



Phillip Wealth Funds  
- Phillip HKD Money Market fund

31 December 2018

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# Investment Manager's report

## Phillip Wealth Funds – Phillip HKD Money Market fund (“the sub-fund”)

### Review

The fund generated a net return of 1.08% for the year ended 31 December 2018, which has outperformed the 1-week Hong Kong interbank offered rate (HIBOR) return of 0.93% over the same period.

As at 31 Dec 2018, the fund's Weighted Average Maturity (“WAM”) stood at 62 days and annualised average 30-days yields at 1.48% p.a.. The fund primarily invested in fixed-rate bonds issues of the Asian region and bank deposits.

For the HK's economy was broadly resilient in 2018. Real GDP grew by 3.0% year on year in 2018. Yet, this was slower than the growth rate of 3.8% in 2017. Growth remained strong at 4.1% on a year-on-year basis in the first half of 2018 amid the favourable global economic environment. The pace of growth decelerated in the second half of the year due to the US-Mainland trade conflict and U.S. interest rate hikes. Domestic demand was sound while external demand was vulnerable. For domestic demand, in real terms, private consumption expenditure grew by 5.6% year on year in 2018, slight faster than its 5.5% growth in 2017. The strong consumer confidence was driven by full employment and appreciable wage growth. Investment expenditure increased by 2.2% in real terms for the year. For external demand, in real terms, HK's exports of goods and exports of services grew by 3.5% and 4.9% in 2018 respectively, on a year-on-year basis, driven by synchronised deceleration of economic growth of major economies. Regarding the labour market, the unemployment rate dropped to 2.8% in the first half of 2018. The headline inflation rate was 2.4% in 2018, indicating the upward pressures on inflation.

Short-term interest rates climbed over the course of the year. The Hong Kong interbank offered rate (HIBOR) for one month and three months reached 2.24% and 2.33% at the end of December 2018, compared to 1.19% and 1.31% a year ago, respectively.

### Outlook

Growth of HK's economy is expected to be moderate in 2019. According to The 2019-20 Budget, Paul Chan Mo Po, the Financial Secretary, forecasted economic growth of 2-3% in HK in 2019. On global scale, IMF forecasts global economic growth of 3.5% in 2019.

Full employment and recovery of tourism should continue to support the retail and services sectors. Moderating economic growth and softer asset prices are expected to support consumer confidence. However, it is subject to risk of correction of asset markets if market interest rates surge significantly.

The U.S.-China trade conflict and the successive rate hikes in the U.S. have weighed on global economic sentiment. As one of the major trade hubs in Asia, HK's export sector will affect by the trade tensions between the U.S. and the China. If two countries could make some positive progress in resolving their trade conflict, it could boost sentiment and stimulate production and trading activity in the region, and HK's export sector may have a better performance.

## Investment Manager's report Phillip Wealth Funds – Phillip HKD Money Market fund (“the sub-fund”) (continued)

Inflation rate is likely to stay broadly moderate in 2019. Imported goods will become more inexpensive because of the strong HKD against currencies of its major trade partners. Locally, rent level of residential units becomes moderate. Rent level of commercial units is increasing. Domestic demand is also strong. Factors aforementioned will bring upward pressure to HK's inflation. Official forecast of headline inflation and underlying inflation in 2019 are both 2.5%.

Under the linked-exchange rate regime, interest rates in HK tend to follow those in the US. Market interest rates in HK may ease from the upward pressure if the US FED stops raising its benchmark interest rates in the remaining 2019.

SFC has issued a revised Unit Trust code, which will take effect from 1 January 2019 and the fund has a 12-month transition period from the effective date. The revised code will have minimal impact to the fund as the strategy of the fund has always reflect a target WAM of less than 90 days, with overnight and 7 days liquidity of 10% and 20% respectively. The fund will continue to focus its investments in high-quality short-term corporate papers of issuers with strong balance sheets, robust business models and steady operating cash flows.



29 APR 2019

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For and on behalf of  
Phillip Capital Management (HK) Limited

# Trustee's Report Phillip Wealth Funds – Phillip HKD Money Market fund (“the sub-fund”)

We hereby confirm that, in our opinion, the Manager of the sub-fund has, in all material respects, managed the sub-fund in accordance with the provisions of the trust deed dated 12 April 2017, as amended by Supplemental trust deed dated 12 April 2017 (collectively the “Trust Deed”), for the year ended 31 December 2018.



For and on behalf of  
BNP Paribas Trust Services (Hong Kong) Limited

29 APR 2019

## Statement of responsibilities of the Manager and the Trustee

### Manager's responsibilities

The Manager of Phillip Wealth Funds - Phillip HKD Money Market fund ("the sub-fund") is required by the Code of Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the SFC Code") and the trust deed dated 12 April 2017, (collectively the "Trust Deed") to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the sub-fund at the end of that period and of the transactions for the period then ended. In preparing these financial statements the Manager is required to:

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

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

Phillip Wealth Funds ("the Trust") is an open-ended umbrella unit trust governed by its Trust Deed. As at 31 December 2018, the Trust has established one sub-fund, namely Phillip HKD Money Market fund.

### Trustee's responsibilities

The Trustee of the sub-fund is required to:

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



# Independent auditors' report to the unitholders of Phillip Wealth Funds - Phillip HKD Money Market fund ("the sub-fund")

## Report on the audit of financial statements

### *Opinion*

We have audited the financial statements of the sub-fund set out on pages 9 to 39, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in net assets attributable to unitholders and the cash flow statement 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 disposition of the sub-fund as at 31 December 2018 and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("the IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Information Other than the Financial Statements and Auditor's Report thereon*

The Manager and the Trustee of the sub-fund are responsible for the other information. The other information comprises all 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.



# Independent auditors' report to the unitholders of Phillip Wealth Funds - Phillip HKD Money Market fund ("the sub-fund") (continued)

## Report on the audit of financial statements (continued)

### *Responsibilities of the Manager and the Trustee of the sub-fund for the Financial Statements*

The Manager and the Trustee of the sub-fund are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and for such internal control as the Manager and the Trustee of the sub-fund determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In addition, the Manager and the Trustee of the sub-fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the trust deed dated 12 April 2017, (collectively "the Trust Deed"), and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

### *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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.





Independent auditors' report to the unitholders of  
Phillip Wealth Funds -  
Phillip HKD Money Market fund ("the sub-fund") (continued)

**Report on the audit of financial statements (continued)**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the sub-fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee of the sub-fund.
- Conclude on the appropriateness of the Manager's and the Trustee'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 Manager and the Trustee of the sub-fund 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 auditors' report to the unitholders of  
Phillip Wealth Funds -  
Phillip HKD Money Market fund ("the sub-fund") (continued)

**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 provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

Certified Public Accountants



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

29 APR 2019

**Statement of financial position**  
**as at 31 December 2018**  
*(Expressed in Hong Kong dollars)*

	Note	2018 HK\$	2017 HK\$
<b>Assets</b>			
Financial assets at fair value through profit or loss	6	115,619,164	43,503,957
Bank deposits with maturity over three months at acquisition		72,511,796	44,548,899
Interest receivable		2,067,169	374,432
Amount receivable on subscription		384,122	1,403,772
Cash and cash equivalents	7	<u>62,405,005</u>	<u>76,893,131</u>
<b>Total assets</b>		<u>252,987,256</u>	<u>166,724,191</u>
<b>Liabilities</b>			
Amount payable on redemption		680,237	2,532,264
Accrued expenses and other payables		<u>361,503</u>	<u>775,214</u>
<b>Total liabilities</b>		<u>1,041,740</u>	<u>3,307,478</u>
<b>Net assets attributable to unitholders</b>		<u>251,945,516</u>	<u>163,416,713</u>
<b>Number of units in issue</b>			
- Class A units	9(a)	<u>24,924,154.78</u>	<u>16,369,095.58</u>
<b>Net asset value per unit</b>			
- Class A units	9(b)	<u>10.1085</u>	<u>9.9832</u>

Approved by the Trustee and the Manager on 29 APR 2019


  
 ) For and on behalf of  
 ) BNP Paribas Trust Services (Hong Kong) Limited  
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 ) For and on behalf of  
 ) Phillip Capital Management (HK) Limited  
 )

The notes on pages 14 to 39 form part of these financial statements

**Statement of comprehensive income**  
**for the year ended 31 December 2018**  
*(Expressed in Hong Kong dollars)*

		Year ended 31 December 2018	3 July 2017 (date of commencement) to 31 December 2017
	Note	HK\$	HK\$
Interest income calculated using the effective interest method	3	2,054,711	249,343
Other interest income	3	1,738,750	308,714
Net losses from financial assets at fair value through profit or loss	4	(139,767)	(90,206)
Other income		-	10
<b>Total revenue</b>		<u>3,653,694</u>	<u>467,861</u>
Management fees	8(a)	(335,565)	(88,230)
Trustee's fees	8(b)	(47,938)	(12,700)
Custodian fees	8(c)	(156,770)	(23,189)
Auditors' remuneration		(151,337)	(49,863)
Establishment cost		-	(547,499)
Bank charges		-	(1,100)
Other operating expenses		<u>(120,185)</u>	<u>(67,168)</u>
<b>Total operating expenses</b>		<u>(811,795)</u>	<u>(789,749)</u>
<b>Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year/period</b>		<u>2,841,899</u>	<u>(321,888)</u>

The notes on pages 14 to 39 form part of these financial statements

**Statement of changes in net assets attributable to unitholders for the year ended 31 December 2018**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>Year ended 31 December 2018</i>	<i>3 July 2017 (date of commencement) to 31 December 2017</i>
		HK\$	HK\$
<b>Balance at the beginning of the year/period</b>		163,416,713	-
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year/period		----- 2,841,899	----- (321,888)
<b>Contributions and redemptions by unitholders</b>			
Subscriptions of units		1,420,068,370	680,186,861
Redemption of units		----- (1,334,381,466)	----- (516,448,260)
<b>Total contributions and redemptions by unitholders</b>		----- 85,686,904	----- 163,738,601
<b>Balance at the end of the year/period</b>		----- 251,945,516	----- 163,416,713

The notes on pages 14 to 39 form part of these financial statements

## Cash flow statement for the year ended 31 December 2018 (Expressed in Hong Kong dollars)

	Year ended 31 Note December 2018 HK\$	3 July 2017 (date of commencement) to 31 December 2017 HK\$
<b>Operating activities</b>		
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year/period	2,841,899	(321,888)
Adjustments for:		
Interest income	(3,793,461)	(558,057)
Net change in unrealised losses financial assets at fair value through profit or loss	16,209	48,206
Net realised losses from financial assets at fair value through profit or loss	<u>123,558</u>	<u>42,000</u>
Operating losses before changes in working capital	(811,795)	(789,739)
Purchase of financial assets at fair value through profit or loss	(212,754,974)	(89,596,629)
Proceeds from sale of financial assets at fair value through profit or loss	9,000,000	9,002,466
Proceeds from redemption of bonds upon maturity	131,500,000	37,000,000
Purchase of bank deposits with maturity over three months at acquisition	(27,962,897)	(44,548,899)
(Decrease)/increase in accrued expenses and other payables	<u>(413,711)</u>	<u>775,214</u>
<b>Net cash used in operations</b>	(101,443,377)	(88,157,587)
Interest received	<u>2,100,724</u>	<u>183,625</u>
<b>Net cash used in operating activities</b>	<u>(99,342,653)</u>	<u>(87,973,962)</u>
<b>Financing activities</b>		
Proceeds from subscription of units	1,421,088,020	678,783,089
Payments on redemption of units	<u>(1,336,233,493)</u>	<u>(513,915,996)</u>
<b>Cash used in financing activities</b>	<u>84,854,527</u>	<u>164,867,093</u>

The notes on pages 14 to 39 form part of these financial statements

**Cash flow statement**  
**for the year ended 31 December 2018**  
*(Expressed in Hong Kong dollars)*

	<i>Year ended 31 December 2018</i>	<i>3 July 2017 (date of commencement) to 31 December 2017</i>
	HK\$	HK\$
<b>Net (decrease)/increase in cash and cash equivalents</b>	(14,488,126)	76,893,131
<b>Cash and cash equivalents at the beginning of the year/period</b>	<u>76,893,131</u>	-
<b>Cash and cash equivalents at the end of the year/period</b>	7 <u>62,405,005</u>	<u>76,893,131</u>

The notes on pages 14 to 39 form part of these financial statements

## Notes to the financial statements

(Expressed in Hong Kong Dollar unless otherwise indicated)

### 1. The sub-fund

Phillip HKD Money Market fund ("the sub-fund") is a sub-fund of Phillip Wealth Funds which is an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a trust deed dated 12 April 2017, as amended by supplemental trust deed ("the Trust Deed"), between Phillip Capital Management (HK) Limited as manager ("the Manager") and BNP Paribas Trust Services (Hong Kong) Limited as trustee ("the Trustee").

The sub-fund seeks to preserve principal value and to maintain a high degree of liquidity while generating a higher rate of return as compared to personal deposits of the base currency by investing primarily in HKD-denominated money market instruments, short-term debt securities and short-term deposits.

There can be no assurance that the sub-fund will achieve its investment objective.

The Manager is responsible for the management of the sub-fund's assets. The Manager was incorporated with limited liability on 14 October 1993 in Hong Kong and is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the sub-fund and monitoring the compliance by the Manager with the requirements of the Trust Deed. The registrar of the sub-fund is BNP Paribas Securities Services operating through its Hong Kong branch.

### 2. Significant accounting policies

#### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements of the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the SFC" code). Significant accounting policies adopted by the sub-fund are disclosed below.



## 2. Significant accounting policies (continued)

### (a) Statement of compliance (continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the sub-fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the sub-fund for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The functional and presentation currency of the sub-fund is Hong Kong dollar reflecting the fact that all the underlying investments of the sub-fund are denominated in Hong Kong dollar.

The financial statements are prepared on a fair value basis for financial assets and financial liabilities at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost or redemption amount (redeemable units).

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

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

This is the first set of the sub-fund's annual financial in which IFRS 9 *Financial Instruments* has been applied. Changes to significant accounting policies are described in note 2(c).

### (c) Changes in accounting policies

The sub-fund has initially applied IFRS 9 from 1 January 2018. Also, the sub-fund early adopted *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), issued in October 2017. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the sub-fund's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect the requirement of the standard.

Except for the changes below, the sub-fund has consistently applied the accounting policies as set out in Note 2.

## 2. Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the sub-fund has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require:

- impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Under IAS 39, impairment was recognised when losses were incurred. The sub-fund did not previously report any incurred losses; and
- separate presentation in the statement of comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the sub-fund has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, which are applied to disclosures about 2018 but have not generally been applied to comparative information.

The adoption of IFRS 9 had no material impact on the net assets attributable to unitholders of the sub-fund.

### (i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the sub-fund's accounting policies related to financial liabilities.

For an explanation of how the sub-fund classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2(e).

## 2. Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

#### (i) Classification and measurement of financial assets and financial liabilities (continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the sub-fund's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 HK\$	New carrying amount under IFRS 9 HK\$
<b>Financial assets</b>				
Debt securities (note (a))	Designated as at FVTPL	Mandatorily at FVTPL	43,503,957	43,503,957
Bank deposits with maturity over three months at acquisition	Loans and receivables	Amortised cost	44,548,899	44,548,899
Interest receivable	Loans and receivables	Amortised cost	374,432	374,432
Amount receivable on subscription	Loans and receivables	Amortised cost	1,403,772	1,403,772
Cash and cash equivalents	Loans and receivables	Amortised cost	76,893,131	76,893,131
			<u>166,724,191</u>	<u>166,724,191</u>

- (a) Under IAS 39, these financial assets were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 HK\$	New carrying amount under IFRS 9 HK\$
<b>Financial liabilities</b>				
Amount payable on redemption	Amortised cost	Amortised cost	2,532,264	2,532,264
Accrued expenses and other payables	Amortised cost	Amortised cost	775,214	775,214
			<u>3,307,478</u>	<u>3,307,478</u>

There is no change in the carrying amounts of the financial assets under IAS39 to the carrying amounts under IFRS9 on transition to IFRS 9 on 1 January 2018.

## 2. Significant accounting policies (continued)

### (c) Changes in accounting policies (continued)

#### (ii) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The sub-fund has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result to any additional impairment allowance.

#### (iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not generally been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.

The sub-fund has used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present "interest income calculated using the effective interest rate" as a separate line item in the statement of comprehensive income, the sub-fund has reclassified comparative interest income on financial instruments designated as at FVTPL to "net income from financial instruments at FVTPL" and changed the description of the line item from "interest income" reported in 2017 to "interest income calculated using the effective interest method".

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The revocation of previous designations of certain financial assets as measured at FVTPL.

## 2. Significant accounting policies (continued)

### (d) Foreign currency translation

Foreign currency transactions during the year/period are translated into Hong Kong dollar at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong Dollar at the foreign exchange rates ruling at the end of the reporting period. Foreign currency exchange differences arising on translation and realised gains and losses on disposal or settlement of monetary assets and liabilities are recognised in the statement of comprehensive income.

Foreign currency exchange differences relating to financial assets are included in net gains on financial assets. All other foreign currency exchange differences relating to monetary items including cash and cash equivalents are presented separately in profit or loss. Included in profit or loss line item net foreign exchange gain/(loss) are net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as fair value through profit or loss.

### (e) Financial assets and financial liabilities

#### (i) Classification of financial assets

##### Policy applicable from 1 January 2018

On initial recognition, the sub-fund classifies financial assets as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the sub-fund are measured at FVTPL.

##### *Business model assessment*

In making an assessment of the objective of the business model in which a financial asset is held, the sub-fund considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the sub-fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed

## 2. Significant accounting policies (continued)

### (e) Financial assets and financial liabilities (continued)

- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

The sub-fund has determined that it has two business models.

- Held-to-collect business model: this includes bank deposits with maturity over three months, interest receivable, amount receivable on subscription and cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- Other business model: this includes certificates of deposit and bonds. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

#### *Assessment whether contractual cash flows are SPPI*

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the sub-fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the sub-fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration for of the time value of money (e.g. periodical reset of interest rates).

#### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the sub-fund were to change its business model for managing financial assets, in which case all

## 2. Significant accounting policies (continued)

### (e) *Financial assets and financial liabilities (continued)*

affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

#### Policy applicable before 1 January 2018

All of the sub fund's investments in bonds and certificates of deposit are classified as financial assets at fair value through profit or loss. This category comprises financial instruments held for trading, which are instruments that the sub-fund has acquired principally for the purpose of short term profit taking.

Financial assets that are classified as loans and receivable include bank deposits with maturity over three months at acquisition, interest receivable, amount receivable on subscription and cash and cash equivalents.

#### (ii) Measurement of financial assets

Financial assets at FVTPL:

These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss in "net income from financial instruments at FVTPL" in the statement of comprehensive income. The interest income is recognised in "other interest income" in the statement of comprehensive income

Certificates of deposit and bonds are included in this category.

Financial assets at amortised cost (2017: loans and receivables)

These assets are subsequently measured at amortised cost using the effective interest method. Interest income is recognised in "interest income calculated using the effective interest method", foreign exchange gains and losses are recognised in "exchange difference" and impairment is recognised in "impairment losses on financial instruments" in the statement of comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss.

Bank deposits with maturity over three months, interest receivable, amount receivable on subscription and cash and cash equivalents are included in this category.

#### (iii) Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The sub-fund classifies all of the financial liabilities, including amount payable on redemption and accrued expenses and other payables at amortised cost.

## 2. Significant accounting policies (continued)

### (e) Financial assets and financial liabilities (continued)

#### (iv) Fair value measurement principles

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the sub fund has access at that date. The fair value of a liability reflects its non performance risk.

When available, the sub fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The sub fund measures instruments quoted in an active market at a quoted market price provided such price is within the bid ask spread.

If there is no quoted price in an active market, then the sub fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The sub fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

#### (v) Amortised cost measurement

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

#### (vi) Impairment

##### Policy applicable from 1 January 2018

The sub-fund recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost.

The sub-fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the sub-fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the sub-fund's historical experience and informed credit assessment and including forward-looking information.



## 2. Significant accounting policies (continued)

### (e) Financial assets and financial liabilities (continued)

The sub-fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The sub-fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the sub-fund in full, without recourse by the sub-fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The sub-fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of "investment grade". The Fund considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

#### *Credit-impaired financial assets*

At each reporting date, the sub-fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

#### *Presentation of allowance for ECLs in the statement of assets and liabilities*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

## 2. Significant accounting policies (continued)

### (e) Financial assets and financial liabilities (continued)

#### *Write-off*

The gross carrying amount of a financial asset is written off when the sub-fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

#### Policy applicable prior to 1 January 2018

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

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

### (vii) Derecognition

The sub-fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of owners of the financial asset are transferred or in which the sub-fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the sub-fund is recognised as a separate asset or liability.

The sub-fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risk and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

The sub-fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

## 2. Significant accounting policies (continued)

### (e) *Financial assets and financial liabilities (continued)*

#### (vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the sub-fund has legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

### (f) *Cash and cash equivalents*

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from acquisition that are subject to an insignificant risk of changes in their fair value and are used by the sub-fund in the management of short-term commitments.

### (g) *Revenue recognition*

Provided it is probable that the economic benefits will flow to the sub-fund and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *Interest income*

Interest income and expense presented in the statement of comprehensive income comprise interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

### (h) *Expenses*

All expenses including management fees and trustee's fees, are recognised in statement of comprehensive income on an accrual basis.

### (i) *Related parties*

(a) A person, or a close member of that person's family, is related to the sub-fund if that person:

## 2. Significant accounting policies (continued)

### (i) Related parties (continued)

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

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

### (j) Subscriptions and redemptions

The sub-fund recognises unitholders' subscriptions and allots units upon receipt of a valid subscription application and derecognises them upon receipt of a valid redemption application.

### (k) Units in issue

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

The redeemable units provide unitholders with the right to require redemption for cash at a value proportionate to the unitholders' share in the sub-fund's net assets at each redeemable date, and also in the event of the sub-fund's liquidation.

## 2. Significant accounting policies (continued)

### (i) Units in issue (continued)

The sub-fund has one class of redeemable units in issue at the end of reporting year/period. Units are classified as equity when there is only one class of units outstanding for a sub-fund as at the end of reporting period and these units meet all the other conditions of equity classification under IAS 32 (Amendment), *Financial Instruments: Presentation* and IAS 1 (Amendment), *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*, including the condition that these units were the most subordinated units in issue in that sub-fund.

### (l) Establishment cost

The establishment costs of the sub-fund consist of costs incurred to establish the sub-fund and enable them legally to do business. The establishment costs are recognised as an expense in the year/period in which they are incurred.

### (m) Taxation

The sub-fund currently incurs no withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains will be recorded gross of withholding taxes in the statement of comprehensive income. Refer to Note 5 for details on taxation.

## 3. Interest income

	Year ended 31 December 2018 HK\$	3 July 2017 (date of commencement) to 31 December 2017 HK\$
<b>Interest income calculated using the effective interest method</b>		
Cash and cash equivalents	209,542	11,424
Bank deposits with maturity over three months at acquisition	1,845,169	237,919
	2,054,711	249,343
<b>Other interest income</b>		
Interest income on financial assets at fair value through profit or loss	1,738,750	308,714
	1,738,750	308,714

**4. Net loss on financial assets at fair value through profit or loss**

	<i>Year ended 31 December 2018</i>	<i>3 July 2017 (date of commencement) to 31 December 2017</i>
	HK\$	HK\$
Realised loss on financial assets at fair value through profit or loss	123,558	42,000
Net change in unrealised loss financial assets at fair value through profit or loss	<u>16,209</u>	<u>48,206</u>
	<u><u>139,767</u></u>	<u><u>90,206</u></u>

**5. Taxation**

No provision for Hong Kong Profits Tax has been made in the financial statements as the sub-fund is exempted from taxation under section 26A (1A) of the Hong Kong Inland Revenue Ordinance. The sub-fund currently does not incur withholding taxes imposed by certain countries on investment income. Such income is recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are shown as a separate item in the statement of comprehensive income.

**6. Financial assets at fair value through profit or loss**

	<i>2018</i>	<i>2017</i>
	HK\$	HK\$
<b>Debt securities</b>		
Certificates of deposit	48,010,326	29,492,696
Bonds	<u>67,608,838</u>	<u>14,011,261</u>
	<u><u>115,619,164</u></u>	<u><u>43,503,957</u></u>
Investments, at cost	115,683,583	43,552,167
Net unrealised loss	<u>(64,419)</u>	<u>(48,210)</u>
Investments, at market value	<u><u>115,619,164</u></u>	<u><u>43,503,957</u></u>

**7. Cash and cash equivalents**

	<i>2018</i>	<i>2017</i>
	HK\$	HK\$
Bank deposits with maturity less than three months at acquisition	45,495,329	44,030,265
Cash at bank	<u>16,909,676</u>	<u>32,862,866</u>
	<u><u>62,405,005</u></u>	<u><u>76,893,131</u></u>

All of the cash at bank and bank deposits as at 31 December 2018 and 2017 are denominated in Hong Kong dollar.

## 8. Transactions with Trustee, Manager and Connected Persons

The following is a summary of significant related party transactions or transactions entered into during the year/period between the sub-fund and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the Code on Unit Trusts and Mutual Funds issued by the SFC.

All transactions during the year/period between the sub-fund and the Manager and its Connected Persons were entered into in the ordinary course of business and under normal commercial terms. To the best of the knowledge of the Trustee and the Manager, the sub-fund did not have any other transactions with Connected Persons except for those disclosed below. The relevant receivables and payables are unsecured, interest-free and repayable on demand.

### (a) *Management fees*

The sub-fund appointed Phillip Capital Management (HK) Limited, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. The fee payable to the Manager is calculated at the rate of up to 0.5% of the net asset value for Class A and Class B. The management fee charged to the sub-fund in respect of the year/period amounted to HK\$335,565 (2017: HK\$88,230) and payable at the end of the year/period amounted to HK\$100,000 (2017: HK\$88,230).

### (b) *Trustee's fees*

The fee payable to BNP Paribas Trust Services (Hong Kong) Limited ("the Trustee") is calculated at the rate of 0.03% per annum of the net asset value of the sub-fund. The Trustee's fee is accrued daily and calculated as at each valuation day. The trustee's fee charged to the sub-fund in respect of the year/period amounted to HK\$47,938 (2017: HK\$12,700) and payable at the end of the year/period amounted to HK\$27,457 (2017: HK\$12,700).

### (c) *Custodian and administration fees*

The Administrator and Custodian of the sub-fund is BNP Paribas Securities Services operating through its Singapore Branch, which is a group company of the Trustee. The administration fees and custodian fees incurred during the year/period amounted to HK\$59,922 (2017: HK\$54,825) and HK\$171,128 (2017: HK\$23,189) respectively. The administration fees and custodian fees payable by the sub-fund at 31 December 2018 was HK\$34,321 (2017: HK\$54,825) and HK\$92,014 (2017: HK\$9,764) respectively. The administration fees also include fee for financial reporting.

### (d) *Registrar fees*

The Registrar of the sub-fund is BNP Paribas Securities Services operating through its Hong Kong Branch, which is a group company of the Trustee. The registrar fees incurred during the year/period amounted to HK\$23,969 (2017: HK\$6,349) and payable by the sub-fund at 31 December 2018 and HK\$13,728 (2017: HK\$6,349).

## 8. Transactions with Trustee, Manager and Connected Persons (continued)

### (e) Bank balances

The bank balance (including bank deposits with maturity over three months at acquisition and cash and cash equivalent) of a bank account maintained with BNP Security Services, operating through its Singapore Branch, which is a group company of the Trustee, as at 31 December 2018 and 2017 amounted to HK\$3,726,092 (2017: HK\$12,859,908). During the year/period, interest earned from such bank account amounted to HK\$9,913 (2017: Nil) and bank charges credited to the bank account amounted to HK\$444 (2017: HK\$750).

## 9. Units issued and redeemed

### (a) Number of units in issue

2018

	<i>Class A</i>
Balance at 1 January 2018	16,369,095.58
Subscriptions of units during the year	141,228,346.35
Redemptions of units during the year	<u>(132,673,287.15)</u>
Balance at 31 December 2018	<u><u>24,924,154.78</u></u>

2017

	<i>Class A</i>
Balance at 3 July 2017 (commencement of operations)	-
Subscriptions of units during the period	67,969,960.16
Redemptions of units during the period	<u>(51,600,864.58)</u>
Balance as at 31 December 2017	<u><u>16,369,095.58</u></u>

### (b) Net assets value per unit

Accordingly to the Explanatory Memorandum of the sub-fund, all classes of the sub-fund are denominated in Hong Kong dollar for dealing, which is also the presentation currency of the sub-fund. Class A units are available for issue to the public. Class B units are only offered to institutional investors who satisfy certain conditions and are not currently offered to the public. The net asset value per unit for each class of the sub-fund in their respective denomination currencies at the end of the reporting year/period is as follows:

	<i>Denomination currency</i>	<i>2018</i>	<i>2017</i>
Net asset value per unit			
- Class A units	HK\$	<u>10.1085</u>	<u>9.9832</u>



## 10. Reconciliation of net asset values

The net asset value presented in the financial statements differs from that quoted for pricing purposes at the year/period end ("Dealing NAV") are different, as the principles for calculating the Dealing NAV as set out in the sub-fund's Explanatory Memorandum are different from those required for financial reporting purposes under IFRSs. The following reconciliation provides details of the differences:

	2018 HK\$	2017 HK\$
Net asset value as reported in the financial statements as at 31 December	251,945,516	163,416,713
Adjustments for different basis adopted by the sub-fund in arriving at the Dealing NAV:		
Unamortised establishment cost	383,399	492,899
Effect of adopting amortised cost for pricing	111	34,968
Dealing NAV as at 31 December	252,329,026	163,944,580

## 11. Financial instruments and associated risks

The sub-fund seeks to preserve principal value and to maintain a high degree of liquidity while generating a higher rate of return as compared to personal deposits of the base currency by investing primarily in HKD denominated money market instruments, short-term debt securities and short-term deposits. There can be no assurance that the sub-fund will achieve its investment objective.

The sub-fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager and the Trustee have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the sub-fund. Unitholders should note that additional information in respect of risks associated with financial instruments in the sub-fund can be found in the sub-fund's Explanatory Memorandum.

The nature and extent of the financial instruments outstanding at the end of the reporting year/period and the risk management policies employed by the sub-fund are discussed below.

### (a) Price risk

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The sub-fund is holds debt securities in the current year/period. As a result, the sub-fund is not exposed to significant price risk arising from changes in market price.

## 11 Financial instruments and associated risks (continued)

### (b) Interest rate risk

Interest rate risk arises from changes in interest rates which may affect the value of debt instruments and therefore result in potential gain or loss to the sub-fund. The sub-fund's interest rate risk is managed on an ongoing basis by the Manager.

The following table indicates the year/period in which the interest-bearing assets and liabilities mature at the end of the reporting year/period.

	2018			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
<b>Assets</b>				
Financial assets at fair value through profit or loss	115,619,164	-	-	115,619,164
Bank deposits with maturity over three months at acquisition	72,511,796	-	-	72,511,796
Cash and cash equivalents	62,405,005	-	-	62,405,005
<b>Total interest sensitivity gap</b>	<u>250,535,965</u>	<u>-</u>	<u>-</u>	<u>250,535,965</u>
	2017			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
<b>Assets</b>				
Financial assets at fair value through profit or loss	43,503,957	-	-	43,503,957
Bank deposits with maturity over three months at acquisition	44,548,899	-	-	44,548,899
Cash and cash equivalents	76,893,131	-	-	76,893,131
<b>Total interest sensitivity gap</b>	<u>164,945,987</u>	<u>-</u>	<u>-</u>	<u>164,945,987</u>

## 11 Financial instruments and associated risks (continued)

### (b) Interest rate risk (continued)

#### *Interest rate sensitivity*

At the end of the reporting period, assuming all other factors unchanged, it is estimated that an increase in interest rate of 100 (2017: 100) basis points would result in a decrease in the net assets attributable to the unitholders and the net assets for the year/period by HK\$1,036,089 (2017: HK\$1,066,188); an equal change in the opposite direction would result in an increase in the net assets attributable to unitholders by an equal amount.

### (c) Currency risk

The sub-fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the sub-fund is exposed to risks that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the sub-fund's assets or liabilities denominated in currencies other than the Hong Kong dollar.

The sub-fund's asset and liabilities are held in United States dollar and Hong Kong dollar. As Hong Kong dollar is linked currency of United States dollar, the functional currency of the sub-fund, the sub-fund has no significant exposure to currency risk. The Manager considers that asset and liabilities denominated in other currencies are immaterial and therefore they do not pose a significant currency risk exposure.

### (d) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the sub-fund. The sub-fund's exposure to credit risk is monitored by the Manager on an ongoing basis.

At 31 December 2018 and 2017, all of the sub-fund's financial assets were exposed to credit risk. These include investments and cash and cash equivalents placed with banks and the custodian.

Bankruptcy or insolvency of the banks and custodian may cause the sub-fund's right with respect to securities and cash held by the banks and custodian to be delayed or limited. The manager monitors the credit rating and financial position of the banks and custodian on an ongoing basis.

## 11 Financial instruments and associated risks (continued)

### (d) Credit risk (continued)

The table below summarises the credit rating of banks and custodians in which the sub-fund's assets are held as at 31 December 2018 and 2017:

	<i>Credit rating</i>	<i>Source of credit rating</i>
<i>As at 31 December 2018</i>		
<i>Bank and financial institution</i>		
BNP Paribas Securities Services operating through its Singapore Branch	A	Standard & Poor's
China Construction Bank	A	Standard & Poor's
Malayan Banking Berhad Hong Kong Branch	A-	Standard & Poor's
Sumitomo Mitsui Banking Corporation Hong Kong Branch	A	Standard & Poor's
<i>Custodian</i>		
BNP Paribas Securities Services operating through its Singapore Branch	A	Standard & Poor's
	<i>Credit rating</i>	<i>Source of credit rating</i>
<i>As at 31 December 2017</i>		
<i>Bank and financial institution</i>		
BNP Paribas Securities Services operating through its Singapore Branch	A	Standard & Poor's
China Construction Bank	A	Standard & Poor's
Malayan Banking Berhad Hong Kong Branch	A-	Standard & Poor's
Sumitomo Mitsui Banking Corporation Hong Kong Branch	A	Standard & Poor's
<i>Custodian</i>		
BNP Paribas Securities Services Singapore Branch	A	Standard & Poor's

## 11 Financial instruments and associated risks (continued)

### (d) Credit risk (continued)

The credit ratings are based on the Long-Term Local Issuer Ratings published by the rating agency for BNP Paribas S.A., which is the parent company BNP Paribas Securities Services operating through its Singapore Branch.

At the end of the reporting year/period, the sub-fund invested in debt securities with the following credit quality expressed as a percentage of debt securities:

*As at 31 December 2018*

Rating (Moody's/Standard & Poor's)	% of debt securities
AAA	1.98
AA	0.79
AA-	2.78
A+	3.97
A	10.75
A-	15.30
Aa2	9.13
A1	0.40
NR	0.79
	<u>45.89</u>

*As at 31 December 2017*

Rating (Moody's/Standard & Poor's)	% of debt securities
AA-	2.45
A+	1.84
A	9.48
A-	6.73
A1	3.68
	<u>26.62</u>

Credit risk arising from the sub-fund's investment in debt securities is managed by the reviewing and monitoring of the credit quality of debt securities or the issuers of the debt securities held by the sub-fund on an ongoing basis.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the end of the reporting year/period.

As at 31 December 2018 and 2017, there were no significant concentrations of credit risk to counterparties except to the Custodian.

## 11 Financial instruments and associated risks (continued)

### (d) Credit risk (continued)

#### *Financial assets subject to IFRS 9's impairment requirements*

Impairment on cash and cash equivalents, bank deposits with maturity over three months at acquisition, amount receivable on subscription and interest receivable has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The sub-fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

The sub-fund monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties. To determine whether published ratings remain up to date and to assess whether there has been significant increase in credit risk at the reporting date that has not been reflected in the published ratings, the sub-fund supplements this by reviewing changes in bond yields, where available, prices together with available press and regulatory information about the counterparties.

12-month and lifetime probabilities of default are based on historical data supplied by S&P, Moody's and Fitch for each credit rating and are recalibrated. Loss given default parameters generally reflect an assumed recovery rate of 40%. However, if the asset were credit-impaired, then the estimate of loss would be based on a specific assessment of expected cash shortfalls and on the original effective interest rate.

On initial application of IFRS 9 as at 1 January 2018, the sub-fund recognised there is no impairment allowance on cash and cash equivalents, bank deposits with maturity over three months at acquisition, amount receivable on subscription and interest receivable. The amount of the loss allowance did not change during 2018.

### (e) Liquidity risk

Liquidity risk arises from the risk that Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner. The sub-fund is exposed to daily liquidity risk on redemption of units.

The Manager's policy is to regularly monitor current and expected liquidity requirements of the sub-fund to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

The sub-fund's investments are considered to have insignificant exposures to liquidity risk as they are all readily realisable under normal market conditions.

The sub-fund's redemption policy allows redemptions on any business day in Hong Kong, subject to a minimum redemption amount of HK\$10 for class A.

As at 31 December 2018 and 2017, the sub-fund's financial liabilities are due within one year.

## 11 Financial instruments and associated risks (continued)

### (f) Capital management

The sub-fund's capital at the reporting date is represented by its redeemable units.

The sub-fund's objective in managing the capital is to ensure a stable and strong base to achieve long-term capital growth, and to manage liquidity risk arising from the redemptions. The Manager manages the capital of the sub-fund in accordance with the sub-fund's investment objectives and policies stated in the sub-fund's Explanatory Memorandum.

There were no changes in the policies and procedures during the year/period with respect to the sub-fund's approach to its capital management.

The amount and the movement of net assets attributable to unitholders are stated in the statement of changes in net assets attributable to unitholders. As the redeemable units are redeemed on demand at the unitholders' option, the actual level of redemption may differ significantly from historic experience.

## 12. Fair value information

The sub-fund's financial instruments are measured at fair value at the reporting date. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments including interest receivable and other payables, the carrying amounts approximate fair values due to the immediate or short-term nature of these financial instruments.

### *Valuation of financial instruments*

The sub-fund's accounting policy on fair value measurements is detailed in significant accounting policy in note 2(e)(iv).

The sub-fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 12 Fair value information (continued)

### *Valuation of financial instruments (continued)*

For debt securities which are listed on exchanges or those with daily dealer price quotations, the fair value are based on quoted market prices in active markets that are considered less than active. For all other financial instruments, the sub-fund determines fair value using valuation techniques.

The following analyses financial instruments at fair value the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

2018

	<i>Level 1</i> HK\$	<i>Level 2</i> HK\$	<i>Level 3</i> HK\$	<i>Total</i> HK\$
Unlisted but quoted fixed income instruments	<u>-</u>	<u>115,619,164</u>	<u>-</u>	<u>115,619,164</u>

2017

	<i>Level 1</i> HK\$	<i>Level 2</i> HK\$	<i>Level 3</i> HK\$	<i>Total</i> HK\$
Unlisted but quoted fixed income instruments	<u>-</u>	<u>43,503,957</u>	<u>-</u>	<u>43,503,957</u>

During the year/period ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

## 13. Distributions

The Manager currently does not intend to make any distributions of income and any income earned by the sub-fund will be re-invested and reflected in the value of units of the sub-fund. If the Manager intends to make any distribution in respect of the sub-fund, the Manager will give unitholders of the sub-fund not less than 30 days' notice (or such other notice period as agreed with the SFC). No distribution statement is prepared as no distribution has been made.



**14. Soft dollar commission**

As regards to the sub-fund, the manager has not entered into any soft dollar commission arrangements during the year/period.

**15. Possible impact of new standards issued but not yet effective for the year ended 31 December 2018**

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2018, and which have not been adopted in these financial statements.

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

## Portfolio statement as at 31 December 2018 (unaudited)

(Expressed in Hong Kong dollars)

	Holdings	Market value HK\$	% of net assets value
<b>Debt instruments- Unlisted but quoted</b>			
<b>Certificates of deposit</b>			
<b>CHINA</b>			
Agricultural Bank Of China Limited/Hong Kong 1.85% due 22/02/2019	4,500,000	4,498,862	1.79
Bank Of China Limited/Hong Kong 1.97% due 12/04/2019	5,000,000	4,994,902	1.98
Bank Of China Limited/Hong Kong 2% due 25/01/2019	2,000,000	1,999,738	0.80
Bank Of China Limited/Macau 2.4% due 24/04/2019	5,000,000	4,998,617	1.98
Bank Of Communications Company Limited/Hong Kong 2.9% due 11/12/2019	5,000,000	5,002,932	1.99
Bank Of Communications Company Limited/Hong Kong 3.25% due 26/06/2019	5,000,000	5,017,746	1.99
China Construction Bank Corporation/Macau 2.1% due 20/03/2019	2,500,000	2,499,216	0.99
<b>HONG KONG SAR</b>			
KDB Asia Limited 1.75% due 08/02/2019	15,000,000	14,999,198	5.95
<b>JAPAN</b>			
MUFG Bank Limited/Hong Kong 2.1% due 13/03/2019	4,000,000	3,999,115	1.59
<b>Total certificates of deposit</b>		<b>48,010,326</b>	<b>19.06</b>
<b>Bonds</b>			
<b>AUSTRALIA</b>			
National Australia Bank Limited 2.05% due 23/03/2019	7,000,000	6,999,006	2.78
<b>BRITAIN</b>			
Mitsubishi Corporation Finance PLC 2.48% due 18/01/2019	8,000,000	8,001,706	3.18
<b>BRITISH VIRGIN ISLANDS</b>			
Sun Hung Kai & Company BVI Limited 3.1% due 05/02/2019	2,000,000	2,000,265	0.79

Portfolio statement as at 31 December 2018 (unaudited)  
 (continued)

(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of net assets value</i>
<b>Debt instruments- Unlisted but quoted (continued)</b>			
<b>Bonds (continued)</b>			
<b>CANADA</b>			
Canadian Imperial Bank Of Commerce 2.09% due 15/03/2019	5,000,000	4,999,868	1.98
<b>CAYMAN ISLANDS</b>			
Link Finance Cayman 2009 Limited/The 4.4% due 05/08/2019	8,000,000	8,092,216	3.21
Sun Hung Kai Properties Capital Market Limited 3.78% due 30/09/2019	1,000,000	1,008,360	0.40
<b>CHINA</b>			
Bank Of Communications Company Limited/Hong Kong 3.2% due 09/04/2019	5,000,000	5,010,923	1.99
<b>MALAYSIA</b>			
CIMB Bank Berhad 2.7% due 14/05/2019	3,500,000	3,503,642	1.39
Malayan Banking Berhad 2.55% due 27/06/2019	8,000,000	8,002,827	3.18
<b>NETHERLANDS</b>			
ING Bank NV 2% due 27/05/2019	5,000,000	4,991,195	1.98
<b>NORWAY</b>			
DNB Bank Asa 2.45% due 28/01/2019	8,000,000	8,002,376	3.18
<b>SUPRANATIONAL</b>			
International Finance Corporation 1.54% due 26/03/2019	5,000,000	4,995,800	1.98
<b>SOUTH KOREA</b>			
Export-Import Bank Of Korea 2.525% due 13/02/2019	2,000,000	2,000,654	0.79
<b>Total bonds</b>		<b>67,608,838</b>	<b>26.83</b>

**Portfolio statement as at 31 December 2018 (unaudited)**  
**(continued)**  
*(Expressed in Hong Kong dollars)*

<b>Debt instruments (total)</b>	115,619,164	45.89
<b>Other net assets</b>	136,326,352	54.11
<b>Total net assets</b>	<u>251,945,516</u>	<u>100.00</u>
<b>Total investments, at cost</b>	<u>115,683,583</u>	

**Statement of movements in portfolio holdings (unaudited)**  
**for the year ended 31 December 2018**  
*(Expressed in Hong Kong dollars)*

	<i>% of net asset value</i>	
	<i>2018</i>	<i>2017</i>
<b>Debt instruments - unlisted but quoted</b>	45.89	26.62
<b>Other net assets</b>	<u>54.11</u>	<u>73.38</u>
<b>Total net assets</b>	<u><u>100.00</u></u>	<u><u>100.00</u></u>

## Performance record (unaudited)

**(a) Total net asset value (calculated in accordance with IFRS)**

	2018 HK\$	2017 HK\$
Total net asset value	251,945,516	163,416,713

**(b) Net asset value per unit (calculated in accordance with IFRS)**

	<i>Denomination currency</i>	2018	2017
Net asset value per unit - Class A	HK\$	10.1085	9.9832

**(c) Highest and lowest price record (dealing net asset value per unit)**

	<i>Year ended 31 December 2018</i>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit - Class A units	HK\$	10.1239	10.0158

	<i>Year ended 31 December 2017</i>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit - Class A units	HK\$	10.0152	10.0000

## Administration

### Manager

Phillip Capital Management (HK) Limited  
11/F United Centre  
95 Queensway  
Hong Kong

### Directors of the Manager

Mr. Lim Wah Sai  
Mr. Wong Wai Kit, Louis  
Mr. Lim Wen Sheong, Linus  
Ms. Loh Yang Nee, Sabrina

### Trustee

BNP Paribas Trust Services (Hong Kong) Limited  
21/F, PCCW Tower  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

### Registrar and Transfer Agent

BNP Paribas Securities Services, operating through its Hong Kong Branch  
21/F, PCCW Tower  
Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

## **Administration (continued)**

### **Global Custodian and Administrator**

BNP Paribas Securities Services, operating through its Singapore Branch  
20 Collyer Quay  
#01-01  
Singapore 049319

### **Auditor**

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

### **Legal Counsel to the Manager**

Mayer Brown JSM  
16th - 19th Floors  
Prince's Building  
10 Chater Road  
Central  
Hong Kong