



**Phillip Wealth Funds
- Phillip HKD Money Market fund**

31 December 2019

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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 1.45% for the year ended 31 December 2019, which has outperformed the 1-week HKD savings deposit rate return that averaged 0.11% over the same period.

As at 31 December 2019, the fund's Weighted Average Maturity ("WAM") stood at 10 days and annualized average 30-days yields at 1.34% p.a. The fund primarily invested in fixed-rate bonds issues of the Asian region and bank deposits.

Hong Kong's economy contracted by 1.2% for 2019 driven by domestic social unrest, US-China trade tensions and softening global growth, compared to the 3.0% expansion recorded in 2018.

Although growth in the first half of 2019 was modest at 0.6% year-on-year, the development of US-China trade uncertainty and domestic social tensions saw quarterly year-on year declines of 2.8% and 2.9% for 3Q and 4Q 2019 respectively due to diminished tourism flows, consumption and business sentiments. Retail sales by value contracted 11.1% in 2019 against a 12.3% increment in 2018. Labour market slackened further as the unemployment rate for 2019 edged higher to 3.0%, as labour market pessimism led to a decrease in labour participation rate. Consumer price inflation increased 2.9% for 2019 compared to 2.4% in 2018, largely stemming from increases in pork prices.

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 2.67% and 2.43% at the end of December 2019, compared to 2.24% and 2.33% a year ago, respectively.

Outlook

In view of the challenging outlook on the Hong Kong economy, economic growth is expected to slow further in spite of fiscal measures implemented to support the domestic economy. According to the 2020-21 Budget, the Hong Kong economy is forecasted to grow -1.5% to 0.5% in 2020 as the coronavirus outbreak, US-China trade uncertainty and social unrest continue to be a disruption on economic activities. Uncertainty surrounding the persistence and severity of the coronavirus impact and extent of government stimulus measures ensures that consumer and business sentiments will continue to remain fragile over the near term.

Despite partial de-escalation of the US-China trade conflict following the establishment of the phase one trade deal in December 2019, weakness in external demand ensures that regional production and trading activities will remain subdued.



Investment Manager's report Phillip Wealth Funds - Phillip HKD Money Market fund ("the sub-fund")

Outlook (continued)

Consumer price inflation for 2020 is forecasted to weaken slightly to 2.5%, due to stable imported inflation and modest domestic cost pressures stemming from soft demand and low wage growth. Near-term inflationary pressures coming from higher prices for pork and residential rentals are also expected to taper off over the course of the year.


Under the linked-exchange rate regime, interest rates in Hong Kong tend to follow those in the US. Following the recent series of decisions by the US Federal Reserve to cut Fed Fund rates by 1.50% to 0-0.25% in 2020, we expect this to contribute towards downside to both Hong Kong market rates and the HKD.

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, deposits and short terms money market securities in high quality bank counterparties and issuers with strong balance sheet and capital.


Lin Wah Sui)

Wong Wai Kei)
29 APR 2020)
) 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 and 31 December 2019 (collectively the "Trust Deed"), for the year ended 31 December 2019.

 }
} For and on behalf of
} BNP Paribas Trust Services (Hong Kong) Limited
} Gary Leung Sam Luk
} 29 APR 2020

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 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 2019, 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 36, which comprise the statement of financial position as at 31 December 2019, 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 2019 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 and the relevant disclosure provisions of Appendix E of the SFC Code.

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


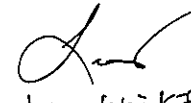
29 APR 2020

Statement of financial position
as at 31 December 2019
(Expressed in Hong Kong dollars)

	<i>Note</i>	2019 HK\$	2018 HK\$
Assets			
Financial assets at fair value through profit or loss	6	39,037,397	115,619,164
Bank deposits with maturity over three months at acquisition		-	72,511,796
Interest receivable		597,044	2,067,169
Amount receivable on subscription		-	384,122
Cash and cash equivalents	7	<u>340,478,139</u>	<u>62,405,005</u>
Total assets		<u>380,112,580</u>	<u>252,987,256</u>
Liabilities			
Amount payable on redemption		-	680,237
Accrued expenses and other payables		<u>517,128</u>	<u>361,503</u>
Total liabilities		<u>517,128</u>	<u>1,041,740</u>
Net assets attributable to unitholders		<u>379,595,452</u>	<u>251,945,516</u>
Number of units in issue			
- Class A units	9(a)	<u>36,985,121.81</u>	<u>24,924,154.78</u>
Net asset value per unit			
- Class A units	9(b)	<u>10.2635</u>	<u>10.1085</u>

Approved by the Trustee and the Manager on **29 APR 2020**



)
) 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 36 form part of these financial statements

Statement of comprehensive income
for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

		Year ended 31 Note December 2019 HK\$	Year ended 31 December 2018 HK\$
Interest income calculated using the effective interest method	3	3,414,974	2,054,711
Other interest income	3	2,927,398	1,738,750
Net losses from financial assets at fair value through profit or loss	4	<u>(615,860)</u>	<u>(139,767)</u>
Total revenue		<u>5,726,512</u>	<u>3,653,694</u>
Management fees	8(a)	(440,283)	(335,565)
Trustee's fees	8(b)	(62,953)	(47,938)
Custodian fees	8(c)	(160,441)	(156,770)
Auditors' remuneration		(100,000)	(151,337)
Transaction costs		(480)	-
Legal and professional fee		(162,499)	-
Other operating expenses		<u>(131,503)</u>	<u>(120,185)</u>
Total operating expenses		<u>(1,058,159)</u>	<u>(811,795)</u>
Increases in net assets attributable to unitholders and total comprehensive income for the year		<u>4,668,353</u>	<u>2,841,899</u>

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

Statement of changes in net assets attributable to unitholders for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	<i>Note</i>	
	HK\$	HK\$
Balance at the beginning of the year	251,945,516	163,416,713
Increases in net assets attributable to unitholders and total comprehensive income for the year	<u>4,668,353</u>	<u>2,841,899</u>
Contributions and redemptions by unitholders		
Subscriptions of units	2,546,272,903	1,420,068,370
Redemption of units	<u>(2,423,291,320)</u>	<u>(1,334,381,466)</u>
Total contributions and redemptions by unitholders	<u>122,981,583</u>	<u>85,686,904</u>
Balance at the end of the year	<u><u>379,595,452</u></u>	<u><u>251,945,516</u></u>

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

Cash flow statement for the year ended 31 December 2019 (Expressed in Hong Kong dollars)

	Year ended 31 Note December 2019 HK\$	Year ended 31 December 2018 HK\$
Operating activities		
Increases in net assets attributable to unitholders and total comprehensive income for the year	4,668,353	2,841,899
Adjustments for:		
Interest income	(6,342,372)	(3,793,461)
Net change in unrealised losses financial assets at fair value through profit or loss	68,053	16,209
Net realised losses from financial assets at fair value through profit or loss	<u>547,807</u>	<u>123,558</u>
Operating losses before changes in working capital	(1,058,159)	(811,795)
Purchase of financial assets at fair value through profit or loss	(192,823,328)	(212,754,974)
Proceeds from sale of financial assets at fair value through profit or loss	17,789,235	9,000,000
Proceeds from redemption of bonds upon maturity	251,000,000	131,500,000
Purchase of bank deposits with maturity over three months at acquisition	72,511,796	(27,962,897)
Increase/(decrease) in accrued expenses and other payables	<u>155,625</u>	<u>(413,711)</u>
Net cash provided/(used) in operations	147,575,169	(101,443,377)
Interest received	<u>7,812,497</u>	<u>2,100,724</u>
Net cash provided/(used) in operating activities	<u>155,387,666</u>	<u>(99,342,653)</u>
Financing activities		
Proceeds from subscription of units	2,546,657,025	1,421,088,020
Payments on redemption of units	<u>(2,423,971,557)</u>	<u>(1,336,233,493)</u>
Net cash provided/(used) in financing activities	<u>122,685,468</u>	<u>84,854,527</u>

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

Cash flow statement
for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Year ended 31 Note December 2019 HK\$	Year ended 31 December 2018 HK\$
Net increase/(decrease) in cash and cash equivalents	278,073,134	(14,488,126)
Cash and cash equivalents at the beginning of the year	<u>62,405,005</u>	<u>76,893,131</u>
Cash and cash equivalents at the end of the year	7 <u><u>340,478,139</u></u>	<u><u>62,405,005</u></u>

The notes on pages 14 to 36 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 deeds, 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 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.

(c) Changes in accounting policies

The sub-fund has consistently applied the accounting policies as set out in note 2 to all periods presented in these financial statements.

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company. None of these developments have had a material effect on how the sub-fund's results and financial position for the current or prior periods have been prepared or presented.

The sub-fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Significant accounting policies (continued)

(d) Foreign currency translation

Foreign currency transactions during the year 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) Recognition and initial measurement

The sub-fund initially recognises financial assets and financial liabilities at FVTPL on the trade date, which is the date on which the sub-fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

On initial recognition, the sub-fund classifies financial assets as measured at amortised cost or 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 SPPI.

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

2. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

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 realizing 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;
- 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 sub-fund's continuing recognition of the assets.

The sub-fund has determined 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.

2. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

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

(iii) 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.

2. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(iii) Fair value measurement principles (continued)

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.

(iv) 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.

(v) Impairment

The sub-fund recognises loss allowances for expected credit loss ("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-months 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 assets) 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.

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 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 realizing security (if any is held); or
- the financial asset is more than 90 days past due.

2. Significant accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(v) Impairment (continued)

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 sub-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)

(v) Impairment (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.

(vi) 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.

(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.

2. Significant accounting policies (continued)

(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:
 - (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.

2. Significant accounting policies (continued)

(i) Related parties (continued)

(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.

The sub-fund has one class of redeemable units in issue at the end of reporting year. 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.

2. Significant accounting policies (continued)

(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 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

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	HK\$	HK\$
Interest income calculated using the effective interest method		
Cash and cash equivalents	143,037	209,542
Bank deposits with maturity over three months at acquisition	<u>3,271,937</u>	<u>1,845,169</u>
	<u><u>3,414,974</u></u>	<u><u>2,054,711</u></u>
Other interest income		
Interest income on financial assets at fair value through profit or loss	<u>2,927,398</u>	<u>1,738,750</u>

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

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	HK\$	HK\$
Realised loss on financial assets at fair value through profit or loss	(547,807)	(123,558)
Net change in unrealised loss on financial assets at fair value through profit or loss	<u>(68,053)</u>	<u>(16,209)</u>
	<u><u>(615,860)</u></u>	<u><u>(139,767)</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

	2019 HK\$	2018 HK\$
Debt securities		
Certificates of deposit	13,999,714	48,010,326
Bonds	<u>25,037,683</u>	<u>67,608,838</u>
	<u>39,037,397</u>	<u>115,619,164</u>
Investments, at cost	39,169,869	115,683,583
Net unrealised losses	<u>(132,472)</u>	<u>(64,419)</u>
Investments, at market value	<u>39,037,397</u>	<u>115,619,164</u>

7. Cash and cash equivalents

	2019 HK\$	2018 HK\$
Bank deposits with maturity less than three months at acquisition	188,274,296	45,495,329
Cash at bank	<u>152,203,843</u>	<u>16,909,676</u>
	<u>340,478,139</u>	<u>62,405,005</u>

All of the cash at bank and bank deposits as at 31 December 2019 and 2018 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 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 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 amounted to HK\$440,283 (2018: HK\$335,565) and payable at the end of the year amounted to HK\$103,967 (2018: HK\$100,000).

(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 amounted to HK\$62,953 (2018: HK\$47,938) and payable at the end of the year amounted to HK\$27,306 (2018: HK\$27,457).

(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 amounted to HK\$78,622 (2018: HK\$59,922) and HK\$160,441 (2018: HK\$171,128) respectively. The administration fees and custodian fees payable by the sub-fund at 31 December 2019 was HK\$34,132 (2018: HK\$34,321) and HK\$82,820 (2018: HK\$92,014) 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 amounted to HK\$31,449 (2018: HK\$23,969) and payable by the sub-fund at 31 December 2019 HK\$13,653 (2018: HK\$13,728).

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 2019 and 2018 amounted to HK\$131,928,417 (2018: HK\$3,726,092). During the year, interest earned from such bank account amounted to HK\$61,686 (2018: HK\$9,913) and bank charges credited to the bank account amounted to HK\$0 (2018: HK\$444).

9. Units issued and redeemed

(a) Number of units in issue

	<i>Class A</i> 2019	<i>Class A</i> 2018
Balance at 1 January	24,924,154.78	16,369,095.58
Subscriptions of units during the year	249,218,816.20	141,228,346.35
Redemptions of units during the year	<u>(237,157,849.17)</u>	<u>(132,673,287.15)</u>
Balance at 31 December	<u>36,985,121.81</u>	<u>24,924,154.78</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 is as follows:

	<i>Denomination currency</i>	2019	2018
Net asset value per unit			
- Class A units	HK\$	<u>10.2635</u>	<u>10.1085</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 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:

	2019 HK\$	2018 HK\$
Net asset value as reported in the financial statements as at 31 December	379,595,452	251,945,516
Adjustments for different basis adopted by the sub-fund in arriving at the Dealing NAV:		
Unamortised establishment cost	273,899	383,399
Effect of adopting amortised cost for pricing	<u>(16,834)</u>	<u>111</u>
Dealing NAV as at 31 December	<u><u>379,852,517</u></u>	<u><u>252,329,026</u></u>

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 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. 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 in which the interest-bearing assets and liabilities mature at the end of the reporting year.

	2019			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
Assets				
Financial assets at fair value through profit or loss	39,037,397	-	-	39,037,397
Cash and cash equivalents	340,478,139	-	-	340,478,139
Total interest sensitivity gap	<u>379,515,536</u>	<u>-</u>	<u>-</u>	<u>379,515,536</u>

	2018			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
Assets				
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
Total interest sensitivity gap	<u>250,535,965</u>	<u>-</u>	<u>-</u>	<u>250,535,965</u>

11. Financial instruments and associated risks (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity

At the end of the reporting year, assuming all other factors unchanged, it is estimated that an increase in interest rate of 100 (2018: 100) basis points would result in an decrease in the net assets attributable to the unitholders and the net assets for the year by HK\$43,986 (2018: HK\$1,036,089); 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 2019 and 2018, 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 2019 and 2018:

	<i>Credit rating</i>	<i>Source of credit rating</i>
<i>As at 31 December 2019</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
Oversea-Chinese Banking Corporation	AA-	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 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 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, the sub-fund invested in debt securities with the following credit quality expressed as a percentage of debt securities:

As at 31 December 2019

Rating (Moody's/Standard & Poor's)	2019 % of NAV	2018 % of NAV
Aa2	2.63	9.13
A1	-	0.40
A3	3.96	-
AAA *	-	1.98
AA+ *	-	0.79
AA- *	-	2.78
A+ *	-	3.97
A *	3.69	10.75
A- *	-	15.30
NR	-	0.79
Total debt securities	<u>10.28</u>	<u>45.89</u>

Source of credit rating is from Moody's except for the following

** Credit rating is from Standard & Poor's*

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.

As at 31 December 2019 and 2018, there were no significant concentrations of credit risk to counterparties except to the Custodian.

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.

11. Financial instruments and associated risks (continued)

(d) Credit risk (continued)

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.

As at 31 December 2019 and 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.

(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 2019 and 2018, 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 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.

2019	<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>39,037,397</u>	<u>-</u>	<u>39,037,397</u>

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>

During the year ended 31 December 2019 and 2018, 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.

15. Possible impact of new standards issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the sub-fund.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

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 2019 (unaudited)
 (Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i> HK\$	<i>% of net assets</i> value %
Debt instruments – Unlisted but quoted			
<i>Certificates of deposit</i>			
CHINA			
Bank of Communications Company Limited/Hong Kong 2.05% due 03/03/2020	5,000,000	4,998,585	1.32
Industrial & Commercial Bank of China Limited/Sydney 2.5% due 24/01/2020	9,000,000	9,001,129	2.37
Total certificates of deposit		13,999,714	3.69
<i>Bonds</i>			
AUSTRALIA			
Ausnet Services Holdings Pty Limited 4.125% due 16/03/2020	10,000,000	10,033,531	2.64
CAYMAN ISLANDS			
Cheung Kong Finance MTN Limited 4.35% due 20/01/2020	5,000,000	5,006,086	1.32
SOUTH KOREA			
Export-Import Bank of Korea 1.9% due 03/02/2020	10,000,000	9,998,066	2.63
Total bonds		25,037,683	6.59
Debt instruments (total)		39,037,397	10.28
Other net assets		340,558,055	89.72
Total net assets		379,595,452	100.00
Total investments, at cost		39,169,869	

Statement of movements in portfolio holdings (unaudited)
for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	<i>% of net asset value</i>	
	<i>2019</i>	<i>2018</i>
Debt instruments- Unlisted but quoted	10.28	45.89
Other net assets	<u>89.72</u>	<u>54.11</u>
Total net assets	<u>100.00</u>	<u>100.00</u>

Performance record (unaudited)

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

	2019 HK\$	2018 HK\$	2017 HK\$
Total net asset value	379,595,452	251,945,516	163,416,713

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

	Denomination currency	2019	2018	2017
Net asset value per unit - Class A	HK\$	10.2635	10.1085	9.9832

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

	Denomination currency	Year ended 31 December 2019 Highest net asset value per unit	Lowest net asset value per unit
Net asset value per unit - Class A units	HK\$	<u>10.2704</u>	<u>10.1248</u>

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

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

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, acting 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
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Auditor

KPMG
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10 Chater Road
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Legal Counsel to the Manager

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