



VALUE JAPAN ETF (3084 HK)

A Sub-fund of Value ETFs Trust

ANNUAL REPORT 2013

For the period from 22 May 2012 to 31 March 2013



Sensible Asset Management Hong Kong Limited

9th Floor, Nexxus Building,
41 Connaught Road Central, Hong Kong

Tel : (852) 2880 9263

Fax : (852) 2564 8487

Email : operations@valueetf.com.hk

Website : www.valueETF.com.hk

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

CONTENTS

	<i>Pages</i>
General information	2-3
Manager's report	4
Statement of responsibilities of the Manager and the Trustee	5
Trustee's report to the unitholders	6
Independent auditor's report to the unitholders	7-8
Audited financial statements	
– Statement of financial position	9-10
– Statement of comprehensive income	11
– Statement of changes in equity	12
– Statement of cash flows	13
– Notes to the financial statements	14-36
Investment portfolio (unaudited)	37-38
Statement of movements in portfolio holdings (unaudited)	39
Performance record (unaudited)	40

VALUE JAPAN ETF

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

GENERAL INFORMATION

Investment Manager

Sensible Asset Management Hong Kong Limited
9th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

Sub-investment Manager

Value Partners Hong Kong Limited
9th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

Directors of the Investment Manager

Mr Chow Wai Chiu William
Mr So Chun Ki Louis

Trustee and Registrar

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

Legal Advisor

Simmons & Simmons
13th Floor, One Pacific Place
88 Queensway
Hong Kong

Auditor

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Information available from:

Sensible Asset Management Hong Kong Limited
9th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

Telephone : (852) 2880 9263
Fax : (852) 2564 8487
Email : operations@valueetf.com.hk
Website : www.valueETF.com.hk

GENERAL INFORMATION (Continued)

Recent awards and achievements

Corporate awards		
2012	•	2012 The Asset Triple A Investment Awards Highly Commended ETF House for Hong Kong <i>– The Asset</i>

VALUE JAPAN ETF

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

MANAGER'S REPORT

Value Japan ETF ("the Fund") is an index-tracking exchange traded fund whose units are listed and traded on the Stock Exchange of Hong Kong Limited ("SEHK"). The Fund aims to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE Value-Stocks Japan Index ("the Index") by holding a portfolio of the constituent stocks of the Index. The Index comprises 35 value stocks amongst Japanese companies' shares listed on The Tokyo Stock Exchange and The Osaka Securities Exchange.

As at 31 March 2013, the Net Asset Value ("NAV") per unit of the Fund was JPY149.1969, and 10,500,000 units were outstanding. The total size of the Fund was approximately JPY1,564 million.

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

Total Return in JPY	2013 YTD	Since Inception
	(as at 31 March)	From 22 May 2012 to 31 March 2013
FTSE Value-Stocks Japan Index	24.1%	42.6%
Value Japan ETF	23.0%	38.5%

The difference in performance between the FTSE Value-Stocks Japan Index and the Value Japan ETF is mainly attributed to fees and expenses, and security misweightings. The historical tracking error for the NAV of the Fund against the FTSE Value-Stocks Japan Index was at 34 basis points on an annualized basis since its inception on 22 May 2012.

Sensible Asset Management Hong Kong Limited

19 July 2013

All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in JPY, NAV to NAV with dividends reinvested, as at 31 March 2013. Performance data is net of all fees.

Investors should note that investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the prospectus for details and risk factors in particular those associated with investment in emerging markets and the arrangement in the event that the Fund is de-listed. Investors should also note that the Fund is different from a typical retail investment fund, in particular, units in the Fund may only be created or redeemed directly by a participating dealer in large unit sizes.

STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

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

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

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

Trustee's responsibilities

The Trustee of the Sub-fund is required to:

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

VALUE JAPAN ETF

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

TRUSTEE'S REPORT TO THE UNITHOLDERS OF VALUE ETFs TRUST – VALUE JAPAN ETF

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

For and on behalf of

HSBC Institutional Trust Services (Asia) Limited

Trustee,

19 July 2013

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE ETFs TRUST – VALUE JAPAN ETF

We have audited the financial statements of Value Japan ETF (the “Sub-fund”), a sub-fund of Value ETFs Trust (the “Trust”) set out on pages 9 to 36, which comprise the statement of financial position as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the period from 22 May 2012 (date of inception) to 31 March 2013 and a summary of significant accounting policies and other explanatory information.

Manager's and Trustee's responsibilities for the financial statements

The Manager and the Trustee are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Manager and the Trustee also have a responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (the “Code”).

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE ETFs TRUST – VALUE JAPAN ETF (Continued)

Auditor's responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-fund as at 31 March 2013 and of its transactions and cash flows for the period from 22 May 2012 (date of inception) to 31 March 2013 in accordance with International Financial Reporting Standards.

Report on disclosure requirements under the Code

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements set out in the Code.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
19 July 2013

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2013

	<i>Note</i>	31.3.2013 <i>JPY</i>
Assets		
Financial assets at fair value through profit or loss	3, 5, 13	1,543,981,880
Dividends receivable		15,475,399
Other receivables		172,262
Cash and cash equivalents	3, 4, 10(c)	<u>18,610,154</u>
Total assets		<u>1,578,239,695</u>
Liabilities		
Audit fee payable		2,069,944
Manager's fee payable	8, 10(a)	911,163
Trustee and registrar fees payable	7, 10(b)	382,327
Other payables		<u>10,829,927</u>
Total liabilities		<u>14,193,361</u>
Total equity		<u><u>1,564,046,334</u></u>

The notes on pages 14 to 36 form part of these financial statements.

VALUE JAPAN ETF

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

STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 MARCH 2013

	<i>Note</i>	31.3.2013 <i>JPY</i>
Represented by:		
Net assets attributable to unitholders (at last traded prices)		1,566,567,284
Adjustment from last traded prices to bid prices		<u>(2,520,950)</u>
		<u><u>1,564,046,334</u></u>
Net asset value per unit at last traded prices based on 10,500,000 units outstanding	<i>11</i>	<u><u>149.1969</u></u>

Approved and authorised for issue by the Manager and the Trustee on 19 July 2013

Signed by:

Sensible Asset Management Hong Kong Limited, *Manager*

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

The notes on pages 14 to 36 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 22 MAY 2012 (DATE OF INCEPTION) TO 31 MARCH 2013

	Note	Period from 22.5.2012 * to 31.3.2013 JPY
Dividend income		34,491,046
Net gain from financial assets at fair value through profit or loss	6	414,556,931
Net foreign exchange loss		(1,215,938)
Other income		<u>692,799</u>
Net investment income		<u>448,524,838</u>
Preliminary expenses		10,759,839
Manager's fee	8, 10(a)	6,988,263
Trustee and registrar fees	7, 10(b)	3,545,450
Auditor's remuneration		1,864,120
Transaction fees		1,304,462
Professional fees		526,373
Sub-custodian fee		80,661
Bank charges	10(c)	391
Other operating expenses		<u>4,702,796</u>
Operating expenses		<u>29,772,355</u>
Profit before taxation		418,752,483
Withholding tax	9	<u>2,440,462</u>
Profit after taxation and total comprehensive income for the period		<u><u>416,312,021</u></u>

* Date of inception

The notes on pages 14 to 36 form part of these financial statements.

VALUE JAPAN ETF

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

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 22 MAY 2012 (DATE OF INCEPTION) TO 31 MARCH 2013

	<i>Note</i>	Period from 22.5.2012 * to 31.3.2013 JPY
Balance at the beginning of the period		----- —
Issue of redeemable units	11	<u>1,162,274,330</u>
Net increase from unit transactions		1,162,274,330
Distributions to unitholders	12	<u>(14,540,017)</u>
Total transactions with unitholders		<u>1,147,734,313</u>
Profit after taxation and total comprehensive income for the period		<u>416,312,021</u>
Balance at the end of the period		<u><u>1,564,046,334</u></u>

* *Date of inception*

The notes on pages 14 to 36 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 22 MAY 2012 (DATE OF INCEPTION) TO 31 MARCH 2013

	Note	Period from 22.5.2012 * to 31.3.2013 JPY
Operating activities		
Dividends received		19,015,647
Proceeds from sale of investments		1,132,001,109
Purchase of investments		(2,261,426,058)
Operating expenses paid		(16,274,395)
Withholding tax paid		<u>(2,440,462)</u>
Cash flows used in operating activities		<u>(1,129,124,159)</u>
Financing activities		
Proceeds from issue of redeemable units		1,162,274,330
Distributions paid to unitholders		<u>(14,540,017)</u>
Cash flows generated from financing activities		<u>1,147,734,313</u>
Net increase in cash and cash equivalents		18,610,154
Cash and cash equivalents at the beginning of the period		<u>—</u>
Cash and cash equivalents at the end of the period	4	<u><u>18,610,154</u></u>

* Date of inception

The notes on pages 14 to 36 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL

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

The Trust is able to issue redeemable units in various sub-funds and as at 31 March 2013, the Value Japan ETF, Value Korea ETF and Value Taiwan ETF have been launched. The Value Japan ETF, Value Korea ETF and Value Taiwan ETF commenced operations on 22 May 2012, 23 May 2012 and 23 May 2012 respectively.

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

The Sub-fund is authorised by the Hong Kong Securities and Futures Commission (the “SFC”) under Section 104(1) of the Hong Kong Securities and Futures Ordinance (“HKSF”), and is governed by the Hong Kong Code on Unit Trusts and Mutual Funds (the “Code”). The Sub-fund is also listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (a subsidiary of the Hong Kong Exchanges and Clearing Limited).

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 GENERAL (Continued)

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”), the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements of the Code issued by the SFC. A summary of the significant accounting policies adopted by the Sub-fund is set out below.

The IASB has issued certain new and revised IFRSs that are available for early adoption for the current accounting period of the Sub-fund.

The Sub-fund has not applied any amendments and new standards that are not yet effective for the current accounting period (see note 16).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation

The functional currency of the financial statements is Japanese Yen (“JPY”) reflecting the fact that most of the transactions are denominated in JPY.

The financial statements are presented in JPY.

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

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of financial position, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of financial position that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Foreign currency translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to JPY at the foreign currency closing exchange rate ruling at the date of the statement of financial position. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to JPY at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to trading investments are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the statement of comprehensive income.

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

(i) *Classification*

The Sub-fund designates all its equity securities into the financial assets at fair value through profit or loss category. The category of financial assets at fair value through profit or loss comprises financial instruments held for trading and financial instruments designated at fair value through profit or loss upon initial recognition.

All of the Sub-fund's investments are designated as financial assets at fair value through profit or loss. These investments are managed, evaluated and reported internally on a fair value basis upon initial recognition.

Financial assets that are classified as loans and receivables include accounts receivables.

Financial liabilities that are not designated at fair value through profit or loss include accounts payables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Recognition

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

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

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

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments designated at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all financial instruments are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iv) Fair value measurement principles

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

(v) Derecognition

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

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

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

(e) Other financial assets

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

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(g) Income

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest rate method.

Dividend income relating to exchange-traded equity securities are recognised in the statement of comprehensive income on the ex-dividend date. In some cases, the Sub-fund may choose to receive dividends in the form of additional shares rather than cash. In such cases the Sub-fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

(h) Expenses

All expenses, including manager's fee and trustee and registrar fees, are recognised in the statement of comprehensive income on an accrual basis. Preliminary expenses incurred in establishing the Sub-fund are expensed immediately in accordance with IAS 38.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments designated at fair value through profit or loss are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, *Net foreign exchange gain/(loss)* are foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as designated at fair value through profit or loss.

(j) Taxation

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

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

(k) Redeemable units

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

The Sub-fund has only one class of redeemable units in issue and they are the most subordinate class of financial instrument in the Sub-fund. The redeemable units provide unitholders with the right to require redemption for cash at a value proportionate to the unitholder's share in the Sub-fund's net assets at each redemption date and also in the event of the Sub-fund's liquidation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Redeemable units (Continued)

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

- it entitles the holder to a pro rata share of the Sub-fund's net assets in the event of the Sub-fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Sub-fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-fund over the life of the instrument.

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

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

Repurchase of redeemable units

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Related parties

- (a) A person, or a close member of that person's family, is related to the Sub-fund if that person:
- (i) has control or joint control over the Sub-fund;
 - (ii) has significant influence over the Sub-fund; or
 - (iii) is a member of the key management personnel of the Sub-fund.
- (b) An entity is related to the Sub-fund if any of the following conditions applies:
- (i) The entity and the Sub-fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities 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 controlled or jointly controlled by a person identified in (a); or
 - (vi) 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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Segment reporting

An operating segment is a component of the Sub-fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Sub-fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Sub-fund is identified as the Manager.

3 FINANCIAL RISK MANAGEMENT

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk

(i) Foreign exchange risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Sub-fund's overall currency positions are monitored on a daily basis by the Manager.

As at 31 March 2013, the Sub-fund is not exposed to significant foreign currency risk. The majority of assets and liabilities are denominated in JPY, which is the reporting currency of the Sub-fund.

(ii) Price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. Those changes may be caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Sub-fund may trade in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, to take advantage of market movements.

All securities investments present a risk of loss of capital. The Manager makes investments in accordance with the provisions and specific limits as stated in the Trust Deed. The Sub-fund's overall market positions are monitored on a daily basis by the Manager.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

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

	Fair value JPY	Relevant benchmark index for the Sub-fund	Reasonably possible change of the relevant benchmark index	Estimated change in operating profit and equity JPY
		FTSE Value-Stocks Japan Index		
As at 31 March 2013	<u>1,543,981,880</u>		+/-20%	<u>+/-308,496,276</u>

(iii) Interest rate risk

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

The Sub-fund's interest rate risk arises from bank balances of JPY18,610,154. The bank balances expose the Sub-fund to cash flow interest rate risk.

Based on the bank balances as at 31 March 2013, if the interest rate had been 50 basis points higher or lower with all other variables held constant, the operating profit and total equity would have been approximately JPY93,051 higher or lower, gross of fees, for the period from 22 May 2012 (date of inception) to 31 March 2013, as a result of higher or lower interest income on bank balances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Sub-fund. Potential credit risk to the Sub-fund principally relates to financial assets, bank balances and receivables.

The Sub-fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings or good reputation, and that the Manager considers to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made when the broker has received payment. In a purchase, payment is made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail. Accordingly, there is no significant concentration of credit risk.

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

Counterparty	Credit rating	31.3.2013 JPY
Bank A	AA-	18,610,154
Custodian A	AA-	<u>1,543,981,880</u>
		<u><u>1,562,592,034</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability or selling a financial asset quickly at close to its fair value. The Manager monitors the liquidity of the Sub-fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis.

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

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

4 CASH AND CASH EQUIVALENTS

31.3.2013

JPY

Current deposits with banks

18,610,154

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

31.3.2013

JPY

Listed equity securities

1,543,981,880

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Period from 22.5.2012 * to 31.3.2013 JPY
Net realised gain	119,518,277
Change in unrealised gain or loss	295,038,654
	<u>414,556,931</u>

* Date of inception

7 TRUSTEE AND REGISTRAR FEES

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive trustee and registrar fees accrued daily and calculated as at each dealing day and payable monthly in arrears, which are determined based on the daily net asset value of the Sub-fund as below:

	Trustee and registrar fees per annum shown as % of net asset value
Net asset value	
First HK\$800 million (approximately JPY9,558 million**)	0.10%
Next HK\$800 million (approximately JPY9,558 million**)	0.08%
Next HK\$800 million (approximately JPY9,558 million**)	0.07%
Thereafter	0.06%

The trustee and registrar fees are subject to a minimum of HK\$64,000 (approximately JPY765,000**) per month, which will be reduced by 50% for the first 12 months from the launch date of the Sub-fund. The Trustee is also entitled to receive an establishment fee for the Sub-fund of HK\$40,000 (approximately JPY478,000**).

** Based on exchange rate as at 31 March 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 MANAGER'S FEE

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

9 TAXATION

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

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

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

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

- (a) The Sub-fund appointed the Manager, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. Manager's fee of JPY6,988,263 was charged to the statement of comprehensive income during the period. Included in liabilities as at 31 March 2013 is manager's fee payable of JPY911,163.
- (b) The Sub-fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. Trustee and registrar fees of JPY3,545,450 were charged to the statement of comprehensive income during the period. Included in liabilities as at 31 March 2013 is trustee and registrar fees payable of JPY382,327.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- (c) The Sub-fund maintains a bank account with The Hongkong and Shanghai Banking Corporation Limited, which is an intermediate holding company of the Trustee. Information relating to the bank account is set out below:

	31.3.2013 <i>JPY</i>
Bank balances	<u>18,610,154</u>
	Period from 22.5.2012 * to 31.3.2013 <i>JPY</i>
Bank charges	<u>391</u>

* *Date of inception*

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

	Number of units 31.3.2013
Mr. Cheah Cheng Hye*	769,300
Mr. Ho Man Kei, Norman**	136,300
Value Partners Limited***	<u>700,000</u>

* *Mr. Cheah Cheng Hye is a director of the Sub-investment Manager*

** *Mr. Ho Man Kei, Norman is a director of the Sub-investment Manager*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 REDEEMABLE UNITS IN ISSUE

Number of units
Period from
22.5.2012 *
to 31.3.2013
JPY

At the beginning of the period	—
Issue of redeemable units	10,500,000
	<hr/>
At the end of the period	10,500,000
	<hr/> <hr/>

* *Date of inception*

The rights attaching to each unit are as follows:

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

Any distributable profits of the Sub-fund may be accumulated or distributed by the Manager, in its absolute discretion. Where distributions are made, the distributable amounts are allocated rateably among the unitholders of the relevant class in accordance with the number of units of the relevant class held by the unitholders respectively on the final record date.

The Sub-fund does not have any externally imposed capital requirements.

In accordance with the Trust Deed, the net assets of the Sub-fund are computed at last traded prices of the underlying financial instruments for the purpose of calculating redemption amounts of the redeemable units. However, for the financial reporting purposes under IFRSs, the net assets are required to be valued at bid prices of the underlying financial instruments respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 DISTRIBUTIONS TO UNITHOLDERS

	Period from 22.5.2012 * to 31.3.2013 JPY
Amount available for distribution brought forward	—
Dividend income	34,491,046
Withholding tax	<u>(2,440,462)</u>
	32,050,584
Distributions to unitholders	<u>(14,540,017)</u>
Amount available for distribution carried forward	<u><u>17,510,567</u></u>

Distribution history

Distribution per unit	
– HK\$0.14 per unit on 9,800,000 units	1.4837
Date of distribution	28 December 2012

* *Date of inception*

13 FAIR VALUE INFORMATION

The Sub-fund's financial instruments are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including amounts due from/to brokers, accounts receivables, accounts payables and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 FAIR VALUE INFORMATION (Continued)

(a) Financial instruments carried at fair value

The following tables presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial instruments: Disclosures*, with the fair value of the financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

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

As at 31 March 2013

Level 1
JPY

Assets

Listed equity securities	<u><u>1,543,981,880</u></u>
--------------------------	-----------------------------

During the period ended 31 March 2013, there were no significant transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

(b) Financial instruments carried at other than fair value

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 SEGMENT REPORTING

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

The Manager considers that the Sub-fund has a single operating segment which is investing in a diversified portfolio of equity securities with the objective as stated in the investment objective and policies of the Sub-fund.

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of financial position.

The Sub-fund is established and domiciled in Hong Kong. The majority of the Sub-fund's investment income is derived from its investments domiciled in Japan (31 March 2013: 100%).

The Sub-fund has no assets classified as non-current as at 31 March 2013.

15 SOFT COMMISSION ARRANGEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 SOFT COMMISSION ARRANGEMENTS (Continued)

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

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

16 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 31 MARCH 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the period ended 31 March 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Sub-fund.

**Effective for
accounting periods
beginning on or after**

IFRS 13, <i>Fair value measurement</i>	1 January 2013
IFRS 9, <i>Financial instruments</i>	1 January 2015

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

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 MARCH 2013

	Holdings	Fair value JPY	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Listed equity securities			
<i>Japan</i>			
Aeon Co Ltd	29,670	36,049,050	2.31
Aisin Seiki Co Ltd	9,810	33,795,450	2.16
Asahi Glass Co Ltd	47,370	30,506,280	1.95
Asahi Group Holdings Ltd	21,390	48,106,110	3.08
Bank of Yokohama Ltd	62,310	33,896,640	2.17
Brother Industries Ltd	12,540	12,289,200	0.79
Central Japan Railway Co	9,000	89,280,000	5.71
Chiba Bank Ltd	38,490	25,903,770	1.66
Daihatsu Motor Co Ltd	10,410	20,268,270	1.30
Daito Trust Construction Co Ltd	3,810	30,556,200	1.95
Electric Power Development Co Ltd	7,290	17,984,430	1.15
Fukuoka Financial Group Inc	42,780	20,534,400	1.31
Hoya Corp	21,630	37,809,240	2.42
ITOCHU Corp	77,220	87,258,600	5.58
Kawasaki Heavy Industries Ltd	76,800	22,579,200	1.44
KDDI Corp	15,960	61,525,800	3.93
Kuraray Co Ltd	17,310	24,234,000	1.55
Mitsubishi Corp	39,510	68,826,420	4.40
Mitsui & Co Ltd	55,650	73,012,800	4.67
Nippon Telegraph & Telephone Corp	15,930	65,392,650	4.18
Nomura Research Institute Ltd	4,920	11,867,040	0.76
NTT DOCOMO Inc	374	52,995,800	3.39
Osaka Gas Co Ltd	98,490	40,676,370	2.60
Otsuka Holdings Co Ltd	19,140	62,970,600	4.03
Sekisui Chemical Co Ltd	21,270	21,929,370	1.40

VALUE JAPAN ETF

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

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 MARCH 2013

	Holdings	Fair value JPY	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)			
Listed equity securities (Continued)			
<i>Japan (Continued)</i>			
Sekisui House Ltd	28,290	36,069,750	2.31
Seven & I Holdings Co Ltd	26,940	83,514,000	5.34
Shizuoka Bank Ltd	31,440	33,232,080	2.12
Sumitomo Metal Mining Co Ltd	26,490	35,576,070	2.27
Sumitomo Mitsui Trust Holdings Inc	172,020	76,204,860	4.87
Tokyo Gas Co Ltd	125,040	64,145,520	4.10
Toshiba Corp	204,540	96,542,880	6.17
Toyota Tsusho Corp	11,220	27,365,580	1.75
West Japan Railway Co	9,450	42,572,250	2.72
Yamada Denki Co Ltd	4,320	18,511,200	1.18
Total financial assets at fair value through profit or loss		1,543,981,880	98.72
Cash and cash equivalents		18,610,154	1.19
Other net assets		1,454,300	0.09
Total net assets		<u>1,564,046,334</u>	<u>100.00</u>
Total investments, at cost		<u>1,248,943,226</u>	

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

FOR THE PERIOD ENDED 31 MARCH 2013

	% of net assets 31.3.2013
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	
Listed equity securities	
Japan	98.72
Total financial assets at fair value through profit or loss	98.72
Cash and cash equivalents	1.19
Other net assets	0.09
Total net assets	<u>100.00</u>

VALUE JAPAN ETF

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

PERFORMANCE RECORD (UNAUDITED)

FOR THE PERIOD ENDED 31 MARCH 2013

Net asset value (at last traded prices)

	Net asset value per unit JPY	Net asset value JPY
As at 31 March 2013	149.1969	1,566,567,284

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

	Highest net asset value per unit JPY	Lowest net asset value per unit JPY
Period ended 31 March 2013	150.2973	101.6097