

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 2020

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
30th Floor
One Taikoo Place
979 King's Road
Hong Kong

REPORT OF THE MANAGER TO THE UNITHOLDERS

Full-Year Report

As at 30 June 2020

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, global financial markets were clouded by geo-political tensions – the worsening of Sino-US relations which led indirectly to disputes flaring up in Taiwan Strait and along the Sino-Indian border. At the same time COVID-19 pandemic induced unprecedented lockdown in many countries resulting in anaemic consumption. Having said that, global interest rates continued to hover near zero level as major central banks kept printing money producing abundant liquidity.

While market sentiment was frail in general, the majority of the companies we invested in were able to deliver results either in line with or above our forecast. For instance, our top position Tencent (700 HK) recorded revenue of RMB114.88 billion in the quarter ended 30 June 2020, up 29% year-on-year (YoY) and net profit of RMB33.1 billion, up 37% YoY. Notwithstanding such sound results, some are concerned that its outlook may be overshadowed by the swinging policies of the US which may refrain WeChat (the messaging app owned by Tencent, which serves users outside Mainland China) from running its business in the US. Our initial view is that the US market may account for only a tiny portion of Tencent's income. In 2019, Tencent's revenue from outside the territory of Mainland China represented only less than 5% of its total and a majority of that was from its Finland subsidiary Supercell. That said, given the deteriorating Sino-US relations, we will closely monitor if any policies may restrict Tencent's international expansion.

WuXi Biologics (2269 HK), our second largest position, beat market consensus in terms of both revenue and profit - revenue was up 21% YoY to RMB1.94 billion (consensus was zero growth) whilst adjusted net profit rose 40.7% to RMB734 million. The company managed to sign 38 new projects in the first half of 2020, greatly surpassing its previous guided target of 20. The surprise mainly came from contributions from COVID-19 related projects as well as non-operating income such as foreign exchange and investment gains. In spite of the impact from the pandemic and escalating Sino-US tensions, WuXi management foresees continuing strong outsourcing demand. As a global leader in the outsourcing industry, WuXi is well positioned to sustain strong growth in the near term and our conviction in the stock remains unchanged.

Another example is Zhongsheng (881 HK), the Sub-Fund's third biggest position. As one of the largest automobile distributors in the PRC, the company announced that for the six months ended 30 June 2020, total revenue was up 1.4% YoY to RMB58.2 billion and net profit up 10.1% YoY to RMB2.3 billion. New car sales volume was down 7.8% YoY to 197,000 units but new car margin was 3.0% (vs 2.7% in 1H2019, and 2.8% in 2H2019), which was better than the market had expected.

The top two sectors¹ that created the most of investment returns to the Sub-Fund over the year were healthcare and consumer staples/ durables, vindicating what we stated some three years ago that our investment theme would be on healthcare, consumer-related and information technology (IT) sectors (given the population matrix of China and the increasingly globalized demand on IT services). For healthcare, despite the known policy risks (such as GPO tendering) or any unseen risks in the future, the sector remains structurally vital to its citizens and the sector likely to hold up at least in the next decade. As regards our consumer-themed holdings, they were largely composed of household service providers, electric appliance manufacturers and Chinese white wine liquor. For the three months ended 30 June 2020, Meituan Dianping's (3690 HK) second-quarter results also beat across all business segments. Revenue grew 8.9% YoY to RMB24.7 billion (beat by 4.8% versus consensus). Adjusted net profit hit RMB2.7 billion, well ahead of consensus of RMB40 million. With the success of the "food plus platform strategy", backed by its technology and excellent execution capability, Meituan should further unlock the power of its ecosystem and extend its business to areas such as grocery retail and phone charging initiatives. At current valuations, Meituan is probably one of the cheapest in the Chinese internet universe.

The Sub-Fund was almost fully invested with 1.00%² cash as at 30 June 2020.

Outlook

The sharp rally of select A-shares over the past two years may have scared some investors away. Nonetheless, our research findings suggest that a number of those stocks are still worth investing in the middle to longer term and their valuations are not particularly higher than their global peers. Our longstanding investors may recall what we had stated in our February 2019 newsletter - "If one is reluctant to invest in A shares merely due to the tensions between the US and China, one might miss a golden investment opportunity which may only emerge once in a decade." In order to gain greater exposure to Mainland China securities and to allow a wider investable universe, the Sub-Fund had sought and obtained approval from the regulator to revise its investment strategy and effective 4th May 2020, it can invest at least 70% of its net asset value (NAV) in equities issued by companies with either assets in, or revenues derived from the PRC that are listed in Hong Kong, China or other overseas regulated markets. For risk management, investment in PRC A-shares listed on the Small and Medium Enterprise Board and/or the ChiNext Board shall not exceed 30%, and in PRC B-shares shall not exceed 10% of its NAV. (Before the strategy revision, the Sub-Fund could invest no more than 30% of its NAV in PRC-listed or overseas listed equities.)

With abundant liquidity in the financial market due to quantitative easing programs by major central banks, and a persistently low interest rate environment, asset prices of many "new economy" stocks have been pushed higher while certain "old economy" stocks see their stock price under pressure due to worsening fundamentals. Going forward, we will continue to maintain a balanced exposure to both new and old economy stocks that are immune to or less affected by the changing habits of consumers. For instance, IT companies benefiting from increased online consumption habits (such as Tencent and Meituan) should keep up their business volumes, and the property management sector should be able to boost their revenue and profits amid rising demand.

The US and China have entangled in a trade war since 2018 and the world economy has suffered as a result. The well-being of the forthcoming macro economy depends on two major factors: (i) the development of the COVID-19 pandemic – whether a new wave would break out restricting the world from a long-awaited resumption of normal economic activities or a vaccine would become available in the near future; and (ii) the relations between the two superpowers which might be complicated by the results of the US presidential election.

In light of the heightened sanctions imposed by the US but a relatively good control over the pandemic since the second quarter, China may try to accelerate its growth by boosting domestic consumption and we see abundant opportunities under this theme. One of her plans is to foster in-bound tourism by extending its duty-free zones in Hainan Province as a pilot scheme which later on could be extended to other select provinces. One can also see that, defying the pandemic, Chinese companies in the businesses of healthcare, consumer as well as Internet-related activities are making steady progress in growing their businesses and revenue/profit. Furthermore, given that China's latest economic figures are in general improving, we reiterate that China stocks should be an indispensable part in one's investment portfolio.

As we celebrated the fifth anniversary of the Sub-Fund, we take this opportunity to express our gratitude to our investors who share a similar vision on value creation and who have placed their trust on our team.

Fund performance

The Sub-Fund was up 22.55% (Class A) and 25.02%³ (Class B) over the period 1 July 2019 to 30 June 2020. For reference purposes, the MSCI China Index was up 12.25% while the Hang Seng Index was down 11.82%⁴, both with dividends reinvested, over the same period.

VL Asset Management Limited
28 October 2020

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

⁴ Index figures are total returns with net dividends invested. Data sources from Bloomberg.

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 VL China Fund in accordance with the provisions of the trust deed dated 16 February 2015 (which was amended and restated on 20 December 2019) (the "Trust Deed") for the year ended 30 June 2020.

Standard Chartered Trust (Hong Kong) Limited
28 October 2020



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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 VL China Fund (a sub-fund of VL Trusts (the "Trust") and referred to hereinafter as the "Sub-Fund") set out on pages 8 to 36, which comprise the statement of financial position as at 30 June 2020, 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 2020, 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.

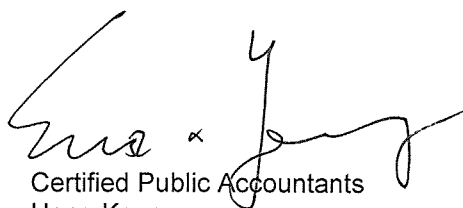
Independent auditor's report (continued)

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

28 October 2020

VL CHINA FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	2020 HK\$	2019 HK\$
INCOME			
Dividend income		6,381,883	6,054,597
Net gains/(losses) on financial assets at fair value through profit or loss	6	59,097,107	(26,969,401)
Net foreign exchange differences		44,814	(19,562)
Interest income		5,726	3,981
Other income		-	1,038
		<u>65,529,530</u>	<u>(20,929,347)</u>
EXPENSES			
Trustee fees	4(a)	717,109	720,308
Management fees	4(c)	2,023,892	2,226,018
Performance fees	4(d)	3,356,729	-
Custodian fees	4(e)	189,100	186,858
Auditor's remuneration		230,257	234,457
Brokerage commission		574,830	455,007
Transaction costs		491,998	395,573
Legal and professional fees		450,117	-
Bank charges		1,200	1,200
Other operating expenses		43,450	43,242
		<u>8,078,682</u>	<u>4,262,663</u>
PROFIT/(LOSS) BEFORE TAX		<u>57,450,848</u>	<u>(25,192,010)</u>
Withholding taxes	5	<u>(203,653)</u>	<u>(231,104)</u>
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>57,247,195</u>	<u>(25,423,114)</u>

VL CHINA FUND

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	2020 HK\$	2019 HK\$
ASSETS			
Financial assets at fair value through profit or loss	6, 7	281,278,640	235,401,727
Amount due from a broker	8	1,669,715	1,866,617
Dividends receivable, net of withholding taxes		1,259,547	765,988
Cash and bank balances	9	<u>5,653,821</u>	<u>2,215,615</u>
TOTAL ASSETS		<u><u>289,861,723</u></u>	<u><u>240,249,947</u></u>
LIABILITIES			
Amounts due to a broker	8	1,773,787	2,319,480
Amount due to the Manager	14(c)	10	10
Trustee fee payable	4(a)	58,516	54,761
Management fee payable	4(c)	368,044	317,535
Performance fee payable	4(d)	3,356,729	-
Redemption payable		366,468	-
Accruals and other payables		<u>293,763</u>	<u>283,717</u>
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u><u>6,217,317</u></u>	<u><u>2,975,503</u></u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	11	<u><u>283,644,406</u></u>	<u><u>237,274,444</u></u>
TOTAL LIABILITIES (INCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u><u>289,861,723</u></u>	<u><u>240,249,947</u></u>
NUMBER OF UNITS IN ISSUE			
- Class A	10	<u>170,907.7963</u>	<u>224,684.7224</u>
- Class B	10	<u><u>2,034,704.8000</u></u>	<u><u>2,082,104.8000</u></u>
NET ASSET VALUE PER UNIT		HK\$	HK\$
- Class A	11	<u>122.1560</u>	<u>99.5909</u>
- Class B	11	<u><u>129.1426</u></u>	<u><u>103.2119</u></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 2020

	Note	Class A HK\$	Class B HK\$	Total HK\$
At 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 and 1 July 2019		22,376,554	214,897,890	237,274,444
Subscriptions of units	10	249,963	-	249,963
Redemptions of units	10	(6,219,348)	(4,907,848)	(11,127,196)
Increase in net assets attributable to unitholders and total comprehensive income for the year		<u>4,470,245</u>	<u>52,776,950</u>	<u>57,247,195</u>
At 30 June 2020		<u><u>20,877,414</u></u>	<u><u>262,766,992</u></u>	<u><u>283,644,406</u></u>

VL CHINA FUND

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Note	2020 HK\$	2019 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		57,450,848	(25,192,010)
Adjustments to reconcile changes in net assets attributable to unitholders to net cash from/ (used in) operating activities:			
Dividend income		(6,381,883)	(6,054,597)
Interest income		(5,726)	(3,981)
Other income		-	(1,038)
		<u>51,063,239</u>	<u>(31,251,626)</u>
(Increase)/decrease in financial assets at fair value through profit or loss		(45,876,913)	61,300,154
Decrease/(increase) in amount due from a broker		196,902	(1,520,910)
Decrease in amounts due to a broker		(545,693)	(2,690,156)
Increase/(decrease) in trustee fee payable		3,755	(55,694)
Increase/(decrease) in management fee payable		50,509	(163,996)
Increase/(decrease) in performance fee payable		3,356,729	(2,997,663)
Increase in accruals and other payables		10,046	1,610
Cash flows from operations		<u>8,258,574</u>	<u>22,621,719</u>
Withholding taxes paid		(203,653)	(231,104)
Dividends received		5,888,324	6,358,867
Interest received		5,726	3,981
Other income received		-	1,038
Net cash flows from operating activities		<u>13,948,971</u>	<u>28,754,501</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units		249,963	2,000,000
Payment on redemption of units		(10,760,728)	(48,108,082)
Net cash flows used in financing activities		<u>(10,510,765)</u>	<u>(46,108,082)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,438,206	(17,353,581)
Cash and cash equivalents at beginning of year		<u>2,215,615</u>	<u>19,569,196</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>5,653,821</u>	<u>2,215,615</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash at bank	9	<u>5,653,821</u>	<u>2,215,615</u>

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

30 June 2020

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 Deed was amended and restated on 20 December 2019. 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.

30 June 2020

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The Sub-Fund applied, for the first time, the interpretation below, which is effective for annual periods beginning on or after 1 January 2019.

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 adoption of the interpretation did not have any impact on the Sub-Fund's financial statements.

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.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Sub-Fund's financial statements.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments

(i) Classification

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).

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) **Classification** (continued)

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.

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 a broker, amount due to the Manager, trustee fee payable, management fee payable, performance fee payable, redemption payable, and accruals and other payables in this category.

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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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) **Subsequent measurement** (continued)

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.

(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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

The Sub-Fund recognises an allowance for Expected Credit Losses (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.

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)

Financial instruments (continued)

Fair value measurement (continued)

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

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% (2019: 0.11%) per annum if the net asset value of the Sub-Fund is below HK\$1,000 million (2019: US\$150 million) and 0.09% (2019: 0.09%) per annum on the excess if the net asset value of the Sub-Fund is HK\$1,000 million (2019: US\$150 million) or above subject to a minimum monthly fee of HK\$54,600 (2019: US\$7,000). 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 HK\$265 (on or before 31 May 2020: US\$34) per transaction for China securities ('B' shares), HK\$117 (on or before 31 May 2020: US\$15) per transaction for Hong Kong securities, HK\$156 (on or before 31 May 2020: US\$20) per transaction for SH-HK/SZ-HK StockConnect securities, HK\$179 (on or before 31 May 2020: US\$23) per transaction for Taiwan securities and HK\$78 (on or before 31 May 2020: US\$10) per transaction for United States securities. These fees are payable monthly in arrears.

As at 30 June 2020, custodian fee of HK\$13,558 (2019: HK\$10,238) 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

	2020 HK\$	2019 HK\$
Financial assets at fair value through profit or loss		
Listed common shares, at cost	204,590,719	208,089,048
Unrealised gains on listed common shares	<u>63,712,221</u>	<u>9,077,540</u>
Listed common shares, at fair value	<u>268,302,940</u>	<u>217,166,588</u>
American depository receipts, at cost	16,602,589	24,140,291
Unrealised losses on American depository receipts	<u>(3,626,889)</u>	<u>(5,905,152)</u>
American depository receipts, at fair value	<u>12,975,700</u>	<u>18,235,139</u>
Financial assets at fair value through profit or loss	<u>281,278,640</u>	<u>235,401,727</u>

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

	Net realised gains HK\$	Net unrealised gains HK\$	Total HK\$
2020			
Financial assets			
At fair value through profit or loss	<u>2,184,163</u>	<u>56,912,944</u>	<u>59,097,107</u>
Net changes in fair value	<u>2,184,163</u>	<u>56,912,944</u>	<u>59,097,107</u>
	Net realised losses 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>

As at 30 June 2020, the balance of financial assets at fair value through profit or loss represents an amount of HK\$281,278,640 (2019: HK\$235,401,727) held with Standard Chartered Bank (Hong Kong) Limited, an affiliate of the Trustee.

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NOTES TO FINANCIAL STATEMENTS

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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\$
2020				
<u>Financial assets at fair value through profit or loss</u>				
Listed common shares	268,302,940	-	-	268,302,940
American depository receipts	12,975,700	-	-	12,975,700
	<u>281,278,640</u>	<u>-</u>	<u>-</u>	<u>281,278,640</u>
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>

There have been no transfers between Level 1 and Level 2 during the year (2019: Nil) and no transfers into or out of Level 3 for the year ended 30 June 2020 (2019: 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).

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NOTES TO FINANCIAL STATEMENTS

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8. AMOUNTS DUE FROM/TO A BROKER

The brokers used by the Sub-fund includes Merrill Lynch Far East Limited ("Merrill Lynch") and Citigroup Global Markets Asia Limited.

	2020 HK\$	2019 HK\$
Amount due from a broker:		
Receivable for securities sold but not yet received	1,506,825	1,866,617
Receivable for return of capital from corporate action	<u>162,890</u>	<u>-</u>
	<u>1,669,715</u>	<u>1,866,617</u>
Amounts due to a broker:		
Payables for securities purchased but not yet settled	<u>1,773,787</u>	<u>2,319,480</u>

9. CASH AND BANK BALANCES

As at 30 June 2020 and 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 2020 and 2019:

	Class A Number of units	Class B Number of units	Total Number of units
2020			
At 1 July 2019	224,684.7224	2,082,104.8000	2,306,789.5224
Subscription of units	2,233.9210	-	2,233.9210
Redemption of units	<u>(56,010.8471)</u>	<u>(47,400.0000)</u>	<u>(103,410.8471)</u>
At 30 June 2020	<u>170,907.7963</u>	<u>2,034,704.8000</u>	<u>2,205,612.5963</u>
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>

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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).

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, to be received by the fund distributor, 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

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11. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	Unit price (per financial statements) HK\$	Published unit price HK\$
2020		
- Class A units	122.1560	122.1560
- Class B units	129.1426	129.1426
2019		
- Class A units	99.5909	99.6756
- Class B units	103.2119	103.2996

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 2020 and 2019. The resultant sum is divided by the total number of units in issue as at 30 June 2020 and 2019 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 fees and expenses accrued on the last day of the reporting period as at 30 June 2019.
- c) The redemption on the last day of the reporting period which are not covered in the published net asset value as of 30 June 2020.

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:

	Notes	2020 HK\$	2019 HK\$
Published net assets attributable to unitholders		284,010,874	237,476,197
Adjustment on establishment costs	a	-	(185,588)
Adjustment on fees and expenses accrued on the last day of the reporting period	b	-	(16,165)
Adjustment on redemption on the last day of the reporting period	c	<u>(366,468)</u>	<u>-</u>
Net assets attributable to unitholders as per financial statements		<u>283,644,406</u>	<u>237,274,444</u>

12. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Sub-Fund has no bank loans, overdrafts or other borrowings as of 30 June 2020 and 2019.

VL CHINA FUND

NOTES TO FINANCIAL STATEMENTS

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13. DISTRIBUTION TO UNITHOLDERS

There were no distributions made for the years ended 30 June 2020 and 2019.

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 investments and bank deposits 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 2020, the Manager held 40,398.0072 Class A units (2019: 40,398.0072 Class A units) of the Sub-Fund which amounted to HK\$4,934,859 (2019: HK\$4,026,696).
- (c) Amount due to the Manager
The balance represented amount due to the Manager by the Sub-Fund 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 2020 and 2019.

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 2020, only one broker, Merrill Lynch on behalf of the Manager, paid HK\$50,502 (2019: HK\$37,024) 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 trustee fee payable, management fee payable, performance fee payables, amounts due to a broker, 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 2020 and 2019, 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	
		2020 HK\$	2019 HK\$
CNY	+/-5%	+/-3,686,000	+/-2,306,000

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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"):

2020	Class A		Class B	
	Change in equity price %	Effect on NAV HK\$	Change in equity price %	Effect on NAV HK\$
Hang Seng Index	+/-10%	+/-2,070,000	+/-10%	+/-26,058,000
2019	Class A		Class B	
	Change in equity price %	Effect on NAV HK\$	Change in equity price %	Effect on NAV HK\$
Hang Seng Index	+/-10%	+/-2,220,000	+/-10%	+/-21,320,000

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 25.9% (2019: 20%), Hong Kong representing 68.6% (2019: 71.4%) and United States representing 4.5% (2019: 7.7%).

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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:

	2020 %	2019 %
Applied Resources	2.7	-
Automobiles & Auto Parts	3.6	0.6
Banking & Investment Services	1.5	4.5
Cyclical Consumer Products	4.1	6.7
Cyclical Consumer Services	3.2	7.0
Energy – Fossil Fuels	0.5	0.7
Food & Beverages	5.4	18.7
Healthcare Services & Equipment	8.2	0.5
Industrial & Commercial Services	-	0.1
Industrial Goods	0.6	1.5
Insurance	1.7	4.8
Mineral Resources	-	1.2
Personal & Household Products & Services	1.1	0.5
Pharmaceuticals & Medical Research	18.2	17.9
Real Estate	12.8	12.5
Retailers	4.2	0.4
Software & IT Services	23.3	9.5
Technology Equipment	3.6	0.9
Telecommunications Services	2.2	6.9
Transportation	3.1	5.1
	<u>100</u>	<u>100</u>
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 2020 and 2019. The Sub-Fund may borrow subjected to the restrictions stated in the Explanatory Memorandum.

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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\$
2020				
Financial assets				
Financial assets at fair value through profit or loss	281,278,640	-	-	281,278,640
Amount due from a broker	1,669,715	-	-	1,669,715
Dividends receivable, net of withholding taxes	995,567	263,980	-	1,259,547
Cash and bank balances	<u>5,653,821</u>	<u>-</u>	<u>-</u>	<u>5,653,821</u>
Total financial assets	<u>289,597,743</u>	<u>263,980</u>	<u>-</u>	<u>289,861,723</u>
Financial liabilities				
Amounts due to a broker	1,773,787	-	-	1,773,787
Amount due to the Manager [^]	10	-	-	10
Trustee fee payable	58,516	-	-	58,516
Management fee payable	368,044	-	-	368,044
Performance fee payable	3,356,729	-	-	3,356,729
Redemption payable	366,468	-	-	366,468
Accruals and other payables	72,100	221,663	-	293,763
Net assets attributable to unitholders [#]	<u>-</u>	<u>-</u>	<u>283,644,406</u>	<u>283,644,406</u>
Total financial liabilities	<u>5,995,654</u>	<u>221,663</u>	<u>283,644,406</u>	<u>289,861,723</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\$
2019				
Financial assets				
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>
Financial liabilities				
Amounts due to a broker	2,319,480	-	-	2,319,480
Amount due to the Manager [^]	10	-	-	10
Trustee fee payable	54,761	-	-	54,761
Management fee payable	317,535	-	-	317,535
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**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 2020, the total amount of these financial assets is HK\$8,583,083 (2019: 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 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+ (2019: A+) based on Standard & Poor's and the percentage of financial assets held with them is 99.0% as at 30 June 2020 (2019: 98.9%).

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

30 June 2020

19. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2020 and up to the date of authorisation of the financial statements, the following subscriptions and redemptions occurred in the Sub-Fund:

	Class A HK\$	Class B HK\$	Total HK\$
Subscription of units	849,700	-	849,700
Redemption of units	1,391,218	-	1,391,218

Additional risk factor arising from the COVID-19 outbreak

The outbreak of Coronavirus Disease (“COVID-19 outbreak”) in early 2020 has had significant impact on global financial markets. The Manager will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Sub-Fund. The Manager will continue to remain alert to the situation and monitor the subscriptions and redemption of the Sub-Fund.

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 28 October 2020.

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INVESTMENT PORTFOLIO

Year ended 30 June 2020

	Holding	Fair value HK\$	% of net assets
Listed investments			
CHINA (25.9%)			
Anhui Gujing Distillery Co Ltd	15,815	2,603,217	0.9
Beijing Sinnet Technology Co Ltd	167,100	4,772,798	1.7
C&S Paper Co Ltd	311,700	7,615,480	2.7
Chaozhou Three-Circle Group Co Ltd	58,000	1,760,205	0.6
Jiangsu Hengrui Medical Co Ltd	56,332	5,696,557	2.0
Lepu Medical Technology Beijing Co Ltd	139,000	5,561,618	2.0
Maxscend Microelectronics Co Ltd	4,320	1,920,522	0.7
Midea Group Co Ltd	137,400	9,000,588	3.2
Ningbo Huaxiang Electronic Co Ltd	204,000	3,450,905	1.2
Ningbo Joyson Electronic Co Ltd	165,000	4,304,264	1.5
Qianhe Condiment And Food Co Ltd	72,800	2,518,831	0.9
Shanghai Yuyuan Tourist Mart (Group) Co Ltd	371,966	3,610,710	1.3
Shenzhen Goodix Technology Co Ltd	5,800	1,416,425	0.5
Shenzhen Mindray Bio-Medical Electronic Co Ltd	8,900	2,980,856	1.0
Shenzhen Sinovatio Technology Co Ltd	33,532	6,009,963	2.1
Wuliangye Yibin Co. Ltd	54,500	10,217,693	3.6
		<u>73,440,632</u>	<u>25.9</u>
HONG KONG (68.6%)			
Alibaba Group Holding Ltd	50,600	10,605,760	3.7
A-Living Services Co Ltd	130,250	5,086,262	1.8
BeiGene Ltd	58,700	6,662,450	2.3
CanSino Biologics Inc	14,400	3,078,720	1.1
China Education Group Holding Limited	65,000	809,900	0.3
China Literature Ltd	52,000	2,714,400	1.0
China Merchants Bank Co Ltd	114,500	4,081,925	1.4
China Merchants Port Holdings Intl Co Ltd	248	2,272	0.0
China Overseas Grand Oceans Group Ltd	1,162,000	5,077,940	1.8
CIFI Holdings Group Co Ltd	980,000	5,919,200	2.1
CITIC Telecom International Holdings Ltd	2,508,000	6,169,680	2.2
Cosco Shipping International Co Ltd	596,000	1,370,800	0.5
Duiba Group Ltd	1,881,200	6,038,652	2.1
Geely Automobile Holdings Ltd	206,000	2,513,200	0.9
Hong Kong Television Network Ltd	548,000	2,438,600	0.9
Innovent Biologics Inc	167,000	9,602,500	3.4
JS Global Lifestyle Company Ltd	343,000	2,548,490	0.9
Kaisa Prosperity Holdings Limited	313,250	9,945,688	3.5
Lifetech Scientific Corporation	1,304,000	3,181,760	1.1
Meituan Dianping	56,300	9,677,970	3.4
Pharmaron Beijing Co Ltd	70,500	5,640,000	2.0
Ping An Healthcare And Technology Co Ltd	50,000	5,895,000	2.1
Ping An Insurance Group Co Ltd	60,500	4,688,750	1.7
Plover Bay Technologies Ltd	52,000	51,480	0.0
Shandong Weigao Group Medical Polymer Co Ltd	308,000	5,309,920	1.9
Sino Biopharmaceutical Ltd	580,000	8,468,000	3.0

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INVESTMENT PORTFOLIO

Year ended 30 June 2020

	Holding	Fair value HK\$	% of net Assets
Listed investments (continued)			
HONG KONG (68.6%) (continued)			
SITC International Holdings Company Ltd	732,000	6,053,640	2.1
Sunac China Holdings Limited	197,000	6,392,650	2.2
SUNeVision Holdings Ltd	279,000	1,693,530	0.6
Tencent Holdings Ltd	53,100	26,475,660	9.3
Transport International Holdings Ltd	67,200	1,010,688	0.3
WuXi Biologics (Cayman) Inc	86,000	12,194,800	4.3
YTO Express (International) Holdings Limited	936,000	1,750,320	0.6
Zhongsheng Group Holdings Ltd	273,000	11,711,700	4.1
		<u>194,862,307</u>	<u>68.6</u>
UNITED STATES (4.5%)			
AirNet Technology Inc	42,420	259,732	0.1
Alibaba Group Holdings-Sp ADR	5,894	9,853,425	3.5
Nokia OYJ	21,000	716,142	0.2
TAL Education Group- ADR	4,050	2,146,402	0.7
		<u>12,975,701</u>	<u>4.5</u>
TOTAL INVESTMENTS		281,278,640	99.0
OTHER NET ASSETS		<u>2,732,234</u>	<u>1.0</u>
PUBLISHED NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>284,010,874</u>	<u>100</u>
TOTAL INVESTMENTS, AT COST		<u>221,193,308</u>	

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2020

	Movement in holdings			At 30 June 2020
	At 1 July 2019	Additions	Disposals	
Listed investments				
China				
Anhui Gujing Distillery Co Ltd	-	15,815	-	15,815
Bank Of Nanjing Co Ltd	-	251,000	(251,000)	-
Beijing Sinnet Technology Co Ltd	-	366,300	(199,200)	167,100
Beijing Thunisoft Corporation Ltd	-	203,900	(203,900)	-
C&S Paper Co Ltd	-	498,000	(186,300)	311,700
Chaozhou Three-Circle Group Co Ltd	-	58,000	-	58,000
Chongqing Changan Automobile Co Ltd	471,568	-	(471,568)	-
Chongqing Fuling Zhacai Group Co Ltd	-	51,600	(51,600)	-
Foshan Haitian Flavouring And Food Co Ltd	-	8,000	(8,000)	-
Gree Electric Appliances Inc of Zhuhai	84,800	37,800	(122,600)	-
Hangzhou DPtech Technologies Co Ltd	-	41,700	(41,700)	-
Jiangsu Hengrui Medical Co Ltd	46,944	9,388	-	56,332
Jonjee Hi-Tech Industrial & Commercial Holding Co Ltd	-	18,500	(18,500)	-
Kweichow Moutai Co Ltd	9,400	-	(9,400)	-
Lepu Medical Technology Beijing Co Ltd	-	156,500	(17,500)	139,000
Luzhou Laojiao Co Ltd	99,200	-	(99,200)	-
Maxscend Microelectronics Co Ltd	-	4,320	-	4,320
Midea Group Co Ltd	179,000	-	(41,600)	137,400
Ningbo Huaxiang Electronic Co Ltd	-	282,000	(78,000)	204,000
Ningbo Joyson Electronic Co Ltd	-	218,800	(53,800)	165,000
Qianhe Condiment And Food Co Ltd	-	72,800	-	72,800
Shanghai Yuyuan Tourist Mart (Group) Co Ltd	-	371,966	-	371,966
Shenzhen Goodix Technology Co Ltd	-	5,800	-	5,800
Shenzhen Mindray Bio-Medical Electronic Co Ltd	-	8,900	-	8,900
Shenzhen Sinovatio Technology Co Ltd	-	33,532	-	33,532
Wuliangye Yibin Co. Ltd	52,900	16,000	(14,400)	54,500
Hong Kong				
3SBio Inc	422,000	94,000	(516,000)	-
AIA Group Limited	44,000	64,400	(108,400)	-
Alibaba Group Holding Ltd	-	50,600	-	50,600
A-Living Services Co Ltd	200,000	99,500	(169,250)	130,250
Aoyuan Healthy Life Group Co Ltd	-	675,000	(675,000)	-
BeiGene Ltd	-	58,700	-	58,700
Bosideng International Holdings Ltd	-	500,000	(500,000)	-
Budweiser Brewing Company APAC Ltd	-	71,700	(71,700)	-
CanSino Biologics Inc	-	30,400	(16,000)	14,400
Chanhigh Holdings Limited	334,000	-	(334,000)	-
China Education Group Holding Limited	-	65,000	-	65,000
China Literature Ltd	-	52,000	-	52,000
China Merchants Bank Co Ltd	273,000	-	(158,500)	114,500
China Merchants Commercial Real Estate Investment Trust	-	400,000	(400,000)	-
China Merchants Port Holdings Intl Co Ltd	3,956	380,292	(384,000)	248
China Oriental Group Co Ltd	-	2,008,000	(2,008,000)	-

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2020

	Movement in holdings			At 30 June 2020
	At 1 July 2019	Additions	Disposals	
Listed investments (continued)				
Hong Kong (continued)				
China Overseas Grand Oceans Group Ltd	1,950,000	215,000	(1,003,000)	1,162,000
CIFI Holdings Group Co Ltd	-	980,000	-	980,000
CITIC Telecom International Holdings Ltd	4,281,000	350,000	(2,123,000)	2,508,000
C-Mer Eye Care Holdings Limited	-	488,000	(488,000)	-
Cosco Shipping International Co Ltd	698,000	-	(102,000)	596,000
CSPC Pharmaceutical Group	314,000	164,000	(478,000)	-
Duiba Group Ltd	-	1,881,200	-	1,881,200
First Pacific Co Ltd	2,498,000	-	(2,498,000)	-
Frontage Holdings Corporation	-	404,000	(404,000)	-
Galaxy Entertainment Group Ltd	98,000	-	(98,000)	-
Geely Automobile Holdings Ltd	-	206,000	-	206,000
Greenland Hong Kong Holdings Limited	1,408,000	629,000	(2,037,000)	-
Guangzhou Baiyunshan Pharmaceutical Holdings Co Ltd	260,000	-	(260,000)	-
Guangzhou R&F Properties Co Ltd	-	474,000	(474,000)	-
Haitian International Holdings Ltd	212,000	-	(212,000)	-
Hang Lung Group Ltd	208,000	55,000	(263,000)	-
Health And Happiness H&H Intl Hldgs Ltd	28,000	-	(28,000)	-
Hengan International Group Co Ltd	-	35,500	(35,500)	-
Hong Kong Television Network Ltd	-	548,000	-	548,000
Hua Hong Semiconductor Limited	-	76,000	(76,000)	-
Huali University Group Ltd	-	420,000	(420,000)	-
IGG Inc	-	441,000	(441,000)	-
Innovent Biologics Inc	50,500	183,500	(67,000)	167,000
JS Global Lifestyle Company Ltd	-	343,000	-	343,000
Kaisa Prosperity Holdings Limited	-	443,000	(129,750)	313,250
Lifetech Scientific Corporation	-	1,826,000	(522,000)	1,304,000
L'Occitane International S.A.	-	68,000	(68,000)	-
Maoye International Holdings Ltd	1,897,000	-	(1,897,000)	-
Meituan Dianping	-	74,600	(18,300)	56,300
New World Development Co Ltd	110,000	286,000	(396,000)	-
PCCW Ltd	646,000	170,000	(816,000)	-
Pharmaron Beijing Co Ltd	-	70,500	-	70,500
Ping An Healthcare And Technology Co Ltd	-	50,000	-	50,000
Ping An Insurance Group Co Ltd	80,000	23,500	(43,000)	60,500
Plover Bay Technologies Ltd	1,100,000	-	(1,048,000)	52,000
Shandong Weigao Group Medical Polymer Co Ltd	-	308,000	-	308,000
Shougang Fushan Resources Group Ltd	1,666,000	-	(1,666,000)	-
Sichuan Languang Justbon Services Group Co Ltd	-	96,200	(96,200)	-
Sino Biopharmaceutical Ltd	1,661,000	-	(1,081,000)	580,000
Sino Land Company Limited	164,000	-	(164,000)	-
Sisram Medical Ltd	308,000	-	(308,000)	-
SITC International Holdings Company Ltd	857,000	160,000	(285,000)	732,000

VL CHINA FUND

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

Year ended 30 June 2020

	Movement in holdings			At 30 June 2020
	At 1 July 2019	Additions	Disposals	
Listed investments (continued)				
Hong Kong (continued)				
Sunac China Holdings Limited	-	197,000	-	197,000
SUNeVision Holdings Ltd	-	279,000	-	279,000
Swire Pacific Ltd	280,000	92,500	(372,500)	-
Tencent Holdings Ltd	34,600	25,000	(6,500)	53,100
Times Neighborhood Holdings Ltd	-	360,000	(360,000)	-
Tongcheng-Elong Holdings Ltd	66,800	260,000	(326,800)	-
Transport International Holdings Ltd	225,200	-	(158,000)	67,200
Travelsky Technology Ltd	154,000	376,000	(530,000)	-
Vinda International Holdings Limited	-	66,000	(66,000)	-
Weimob Inc Co Ltd	-	1,685,000	(1,685,000)	-
WH Group Ltd	1,020,000	766,500	(1,786,500)	-
WuXi AppTec Co Ltd	-	11,600	(11,600)	-
WuXi Biologics (Cayman) Inc	73,500	25,500	(13,000)	86,000
Wynn Macau Ltd	101,600	-	(101,600)	-
YTO Express (International) Holdings Limited	-	936,000	-	936,000
Yuzhou Properties Co Ltd	955,000	894,026	(1,849,026)	-
Zhongsheng Group Holdings Ltd	-	354,000	(81,000)	273,000
United States				
AirNet Technology Inc	42,420	-	-	42,420
Alibaba Group Holdings-Sp ADR	5,894	-	-	5,894
Huazhu Group Ltd	15,295	-	(15,295)	-
Nokia OYJ	21,000	-	-	21,000
TAL Education Group- ADR	4,050	-	-	4,050
Trip.com Group Ltd	12,161	-	(12,161)	-

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PERFORMANCE TABLE

30 June 2020

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 2020		
- Class A	122.1560	21,243,882
- Class B	129.1426	262,766,992
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

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 2020		
- Class A	115.4175	98.7239
- Class B	N/A	103.5411
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