	0.8% per annum

For the year/period ended 31 December 2018 and 2017, the Manager was entitled to management fee of HK\$972,925 (2017: HK\$1,037,037) for HSII and HK\$738,939 (2017: HK\$306,803) for HSIL respectively. As at 31 December 2018, a management fee of HK\$46,257 (2017: HK\$231,501) was payable to the Manager for HSII and HK\$34,024 (2017: HK\$158,646) for HSIL respectively.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

7. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND MANAGER'S CONNECTED PERSONS (continued)

(b) Trustee fee and Registrar's fee

HSBC Institutional Trust Services (Asia) Limited (the "Former Trustee" and the "Former Registrar") retired as trustee and registrar of the Sub-Funds. With effect from 3 July 2018, Cititrust Limited (the "Trustee") was appointed as trustee of the Sub-Funds and Computershare Hong Kong Investor Services Limited (the "Registrar") was appointed as registrar of the Sub-Funds. The Registrar is not a connected person of the Sub-Funds.

For the period from 3 July 2018 to 31 December 2018, the Trustee received out of the assets of each Sub-Fund a monthly trustee's fee, payable in arrears, accrued daily and calculated as at each dealing day of up to 2% per annum of NAV of a Sub-Fund subject to a monthly minimum of USD2,200 (waived for 12 months from the 3 July 2018). The Trustee is also entitled to receive a transaction fee of HK\$105 on each open and closed future contract of the Sub-Funds (subject to a monthly maximum of HK\$78,000).

For the period from 20 March 2017 to 2 July 2018, the Former Trustee received out of the assets of each Sub-Fund a monthly trustee's fee, payable in arrears, accrued daily and calculated as at each dealing day of up to 2% per annum of NAV of a Sub-Fund subject to a monthly minimum of HK\$78,000 (waived for 12 months from the listing date). The Former Trustee was also entitled to receive a transaction fee of HK\$105 on each open and closed future contract of the Sub-Funds (subject to a monthly maximum of HK\$78,000). The Former Trustee was also entitled to an inception fee for the establishment of the Sub-Funds and to be reimbursed out of the assets of the relevant Sub-Funds for all out of pocket expenses incurred. The Former Registrar, was entitled to a registrar fee and an administrative transaction fee for any creation and redemption of units of the relevant Sub-Funds. The Former Registrar was entitled to a fee of HK\$150 per Participating Dealer per transaction.

For each Sub-Fund, the Trustee and Former Trustee are entitled to trustee fee as below:

	Trustee Rate per annum	Former Trustee Rate per annum
E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product	0.10%	0.12%
E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product	0.10%	0.12%

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

7. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND MANAGER'S CONNECTED PERSONS (continued)

(b) Trustee fee and Registrar's fee (continued)

For the period from 3 July 2018 to 31 December 2018, the Trustee was entitled to trustee fee, and transaction handling fee of HK\$46,318 and HK\$10,815 respectively for HSII and HK\$36,003 and HK\$11,970 respectively for HSIL.

For the period from 1 January 2018 to 2 July 2018, the Former Trustee was entitled to trustee fee, registrar fee and transaction handling fee of HK\$306,472, HK\$900 and HK\$11,434 respectively (2017:HK\$155,555;HK\$1,650;HK\$15,722) for HSII and HK\$67,664, HK\$450 and HK\$19,099 (2017:HK\$46,021;HK\$1,050;HK\$12,397) respectively for HSIL.

At 31 December 2018, trustee fee of HK\$4,995 and transaction handling fee of HK\$13,277 were payable to the Trustee for HSII and trustee fee of HK\$3,732 and transaction handling fee of HK\$15,015 were payable to the Trustee for HSIL.

At 31 December 2017, trustee fee of HK\$16,817 and transaction handling fee of HK\$2,252 were payable to the Former Trustee for HSII and trustee fee of HK\$12,298 and transaction handling fee of HK\$3,197 were payable to the Former Trustee for HSIL.

(c) Financial assets, liabilities and bank balances with connected person

The financial assets at fair value through profit or loss and cash and cash equivalents of the Sub-Funds held with related parties are:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	2018 HK\$	2017 HK\$
Financial assets at fair value through profit or loss		
The Hongkong and Shanghai Banking Corporation Limited	-	46,915,562
Citibank, N.A., Hong Kong Branch	13,014,443	-
	<u>13,014,443</u>	<u>-</u>
Financial liabilities at fair value through profit or loss		
GF Futures (HK) Co. Ltd.	(1,109,200)	-
	<u>(1,109,200)</u>	<u>-</u>
Cash and cash equivalents		
The Hongkong and Shanghai Banking Corporation Limited	-	19,774,356
Citibank, N.A., Hong Kong Branch	38,660,859	-
	<u>38,660,859</u>	<u>19,774,356</u>

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

7. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND MANAGER'S CONNECTED PERSONS (continued)

(c) Financial assets, liabilities and bank balances with connected person (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	2018 HK\$	2017 HK\$
Financial assets at fair value through profit or loss		
The Hongkong and Shanghai Banking Corporation Limited	-	35,186,671
CSC Futures (HK) Limited	-	2,411,420
Citibank, N.A., Hong Kong Branch	12,013,332	-
GF Futures (HK) Co. Ltd.	1,564,700	-
	<u>13,578,032</u>	<u>37,598,091</u>
Financial liabilities at fair value through profit or loss		
GF Futures (HK) Co. Ltd.	(850)	-
	<u>(850)</u>	<u>-</u>
Cash and cash equivalents		
The Hongkong and Shanghai Banking Corporation Limited	-	1,989,039
Citibank, N.A., Hong Kong Branch	14,710,564	-
	<u>14,710,564</u>	<u>-</u>

During the year ended 31 December 2018, interest income received on bank deposits amounted to HK\$641,137 (2017: HK\$364,281) and HK\$442,829 (2017: HK\$104,995) for HSII and HSIL respectively.

(d) Establishment costs accrual

The establishment costs accrual included the establishment costs paid by the Manager on behalf of the Sub-Funds. At 31 December 2018, the establishment costs of HK\$583,387 (2017: HK\$876,637) and HK\$707,387 (2017: HK\$934,558) were payable to the Manager for HSII and HSIL respectively. Such balances are unsecured, non-interest-bearing and repayable on demand.

(e) Holdings of units

As at 31 December 2018, E Fund (HK) Greater China Top 20 Fund, an investment fund managed by the Manager, holds 2,039,200 (2017: 736,800) units of HSII and 0 (2017: 1,103,100) units of HSIL.

As at 31 December 2018, E Fund (HK) Greater China Leaders Fund, an investment fund managed by the Manager, holds 1,287,700 (2017: 258,600) units of HSII.

As at 31 December 2018, E Fund (HK) Greater China High Dividend Equity Fund, an investment fund managed by the Manager, holds 0 (2017: 227,400) units of HSII and 0 (2017: 101,000) units of HSIL.

As at 31 December 2018, E Fund International Holdings Limited, holding company of the Manager, holds 4,800,000 (2017: 6,400,000) units of HSIL.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

7. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND MANAGER'S CONNECTED PERSONS (continued)

(f) Investments in other collective investment funds managed by the Manager

As at the end of the reporting year/period, the following Sub-Funds invested in an investment fund managed by the Manager and the details are as below:

	Units	Fair value
31 December 2018		
E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		
E Fund (HK) HK Dollar Money Market Fund	13,000	HK\$13,014,443
E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product		
E Fund (HK) HK Dollar Money Market Fund	12,000	HK\$12,013,332
31 December 2017		
E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product		
E Fund US Dollar Money Market Fund	59,900	HK\$46,915,562
E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product		
E Fund US Dollar Money Market Fund	44,925	HK\$35,186,671

(g) Investments transactions with a connected person of the Manager

GF Futures (HK) Co. Ltd., a connected person of the Manager, rendered brokerage services for the Sub-Funds' purchase and sales of futures. For the period ended 31 December 2017, the Sub-Funds did not execute investment transactions with a connected person of the Manager. During the year ended 31 December 2018, the transaction details were as follows:

	Aggregate value of purchase and sales HKD	Total commission paid HKD	% of Sub-Fund's total transactions during the year	Average commission rate %
31 December 2018				
E FUND YUANTA HANG SENG INDEX DAILY (-1X) INVERSE PRODUCT	3,503,050	10,845.48	2.79	0.24
E FUND YUANTA HANG SENG INDEX DAILY (2X) LEVERAGED PRODUCT	5,280,380	12,453.54	2.72	0.18

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

8. INVESTMENT IN STRUCTURED ENTITIES

As at 31 December 2018, HSII and HSIL invest in a structured entity named E Fund (HK) HK Dollar Money Market Fund (2017: E Fund US Dollar Money Market Fund), the nature of which is a money market fund.

During the year/period ended 31 December 2018 and 2017, the realised gains and losses arising from the disposal of each of the investments in the Investee Funds of the Sub-Funds is included in "Net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss" in the Statement of Comprehensive Income. During the year ended 31 December 2018, HSII sold 72,907 unit of the E Fund US Dollar Money Market Fund (2017: nil) and recognised HK\$708,196 realised loss (2017:nil). During the year ended 31 December 2018, HSIL sold 51,035 unit of the E Fund US Dollar Money Market Fund (2017: nil) and recognised HK\$578,008 realised gain (2017:nil).

As at 31 December 2018, HSII's investment in E Fund (HK) HK Dollar Money Market Fund represents 19.64% (2017: 30.33%) of its NAV and HSIL's investment in E Fund (HK) HK Dollar Money Market Fund represents 24.78% (2017: 28.25%) of its NAV.

9. FINANCIAL RISK MANAGEMENT

The objective of the Sub-Funds is to provide daily investment results that, before deduction of fees and expenses, closely correspond to the inverse (-1x) of the daily performance of the Hang Seng Index for HSII and twice (2x) of the daily performance of the Hang Seng Index for HSIL. The Sub-Funds' activities may expose them to a variety of risks including but not limited to: market price risk, credit and counterparty risk and liquidity risk which are associated with the markets in which the Sub-Funds invest.

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

(a) 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, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

As at 31 December 2018 and 2017, the Sub-Funds' investments were concentrated in the following industries:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	As at 31 December 2018	
	Fair value HK\$	% of net assets
<u>Money market fund</u>		
<i>Hong Kong</i>		
Total financial assets at fair value through profit or loss	13,014,443	19.64
<u>Futures</u>		
<i>Hong Kong</i>		
Total financial liabilities at fair value through profit or loss	(1,109,200)	(1.68)

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT

(a) Market price risk (continued)

Sensitivity analysis in the event of a possible change in the index by 14% as estimated by the Manager

As at 31 December 2018, for HSII, if the Hang Seng Index were to increase by 14% (2017: 36%) with all other variables held constant, this would decrease the pre-tax profit for the period by approximately HK\$9,467,245 (2017: HK\$55,690,696). Conversely, if the Hang Seng Index were to decrease by 14% (2017: 36%), this would increase the pre-tax profit for the year/period by an equal amount.

As at 31 December 2018, for HSIL, if the Hang Seng Index were to increase by 14% (2017: 36%) with all other variables held constant, this would increase the pre-tax profit for the year/period by approximately HK\$13,842,762 (2017: HK\$89,680,558). Conversely, if the Hang Seng Index were to decrease by 14% (2017: 36%), this would decrease the pre-tax profit for the year/period by an equal amount.

The Manager has used their view of what would be a "reasonable shift" in each key market to estimate the change for use in the market sensitivity analysis above.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

As at 31 December 2018 and 2017, the Sub-Funds invested in money market funds and were indirectly exposed to interest rate risk in respect of the underlying investments in money market fund for their fixed income investment portfolios. However, the impact of interest rate risk had been taken into consideration through the market price changes in the underlying collective investment schemes.

The majority of the Sub-Funds' other financial assets and liabilities are non-interest-bearing. As a result, the Sub-Funds are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

As at 31 December 2018 and 2017, interest rate risk arises from cash and cash equivalents. The Sub-Funds consider that changes in the fair value and future cash flows in the event of a change in market interest rates will not be material. Accordingly, no sensitivity analysis has been disclosed for these cash and cash equivalents.

(c) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due.

The Sub-Funds limit their exposure to credit risk by transacting the majority of their securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Sub-Funds consider to be well established.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

All transactions in securities are settled or paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Manager's policy is to closely monitor the creditworthiness of the Sub-Funds' counterparties (e.g., brokers, custodian and banks) by reviewing their credit ratings, financial statements and press releases on a regular basis.

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

Financial assets subject to IFRS 9's impairment requirements

The Sub-Funds' financial assets subject to the ECL model within IFRS 9 are only cash and cash equivalents and amounts due from brokers. As at 31 December 2018, the total of cash and cash equivalents and amounts due from brokers was HK\$66,332,595 (2017: total of HK\$110,526,507 on which no loss had been incurred) for HSII and HK\$36,516,187 (2017: total of HK\$88,730,649 on which no loss had been incurred) for HSIL on which no loss allowance had been provided. There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the year.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: cash and cash equivalents and amounts due from brokers. All the Sub-Fund's cash and cash equivalents are held in major financial institutions located in Hong Kong, which the Manager believes are of high credit quality. The Manager considers the Sub-Funds are not exposed to significant credit risk and no loss allowance has been made.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Sub-Funds' credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	12-month expected credit losses		Lifetime expected credit losses		Simplified Approach HK\$'000	Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000			
<u>Financial assets</u>						
Amounts due from brokers						
- Not yet past due	11,704,530					11,704,530
Cash and cash equivalents						
- Not yet past due	54,628,065	-	-	-	-	54,628,065
Total	<u>66,332,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,332,595</u>

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	12-month expected credit losses		Lifetime expected credit losses		Simplified Approach HK\$'000	Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000			
<u>Financial assets</u>						
Amounts due from brokers						
- Not yet past due	10,805,726					10,805,726
Cash and cash equivalents						
- Not yet past due	25,710,461	-	-	-	-	25,710,461
Total	<u>36,516,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,516,187</u>

Maximum exposure as at 31 December 2017

The carrying amounts of cash and cash equivalents, interest receivable on bank deposits and amounts due from brokers represent the Sub-Funds' maximum exposure to credit risk in relation to financial assets. All the Sub-Funds' cash and cash equivalents are held in major financial institution, which the Manager believes are of high credit quality. The Manager consider that the Sub-Funds does not have a significant concentration of credit risk.

Financial assets not subject to IFRS 9's impairment requirements

The Sub-Funds are exposed to credit risk on equity securities. This class of financial assets is not subject to IFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under both IAS 39 (2017) and IFRS 9 (2018) represents the Sub-Funds' maximum exposure to credit risk on financial instruments not subject to the IFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

Financial assets not subject to IFRS 9's impairment requirements (continued)

The Sub-Funds' financial assets which are potentially subject to concentration of credit risk consist of assets held with the custodians and amounts due from brokers.

The table below summarises the credit rating of custodians with which the Sub-Funds' assets are held.

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	<u>HK\$</u>	<u>Credit rating</u>	<u>Source</u>
At 31 December 2018			
<u>Custodian</u>			
Citibank, N.A., Hong Kong Branch	13,014,443	A	S&P

	<u>HK\$</u>	<u>Credit rating</u>	<u>Source</u>
At 31 December 2017			
<u>Custodian</u>			
Hongkong and Shanghai Banking Corporation Limited	46,915,562	A	S&P

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	<u>HK\$</u>	<u>Credit rating</u>	<u>Source</u>
At 31 December 2018			
<u>Custodian</u>			
Citibank, N.A., Hong Kong Branch	12,013,332	A	S&P
GF Futures (HK) Co. Ltd.	1,564,700	AAA	China Chengxin

	<u>HK\$</u>	<u>Credit rating</u>	<u>Source</u>
At 31 December 2017			
<u>Custodian</u>			
Hongkong and Shanghai Banking Corporation Limited	35,186,671	A	S&P
<u>Broker</u>			
CSC Futures (HK) Limited	2,411,420	A	S&P

As at 31 December 2018 and 2017, the Sub-Funds invested in money market fund. The credit risk exposure from the investment in money market fund is considered insignificant.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability, including a redemption request.

The Sub-Funds are exposed to daily redemptions of units in the Sub-Funds. The Sub-Funds invest the majority of their assets in investments that are traded in an active market which can be readily disposed of.

The table below analyses the Sub-Funds' non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the year/period end date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	On demand or less than 3 months HK\$	3 months to less than 1 year HK\$	Total HK\$
As at 31 December 2018			
Financial liabilities at fair value			
through profit or loss	1,109,200	-	1,109,200
Management fee payable	46,257	-	46,257
Trustee fee payable	4,995	-	4,995
Redemption payable	14,618,520	-	14,618,520
Other payables	739,589	-	739,589
Total	16,518,561	-	16,518,561
As at 31 December 2017			
Financial liabilities at fair value			
through profit or loss	1,517,026	-	1,517,026
Management fee payable	231,501	-	231,501
Trustee fee payable	16,817	-	16,817
Other payables	103,710	-	103,710
Total	1,869,054	-	1,869,054

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	On demand or less than 3 months HK\$	3 months to less than 1 year HK\$	Total HK\$
As at 31 December 2018			
Financial liabilities at fair value through profit or loss	850	-	850
Management fee payable	34,024	-	34,024
Trustee fee payable	3,732	-	3,732
Other payables	1,082,110	-	1,082,110
Total	1,120,716	-	1,120,716

	On demand or less than 3 months HK\$	3 months to less than 1 year HK\$	Total HK\$
As at 31 December 2017			
Management fee payable	158,646	-	158,646
Trustee fee payable	12,298	-	12,298
Other payables	675,462	-	675,462
Total	846,406	-	846,406

Units are redeemed on demand at the unitholder's option.

The Sub-Funds manage their liquidity risk by investing in investments that they expect to be able to liquidate within 3 months or less. The following table illustrates the expected liquidity of assets held:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	On demand or less than 3 months HK\$	3 months to less than 1 year HK\$	Over 1 year HK\$	Total HK\$
As at 31 December 2018				
Total assets	83,399,183	-	-	83,399,183

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product (continued)

	On demand or less than 3 months <i>HK\$</i>	3 months to less than 1 year <i>HK\$</i>	Over 1 year <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2017				
Total assets	<u>157,442,069</u>	<u>-</u>	<u>-</u>	<u>157,442,069</u>

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	On demand or less than 3 months <i>HK\$</i>	3 months to less than 1 year <i>HK\$</i>	Over 1 year <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2018				
Total assets	<u>50,297,158</u>	<u>-</u>	<u>-</u>	<u>50,297,158</u>

	On demand or less than 3 months <i>HK\$</i>	3 months to less than 1 year <i>HK\$</i>	Over 1 year <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2017				
Total assets	<u>126,337,294</u>	<u>-</u>	<u>-</u>	<u>126,337,294</u>

(e) Offsetting and amounts subject to master netting arrangements and similar agreements

As at 31 December 2018 and 2017, the Sub-Funds were not subject to master netting arrangements for the derivative assets and liabilities of the Sub-Funds held with the counterparties.

(f) Currency risk

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

The Sub-Funds hold assets and liabilities denominated in HK\$, which is their functional currency, and United States dollar. The Manager considers that there is no currency risk to the United States dollar which is a pegged currency with the HK\$. As a result, the Sub-Funds were not exposed to significant currency risk as at 31 December 2018 and 2017.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(g) Fair value estimation

The Sub-Funds classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

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 judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Sub-Funds. The Sub-Funds consider observable data to be that 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 market.

The following table analyses within the fair value hierarchy the Sub-Funds' investments (by class) measured at fair value as at 31 December 2018 and 2017:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2018				
Financial assets at fair value through profit or loss				
- Money market instrument	-	13,014,443	-	13,014,443
Total assets at fair value through profit or loss	-	13,014,443	-	13,014,443
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2018				
Financial liabilities at fair value through profit or loss				
- Futures contracts	(1,109,200)	-	-	(1,109,200)
Total liabilities at fair value through profit or loss	(1,109,200)	-	-	(1,109,200)

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(g) Fair value estimation (continued)

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product (continued)

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2017				
Financial assets at fair value through profit or loss				
- Money market instrument	-	46,915,562	-	46,915,562
Total assets at fair value through profit or loss	-	46,915,562	-	46,915,562
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2017				
Financial liabilities at fair value through profit or loss				
- Futures contracts	(1,517,026)	-	-	(1,517,026)
Total liabilities at fair value through profit or loss	(1,517,026)	-	-	(1,517,026)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2018				
Financial assets at fair value through profit or loss				
- Money market instrument	-	12,013,332	-	12,013,332
- Futures contracts	1,564,700	-	-	1,564,700
Total assets at fair value through profit or loss	1,564,700	12,013,332	-	13,578,032
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2018				
Financial liabilities at fair value through profit or loss				
- Futures contracts	(850)	-	-	(850)
Total liabilities at fair value through profit or loss	(850)	-	-	(850)
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
As at 31 December 2017				
Financial assets at fair value through profit or loss				
- Money market instrument	-	35,186,671	-	35,186,671
- Futures contracts	2,411,420	-	-	2,411,420
Total assets at fair value through profit or loss	2,411,420	35,186,671	-	37,598,091

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

9. FINANCIAL RISK MANAGEMENT (continued)

(g) Fair value estimation (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, including active listed and quoted future contracts. The Sub-Funds do not adjust the quoted prices 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, including money market instruments.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As at 31 December 2018, the Sub-Funds did not hold any investments classified under level 3 (2017: nil).

There were no transfer between levels for HSII and HSIL during the year/period ended 31 December 2018 and 2017.

(h) Capital risk management

The Sub-Funds' capital is represented by the redeemable units outstanding. The Sub-Funds' objective is to provide investment results that correspond generally to the performance of the index. The Manager may:

- Redeem and issue new units in accordance with the constitutive documents of the Sub-Funds;
- Exercise discretion when determining the amounts of distributions of the Sub-Funds to the unitholders; and
- Suspend the creation and redemption of units under certain circumstances stipulated in the Prospectus of the Sub-Funds.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments held by the Sub-Funds as at 31 December 2018 and 2017 are summarised as below:

Futures

Futures contracts are commitments to make or take future delivery of various commodities, currencies or financial instruments at a specified time and place. These commitments can be discharged by making or taking delivery of an approved grade of commodity, currency and financial instrument by cash settlement or by making an offsetting sale or purchase of an equivalent futures contract on the same (or a linked) exchange prior to the designated date of delivery.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Futures (continued)

The details of futures contracts as at 31 December 2018 and 2017 are as follows:

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

As at 31 December 2018

Description	Contract size	Notional market value HK\$	Position	Counterparty	Fair value HK\$
HANG SENG INDEX 01/30/19	(50)	(63,550,250)	Short	GF Futures (HK) Co. Ltd.	(1,084,750)
MINI HSI IDX FUT 01/30/19	(7)	(1,785,330)	Short	GF Futures (HK) Co. Ltd.	(24,450)
					<u>(1,109,200)</u>

As at 31 December 2017

Description	Contract size	Notional market value HK\$	Position	Counterparty	Fair value HK\$
HANG SENG INDEX JAN 2017	(104)	(155,729,600)	Short	CSC Futures (HK) Limited	<u>(1,517,026)</u>

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

As at 31 December 2018

Description	Contract size	Notional market value HK\$	Position	Counterparty	Fair value HK\$
HANG SENG INDEX 01/30/19	75	95,387,800	Long	GF Futures (HK) Co. Ltd.	1,564,700
MINI HSI IDX FUT 01/30/19	(4)	(1,035,010)	Short	GF Futures (HK) Co. Ltd.	(850)
					<u>1,563,850</u>

As at 31 December 2017

Description	Contract size	Notional market value HK\$	Position	Counterparty	Fair value HK\$
HANG SENG INDEX JAN 2017	167	250,065,800	Long	CSC Futures (HK) Limited	2,406,350
Mini-HANG SENG INDEX JAN 2017	3	898,440	Long	CSC Futures (HK) Limited	5,070
					<u>2,411,420</u>

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Included in amounts due from brokers are margin accounts which represent margin deposits held in respect of open futures contracts. As at 31 December 2018, HSII held margin deposits of HK\$11,704,530 (2017: HK\$14,639,764) where the margin requirement was HK\$4,249,381 (2017: HK\$10,311,756) and HSIL held margin deposits of HK\$10,805,726 (2017: HK\$32,821,994) where the margin requirement was HK\$6,266,598 (2017: HK\$16,617,791).

11. SOFT COMMISSION ARRANGEMENT

The Manager confirms that there has been no soft commission arrangement existing during the year/period ended 31 December 2018 and 2017 in relation to directing transactions of the Sub-Funds through a broker or dealer.

12. SEGMENT INFORMATION

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

The Manager considers that each Sub-Fund has a single operating segment which is investing in futures as the Manager adopts a futures-based replication investment strategy to achieve the investment objective of the respective Sub-Funds' segments. The objectives of the Sub-Funds are to provide investment results that, before deduction of fees and expenses, closely correspond to the inverse (-1x) or twice (2x) the daily performance of the underlying index relevant to each Sub-Funds as disclosed in note 1.

The internal financial information used by the Manager for the Sub-Funds' assets, liabilities and performance is the same as that disclosed in the statement of net assets and statement comprehensive income.

There were no changes in the reportable segment during the year.

The Sub-Funds are domiciled in Hong Kong. Most of the Sub-Funds' income is derived from investments in financial assets and financial liabilities at fair value through profit or loss. The Sub-Funds have no assets or liabilities classified as non-current.

The Sub-Funds held one (2017: one) investment account with more than 10% of the net asset value of HSII and more than 10% of the net asset value of HSIL as at 31 December 2018.

13. DISTRIBUTION TO UNITHOLDERS

There was no distribution (2017: nil) to unitholders for HSII and HSIL, during the year ended 31 December 2018.

E FUND LEVERAGED AND INVERSE SERIES

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DECEMBER 2018

14. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

As stated in the Prospectus, at least 80% of the NAV of HSII and 90% of the NAV of HSIL (this percentage may be reduced proportionately under exceptional circumstances where there is a higher margin requirement) will be invested in cash (Hong Kong dollar or United States dollar) such as deposits with banks in Hong Kong, and Hong Kong dollar or US dollar denominated investment products, of which up to 50% of the NAV of HSII and 60% of the NAV of HSIL may be invested in SFC authorised money market funds and other money market funds (either recognised jurisdiction money market funds or non-recognised jurisdiction money market funds) in accordance with the requirements of the Code.

As at 31 December 2018, the Sub-Funds' investments in E Fund (HK) HK Dollar Money Market Fund (2017: E Fund US Dollar Money Market Fund) represented 19.64% (2017: 30.33%) of the NAV of HSII and 24.78% (2017: 28.25%) of that of HSIL.

The Manager will not invest the Sub-Funds in any financial derivative instruments (including structured products or instruments) other than HSI Futures for hedging or non-hedging (i.e. investment) purposes. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to unitholders (if such approval and notification is required) before the Manager engages in any such investments. The Sub-Funds will not enter into securities lending, repurchase, reverse-repurchase transactions or other similar over-the counter transactions.

As the Manager expect that the aggregate margin requirement for the futures contracts that the Sub-Funds will invest may be as high as 20% for HSII and 25% for HSIL in order to obtain the required exposure to the Hang Seng Index, the Manager has applied to the SFC, and the SFC has granted, a waiver in respect of the Sub-Funds from the requirement under Chapter 8.4A(e) of the Code, that the Sub-Funds may not hold open positions in any futures contract month for which the combined margin requirement represents 5% or more of the NAV of the Sub-Funds, subject to certain conditions as stated in the Prospectus. Details of the Sub-Funds' margin requirements as at 31 December 2018 and 2017 are disclosed in note 10 to the financial statements.

The Manager and the Trustee have confirmed that the Sub-Funds have complied with these limitations during the year/period ended 31 December 2018 and 2017.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Manager on 30 April 2019.

E FUND LEVERAGED AND INVERSE SERIES**INVESTMENT PORTFOLIO (unaudited)***As at 31 December 2018***E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product**

Investment funds		Holdings	Fair value HK\$	% of net assets
Hong Kong				
E FUND (HK) HK DOLLAR MONEY MARKET FUND		13,000	13,014,443	19.64%
Futures contracts	Expiration date	Contracts		
Hong Kong				
HANG SENG INDEX 01/30/19	30/01/2019	(50)	(1,084,750)	(1.64%)
MINI HSI IDX FUT 01/30/19	30/01/2019	(7)	(24,450)	(0.04%)
			<u>(1,109,200)</u>	<u>(1.68%)</u>
Total investments at fair value			11,905,243	17.96%
Other net assets			<u>54,391,992</u>	<u>82.04%</u>
Net assets attributable to unitholders at 31 December 2018			<u>66,297,235</u>	<u>100.00%</u>
Total investments, at cost			<u>13,000,000</u>	

E FUND LEVERAGED AND INVERSE SERIES**INVESTMENT PORTFOLIO (unaudited) (continued)***As at 31 December 2018***E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product**

Investment funds		Holdings	Fair value HK\$	% of net assets
Hong Kong				
E FUND (HK) HK DOLLAR MONEY MARKET FUND		12,000	12,013,332	24.78%
Futures contracts	Expiration date	Contracts		
Hong Kong				
HANG SENG INDEX 01/30/19	30/01/2019	75	1,564,700	3.23%
MINI HSI IDX FUT 01/30/19	30/01/2019	(4)	(850)	0.00%
			<u>1,563,850</u>	<u>3.23%</u>
Total investments at fair value			13,577,182	28.01%
Other net assets			<u>34,891,873</u>	<u>71.99%</u>
Net assets attributable to unitholders at 31 December 2018			<u>48,469,055</u>	<u>100.00%</u>
Total investments, at cost			<u>12,000,000</u>	

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (unaudited)

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

Year ended 31 December 2018

	Holdings				31 December 2018
	1 January 2018	Additions	Disposals	Corporate action	
Money market funds					
Hong Kong					
E FUND (HK) HK DOLLAR MONEY MARKET FUND	-	13,000	-	-	13,000
E FUND US DOLLAR MONEY MARKET FUND	59,900	13,007	72,907	-	-
Futures contracts					
Hong Kong					
HANG SENG INDEX FUTURE JAN 18 30/01/2018	(104)	106	2	-	-
HANG SENG INDEX FUTURE FEB 18 27/02/2018	-	118	118	-	-
HANG SENG IDX FUT MAR18 28/03/2018	-	109	109	-	-
HANG SENG IDX FUT APR18 27/04/2018	-	111	111	-	-
HANG SENG IDX FUT MAY18 30/05/2018	-	141	141	-	-
HANG SENG INDEX 06/28/18	-	142	142	-	-
HANG SENG INDEX 07/30/18	-	128	128	-	-
HANG SENG INDEX 08/30/18	-	93	93	-	-
HANG SENG INDEX 09/27/18	-	82	82	-	-
HANG SENG INDEX 10/30/18	-	83	83	-	-
HANG SENG INDEX 11/29/18	-	92	92	-	-
HANG SENG INDEX 12/28/18	-	63	63	-	-
HANG SENG INDEX 01/30/19	-	13	63	-	(50)
MINI HSI IDX FUT 09/27/18	-	15	15	-	-
MINI HSI IDX FUT 10/30/18	-	35	35	-	-
MINI HSI IDX FUT 11/29/18	-	20	20	-	-
MINI HSI IDX FUT 12/28/18	-	20	20	-	-
MINI HSI IDX FUT 01/30/19	-	1	8	-	(7)

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (unaudited) (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

Year ended 31 December 2018

	Holdings				31 December 2018
	1 January 2018	Additions	Disposals	Corporate action	
Money market funds					
Hong Kong					
E FUND (HK) HK DOLLAR MONEY MARKET FUND	-	12,000	-	-	12,000
E FUND US DOLLAR MONEY MARKET FUND	44,925	6,110	51,035	-	-
Futures contracts					
Hong Kong					
HANG SENG INDEX FUTURE JAN18 30/01/2018	167	11	178	-	-
HANG SENG INDEX FUT FEB18 27/02/2018	-	177	177	-	-
HANG SENG IDX FUT MAR18 28/03/2018	-	167	167	-	-
HANG SENG IDX FUT APR18 27/04/2018	-	142	142	-	-
HANG SENG IDX FUT MAY18 30/05/2018	-	147	147	-	-
HANG SENG INDEX 06/28/18	-	151	151	-	-
HANG SENG INDEX 07/30/18	-	141	141	-	-
HANG SENG INDEX 08/30/18	-	133	133	-	-
HANG SENG INDEX 09/27/18	-	131	131	-	-
HANG SENG INDEX 10/30/18	-	124	124	-	-
HANG SENG INDEX 11/29/18	-	99	99	-	-
HANG SENG INDEX 12/28/18	-	83	83	-	-
HANG SENG INDEX 01/30/19	-	75	-	-	75
MINI HANG SENG INDEX FUTURES 30/01/2018	3	23	26	-	-
MINI HANG SENG INDEX FUTURES 27/02/2018	-	21	21	-	-
MINI HSI IDX FUTURE 28/03/2018	-	24	24	-	-
MINI HSI IDX FUT APR18 27/04/2018	-	18	18	-	-
MINI HSI IDX FUT MAY18 30/05/2018	-	35	35	-	-

E FUND LEVERAGED AND INVERSE SERIES

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (unaudited) (continued)

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product (continued)

Year ended 31 December 2018

	Holdings				31 December 2018
	1 January 2018	Additions	Disposals	Corporate action	
Futures contracts (continued)					
Hong Kong (continued)					
MINI HSI IDX FUT 06/28/18	-	15	15	-	-
MINI HSI IDX FUT 07/30/18	-	23	23	-	-
MINI HSI IDX FUT 08/30/18	-	35	35	-	-
MINI HSI IDX FUT 09/27/18	-	23	23	-	-
MINI HSI IDX FUT 10/30/18	-	26	26	-	-
MINI HSI IDX FUT 11/29/18	-	31	31	-	-
MINI HSI IDX FUT 12/28/18	-	18	18	-	-
MINI HSI IDX FUT 01/30/19	-	2	6	-	(4)

E FUND LEVERAGED AND INVERSE SERIES

PERFORMANCE RECORD (unaudited)

Net Asset Value

(Calculated in accordance with Sub-Fund's Prospectus)

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

	Net asset value of the Sub-Fund HK\$	Net asset value per unit HK\$
At the end of financial year/period dated		
31 December 2018 (Dealing NAV)	66,827,520	5.2209
31 December 2017 (Dealing NAV)	155,760,337	4.8675

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

	Net asset value of the Sub-Fund HK\$	Net asset value per unit HK\$
At the end of financial year/period dated		
31 December 2018 (Dealing NAV)	49,068,140	5.3335
31 December 2017 (Dealing NAV)	125,652,141	7.3054

Highest Issue Price and Lowest Redemption Price Per Unit

E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product

Financial year/period ended	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$
31 December 2018	5.5611	4.3905
31 December 2017 (since inception)	6.3613*	4.8499

E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product

Financial year/period ended	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$
31 December 2018	8.9354	4.9253
31 December 2017 (since inception)	7.4318	6.1687

*Effective 15 May 2017, HSII sub-divided its units into two sub-divided units as the application unit size was increased from 200,000 units to 400,000 sub-divided units. Accordingly, the trading lot value was halved and the number of trading board lots held by each existing unitholder was doubled.

E FUND LEVERAGED AND INVERSE SERIES

MANAGEMENT AND ADMINISTRATION

Manager

E Fund Management (Hong Kong) Co., Limited
35/F, Suites 3501- 02
Two International Finance Centre
8 Finance Street
Central, Hong Kong

Trustee (effective from 3 July 2018)

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

Administrator (effective from 3 July 2018)

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

Registrar (effective from 3 July 2018)

Computershare Hong Kong Investor Services Limited
17M/F, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Former Trustee and Registrar (retired on 3 July 2018)

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

Investment Adviser

Yuanta Securities Investment Trust Co., Ltd
11/F, No.219, Sect. 3
Nanjing E. Rd.
Taipei, 104
Taiwan

Former Custodian (retired on 3 July 2018)

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

Custodian (effective from 3 July 2018)

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

Service Agent/Conversion Agent

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

Listing Agent

GF Capital (Hong Kong) Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

Legal Counsel to the Manager

Simmons & Simmons
30/F, One Taikoo Place
979 King's Road
Hong Kong

Auditor

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

Directors of the Manager

Liu Xiaoyan
Ma Jun
Chen Liyuan (Appointed on 20 July 2018)
Chen Rong (Appointed on 20 July 2018)
Huang Gaohui (Appointed on 20 July 2018)
Fan Yue (Resigned on 20 July 2018)
Zhang Youzao (Resigned on 20 July 2018)

Participating Dealers

ABN AMRO Clearing Hong Kong Limited
70/F, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

China Merchants Securities (HK) Co Limited
48/F, One Exchange Square
Central, Hong Kong

* For the E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product only.

For the E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product only.

E FUND LEVERAGED AND INVERSE SERIES

MANAGEMENT AND ADMINISTRATION (continued)

Participating Dealers (continued)

Citigroup Global Markets Asia Limited#
50/F, Champion Tower
Three Garden Road
Central, Hong Kong

CSC Securities (Hong Kong) Limited*
Units 3201-07, Cosco Tower
183 Queen's Road
Central, Hong Kong

Essence International Securities (Hong Kong) Limited*
39/F, One Exchange Square
Central, Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29 & 30/F, Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road
Central, Hong Kong

UBS Securities Hong Kong Limited
46-52/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Market Makers

Bluefin HK Limited*
8/F, Two Exchange Square
8 Connaught Road
Central, Hong Kong

Commerz Securities Hong Kong Limited
29/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

IMC Asia Pacific Limited
20/F, Unit 2001
100 Queen's Road
Central, Hong Kong

Yue Kun Research Limited*
17/F, China Building
29 Queen's Road
Central, Hong Kong

* For the E Fund Yuanta Hang Seng Index Daily (-1x) Inverse Product only.

For the E Fund Yuanta Hang Seng Index Daily (2x) Leveraged Product only.

