

Annual Report

VL CHINA FUND

(A sub-fund of VL Trusts, an umbrella unit trust established under the laws
of Hong Kong)

For the year ended 30 June 2019

VL CHINA FUND

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VL CHINA FUND

MANAGEMENT AND ADMINISTRATION

Manager

VL Asset Management Limited
Unit 1807, FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Directors of the Manager

LAM Siu Yeung
WONG Koon Man Adrian

Trustee

Standard Chartered Trust (Hong Kong) Limited
13/F Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

Administrator, Registrar and Custodian

Standard Chartered Bank (Hong Kong) Limited
32/F Standard Chartered Bank Building
4-4A Des Voeux Road Central
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Auditor

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

Legal Counsel to the Manager

Simmons & Simmons
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One Taikoo Place
979 King's Road
Hong Kong

REPORT OF THE MANAGER TO THE UNITHOLDERS

Full-Year Report

As at 30 June 2019

This Report does not constitute an offer of units. Units are offered on the basis of the information contained in the current Explanatory Memorandum (and the documents referred to within it), copies of which are available from the registered office of the Manager or from any of the companies registered as distributors of VL China Fund (the "Sub-Fund").

Review

During the period under review, the broader markets in Hong Kong and China underwent a turbulent swing with June to December 2018 being hit by intensified tensions from Sino-US trade war and a number of PRC policy risks, followed by a rebound in January to June 2019 amid improved sentiment due to monetary easing measures pursued by the US and China. Chinese regulators' suspension of Tencent's (700 HK) sales of a new video game, the banning of private education groups from acquiring or merging with non-profit schools and implementation of centralized procurement of generic drugs were the major headwinds in 2018 (but the impact has since diminished in 2019). The operational tightening against the information technology (IT), education and healthcare sectors¹ led to a broad sell-down. During 2018, healthcare and IT were often among the Sub-Fund's top two sectors and hence its performance was adversely affected. However, healthcare stocks rebounded fast in 2019 bringing ample investment gains to the Sub-Fund and the positive momentum has continued.

Healthcare plays aside, selective PRC consumer goods manufacturers including Chinese white liquor producers and household electrical appliance producers were (and remain, as at the time of writing) reporting strong earnings growth during the year under review, driving their stock prices higher. During the first half of 2019, the most profit-making segments in the Sub-Fund comprised healthcare stocks, Chinese white liquor producers and household electrical appliance manufacturers. The top holdings included Sino Biopharmaceutical (1177 HK), Kweichow Mountain (600519 CH), Midea (000333 CH), Luzhou Laojiao (000568 CH) and Wuliangye Yibin (000858 CH), followed by China Merchants Bank (3968 HK) and Citic Telecom International.

For the full financial year, Citic Telecom, Luzhou Laojiao, Wuliangye Yibin, Kweichow Moutai, China Merchants Bank, Natural Beauty Bio-Technology (157 HK), Ping An Insurance (2318 HK), SITC International (1308 HK) and Midea (000333 CH) constituted the Sub-Fund's biggest contributors of investment returns. Prudence dictates that we do not rely on one single sector to generate investment profits. Instead we were diversified into several sectors to reduce any mark-to-market volatility should a specific sector experience a temporary set-back.

Apart from prudence, patience is equally vital and to which every investor must pay heed (including yours truly) and Sino Biopharm, our biggest holding, offers a good illustration of this investment wisdom. First listed on the Growth Enterprise Market (GEM) 20 years ago and later re-listed on the main board, Sino Biopharm is a stock which our Chief Investment Officer has been following and investing in for two decades. For the Sub-Fund, we made an initial buy in June 2017. Unlike most GEM-listed companies, it was profit-making before going public. The most profitable business the company owned was the manufacture of eye care products under the brand Bausch & Lomb, which was then sold for several billions Hong Kong dollars. The PRC healthcare sector had a very difficult time in the second half of last year due to policy changes. Yet Sino Biopharm managed to report full-year 2018 revenue and adjusted earnings which grew 41% year-on-year (YoY) and 37% YoY in RMB terms respectively. Notably, their oncology drugs posted a strong performance, with sales reaching RMB3.2bn, up 100% YoY on the back of its newly launched anlotinib capsule which entered the national reimbursement drug list. Anlotinib is expected to win further approvals in additional indications as and when upcoming trials results are announced. We expect the company's fast growing oncology franchise to mitigate the negative revenue impact of its entecavir generic from price cuts in the centralized procurement program. So, despite the dramatic stock price decline last year, being patient with (namely buying and steadfastly holding onto) Sino Biopharm (an industry leader with solid growth prospects) has offered a more handsome pay off than exiting at the first sight of perceived trouble and having to buy back at a price higher than the exit level.

To strengthen the portfolio's defensiveness, we added several utility-like stocks such as PCCW (8 HK) which has a steady customer base and recurrent income. We also added some companies independent of the US market and therefore exposed to smaller trade war risk. One example is SITC International, a container shipping and logistics service operator which targets mainly China, Japan and other Asian countries. In the first six months of 2019, the stock was up approximately 8% but dividend yield stood at over 6%. Another example is China Merchants Bank, which stock price was up 38.95% in the same half year with dividend yield of 3%.

The Sub-Fund was almost fully invested with 0.87%² cash as at 28 June 2019.

Outlook

As of 30 June 2019, the Sub-Fund has an exposure of 71.42% to Hong Kong-listed stocks, 20.03% to China-listed stocks and 7.68% in US-listed stocks. China A-shares staged a rally in January 2019 on expectation that their weighting in the MSCI Index will increase. That benefited the Sub-Fund as our non-Hong Kong exposure was primarily in A-shares and we are relatively early investors in China A-shares. As of 30 August 2019, the Sub-Fund's exposure to A-shares had further increased to 24% (28 June 2019: 19.42%) and the cumulative investment returns of this segment has boosted the Sub-Fund's YoY gains to approximately 20% (both classes).

Given the deep potential of the China A-share market, we have been trying to maximize our exposure to this region. Sectors ranging from healthcare, PRC household electric appliances manufacturers, social media, Chinese white liquor to seasoning manufacturers have all been demonstrating robust growth over the past financial year and the momentum is still going on. In light of China's huge population (which is ageing) and her ever-increasing consumption power, it appears that the earnings growth prospects of the above-mentioned sectors is sustainable.

In mid-July 2019, the National Healthcare Security Administration indicated that the second round of GPO would start in the second half of 2020, which is 6-12 months later than market expectations. More importantly, the centralised procurement will expand nationwide and allow multiple winners (up to 3 players). This removes earlier fears of deep price discounting and any significant negative earnings impact on the healthcare sector would be more mitigated. Furthermore, on the basis of price in exchange for volume, it is expected that the generic drugs market would become more concentrated, which would be favourable to large pharmaceutical enterprises. In a nutshell, healthcare is at least a decade-long secular theme which has just begun and should not be underestimated.

US President Trump's swinging policies have created obstacles to the growth of China's exports and a number of industries. Nevertheless, to shore up her economy, the Beijing administration should be able to adopt various fiscal and monetary strategies such as reducing banks' required reserve ratio, enlarging the financing for infrastructure projects, increasing the issue size of provincial government bonds and enhancing the social security or welfare system. Notwithstanding the current challenging social and political situations facing us, individual listed companies are still presenting robust earnings results and the PRC equity market is abound with opportunities. Operating within our sphere of knowledge, keeping discipline but remaining flexible when executing investment ideas is what we do, and will continue to do, to build up sustainable value growth for the Sub-Fund's investors.

Fund performance

The Sub-Fund was down 8.57% (Class A) and 7.88%³ (Class B) over the period 1 July 2018 to 30 June 2019. For reference purposes, the MSCI China Index was down 7.15% while the Hang Seng Index was up 2.34%⁴, both with dividends reinvested, over the same period.

VL Asset Management Limited
25 October 2019

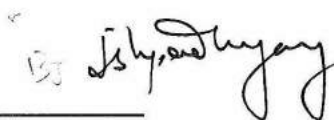
¹ Definition of sectors follow Bloomberg.

² The definition of cash in this specific context refers to cash in bank, trade and dividend receivables, prepaid expenses and expense accruals.

³ VL China Fund Class A Unit, calculated by VL Asset Management Limited in HKD on a NAV to NAV basis with dividend invested. Calculation is based on published NAV.

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, the Manager of VL China Fund has, in all material respects, managed the VL China Fund in accordance with the provisions of the trust deed dated 16 February 2015, (the "Trust Deed") for the year ended 30 June 2019.



Standard Chartered Trust (Hong Kong) Limited
25 October 2019



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Independent auditor's report

To the Trustee and Manager of VL CHINA FUND

(A sub-fund of VL Trusts, an umbrella unit trust established under the laws of Hong Kong)

Report on the audit of financial statements

Opinion

We have audited the financial statements of the VL China Fund (a sub-fund of VL Trusts (the "Trust") and referred to as the "Sub-Fund") set out on pages 8 to 39, which comprise the statement of financial position as at 30 June 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Other information included in the Annual Report

The Trustee and the Manager of the Sub-Fund are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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

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

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

The Trustee and the Manager of the Sub-Fund are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the trust deed of the Trust (the "Trust Deed") and the disclosure requirements specified in Appendix E to the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the "SFC Code") and for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Independent auditor's report (continued)

To the Trustee and Manager of VL CHINA FUND

(A sub-fund of VL Trusts, an umbrella unit trust established under the laws of Hong Kong)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

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

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

We communicate with the Trustee and the Manager 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.



Independent auditor's report (continued)

To the Trustee and Manager of VL CHINA FUND

(A sub-fund of VL Trusts, an umbrella unit trust established under the laws of Hong Kong)

Report on matters under the relevant 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.



Certified Public Accountants
Hong Kong
25 October 2019

VL CHINA FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	2019 HK\$	2018 HK\$
INCOME			
Dividend income		6,054,597	7,572,766
Net (losses)/gains on financial assets at fair value through profit or loss	6	(26,969,401)	31,432,629
Net foreign exchange differences		(19,562)	(15,059)
Interest income		3,981	998
Other income		1,038	-
		<u>(20,929,347)</u>	<u>38,991,334</u>
EXPENSES			
Management fees	4(c)	2,226,018	2,828,194
Trustee fees	4(a)	720,308	721,531
Performance fees	4(d)	-	2,997,663
Custodian fees	4(e)	186,858	202,288
Auditor's remuneration		234,457	200,206
Brokerage commission		455,007	678,674
Transaction costs		395,573	743,571
Legal and professional fees		-	39,920
Bank charges		1,200	1,200
Other operating expenses		43,242	43,200
		<u>4,262,663</u>	<u>8,456,447</u>
(LOSS)/PROFIT BEFORE TAX		<u>(25,192,010)</u>	<u>30,534,887</u>
Withholding taxes	5	<u>(231,104)</u>	<u>(293,917)</u>
(DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(25,423,114)</u>	<u>30,240,970</u>

VL CHINA FUND

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	2019 HK\$	2018 HK\$
ASSETS			
Financial assets at fair value through profit or loss	6, 7	235,401,727	296,701,881
Amount due from a broker	8	1,866,617	345,707
Dividends receivable, net of withholding taxes		765,988	1,070,258
Cash and bank balances	9	<u>2,215,615</u>	<u>19,569,196</u>
TOTAL ASSETS		<u><u>240,249,947</u></u>	<u><u>317,687,042</u></u>
LIABILITIES			
Amounts due to brokers	8	2,319,480	5,009,636
Amount due to the Manager	14(c)	10	10
Management fee payable	4(c)	317,535	481,531
Trustee fee payable	4(a)	54,761	110,455
Performance fee payable	4(d)	-	2,997,663
Redemption payable		-	275,695
Accruals and other payables	4(e)	<u>283,717</u>	<u>282,107</u>
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u>2,975,503</u>	<u>9,157,097</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	11	<u>237,274,444</u>	<u>308,529,945</u>
TOTAL LIABILITIES (INCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u><u>240,249,947</u></u>	<u><u>317,687,042</u></u>
NUMBER OF UNITS IN ISSUE			
- Class A	10	<u>224,684.7224</u>	<u>486,216.2506</u>
- Class B	10	<u>2,082,104.8000</u>	<u>2,282,104.8000</u>
NET ASSET VALUE PER UNIT			
		HK\$	HK\$
- Class A	11	<u>99.5909</u>	<u>108.8815</u>
- Class B	11	<u>103.2119</u>	<u>111.9975</u>

VL Asset Management Limited
Manager

Standard Chartered Trust (Hong Kong) Limited
Trustee

VL CHINA FUND

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 30 June 2019

	Note	Class A HK\$	Class B HK\$	Total HK\$
At 1 July 2017		53,513,059	230,488,919	284,001,978
Subscriptions of units	10	2,249,375	-	2,249,375
Redemptions of units	10	(7,962,378)	-	(7,962,378)
Increase in net assets attributable to unitholders and total comprehensive income for the year		<u>5,139,883</u>	<u>25,101,087</u>	<u>30,240,970</u>
At 30 June 2018 and 1 July 2018		52,939,939	255,590,006	308,529,945
Subscriptions of units	10	2,000,000	-	2,000,000
Redemptions of units	10	(27,228,671)	(20,603,716)	(47,832,387)
Decrease in net assets attributable to unitholders and total comprehensive income for the year		<u>(5,334,714)</u>	<u>(20,088,400)</u>	<u>(25,423,114)</u>
At 30 June 2019		<u>22,376,554</u>	<u>214,897,890</u>	<u>237,274,444</u>

VL CHINA FUND

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Notes	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(25,192,010)	30,534,887
Adjustments to reconcile changes in net assets attributable to unitholders to net cash from/ (used in) operating activities:			
Dividend income		(6,054,597)	(7,572,766)
Interest income		(3,981)	(998)
Other income		(1,038)	-
		<u>(31,251,626)</u>	<u>22,961,123</u>
Decrease/(increase) in financial assets at fair value through profit or loss	6	61,300,154	(17,673,009)
(Increase)/decrease in amount due from a broker		(1,520,910)	350,925
(Decrease)/increase in amounts due to brokers		(2,690,156)	5,009,636
(Decrease)/increase in management fee payable		(163,996)	50,201
Decrease in trustee fee payable		(55,694)	(3,156)
(Decrease)/increase in performance fee payable		(2,997,663)	2,776,493
Increase in accruals and other payables		1,610	8,633
Cash flows from operations		<u>22,621,719</u>	<u>13,480,846</u>
Withholding taxes paid	5	(231,104)	(293,917)
Dividends received		6,358,867	9,130,865
Interest received		3,981	998
Other income received		1,038	-
Net cash flows from operating activities		<u>28,754,501</u>	<u>22,318,792</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units		2,000,000	2,249,375
Payment on redemption of units		(48,108,082)	(7,739,860)
Net cash flows used in financing activities		<u>(46,108,082)</u>	<u>(5,490,485)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(17,353,581)	16,828,307
Cash and cash equivalents at beginning of year		<u>19,569,196</u>	<u>2,740,889</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,215,615</u>	<u>19,569,196</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash at bank	9	<u>2,215,615</u>	<u>19,569,196</u>

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

30 June 2019

1. THE SUB-FUND

VL Trusts (the "Trust") is an umbrella unit trust established under the laws of Hong Kong by the trust deed dated 16 February 2015 (the "Trust Deed") between VL Asset Management Limited as manager (the "Manager") and Standard Chartered Trust (Hong Kong) Limited as trustee (the "Trustee"). The Trust has been established as an umbrella fund and separate and distinct sub-funds may be established by the Manager and the Trustee within the Trust.

VL China Fund (the "Sub-Fund") is a sub-fund of the Trust. The Trust and the Sub-Fund are authorised by the Securities and Futures Commission (the "SFC") pursuant to section 104(1) of the Securities and Futures Ordinance and are required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC (the "SFC Code"). Authorisation by the SFC does not imply official approval or recommendation. The date of inception of the Sub-Fund was on 10 August 2015 with a financial year-end of 30 June.

The investment objective of the Sub-Fund is to provide long-term capital appreciation by investing in a diversified portfolio of equity securities of companies in different industry sectors whose primary business focus is in the China region.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, and the relevant disclosure requirements specified in the Trust Deed of the Trust and Appendix E to the SFC Code.

The financial statements have been prepared on a historical cost basis, except for financial assets classified at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest dollars, except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The Sub-Fund applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The Sub-Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2018, they did not have a material impact on the financial statements of the Sub-Fund. The nature and the impact of each new standard or amendment which is applicable to the Sub-Fund is described below:

IFRS 9 *Financial Instruments*

The Sub-Fund adopted IFRS 9 *Financial Instruments* on 1 July 2018. IFRS 9 replaces International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") 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 July 2018, the date of initial application.

30 June 2019

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE (continued)

IFRS 9 *Financial Instruments* (continued)

(a) Classification and measurement

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

- (i) All financial assets previously held at fair value continue to be measured at fair value.
- (ii) Listed equity securities are acquired for the purpose of generating short-term profit. Therefore, it meets the held-for-trading criteria and are required to be measured at fair Value through profit or loss ("FVPL").
- (iii) Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments continue to be measured at amortised cost under IFRS 9.
- (iv) The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. The main impact on measurement from the classification of liabilities under IFRS 9 relates to the element of gains or losses for financial liabilities designated as at FVPL attributable to changes in credit risk. IFRS 9 requires that such element be recognised in other comprehensive income ("OCI"), unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss.

(b) Impairment

For financial assets carried at amortised cost, including amount due from a broker, dividends receivable net of withholding taxes and cash and bank balances, the expected credit loss ("ECL") is based on the 12-month ECL.

This represents the portion of lifetime expected credit loss 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 Sub-Fund has closely monitored the credit qualities and the collectability of these financial assets at amortised cost and consider that given the limited exposure of the Sub-Fund to credit risk, this requirement has not had a material impact on the financial statements.

(c) Hedge accounting

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

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

30 June 2019

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE (continued)

IFRS 9 Financial Instruments (continued)

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 July 2018. However, the Sub-Fund has chosen to take advantage of the option not to restate comparatives. Therefore, the 2018 figures are presented and measured under IAS 39. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Sub-Fund's financial assets and financial liabilities as at 1 July 2018:

	<u>IAS 39 measurement</u>		<u>IFRS 9 measurement</u>	
	Category	Amount HK\$	Amount HK\$	Category
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	Held for trading at FVPL	296,701,881	296,701,881	FVPL
Amount due from a broker	Loans and receivables	345,707	345,707	Amortised cost
Dividends receivable, net of withholding taxes	Loans and receivables	1,070,258	1,070,258	Amortised cost
Cash and bank balances	Loans and receivables	19,569,196	19,569,196	Amortised cost
<u>Financial liabilities</u>				
Amounts due to brokers	Other financial liabilities	5,009,636	5,009,636	Amortised cost
Amount due to the Manager	Other financial liabilities	10	10	Amortised cost
Management fee payable	Other financial liabilities	481,531	481,531	Amortised cost
Trustee fee payable	Other financial liabilities	110,455	110,455	Amortised cost
Performance fee payable	Other financial liabilities	2,997,663	2,997,663	Amortised cost
Redemption payable	Other financial liabilities	275,695	275,695	Amortised cost
Accruals and other payables	Other financial liabilities	282,107	282,107	Amortised cost
Net assets attributable to unitholders	Designated at FVPL upon initial recognition	308,529,945	308,529,945	FVPL

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2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE (continued)

IFRS 9 Financial Instruments (continued)

Impact of adoption of IFRS 9 (continued)

In line with the characteristics of the Sub-Fund's financial instruments as well as its approach to their management, the Sub-Fund 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-Fund's 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-Fund's amortised cost financial assets. No ECL allowance has been recorded.

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-Fund adopted IFRS 15 *Revenue from contracts with customers* on 1 July 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-Fund.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The standards and interpretations that are issued, but not yet effective, up to the date of the Sub-Fund's financial statements are disclosed below, except for those standards which, in the opinion of the Trustee and the Manager, will clearly not impact the Sub-Fund. The Sub-Fund intends to adopt these standards, if applicable, when they become effective.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation was issued in June 2017 and addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether the Sub-Fund considers uncertain tax treatments separately
- The assumptions the Sub-Fund makes about the examination of tax treatments by taxation authorities
- How the Sub-Fund determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates
- How the Sub-Fund considers changes in facts and circumstances

The Trustee and Manager of the Sub-Fund expect to adopt the interpretation on 1 July 2019. The interpretation is not expected to have any significant impact on the financial position or performance of the Sub-Fund upon adoption.

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2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Sub-Fund's accounting policies, management has not made any significant judgements which have the significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

No significant estimation uncertainty that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year exists at the end of the reporting period.

Fair value of financial instruments

When the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instruments (without modification or repackaging) or based on any available observable market data.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The Sub-Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective investment's domicile. As the Sub-Fund assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

Financial instruments

In the current period, the Sub-Fund has adopted IFRS 9 *Financial Instruments*. See Note 2.2 for an explanation of the impact. Comparative figures for the year ended 30 June 2018 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

(iA) Classification - Policy effective from 1 July 2018 (IFRS 9)

In accordance with IFRS 9, the Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying 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).

Financial assets

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

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

Financial assets measured at amortised cost

The Sub-Fund includes in this category short-term non-financing receivables including amount due from a broker, dividends receivable net of withholding taxes and cash and bank balances.

Financial assets measured at FVPL

A financial asset is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; or
- (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.

The Sub-Fund includes in this category instruments held for trading. This category includes equity 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iA) Classification - Policy effective from 1 July 2018 (IFRS 9) (continued)

Financial liabilities

Financial liabilities measured at FVPL

A financial liability is measured at FVPL if it meets the definition of held for trading. The Sub-Fund includes in this category, derivative contracts in a liability position and equity securities sold short since they are classified as held for trading. The Sub-Fund also includes its net assets attributable to unitholders in this category and the Sub-Fund's accounting policy regarding the net assets attributable to unitholders is described in note 3 below.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at FVPL. The Sub-Fund includes amounts due to brokers, amount due to the Manager, management fee payable, trustee fee payable, performance fee payable, and accruals and other payables in this category.

(iB) Classification - Policy effective before 1 July 2018 (IAS 39)

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

Financial assets and financial liabilities held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes listed common shares and american depository receipt. These assets and liabilities are acquired principally for the purpose of generating a profit from short-term fluctuation in price. All liabilities from short sales of financial instruments are classified as held for trading. The Sub-Fund's policy is not to apply hedge accounting.

Financial instruments designated as at FVPL upon initial recognition

These financial assets and liabilities are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Sub-Fund, as set out in the Sub-Fund's Explanatory Memorandum. This category includes net assets attributable to unitholders, which according policy is described in note 3 below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to amount due from a broker, dividends receivable net of withholding taxes and cash and bank balances.

Other financial liabilities

This category includes all financial liabilities, other than those classified as at fair value through profit or loss. The Sub-Fund includes in this category amounts relating to amounts due to brokers, management fee payable, trustee fee payable, performance fee payable, redemption payable, and accruals and other payables.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Recognition

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

All purchases or sales of financial instruments that require delivery within the time frame generally established by regulation or convention in the market place are recognised on the trade date, which is, the date that the Sub-Fund commits to purchase or sell the investments.

(iii) Initial measurement

Financial assets and liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in statement of profit or loss and other comprehensive income.

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

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are presented in the statement of profit or loss and other comprehensive income within 'Net gains or losses on financial assets and liabilities at fair value through profit or loss' in the period in which they arise.

Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense in the statement of profit or loss and other comprehensive income.

Debt instruments, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the debt instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Sub-Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Sub-Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Sub-Fund has transferred substantially all the risks and rewards of the asset; or (b) the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Sub-Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Fund's continuing involvement in the asset. In that case, the Sub-Fund also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Fund has retained. The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Impairment of financial assets

Policy effective from 1 July 2018 (IFRS 9)

The Sub-Fund recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Sub-Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which 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 (a lifetime ECL).

The Sub-Fund may also consider a financial asset to be in default when internal or external information indicates that the Sub-Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Sub-Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Policy effective before 1 July 2018 (IAS 39)

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income as a 'Credit loss expense'.

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Fund. If a previous write-off is later recovered, the recovery is credited to profit or loss as a 'Credit loss expense'.

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

Fair value measurement

The Sub-Fund measures its investments in financial instruments, such as equities, at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Sub-Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (within the bid-ask spread), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported on the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Since the Sub-Fund does not have a master netting arrangement, offsetting is not applied by the Sub-Fund.

Functional and presentation currency

The Sub-Fund's functional and presentation currency is the HK\$, which is the currency of the primary economic environment in which it operates. The Sub-Fund's performance and its liquidity are evaluated and managed, respectively, in HK\$. Therefore, the HK\$ is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the statement of profit or loss and other comprehensive income as part of the 'Net gains or losses on financial assets and liabilities at fair value through profit or loss'. Foreign exchange differences on other financial instruments are included in the statement of profit or loss and other comprehensive income as 'Net foreign exchange differences'.

Net assets attributable to unitholders

Net assets attributable to unitholders are redeemable at the holders' option and are classified as financial liabilities as they do not meet the conditions to be classified as equity. The liabilities arising from the units are measured at the redemption amount being the net asset value calculated in accordance with IFRS.

The Sub-Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders (calculated in accordance with redemption requirements) by the number of units in issue.

Distributions to unitholders

Distributions to unitholders are recognised in the statement of profit or loss and other comprehensive income as finance costs.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend income and expense

Dividend income is recognised on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, when the Sub-Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of profit or loss and other comprehensive income. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

Interest income

Interest income are recognised in the statement of profit or loss and other comprehensive income for all interest-bearing financial instruments using the effective interest method.

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

This item includes changes in the fair value of financial assets and liabilities held for trading and excludes interest and dividend income and expense.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of prior year's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as 'at fair value through profit or loss' are calculated using the weighted average method. They represent the difference between an instrument's weighted average cost and the disposal amount.

Withholding taxes

The Sub-Fund is exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of profit or loss and other comprehensive income.

For the purpose of the statement of cash flows, cash inflows from investments are presented gross of withholding taxes, when applicable.

Related parties

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

- a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Sub-Fund;
 - (ii) has significant influence over the Sub-Fund; or
 - (iii) is a member of the key management personnel of the Sub-Fund or of a parent of the Sub-Fund; or

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Sub-Fund are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the entity);
 - (iii) the entity and the Sub-Fund are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-Fund or an entity related to the Sub-Fund;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

4. FEES

(a) Trustee fees

The Trustee is entitled to receive a trustee fee of 0.11% per annum if the net asset value of the Sub-Fund is below US\$150 million and 0.09% per annum on the excess if the net asset value of the Sub-Fund is US\$150 million or above subject to the following minimum monthly fee: US\$4,000 for the first 6 calendar months following the close of the initial offer period of the Sub-Fund (the "Initial Offer Period"); US\$5,000 during the seventh to twelfth months following the close of the Initial Offer Period; US\$7,000 from the thirteenth month following the close of the Initial Offer Period and onwards. The trustee fee will be accrued as at each valuation day (as defined in the explanatory memorandum of the Trust and the Sub-Fund (the "Explanatory Memorandum")) and will be payable monthly in arrears. This fee covers the fees to Standard Chartered Bank (Hong Kong) Limited (the "Administrator") which the Trustee appoints.

The Trustee is also entitled to recover out-of-pocket expenses in performing its services together with certain transaction costs and processing fees.

(b) Administration fees

The Administration fee is already included in the Trustee fee.

(c) Management fees

The Manager is entitled to receive a management fee of 1.5% per annum of the net asset value of Class A units and 0.75% per annum of the net asset value of Class B units (before deduction of that month's management fee and before making any deduction for any accrued performance fee). The management fee is accrued and calculated as at each valuation day and payable monthly in arrears.

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4. FEES (continued)

(d) Performance fees

The Manager is also entitled to receive a performance fee at 15% of Class A units and 7.5% of Class B units of the appreciation of the net asset value per unit of the relevant class (before deduction of any provision for any performance fee and any distribution declared or paid in respect of the performance period) during the calculation year above the "base net asset value" per unit of that class. The "base net asset value" is the greater of the net asset value per unit of the relevant class at the time of issue of that unit, and the highest net asset value per unit of that class achieved as at the end of any previous calculation period (if any) during which such unit was in issue.

There is no equalisation arrangement in respect of the calculation of the performance fees. There is no adjustment of equalisation credit or equalisation losses on an individual unitholder basis based on the timing the relevant unitholder subscribes or redeems the relevant units during the course of a performance period. The unitholder may be advantaged or disadvantaged as a result of this method of calculating the performance fee.

The performance fee in respect of each unit is payable in respect of each calculation period. The "calculation period" is a period of 12 calendar months commencing on each 1 July. The performance fee is deemed to accrue monthly as at each valuation day.

(e) Custodian fees

The Administrator is entitled to receive safekeeping fees of 0.06% per annum for China securities, 0.03% per annum for Hong Kong securities, 0.054% per annum for SH-HK/SZ-HK StockConnect securities, 0.07% per annum for Taiwan securities, and 0.015% per annum for United States securities on the market value of the securities as at month end. The Administrator is also entitled to receive transaction fee of US\$34 per transaction for China securities, US\$15 per transaction for Hong Kong securities, US\$20 per transaction for SH-HK/SZ-HK StockConnect securities, US\$23 per transaction for Taiwan securities and US\$10 per transaction for United States securities. These fees are payable monthly in arrears.

As at 30 June 2019, custodian fee of HK\$10,238 (2018: HK\$27,130) was payable to the Administrator. The balance was recorded under 'Accruals and other payables' in the statement of financial position.

5. INCOME TAX

The Sub-Funds of the Trust are exempt from Hong Kong profits tax on income arising from its authorised activities under Section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

Under PRC laws and regulations, foreign investors (such as the Sub-Fund) may be subject to a 10% withholding income tax on income (such as dividend/interest and capital gains) imposed on securities issued by PRC tax resident enterprises. There is no assurance that the rate of the withholding tax will not be changed by the PRC tax authorities in the future.

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

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6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK\$	2018 HK\$
Financial assets at fair value through profit or loss		
Listed common shares, at cost	208,089,048	252,177,530
Unrealised gains on listed common shares	<u>9,077,540</u>	<u>12,837,030</u>
Listed common shares, at fair value	<u>217,166,588</u>	<u>265,014,560</u>
American depository receipts, at cost	24,140,291	32,786,063
Unrealised losses on american depository receipts	<u>(5,905,152)</u>	<u>(1,098,742)</u>
American depository receipts, at fair value	<u>18,235,139</u>	<u>31,687,321</u>
Financial assets at fair value through profit or loss	<u><u>235,401,727</u></u>	<u><u>296,701,881</u></u>

Net changes in fair value of financial assets through profit or loss

	Net realised gains HK\$	Net unrealised losses HK\$	Total HK\$
2019			
Financial assets			
At fair value through profit or loss	<u>(18,403,501)</u>	<u>(8,565,900)</u>	<u>(26,969,401)</u>
Net changes in fair value	<u>(18,403,501)</u>	<u>(8,565,900)</u>	<u>(26,969,401)</u>
2018			
Financial assets			
At fair value through profit or loss	<u>36,258,898</u>	<u>(4,826,269)</u>	<u>31,432,629</u>
Net changes in fair value	<u>36,258,898</u>	<u>(4,826,269)</u>	<u>31,432,629</u>

As at 30 June 2019, the balance of financial assets at fair value through profit or loss represents an amount of HK\$235,401,727 (2018: HK\$296,701,881) held with Standard Chartered Bank (Hong Kong) Limited, an affiliate of the Trustee.

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

30 June 2019

7. FAIR VALUE HIERARCHY

The following table hierarchy shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

	Quoted prices in active markets (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
2019				
<u>Financial assets at fair value through profit or loss</u>				
Listed common shares	217,166,588	-	-	217,166,588
American depository receipts	18,235,139	-	-	18,235,139
	<u>235,401,727</u>	<u>-</u>	<u>-</u>	<u>235,401,727</u>
2018				
<u>Financial assets at fair value through profit or loss</u>				
Listed common shares	265,014,560	-	-	265,014,560
American depository receipts	31,687,321	-	-	31,687,321
	<u>296,701,881</u>	<u>-</u>	<u>-</u>	<u>296,701,881</u>

There have been no transfers between Level 1 and Level 2 during the year (2018: Nil) and no transfers into or out of Level 3 for the year ended 30 June 2019 (2018: Nil).

Valuation techniques

When fair values of listed common shares and american depository receipts are based on quoted market prices, or binding dealer price quotations (within the bid-ask spread), in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Sub-Fund values these investments at last traded price (within the bid-ask spread).

8. AMOUNTS DUE FROM/TO BROKERS

The brokers used by the Sub-fund includes Merrill Lynch Far East Limited ("Merrill Lynch"), DBS Vickers and Huatai Financial Holdings (Hong Kong) Limited.

	2019 HK\$	2018 HK\$
Amount due from a broker:		
Receivable for securities sold but not yet received	<u>1,866,617</u>	<u>345,707</u>
Amounts due to brokers:		
Payables for securities purchased but not yet settled	<u>2,319,480</u>	<u>5,009,636</u>

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NOTES TO FINANCIAL STATEMENTS

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9. CASH AND BANK BALANCES

As at 30 June 2019, the balance of cash and bank balances held in an interest-bearing account with Standard Chartered Bank (Hong Kong) Limited.

10. NUMBER OF UNITS IN ISSUE

The following is the subscription/(redemption) of units of the Sub-Fund for the years ended 30 June 2019 and 2018:

	Class A Number of units	Class B Number of units	Total Number of units
2019			
At 1 July 2018	486,216.2506	2,282,104.8000	2,768,321.0506
Subscription of units	18,297.9771	-	18,297.9771
Redemption of units	<u>(279,829.5053)</u>	<u>(200,000.0000)</u>	<u>(479,829.5053)</u>
At 30 June 2019	<u>224,684.7224</u>	<u>2,082,104.8000</u>	<u>2,306,789.5224</u>
2018			
At 1 July 2017	536,925.7667	2,282,104.8000	2,819,030.5667
Subscription of units	20,983.9627	-	20,983.9627
Redemption of units	<u>(71,693.4788)</u>	<u>-</u>	<u>(71,693.4788)</u>
At 30 June 2018	<u>486,216.2506</u>	<u>2,282,104.8000</u>	<u>2,768,321.0506</u>

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10. NUMBER OF UNITS IN ISSUE (continued)

The Sub-Fund's units consist of Class A shares and Class B shares. They participate in the profits and losses of the Sub-Fund and are entitled to vote at meetings of unitholders of the Sub-Fund. Each of the Class A shares and Class B shares entitles the holder to participate equally on a pro rata basis in the profits and losses and dividends of the Sub-Fund. The minimum initial investment and minimum holding for Class A and Class B are HK\$50,000 and HK\$39,000,000 respectively. The minimum subsequent investment and minimum redemption amount for Class A and Class B are HK\$5,000 and HK\$1,000,000 respectively. The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case).

The Initial Offer Period of the Sub-Fund commenced on 3 August 2015 and ended on 7 August 2015. The initial subscription price is HK\$100 per unit for both Classes A and B units. During the Initial Offer Period of the Sub-Fund, the Manager may accept both cash and non-cash subscriptions. In the case of non-cash subscriptions, no units shall be issued until the non-cash consideration is vested in the Sub-Fund to the satisfaction of the Trustee. The number of units to be issued shall be that number which would have been issued at the initial subscription price per unit against payment of a sum equal to the value of the non-cash consideration transferred plus such sum as the Manager may consider represents an appropriate provision for fiscal and purchase charges which would be incurred in the purchase of the non-cash consideration but less such sum as the Manager may consider represents any costs, fees and expenses to be paid out of the Sub-Fund in connection with the vesting of the non-cash consideration. The relevant non-cash consideration shall be valued in accordance with the provisions of the Trust Deed.

Following the close of the Initial Offer Period, units can be issued and redeemed on each dealing day. A dealing day is each business day on which units may be issued or redeemed and/or such other day or days as the Manager may from time to time determine either generally or in respect of a particular class or classes of units, provided that the dealing day for the issue of units may be on a different day or days from the dealing day for the redemption of units. The unitholders may subscribe or redeem the units on any dealing day by submitting an application form or a redemption request to the registrar. Any subscription or redemption request must be received by the registrar before the dealing deadline. Subscription and redemption requests submitted after the applicable dealing deadline in respect of any dealing day will be dealt with on the next dealing day.

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of units of any Sub-Fund of up to a maximum of 5% of the subscription price. The subscription fee is payable in addition to the subscription price per unit. The Manager is also entitled to impose a redemption fee on the redemption of units of any Sub-Fund of up to a maximum of 5% of the redemption price of such units. The redemption fee is deducted from the redemption proceeds payable to a unitholder in respect of each unit redeemed. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription and redemption fee (either generally or in any particular case) of a Sub-Fund.

With a view to protecting the interests of unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of units of the Sub-Fund redeemed on any dealing day to 10% of the total number of units of the Sub-Fund in issue. In this event, the limitation will apply pro rata so that all unitholders of the Sub-Fund who have validly requested to redeem units of the Sub-Fund on that dealing day will redeem the same proportion of such units of the Sub-Fund.

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NOTES TO FINANCIAL STATEMENTS

30 June 2019

11. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Unit price (per financial statements) HK\$	Published unit price HK\$
2019		
- Class A units	99.5909	99.6756
- Class B units	103.2119	103.2996
2018		
- Class A units	108.8815	109.0154
- Class B units	111.9975	112.1352

The net asset value is calculated by determining the value of the assets attributable to the Sub-Fund, including accrued income, and deducting all its liabilities as at 30 June 2019 and 2018. The resultant sum is divided by the total number of units in issue as at 30 June 2019 and 2018 to give the net asset value per unit and adjusting the resultant sum to the nearest 4 decimal places.

The published net asset value per unit issued is calculated in accordance with the Explanatory Memorandum while the net asset value per unit as reported in the statement of financial position included the following adjustment:

- a) The Explanatory Memorandum provides for the amortisation of establishment costs over the first 5 accounting periods of the Sub-Fund, instead of those amounts being expensed as incurred during the current period, as required under IFRS.
- b) The published net asset value was as at 28 June 2019. Certain fees and expenses were accrued subsequently on 30 June 2019.

A reconciliation of the net assets attributable to unitholders as reported in the statement of financial position to the net assets attributable to unitholders as determined for the purposes of processing unit subscriptions and redemptions is provided below:

	2019 HK\$	2018 HK\$
Published net assets attributable to unitholders	237,476,197	308,909,443
Adjustment on establishment costs	(185,588)	(369,658)
Adjustment on fees and expenses accrued on the last day of the reporting period	<u>(16,165)</u>	<u>(9,840)</u>
Net assets attributable to unitholders as per financial statements	<u><u>237,274,444</u></u>	<u><u>308,529,945</u></u>

12. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Sub-Fund has no bank loans, overdrafts or other borrowings as of 30 June 2019 and 2018.

13. DISTRIBUTION TO UNITHOLDERS

There were no distributions made for the years ended 30 June 2019 and 2018.

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14. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons of the Manager are those as defined in the SFC Code. All transactions entered into during the year between the Sub-Fund, the Manager, and the Trustee 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-Fund does not have any other transactions with connected persons except for what is disclosed in note 4 to the financial statements and below:

- (a) Deposits and investments held by the Trustee's affiliate
As detailed in notes 6 and 9 to the financial statements, the Sub-Fund's bank deposits and investments are held by Standard Chartered Bank (Hong Kong) Limited, an affiliate of the Trustee.
- (b) Holdings in the Sub-Fund by the Manager
As at 30 June 2019, the Manager held 40,398.0072 Class A units (2018: 22,100.0301 Class A units) of the Sub-Fund which amounted to HK\$4,026,696 (2018: HK\$2,409,244).
- (c) Amount due to the Manager
The balance represented amount due to the Sub-Fund by the Manager at the inception of the Sub-Fund. The balance is unsecured, interest-free and repayable on demand.

15. COMMITMENTS AND CONTINGENT LIABILITIES

The Sub-Fund has no commitments and contingent liabilities as of 30 June 2019 and 2018.

16. SOFT COMMISSION ARRANGEMENTS

The Manager and/or any of its connected person reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its connected person has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its connected persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Sub-Fund as a whole and may contribute to an improvement in the performance of the Sub-Fund or of the Manager and/or any of its connected persons in providing services to the Sub-Fund and for which no direct payment is made but instead the Manager and/or any of its connected persons undertakes to place business with that party. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates.

For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

The Manager maintains soft dollar arrangements/practices with two of its brokers. The brokers would pay the Manager in respect of fees incurred thereby from time to time for services provided by financial data service providers. During the year ended 30 June 2019, only one broker, Merrill Lynch on behalf of the Manager, paid HK\$37,024 to the financial data service providers in this respect. During the year ended 30 June 2018, Merrill Lynch and UBS Securities Asia Limited on behalf of the Manager, paid HK\$103,223 to the financial data service providers in this respect.

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17. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

Risks arising from holding financial instruments are inherent in the Sub-Fund's activities and are managed through a process of ongoing identification, measurement and monitoring. The Sub-Fund is primarily exposed to market risk, liquidity risk and credit risk. Information about these risk exposures at the reporting date and potential impact on the Sub-Fund is disclosed below.

Financial instruments of the Sub-Fund comprise investments in financial assets for the purpose of generating a return on the investment made, in addition to cash and bank balances, amount due from a broker, dividends receivable net of withholding taxes, and other financial instruments such as management fee payable, trustee fee payable, performance fee payables, amounts due to brokers, and accruals and other payables, which arise directly from its operation.

The Manager is responsible for identifying and controlling the risks that arise from these financial instruments.

Information about the total realisable fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Manager. These mandate limits are generally conservative and reflect the investment strategy and market environment of the Sub-Fund, as well as the level of risk that the Sub-Fund is willing to accept with additional emphasis on selected industries.

Concentration of risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the Sub-Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposures or may use derivative instruments to manage the excessive risk concentrations when they arise.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk is managed by adopting prudent country, single stock and other investment restrictions as disclosed in the Explanatory Memorandum.

The maximum risk resulting from financial instruments, except for securities sold short, equals their fair value.

Short selling involves borrowing securities and selling them to a broker-dealer. The Sub-Fund has an obligation to replace the borrowed securities at a later date. Short selling allows the Sub-Fund to profit from a decline in market price to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities, while the gain is limited to the price at which the Sub-Fund sold the security short. Possible losses from short sales may be unlimited as the Sub-Fund has a liability to repurchase the security in the market at prevailing prices at the date of acquisition. The Sub-Fund shall not make short sales if as a consequence the Sub-Fund's liability to deliver securities would exceed 10% of its total net asset value (and for this purpose securities sold short must be actively traded in a market where short selling is permitted).

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

Market risk (continued)

The following risk analysis is for reporting at reporting date under IFRS 7 *Financial instruments: Disclosures* and does not guarantee future risk profile of the investments in the Sub-Fund. The risk profile of the investment in the Sub-Fund will change depending upon market environment and strategic positioning. Consequently, the disclosed risk analysis does not necessarily reflect the risk position of the investments in the Sub-Fund at any time other than at the reporting date.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

At 30 June 2019 and 2018, the majority of the Sub-Fund's financial assets and liabilities are non-interest bearing as the Sub-Fund's investments are mainly listed equities. The Sub-Fund's cash and bank balances held with the bank are exposed to interest rate risk which is considered by the Manager to be minimal. As such, the effect of a sensitivity analysis on the Sub-Fund's net profit and net asset value would be negligible.

(ii) Foreign currency risk

The Sub-Fund may invest in assets denominated in currencies other than its reporting and functional currency, the HK\$. Consequently, the Sub-Fund is exposed to risks that the exchange rate of HK\$ relative to other currencies, such as China Yuan Renminbi ("CNY"), may change in a manner, which has an adverse effect on the reported value of that portion of the Sub-Fund's assets which is denominated in currencies other than the HK\$. The Manager continuously monitors the Sub-Fund's exposure to foreign currency risk.

The Sub-Fund's management considers exposure to foreign currency risk in respect of financial assets and liabilities denominated in United States Dollar ("US\$") as minimal as the HK\$ is pegged to US\$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the CNY exchange rates, with all other variables held constant, of the Sub-Fund's changes in net assets attributable to unitholders and on profit or loss. In practice the actual results may differ from the below sensitivity analysis and the difference could be material.

Currency	Change in currency rate	Effect on net assets attributable to unitholders	
		2019 HK\$	2018 HK\$
CNY	+/-5%	+/-2,306,000	+/-1,895,000

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

Market risk (continued)

(iii) Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities or equity-linked derivatives as the result of changes in the levels of equity indices and the value of individual shares. The equity price risk exposure arises from the Sub-Fund's investments in listed common shares and american depository receipts.

Management's best estimate of the effect on the net assets attributable to unitholders and on the changes in net assets attributable to unitholders from operations due to a reasonably possible change in equity indices, with all other variables held constant, is indicated in the following table. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material.

The sensitivity analysis below includes the effect of possible changes in the equity price on net asset value ("NAV"):

2019	Class A		Class B	
	Change in equity price %	Effect on NAV HK\$	Change in equity price %	Effect on NAV HK\$
	+/-10%	+/-2,220,000	+/-10%	+/-21,320,000
Hang Seng Index				
2018	Class A		Class B	
	Change in equity price %	Effect on NAV HK\$	Change in equity price %	Effect on NAV HK\$
	+/-10%	+/-5,091,000	+/-10%	+/-24,579,000
Hang Seng Index				

Concentration of equity price risk

The spread of concentration of equity price risk by geographical distribution (based on place of primary listing or, if not listed, place of domicile) in respect of the Sub-Fund's net assets is as follows: China representing 20% (2018: 13.3%) , Hong Kong representing 71.4% (2018: 71.2%) and United States representing 7.7% (2018: 11.5%).

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

Market risk (continued)

(iii) Equity price risk (continued)

Concentration of equity price risk (continued)

The following table analyses the Sub-Fund's concentration of equity price risk by industrial distribution as a percentage of the Sub-Fund's investments:

	2019 %	2018 %
Automobiles & Auto Parts	0.6	1.3
Banking & Investment Services	4.5	12.8
Cyclical Consumer Products	6.7	4.4
Cyclical Consumer Services	7.0	5.1
Energy – Fossil Fuels	0.7	-
Food & Beverages	18.7	5.4
Healthcare Services & Equipment	0.5	1.0
Industrial & Commercial Services	0.1	0.6
Industrial Goods	1.5	2.8
Insurance	4.8	2.0
Mineral Resources	1.2	2.6
Personal & Household Products & Services	0.5	4.8
Pharmaceuticals & Medical Research	17.9	23.0
Real Estate	12.5	1.3
Retailers	0.4	0.5
Software & IT Services	9.5	18.9
Technology Equipment	0.9	7.9
Telecommunications Services	6.9	-
Transportation	5.1	2.5
Utilities	-	3.1
	-----	-----
Total	<u>100</u>	<u>100</u>

Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The strategy is to minimise the Sub-Fund's exposure to liquidity risk by ensuring that most of its investments are publicly listed securities which have reasonable underlying trading liquidity. In addition, the Sub-Fund maintains sufficient bank deposits to meet normal operating requirements.

The Sub-Fund's exposure to liquidity risk is minimal as most of its investments are publicly listed and have reasonable underlying trading liquidity. The Sub-Fund has no borrowing as at 30 June 2019 and 2018. The Sub-Fund may borrow subjected to the restrictions stated in the Explanatory Memorandum.

30 June 2019

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

Liquidity risk (continued)*Financial assets*

Analysis of equity at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Sub-Fund can be required to pay.

The following table summarises the maturity profile of the Sub-Fund's financial assets and liabilities based on contractual undiscounted cash flows. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Sub-Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Sub-Fund's contractual commitments and liquidity.

	Due within 1 month or on demand HK\$	Due between 1 and 3 months HK\$	Others HK\$	Total HK\$
2019				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	235,401,727	-	-	235,401,727
Amount due from a broker	1,866,617	-	-	1,866,617
Dividends receivable, net of withholding taxes	547,113	218,875	-	765,988
Cash and bank balances	<u>2,215,615</u>	<u>-</u>	<u>-</u>	<u>2,215,615</u>
Total financial assets	<u>240,031,072</u>	<u>218,875</u>	<u>-</u>	<u>240,249,947</u>
<u>Financial liabilities</u>				
Amounts due to brokers	2,319,480	-	-	2,319,480
Amount due to the Manager [^]	10	-	-	10
Management fee payable	317,535	-	-	317,535
Trustee fee payable	54,761	-	-	54,761
Accruals and other payables	68,873	214,844	-	283,717
Net assets attributable to unitholders [#]	<u>-</u>	<u>-</u>	<u>237,274,444</u>	<u>237,274,444</u>
Total financial liabilities	<u>2,760,659</u>	<u>214,844</u>	<u>237,274,444</u>	<u>240,249,947</u>

[^] amount due to the Manager as stated in note 14(c)

[#] subject to redemption terms stated in note 10 to the financial statements and the Explanatory Memorandum

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

Liquidity risk (continued)*Financial liabilities* (continued)

	Due within 1 month or on demand HK\$	Due between 1 and 3 months HK\$	Others HK\$	Total HK\$
2018				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	296,701,881	-	-	296,701,881
Amount due from a broker	345,707	-	-	345,707
Dividends receivable, net of withholding taxes	701,934	368,324	-	1,070,258
Cash and bank balances	<u>19,569,196</u>	<u>-</u>	<u>-</u>	<u>19,569,196</u>
Total financial assets	<u>317,318,718</u>	<u>368,324</u>	<u>-</u>	<u>317,687,042</u>
<u>Financial liabilities</u>				
Amounts due to brokers	5,009,636	-	-	5,009,636
Amount due to the Manager [^]	10	-	-	10
Management fee payable	481,531	-	-	481,531
Trustee fee payable	110,455	-	-	110,455
Performance fee payable	2,997,663	-	-	2,997,663
Redemption payable	275,695	-	-	275,695
Accruals and other payables	86,508	195,599	-	282,107
Net assets attributable to unitholders [#]	<u>-</u>	<u>-</u>	<u>308,529,945</u>	<u>308,529,945</u>
Total financial liabilities	<u>8,961,498</u>	<u>195,599</u>	<u>308,529,945</u>	<u>317,687,042</u>

[^] amount due to the Manager as stated in note 14(c)[#] subject to redemption terms stated in note 10 to the financial statements and the Explanatory Memorandum**Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation.

The Sub-Fund is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honor its contractual obligations. These credit exposures exist within financing relationships, derivatives and other transactions.

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

Credit risk (continued)

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-Fund's financial assets subject to the ECL model within IFRS 9 are amount due from a broker, dividends receivable net of withholding taxes and cash and bank balances. At 30 June 2019, the total amount of these financial assets is HK\$4,848,220, on which no loss allowance had been provided. No assets are considered impaired and no amounts have been written off during the year.

Financial assets not subject to IFRS 9's impairment requirements

The Sub-Fund is exposed to credit risk on equity instruments. They are not subject to IFRS 9's impairment requirements as they are measured at fair value through profit or loss. The carrying value of these assets, under both IAS 39 (2018) and IFRS 9 (2019) represents the Sub-Fund's 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.

The Sub-Fund seeks to minimise exposure to credit risk by only dealing with counterparties with high credit ratings. The Sub-Fund also continuously monitors the credit standing of its counterparties and does not expect any material losses as a result of this concentration.

The Sub-Fund's major counterparty is Standard Chartered Bank (Hong Kong) Limited which has a credit rating of A+ (2018: A+) based on Standard & Poor's and the percentage of financial assets held with them is 98.9% as at 30 June 2019 (2018: 99.6%).

18. CAPITAL MANAGEMENT

The capital of the Sub-Fund is represented by the net assets attributable to unitholders.

The Sub-Fund's objectives for managing capital are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in the Explanatory Memorandum
- To achieve consistent returns while safeguarding capital by investing in diversified portfolio, by participating in derivative and other capital markets and by using various investment strategies and hedging permissible under the provisions of Chapter 7 of the SFC Code
- To maintain sufficient liquidity to meet the expenses of the Sub-Fund, and to meet redemption requests as they arise
- To maintain sufficient size to make the operation of the Sub-Fund cost-efficient

As a result of the ability to issue and redeem units, the capital of the Sub-Fund can vary depending on the demand for redemptions and subscriptions to the Sub-Fund. The Sub-Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and redemptions of units.

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NOTES TO FINANCIAL STATEMENTS

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19. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2019 and up to the date of authorisation of the financial statements, the following redemptions occurred in the Sub-Fund:

	Class A HK\$	Class B HK\$	Total HK\$
Redemption of units	1,314,061	4,907,848	6,221,909

There were no other significant events affecting the Sub-Fund subsequent to the end of reporting period to the date of approval of these financial statements.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 25 October 2019.

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INVESTMENT PORTFOLIO

Year ended 30 June 2019

	Holding	Fair value HK\$	% of net assets
Listed investments			
CHINA (20%)			
Chongqing Changan Automobile Co Ltd	471,568	1,438,282	0.6
Gree Electric Appliances Inc of Zhuhai	84,800	5,305,169	2.2
Jiangsu Hengrui Medicine Co	46,944	3,524,234	1.5
Kweichow Moutai Co Ltd	9,400	10,521,161	4.4
Luzhou Laojiao Co Ltd	99,200	9,120,633	3.9
Midea Group Co Ltd	179,000	10,559,084	4.4
Wuliangye Yibin Co. Ltd	52,900	7,097,319	3.0
		<u>47,565,882</u>	<u>20.0</u>
HONG KONG (71.4%)			
3Sbio Inc	422,000	5,663,240	2.4
AIA Group Limited	44,000	3,707,000	1.6
A-Living Services Co Ltd	200,000	2,644,000	1.1
Chanhigh Holdings Limited	334,000	267,200	0.1
China Merchants Bank Co Ltd	273,000	10,633,350	4.5
China Merchants Port Holdings Intl Co Ltd	3,956	52,536	0.0
China Overseas Grand Oceans Group Ltd	1,950,000	6,708,000	2.9
CSPC Pharmaceutical Group	314,000	3,956,400	1.7
Citic Telecom International Holdings Ltd	4,281,000	13,271,100	5.6
Cosco Shipping International	698,000	1,731,040	0.7
First Pacific Co	2,498,000	7,918,660	3.3
Galaxy Entertainment Group Ltd	98,000	5,159,700	2.2
Greenland Hong Kong Holdings Ltd	1,408,000	4,378,880	1.8
Guangzhou Baiyunshan Pharmaceutical Holdings Co	260,000	9,165,000	3.9
Haitian International Holdings	212,000	3,438,640	1.4
Hang Lung Group Ltd	208,000	4,503,200	1.9
Health And Happiness H&H Intl Holdings Ltd	28,000	1,241,800	0.5
Innovent Biologics Inc	50,500	1,330,675	0.6
Maoye International Holdings	1,897,000	1,024,380	0.4
New World Development	110,000	1,344,200	0.6
PCCW Ltd	646,000	2,913,460	1.2
Ping An Insurance Group Co	80,000	7,504,000	3.2
Plover Bay Technologies Ltd	1,100,000	1,265,000	0.5
Shougang Fushan Resources Group Ltd	1,666,000	2,832,200	1.2
Sino Biopharmaceutical Ltd	1,661,000	13,271,390	5.6
Sino Land Company Ltd	164,000	2,148,400	0.9
Sisram Medical Ltd	308,000	1,222,760	0.5
SITC International Holdings Company Ltd	857,000	6,821,720	2.9
Swire Pacific Ltd "B"	280,000	4,144,000	1.7
Tencent Holdings Ltd	34,600	12,199,960	5.1

VL CHINA FUND

INVESTMENT PORTFOLIO

Year ended 30 June 2019

	Holding	Fair value HK\$	% of net Assets
Listed investments (continued)			
HONG KONG (71.4%) (continued)			
Tongcheng-Elong Holdings Ltd	66,800	1,035,400	0.4
Transport International Holdings	225,200	5,168,340	2.2
Travelsky Technology Ltd	154,000	2,417,800	1.0
WH Group Ltd	1,020,000	8,078,400	3.4
Wuxi Biologics Cayman Inc	73,500	5,156,025	2.2
Wynn Macau Ltd	101,600	1,778,000	0.7
Yuzhou Properties Co	955,000	3,504,850	1.5
		<u>169,600,706</u>	<u>71.4</u>
UNITED STATES (7.7%)			
Airnet Technology Inc	42,420	566,705	0.2
Alibaba Group Holdings-Sp ADR	5,894	7,802,643	3.3
Ctrip.Com International-ADR	12,161	3,506,738	1.5
Huazhu Group Ltd	15,295	4,331,592	1.9
Nokia OYJ	21,000	821,953	0.3
TAL Education Group- ADR	4,050	1,205,508	0.5
		<u>18,235,139</u>	<u>7.7</u>
TOTAL INVESTMENTS		235,401,727	99.1
OTHER NET ASSETS		<u>2,074,470</u>	<u>0.9</u>
PUBLISHED NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>237,476,197</u>	<u>100</u>
TOTAL INVESTMENTS, AT COST		<u>232,229,339</u>	

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2019

	Movement in holdings			At 30 June 2019
	At 1 July 2018	Additions	Disposals	
Listed investments				
China				
Angel Yeast Co Ltd	88,906	113,800	(202,706)	-
Chongqing Changan Automobile Co Ltd	471,568	-	-	471,568
Gree Electric Appliances Inc of Zhuhai	96,800	115,300	(127,300)	84,800
Hangzhou Hikvision Digital Technology	50,000	10,700	(60,700)	-
Hangzhou Robam Appliances	-	180,000	(180,000)	-
Huadong Medicine Co Ltd	49,500	-	(49,500)	-
Jiangsu Hengrui Medicine Co	72,020	7,824	(32,900)	46,944
Jiangsu Hengshun Vinegar Industry	-	190,000	(190,000)	-
Jiangsu Yuyue Medical Equipment & Supply	88,000	-	(88,000)	-
Kweichow Moutai Co Ltd	11,000	1,600	(3,200)	9,400
Luzhou Laojiao Co Ltd	-	99,200	-	99,200
Midea Group Co Ltd	84,700	122,100	(27,800)	179,000
Shanxi Xinghuacun Fen Wine	-	53,800	(53,800)	-
Wuliangye Yibin Co. Ltd	-	61,900	(9,000)	52,900
Hong Kong				
3Sbio Inc	363,000	159,000	(100,000)	422,000
AAC Technologies Holdings Inc	48,000	-	(48,000)	-
Agile Group Holdings Ltd	-	164,000	(164,000)	-
Agricultural Bank Of China Ltd	1,241,000	-	(1,241,000)	-
AIA Group Limited	-	44,000	-	44,000
A-Living Services Co Ltd	-	200,000	-	200,000
ASM Pacific Technology Limited	37,200	-	(37,200)	-
BOC Hong Kong Holdings Ltd	-	144,000	(144,000)	-
Chanhigh Holdings Limited	412,000	-	(78,000)	334,000
China Communications Service	-	200,000	(200,000)	-
China Construction Bank Corporation	1,680,000	-	(1,680,000)	-
China Literature Ltd	48,000	-	(48,000)	-
China Merchants Bank Co Ltd	273,000	-	-	273,000
China Merchants Port Holdings Intl Co Ltd	3,956	-	-	3,956
China Mobile Ltd	-	14,000	(14,000)	-
China Oilfield Services	-	108,000	(108,000)	-
China Oriental Group Co Ltd	1,410,000	-	(1,410,000)	-
China Overseas Grand Oceans Group Ltd	-	1,950,000	-	1,950,000
CSPC Pharmaceutical Group	438,000	38,000	(162,000)	314,000
China Resources Land Limited	-	100,000	(100,000)	-
China Resources Power Holding	660,000	100,000	(760,000)	-
China Traditional Chinese Medicine	-	930,000	(930,000)	-
China Vanke Co Ltd	-	141,000	(141,000)	-
China Yuhua Education Corporation Ltd	1,198,000	166,000	(1,364,000)	-

VL CHINA FUND

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2019

	Movement in holdings			At 30 June 2019
	At 1 July 2018	Additions	Disposals	
Listed investments (continued)				
Hong Kong (continued)				
Citic Telecom International Holdings Ltd	-	6,727,000	(2,446,000)	4,281,000
Cosco Shipping International	-	698,000	-	698,000
Country Garden Holdings Co	-	134,000	(134,000)	-
Dongyue Group	-	665,000	(665,000)	-
First Pacific Co	-	2,498,000	-	2,498,000
Galaxy Entertainment Group Ltd	128,000	-	(30,000)	98,000
Geely Automobile Holdings Ltd	-	452,000	(452,000)	-
Giordano International Ltd	-	954,000	(954,000)	-
Greatview Aseptic Packaging Company Ltd	-	401,000	(401,000)	-
Greenland Hong Kong Holdings Limited	-	1,408,000	-	1,408,000
Guangzhou Baiyunshan Pharmaceutical Holdings Co	194,000	126,000	(60,000)	260,000
Haitian International Holdings	272,000	-	(60,000)	212,000
Hang Lung Group Ltd	-	225,000	(17,000)	208,000
Health And Happiness H&H Intl Hldgs Ltd	-	28,000	-	28,000
Hong Kong Exchanges & Clearing Limited	44,477	-	(44,477)	-
Hua Hong Semiconductor Limited	-	140,000	(140,000)	-
Huifu Payment Ltd	-	403,600	(403,600)	-
IGG Inc	-	70,000	(70,000)	-
Innovent Biologics Inc	-	50,500	-	50,500
Kingboard Chemicals Holdings	44,000	-	(44,000)	-
KWG Property Holding Ltd	-	713,000	(713,000)	-
Livzon Pharmaceutical Group Inc	117,130	152,900	(270,030)	-
Longfor Group Holdings Ltd	-	66,000	(66,000)	-
Maoye International Holdings	1,897,000	-	-	1,897,000
Microport Scientific Corporation	139,000	-	(139,000)	-
Natural Beauty Bio-Technology Ltd	10,891,000	-	(10,891,000)	-
Netdragon Websoft Inc	136,000	-	(136,000)	-
New World Development	-	110,000	-	110,000
PCCW Ltd	-	2,292,000	(1,646,000)	646,000
Pentamaster International Ltd	1,732,000	-	(1,732,000)	-
Ping An Insurance Group Co	80,000	-	-	80,000
Plover Bay Technologies Ltd	1,100,000	-	-	1,100,000
Precision Tsugami China Corporation	365,000	-	(365,000)	-
Shanghai Fosun Pharmaceutical Co Ltd	160,000	23,000	(183,000)	-
Shougang Fushan Resources Group Ltd	-	1,666,000	-	1,666,000
Sino Biopharmaceutical Ltd	1,515,000	790,000	(644,000)	1,661,000
Sino Land Company Limited	-	164,000	-	164,000
Sisram Medical Ltd	308,000	-	-	308,000
SITC International Holdings Company Ltd	-	857,000	-	857,000
Swire Pacific Ltd "B"	280,000	-	-	280,000

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2019

	Movement in holdings			At 30 June 2019
	At 1 July 2018	Additions	Disposals	
Listed investments (continued)				
Hong Kong (continued)				
TCL Electronics Holdings Ltd	1,444,000	-	(1,444,000)	-
Tencent Holdings Ltd	55,500	-	(20,900)	34,600
Tongcheng-Elong Holdings Ltd	-	66,800	-	66,800
Transport International Holdings Ltd	322,400	-	(97,200)	225,200
Travelsky Technology Ltd	284,000	-	(130,000)	154,000
Vcredit Holdings Ltd	154,000	-	(154,000)	-
Want Want China Holdings Ltd	-	216,000	(216,000)	-
WH Group Ltd	430,000	590,000	-	1,020,000
Wisdom Education International Holdings	190,000	-	(190,000)	-
Wuxi Biologics Cayman Inc	40,500	33,000	-	73,500
Wynn Macau Ltd	-	101,600	-	101,600
Xinyi Glass Holdings Co Ltd	-	300,000	(300,000)	-
Yuzhou Properties Co	-	955,000	-	955,000
United States				
21Vianet Group Inc - ADR	46,747	8,423	(55,170)	-
Airmedia Group Inc - ADR	212,100	-	(212,100)	-
Airnet Technology Inc	-	42,420	-	42,420
Alibaba Group Holdings-Sp ADR	13,200	1,542	(8,848)	5,894
Alphabet Inc	-	454	(454)	-
Amazon.Com Inc	-	303	(303)	-
Apple Inc	-	2,118	(2,118)	-
Ctrip.Com International-ADR	5,600	16,161	(9,600)	12,161
Facebook Inc	-	1,480	(1,480)	-
Huazhu Group Ltd	12,800	18,215	(15,720)	15,295
Mastercard Inc	-	600	(600)	-
Micron Technology Inc	5,600	4,400	(10,000)	-
Nokia OYJ	-	21,000	-	21,000
Salesforce.Com Inc	-	1,280	(1,280)	-
Sina Corporation	2,300	-	(2,300)	-
TAL Education Group- ADR	4,000	4,900	(4,850)	4,050
Zai Lab Ltd-ADR	2,215	-	(2,215)	-

VL CHINA FUND

PERFORMANCE TABLE

30 June 2019

Published net assets attributable to unitholders

(Calculated in accordance with the Sub-Fund's Trust Deed)

	Net assets attributable to unitholders per unit HK\$	Net assets attributable to unitholders HK\$
As at 30 June 2019		
- Class A	99.6756	22,395,581
- Class B	103.2996	215,080,616
As at 30 June 2018		
- Class A	109.0154	53,005,056
- Class B	112.1352	255,904,387
As at 30 June 2017		
- Class A	99.8600	53,670,571
- Class B	101.1953	230,938,312

Highest issue price and lowest redemption price per unit

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$
Year ended 30 June 2019		
- Class A	109.3017	88.5977
- Class B	N/A	100.2997
Year ended 30 June 2018		
- Class A	109.6542	100.8947
- Class B	N/A	N/A
Year ended 30 June 2017		
- Class A	94.9266	89.0710
- Class B	N/A	N/A