

**VALUE PARTNERS CLASSIC FUND**

**2017** ANNUAL  
REPORT

For the year ended 31 December 2017



**Value Partners Hong Kong Limited**

9th Floor, Nexus Building

41 Connaught Road Central, Hong Kong

Tel: (852) 2880 9263 Fax: (852) 2565 7975

Email: [vp1@vp.com.hk](mailto:vp1@vp.com.hk)

Website: [www.valuepartners-group.com](http://www.valuepartners-group.com)

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

*This report shall not constitute an offer to sell or a solicitation of an offer to buy shares in any of the funds.*

*Subscriptions are to be made only on the basis of the information contained in the explanatory memorandum, as supplemented by the latest semi-annual and annual reports.*

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## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### GENERAL INFORMATION

#### Manager

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

#### Directors of the Manager

Dato' Seri Cheah Cheng Hye  
Mr So Chun Ki Louis  
Mr Ho Man Kei, Norman

#### Trustee, Registrar, Administrator and Custodian

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

#### Legal Advisors

Deacons  
5th Floor, Alexandra House  
18 Chater Road  
Central  
Hong Kong

#### Auditor

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

#### Information available from:

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

Investor hotline : (852) 2143 0688  
Fax : (852) 2565 7975  
Email : [fis@vp.com.hk](mailto:fis@vp.com.hk)  
Website : [www.valuepartners-group.com](http://www.valuepartners-group.com)

**GENERAL INFORMATION (Continued)**

**Recent awards and achievements**

Corporate Awards	
2017	<ul style="list-style-type: none"> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong Manager of the Year – Greater China Equity (Outstanding Award)</b> Dato’ Seri Cheah Cheng Hye and Mr. Louis So (Value Partners’ Co-CIOs) – <i>Benchmark</i></li> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong Manager of the Year – High Yield Fixed Income</b> Mr. Gordon Ip (Value Partners’ CIO, Fixed Income) – <i>Benchmark</i></li> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong House Award (ETF) – Commodity ETF (Outstanding Achiever) for Sensible Asset Management</b> – <i>Benchmark</i></li> <li>• <b>The 15th China’s Financial Annual Champion Awards 2017</b> Value Partners: Best Fund House of the Year – <i>Hexun.com</i></li> <li>• <b>AsiaHedge Awards 2017</b> Management Firm of the Year: Value Partners – <i>AsiaHedge</i></li> <li>• <b>Listed Company Award of Excellence 2017</b> Value Partners Group Limited – Best Listed Company (Main Board category) – <i>Hong Kong Economic Journal &amp; PR Asia</i></li> <li>• <b>The Asset Benchmark Research Awards 2017 – Asian G3 Bonds Top Investment House</b> Value Partners – Ranked Number 1 in Hedge Fund category – <i>The Asset Benchmark Survey</i></li> <li>• <b>The Asset Triple A, Asset Servicing, Investor and Fund Management Awards 2017</b> Fund Manager of the Year – Long-only Fixed Income (Highly Commended) Mr. Gordon Ip, Value Partners Greater China High Yield Income Fund – <i>The Asset</i></li> <li>• <b>Asset Management Awards for Excellence 2017</b> Best Fund Provider – Greater China Equity – <i>Asian Private Banker</i></li> </ul>
Value Partners Classic Fund	
2017	<ul style="list-style-type: none"> <li>• <b>AsiaHedge Awards 2017</b> Best Asia ex-Japan Fund – <i>AsiaHedge</i></li> <li>• <b>HFM Asia Performance Awards 2017</b> Fund of the Year 2017 – <i>HFM Week</i></li> <li>• <b>HFM Asia Performance Awards 2017</b> Best Greater China fund over US\$500 million – <i>HFM Week</i></li> </ul>

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### MANAGER'S REPORT

The Greater China equities market had a tremendous year in 2017, with the MSCI Golden Dragon Index gaining 43.8% (in USD) on the back of robust earnings growth and accommodative policies.

#### China ushers in a new economic cycle

In China, deleveraging and risk control will remain a key policy focus in 2018, as evidenced by the tightening of local government financing after the 19th Party Congress. Although there are concerns that the continued moderation of growth – a consequence of policy tightening – may weigh on market performance, we believe the tightening measures are necessary for China to achieve healthier and higher quality growth in the longer run. We also believe these worries are unfounded because China is entering a new economic cycle where index performance decouples from gross domestic product (GDP) growth.

Traditionally, China's GDP growth is highly correlated with its stockmarket: between 2009 and 2012, the 5-year correlation between GDP growth and the performance of the MSCI China Index stayed consistently above 0.8<sup>1</sup>. The correlation has since dropped significantly as the influence of sector- and company-specific micro factors, such as industry consolidation, supply side reform and increasing research and development (R&D) spending, gradually outweighed that of GDP growth trends. As such, an investment approach that puts emphasis on corporate fundamentals is ever more important to realize investment opportunities in China's new cycle.

#### Industry consolidation bodes well for profitability

Corporate consolidation is gathering pace across various industries in China and is helping large companies to increase market share and strengthen pricing power. The government calls for supply-side reforms, which include reducing the number of state-owned enterprises (SOE), cutting excess capacity and closing down "zombie" firms. Such initiatives are bearing fruit: the market share of industry leaders have increased noticeably over the past five years. For instance, the combined market share of the top five air-conditioning manufacturers in China has expanded by more than 12% between 2012 and 2017<sup>2</sup> to over 80%. This is leading to stronger pricing power in consolidated enterprises and continues to translate to improved corporate profitability.

#### R&D spending enhances productivity

China's growth is increasingly driven by "new economy" sectors, and technology and innovation are playing an increasingly important role in the performance of its stockmarket. Meanwhile, China's R&D expenditure is increasing at a faster pace than that of other countries<sup>3</sup>. With a deep talent pool and policy supports, China is poised for more technological breakthroughs in areas such as high-speed rail, automation, eCommerce and artificial intelligence, etc. These were evidenced by the strong surge in international patent applications from China, as well as China having the largest eCommerce platform in the world.

## **MANAGER'S REPORT (Continued)**

### **Portfolio strategy review**

The Value Partners Classic Fund (the "Fund") rose 6.6% in the fourth quarter and has gained 44.9% in 2017. For reference, the Fund's benchmark index<sup>4</sup> edged up 6.6% in the fourth quarter and gained 37.4% in 2017.

We maintained a positive market view and were fully-invested throughout 2017, which was the best performing year for Chinese equities since 2009 driven by sustained upward re-ratings to corporate earnings. For most of the year, our stock picks were focused on the technology and consumer sectors, where we discovered attractively valued quality stocks with sustained earnings growth and margins expansion. We gradually lifted our exposure to the financial sector towards the end of the second quarter as we expected the sector, which has been lagging for an extended period of time, to turn more positive on the back of China's solid macro data and gradual interest rate hikes. The strategy driven by our disciplined bottom-up stock picking paid off, as evidenced by the continued earnings beats from our holdings in technology and consumer names, while financials started to perform in the second half of 2017 on the back of improved earnings outlooks and compelling valuations.

In the fourth quarter, the Fund's performance was driven by our stock picks in the technology, consumer staples and financial sectors. Within the technology sector, our core holding in a leading Chinese social network platform continued its share price strength on the back of strong earnings, enabled by improving advertising efficiency and a growing number of active users. The same case applied to our key consumer staples holdings in leading baijiu (white liquor) China A-share companies.

A case in point is Kweichow Moutai, China's largest baijiu company with over 50% volume share in the premium baijiu market. Kweichow Moutai has the highest gross margin among peers, thanks to its brand strength, scarcity value and solid sales channels. The company is well positioned to benefit from China's consumption upgrade cycle as the rise of the nation's middle class will continue to drive liquor premiumization. It guides for 50% and 58% sales and pre-tax profit growth in 2017, respectively, and has demonstrated its pricing power by lifting the ex-factory price by 18% from January 2018 onwards. We held the position throughout the year and enjoyed a share price return of over 100% in 2017.

## VALUE PARTNERS CLASSIC FUND

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### MANAGER'S REPORT (Continued)

In the financial sector, our stock pick in the real estate sector and a leading Chinese insurer were among the top contributors. The former's share price rallied thanks to strong home sales, while its quality land bank in the Greater Bay area is well positioned to benefit from government-initiated developments. Lastly, our increased position in a Chinese insurer was among the top contributors. The strong performance was underpinned by robust growth in premium and its peer-leading technology investments, which are expected to drive new business acquisitions in the future.

During the quarter, the energy and utilities sectors weighed on portfolio performance. Despite our underweight position in the energy sector, our exposure in a Chinese energy producer was adversely affected by oil price weakness and weighed on portfolio performance. In the utilities sector, our holdings in a Chinese water treatment company detracted due to policy uncertainty surrounding tariff cuts, although the firm's construction and operational revenues recorded strong growth. We maintain both positions as we expect earnings recovery to be underway for our energy exposure and likely further support for the water treatment sector from the multi-trillion RMB environmental public-private partnership (PPP) planned for the 13th Five Year Plan, which should reduce profitability concerns going forward.

#### Outlook

We remain positive on China equities in 2018 as global growth continues to remain solid and as more sectors benefit from earnings recovery. From a sector perspective, we favor the beneficiaries of China's consumption upgrade cycle, technology leaders and financials. Consumption upgrade is a long-term investment theme in China given the nation's rising middle class and urbanization. The beneficiaries of this trend are broad and include home appliance companies, white liquor manufacturers and technology hardware makers etc. On the other hand, we expect earnings growth for China's leading technology companies to continue at a robust pace driven by their capability to expand and create monetization opportunities. Last but not least, we continue to like the financial sector, in particular banks and insurers, for its positive earnings outlook and attractive valuations. We believe China's sustainable economic growth will continue to improve asset quality for banks and help them expand net interest margin. At the same time, insurers are expected to see stronger new-business-value growth and better returns in a favorable investment climate.

## **MANAGER'S REPORT (Continued)**

### **Corporate update**

As testament to our investment capabilities, we were awarded 27 new performance awards in 2017 and extended our list of accolades to 170 since our founding in 1993. In equities investing, Value Partners was crowned "Management Firm of the Year" in the *AsiaHedge Awards 2017*<sup>5</sup>. At *Benchmark's Fund of the Year Awards 2017*, our Co-Chief Investment Officers Dato' Seri Cheah Cheng Hye and Mr. Louis So were named "Manager of the Year – Greater China equity category (Outstanding Award)"<sup>6</sup>. These achievements demonstrate our dedication and commitment to delivering outstanding results. As always, we will reinvest resources into our infrastructure to uncover value opportunities for our investors.

### **Value Partners Hong Kong Limited**

25 April 2018

1. Source: *Bloomberg*.
2. Source: *Company data, Morgan Stanley Research, as of November 2017*.
3. Source: *European Commission. Chinese companies increased their R&D investment by 18.8% in 2016, compared with 7% in the EU and 7.2% in the US*.
4. Refers to *Hang Seng Price Return Index* till 31 December 2004, thereafter it is the *Hang Seng Total Return Index* up to 30 September 2017. With effect from 1 October 2017, it is the *MSCI Golden Dragon Net Total Return Index*, which takes into account of dividend reinvestment after deduction of withholding tax. All indices are for reference only.
5. The award was based on performance for the full 12-month period, from September 2016 to the end of August 2017.
6. The award recognized individuals who have led his/her team to outstanding performances over the consistency of three-year and five-year performances against the benchmark and their peers up to 30 September 2017.

*Fund performance mentioned referred to Value Partners Classic Fund "A" Unit. All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in US\$ terms on NAV-to-NAV basis with dividends reinvested) as at 29 December 2017. Performance data is net of all fees.*

*Individual stock performance is not indicative of fund performance.*

*The views expressed are the views of Value Partners Hong Kong Limited only and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All materials have been obtained from sources believed to be reliable, but their accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.*

## VALUE PARTNERS CLASSIC FUND

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### MANAGER'S REPORT (Continued)

#### 10 biggest holdings of listed securities as at 29 December 2017

Stock	Industry	Valuation (2018 Estimates)	Remarks
Alibaba Group (Code: BABA US)  Market cap: US\$441.6 billion	Internet	Price: USD172.43 P/E: 27.3x P/B: 6.5x Yield: 0%	Alibaba, founded by Jack Ma in 1999 in China, is one of the world's largest eCommerce companies. Alibaba's online marketplace – "Taobao" and "Tmall"-contribute the vast majority of the company's revenue and is likely to continue delivering solid growth in view of its dominant position, advanced technology and the trend of merchants shifting marketing budgets online from offline. Meanwhile, the company's cloud computing company ("AliCloud") and fintech business ("Ant Financial") are underpinning future growth potential. We are positive about the long term performance of its stock price because: 1) we believe Alibaba would deliver continued high growth of core commerce, as it continues to improve targeting technology and logistic network; 2) Cloud is likely to be another long-term growth driver as an increasing number of enterprises start to embrace cloud services to cut cost and leverage the company's big data technology; 3) we expect it to spin-off high value assets (e.g. Ant Financial, 33% owned by Alibaba) to unlock hidden values.
Huaneng Renewables Corporation (Code: 958 HK)  Market cap: US\$3.6 billion	Utilities	Price: HKD2.65 P/E: 6.5x P/B: 0.9x Yield: 2.4%	Huaneng Renewables principally engaged in wind power generation businesses. The businesses of the company include the development and operation of wind power plants and solar power plants, electricity generation and the sales of electricity, as well as the provision of related services, among others. We expect the government to provide more clarity on clean energy subsidies soon, which will likely help renewable companies regain their growth momentum.

**MANAGER'S REPORT (Continued)**

**10 biggest holdings of listed securities as at 29 December 2017 (Continued)**

<b>Stock</b>	<b>Industry</b>	<b>Valuation (2018 Estimates)</b>	<b>Remarks</b>
Industrial & Commercial Bank of China (Code: 1398 HK)  Market cap: US\$326.8 billion	Banks	Price: HKD6.29 P/E: 6.2x P/B: 0.8x Yield: 4.7%	Industrial and Commercial Bank of China ("ICBC") is one of China's biggest banks and one of the largest in the world. The Chinese government controls about 70% of ICBC. The bank provides various financial products and services worldwide, covering corporate, retail, and investment banking as well as asset management, trust, financial leasing and insurance.
Kweichow Moutai (Code: 600519 CH)  Market cap: US\$134.7 billion	White spirit manufacturer	Price: CNY697.49 P/E: 28.5x P/B: 8.2x Yield: 1.7%	Kweichow Moutai is China's largest liquor manufacturer in terms of market value. With its premium brand positioning and effective channel management, Moutai has successfully expanded its market share in private consumption in the past two years after huge decline in official consumption. Moutai has a distinguished brand among other players in China and is expected to benefit from the consumption upgrade cycle.
KWG Property (Code: 1813 HK)  Market cap: US\$3.7 billion	Real estate	Price: HKD9.13 P/E: 5.2x P/B: 0.8x Yield: 7.7%	KWG Property is one of the largest privately owned property developers in China. Contracted sales of the company is expected to speed up with a more aggressive land bank replenishment scheme as well as a faster project-launching schedule, along with a higher contribution from profitable en bloc office sales.

## VALUE PARTNERS CLASSIC FUND

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### MANAGER'S REPORT (Continued)

#### 10 biggest holdings of listed securities as at 29 December 2017 (Continued)

Stock	Industry	Valuation (2018 Estimates)	Remarks
Ping An Insurance (Code: 2318 HK)  Market cap: US\$194.1 billion	Insurance	Price: HKD81.35 P/E: 14.0x P/EV*: 1.1x Yield: 1.9%	Ping An Insurance is a financial conglomerate that provides insurance, banking, securities, trust and asset management services in China. Albeit the tough operating environment, Ping An has recorded 35% new business value (NBV) growth in the first nine months of 2017, and 34% year-on-year premium growth in life insurance in 2017, thanks to its superior agency force and multi-product platform. It is also a leading player in fintech and is expected to spin-off a few such operations in the coming years.
SIIC Environment (Code: SIIC SP)  Market cap: US\$1.0 billion	Wastewater treatment	Price: SGD0.52 P/E: 11.2x P/B: 0.8x Yield: 1.2%	SIIC Environment is a Singapore-listed company, which conducts operations in wastewater treatment, water purification treatment and system automation in China. Being a state-owned enterprise, SIIC enjoys strong support from banks and local governments, signifying it has the potential to become one of the leading water companies in China. In 2015, it completed an acquisition of a group of water treatment companies, which helped enhance its water treatment capacity and extend its geographical presence in China. The company's financial leverage is lower than most of its local peers, enabling it to do more mergers and acquisitions as well as greenfield projects in the future. As the Chinese government is increasingly paying attention to water quality and environment protection, the company is set to benefit from further environmental protection policies.

## MANAGER'S REPORT (Continued)

### 10 biggest holdings of listed securities as at 29 December 2017 (Continued)

Stock	Industry	Valuation (2018 Estimates)	Remarks
Taiwan Semiconductor Manufacturing (Code: 2330 TT)  Market cap: US\$200.6 billion	Semiconductors and semiconductor equipment	Price: TWD229.50 P/E: 15.7x P/B: 3.5x Yield: 3.6%	Taiwan Semiconductor Manufacturing is a world-class independent semiconductor foundry. It provides integrated circuit ("IC") design houses with integrated services for process design, wafer manufacturing and testing. As a global leader with more than 50% share of the outsourcing market, the company has consistently outperformed competitors in terms of technology and profitability. We think the company is well-positioned to continue to benefit from the growing IC manufacturing outsourcing market and the rising demand for the internet of things trend, AI chips and new application areas.
Tencent Holdings (Code: 700 HK)  Market cap: US\$493.7 billion	Internet	Price: HKD406.00 P/E: 39.6x P/B: 10.6x Yield: 0.3%	Tencent is a leading provider of online games, premium messaging services, internet value-added services, and advertising and eCommerce services in China. As at end of the first quarter 2017, the number of Tencent's Weixin and WeChat monthly active user reached 938 million, representing a year-on-year growth of 23%. Leveraging its large active user base, it offers good long-term monetization potential.

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### MANAGER'S REPORT (Continued)

#### 10 biggest holdings of listed securities as at 29 December 2017 (Continued)

Stock	Industry	Valuation (2018 Estimates)	Remarks
Weibo (Code: WB US)  Market cap: US\$22.6 billion	Internet	Price: USD103.46 P/E: 42.6x P/B: 14.7x Yield: 0%	Weibo, the second largest social media in China next to Tencent, has 159 million daily active users and 361 million monthly active users in June 2017. Weibo is on the right track for a "Facebook trajectory" in China. Leveraging on strong user engagement, Weibo offers advertisers enriching media format like promoted feeds, search, videos, etc., to reach users. Besides, social based live broadcasting and eCommerce are seeing solid user momentum but undermonetized, which provides upside on top of advertisement. According to our estimates, Weibo revenues will be growing at 55% CAGR from 2017 to 2019, making it one of the fastest-growing names in China's internet industry.

\*EV = Embedded value

Note: The above investments made up 43.0% of Value Partners Classic Fund as at 29 December 2017. The stock prices are based on the closing of 29 December 2017.

Individual stock performance/yield is not necessarily indicative of overall fund performance.

**MANAGER'S REPORT (Continued)**

**Value Partners Classic Fund – NAV as at 31 December 2017**

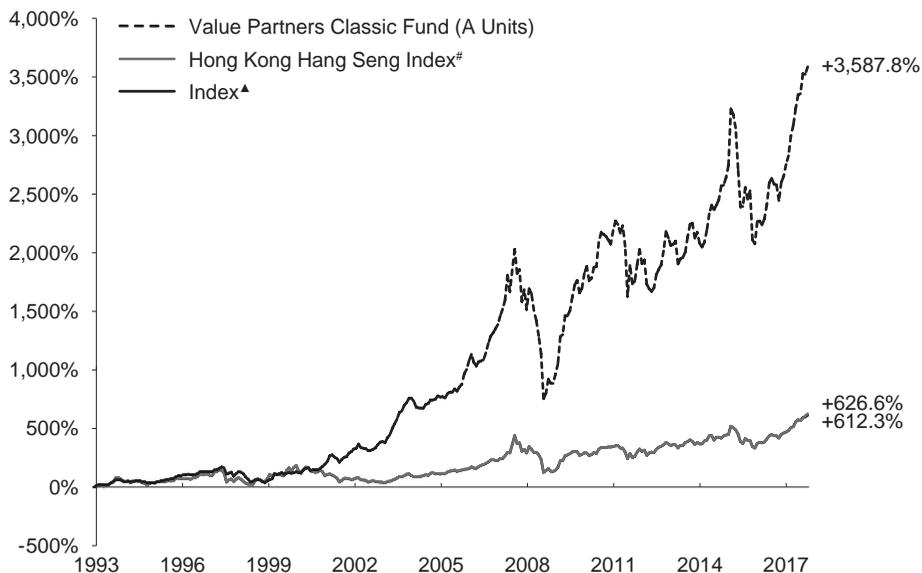
<b>Classes</b>	<b>NAV per unit</b>
A Units	USD368.78
B Units	USD165.15
C Units USD	USD20.71
C Units HKD <sup>5</sup>	HKD161.8373
C Units RMB	RMB14.03
C Units AUD Hedged	AUD17.21
C Units CAD Hedged	CAD16.79
C Units HKD Hedged	HKD14.24
C Units NZD Hedged	NZD17.60
C Units RMB Hedged	RMB14.33
C Units MDis USD	USD10.16
C Units MDis HKD	HKD10.17
C Units MDis RMB	RMB9.91
C Units MDis RMB Hedged	RMB10.15
Z Units	USD11.18

## VALUE PARTNERS CLASSIC FUND

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### MANAGER'S REPORT (Continued)

Since launch return compared to indices  
From 1 April 1993 to 31 December 2017



<sup>B</sup> Investors should note that the base currency of "C" Units is in USD. The HKD equivalent NAV per unit for "C" Units is for reference only and should not be used for subscription or redemption purposes. Conversion to the base currency of "C" Units will normally take place at the prevailing rate (as determined by the Fund's Trustee or Custodian) on the corresponding fund dealing day.

<sup>#</sup> Hang Seng Index refers to Hang Seng Price Return Index up to 31 December 2004, thereafter it is the Hang Seng Total Return Index. Hang Seng Total Return Index includes dividend reinvestment whereas Hang Seng Price Return Index does not take into account reinvestment of dividends.

<sup>▲</sup> Index refers to Hang Seng Price Return Index till 31 December 2004, thereafter it is the Hang Seng Total Return Index up to 30 September 2017. With effect from 1 October 2017, it is the MSCI Golden Dragon Net Total Return Index, which takes into account of dividend reinvestment after deduction of withholding tax. All indices are for reference only.

**STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE****Manager's responsibilities**

The Manager, Value Partners Hong Kong Limited, is required by the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong and the Trust Deed dated 26 October 1993 (as amended) and Deed of retirement and appointment of Manager dated 17 August 2015 to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of Value Partners Classic Fund (the "Fund") at the end of that period and of the transactions for the period then ended. In preparing these financial statements, the Manager is required to:

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

The Manager is also required to manage the Fund in accordance with the Trust Deed dated 26 October 1993 (as amended) and Deed of retirement and appointment of Manager dated 17 August 2015 and take reasonable steps for the prevention and detection of fraud and other irregularities.

**Trustee's responsibilities**

The Trustee, HSBC Institutional Trust Services (Asia) Limited, is required to:

- ensure that the Fund is managed by the Manager in accordance with the Trust Deed dated 26 October 1993 (as amended) and Deed of retirement and appointment of Manager dated 17 August 2015 and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained so as to enable the financial statements to be prepared;
- safeguard the property of the Fund and rights attaching thereto; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Fund.

## **VALUE PARTNERS CLASSIC FUND**

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### **TRUSTEE'S REPORT**

We hereby confirm that, in our opinion, the Manager, Value Partners Hong Kong Limited, has, in all material respects, managed Value Partners Classic Fund in accordance with the provisions of the Trust Deed dated 26 October 1993 (as amended) and Deed of retirement and appointment of Trustee dated 17 August 2015 for the year ended 31 December 2017.

For and on behalf of

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

Trustee

25 April 2018

**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF  
VALUE PARTNERS CLASSIC FUND**

*(A Hong Kong Unit Trust)*

**Opinion**

**What we have audited**

The financial statements of Value Partners Classic Fund (the "Fund") set out on pages 21 to 55, which comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

**Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

**Independence**

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## **VALUE PARTNERS CLASSIC FUND**

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### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF VALUE PARTNERS CLASSIC FUND (Continued)**

(A Hong Kong Unit Trust)

#### **Other Information**

The Manager and the Trustee (the "Management") are responsible for the other information. The other information comprises the information included in General information, Manager's report, Statement of responsibilities of the Manager and the Trustee, Trustee's report, Investment portfolio, Investment portfolio movements and Performance record, but does not include 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.

#### **Responsibilities of the Management for the Financial Statements**

The Management of the Fund is responsible for the preparation and fair presentation of financial statements in accordance with IFRS. In addition, the Management is required to ensure and for such internal control as the Management determines 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 Management of the Fund is responsible for assessing the 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 Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

In addition, the Management is required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 26 October 1993 (as amended), Deed of retirement and appointment of the Manager dated 17 August 2015 and Deed of retirement and appointment of the Trustee dated 17 August 2015 (the "Trust Deed") and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the "SFC Code"),

**INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF  
VALUE PARTNERS CLASSIC FUND (Continued)***(A Hong Kong Unit Trust)***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. We report our opinion 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. We are also required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions at the Trust Deed and the SFC Code.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management'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 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 Fund to cease to continue as a going concern.

## **VALUE PARTNERS CLASSIC FUND**

(A Hong Kong Unit Trust)

### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF VALUE PARTNERS CLASSIC FUND (Continued)**

*(A Hong Kong Unit Trust)*

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

- 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 Management 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.

#### **Report on Matters under the Relevant Disclosure Provisions of the Trust Deed and the SFC Code**

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

#### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong

25 April 2018

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2017

	<i>Note</i>	<b>2017</b> <i>US\$</i>	<b>2016</b> <i>US\$</i>
<b>Assets</b>			
Deposits with brokers		–	18,045,085
Financial assets at fair value through profit or loss	<i>3(d)</i>	1,534,964,849	1,486,155,896
Amounts receivable on sales of investments		–	38,985,160
Amounts receivable on issue of units		4,343,843	348,161
Dividends receivables and other receivables		15,951,768	936,640
Bank balances	<i>6(j)</i>	<u>147,178,053</u>	<u>79,311,905</u>
<b>Total assets</b>		<u>1,702,438,513</u>	<u>1,623,782,847</u>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	<i>3(d)</i>	25,580,693	7,946,732
Amounts payable on purchase of investments		8,253,855	84,898,656
Amounts payable on redemption of units		5,493,233	7,606,568
Management fees payable		1,505,179	1,442,600
Performance fees payable		85,421,326	3,163
Distributions payable to unitholders		13,706	–
Bank overdrafts	<i>6(j)</i>	–	116,023,419
Accruals and other payables	<i>6(j)</i>	<u>569,155</u>	<u>786,709</u>
<b>Liabilities (excluding net assets attributable to unitholders)</b>		<u>126,837,147</u>	<u>218,707,847</u>
<b>Net assets attributable to unitholders</b>	<b>5</b>	<u><u>1,575,601,366</u></u>	<u><u>1,405,075,000</u></u>

Signed by:

**Value Partners Hong Kong Limited, *Manager***
**HSBC Institutional Trust Services (Asia) Limited, *Trustee***

The notes on pages 25 to 55 are an integral part of these financial statements.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$	2016 US\$
<b>Income</b>			
Dividends		36,261,072	37,011,018
Interest on bank deposits	6(j)	66,672	19,821
Net realised gains/(losses) on investments		503,362,064	(103,399,708)
Change in unrealised gains/losses on investments		138,484,826	41,460,029
Net foreign exchange gains/(losses)		3,152,183	(1,498,820)
Other income	6(g)	805,489	1,123,180
		<u>682,132,306</u>	<u>(25,284,480)</u>
<b>Expenses</b>			
Management fees	6(a)	(18,340,127)	(18,276,791)
Performance fees	6(b)	(85,421,325)	(3,163)
Trustee fees	6(c)	(1,806,575)	(1,777,552)
Transaction costs	6(j)	(14,158,075)	(20,347,275)
Interest expense	6(j)	(4,763,728)	(4,859,805)
Dividends on securities borrowed		(572,191)	–
Stock borrowing fee	6(j)	(347,070)	(637,502)
Registrar fee	6(d)	(468,291)	(460,242)
Safe custody and bank charges	6(j)	(43,139)	(62,007)
Legal and professional fees		(123,413)	(47,744)
Auditor's remuneration		(40,630)	(31,000)
Other operating expenses		<u>(1,047,776)</u>	<u>(2,223,637)</u>
		<u>(127,132,340)</u>	<u>(48,726,718)</u>
<b>Profit/(loss) before tax</b>			
		554,999,966	(74,011,198)
Withholding tax on dividends and other investment income	7(d)	(3,088,782)	(2,048,027)
Distributions to Unitholders	8	<u>(41,713)</u>	<u>–</u>
<b>Increase/(decrease) in net assets attributable to unitholders from operations</b>			
		<u>551,869,471</u>	<u>(76,059,225)</u>

The notes on pages 25 to 55 are an integral part of these financial statements.

**VALUE PARTNERS CLASSIC FUND**

(A Hong Kong Unit Trust)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

FOR THE YEAR ENDED 31 DECEMBER 2017

	<b>2017</b> US\$	<b>2016</b> US\$
<b>Net assets attributable to unitholders as at 1 January</b>	1,405,075,000	1,854,918,610
Issue of units	449,057,869	293,091,004
Redemption of units	<u>(830,400,974)</u>	<u>(666,875,389)</u>
<b>Net decrease from unit transactions</b>	<u>(381,343,105)</u>	<u>(373,784,385)</u>
<b>Increase/(decrease) in net assets attributable to unitholders from operations</b>	<u>551,869,471</u>	<u>(76,059,225)</u>
<b>Net assets attributable to unitholders as at 31 December</b>	<u><u>1,575,601,366</u></u>	<u><u>1,405,075,000</u></u>

The notes on pages 25 to 55 are an integral part of these financial statements.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US\$	2016 US\$
<b>Cash flows from operating activities</b>		
Increase/(decrease) in net assets attributable to unitholders from operations	551,869,471	(76,059,225)
Adjustments for:		
Dividends and interest on bank deposits	(36,327,744)	(37,030,839)
Interest expense	4,763,728	4,859,805
Stock borrowing fee and dividends on securities borrowed	919,261	637,502
Withholding tax on dividends and other investment income	3,088,782	2,048,027
Distribution to unitholders	41,713	–
	<u>524,355,211</u>	<u>(105,544,730)</u>
Decrease in deposits with brokers	18,045,085	46,787,177
(Increase)/decrease in financial assets at fair value through profit or loss	(48,808,953)	505,182,100
Increase/(decrease) in financial liabilities at fair value through profit or loss	17,633,961	(10,303,025)
Decrease in amounts receivable on sales of investments	38,985,160	75,535,594
(Decrease)/increase in amounts payable on purchase of investments	(76,644,801)	19,878,286
Increase in other receivables	(15,002,208)	(18,387)
Decrease in bank overdrafts	(116,023,419)	(208,330,345)
Increase/(decrease) in management fees payable	62,579	(447,950)
Increase/(decrease) in performance fees payable	85,418,163	(24,201)
Increase/(decrease) in accruals and other payables	161,000	(1,270,222)
	<u>428,181,778</u>	<u>321,444,297</u>
Dividends and interest on bank deposits received	36,314,824	36,728,847
Interest expense paid	(5,154,407)	(5,256,451)
Stock borrowing fee and dividends on securities borrowed	(919,261)	(637,502)
Withholding tax on dividends and other investment income paid	(3,076,657)	(2,048,027)
	<u>455,346,277</u>	<u>350,231,164</u>
<b>Net cash inflow from operating activities</b>	455,346,277	350,231,164
<b>Cash flows from financing activities</b>		
Distributions paid to unitholders	(28,007)	–
Proceeds from issue of units	445,062,187	296,147,162
Payments on redemption of units	(832,514,309)	(663,037,434)
	<u>(387,480,129)</u>	<u>(366,890,272)</u>
<b>Net cash outflow from financing activities</b>	(387,480,129)	(366,890,272)
<b>Net increase/(decrease) in cash and cash equivalents</b>	67,866,148	(16,659,108)
Cash and cash equivalents as at 1 January	79,311,905	95,971,013
	<u>147,178,053</u>	<u>79,311,905</u>
<b>Cash and cash equivalents as at 31 December, representing bank balances</b>	147,178,053	79,311,905

The notes on pages 25 to 55 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****1 GENERAL INFORMATION**

Value Partners Classic Fund (the “Fund”) is an open-ended unit trust established by the Trust Deed dated 26 October 1993 (as amended) and governed by the laws of Hong Kong.

The Fund is authorised by the Securities and Futures Commission of Hong Kong and is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the “Code”).

The Fund’s investment objective is to achieve consistent superior returns through an investment discipline that places emphasis on the fundamental value of potential investments. The Fund’s investment activities are managed by Value Partners Hong Kong Limited (the “Manager”). The Fund’s Administrator is HSBC Institutional Trust Services (Asia) Limited (the “Trustee”).

**2 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**(a) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires the exercise of judgement in the process of applying the Fund’s accounting policies.

All references to net assets throughout this document refer to net assets attributable to unitholders unless otherwise stated.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Basis of preparation (Continued)

##### *Standards and amendments to existing standards effective 1 January 2017*

There are no standards, interpretation or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2017 that had a material impact on the Fund.

##### *Standards that are not yet effective and have not been early adopted by the Fund*

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **2 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(b) Investment entity**

The Fund has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- (i) The Fund has multiple investments;
- (ii) The Fund obtained funding for the purpose of providing investors with investment management services;
- (iii) The Fund's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income; and
- (iv) The performance of investments made through the investee funds are measured and evaluated on a fair value basis.

The Fund meets all of the typical characteristics of an investment entity and management believes it is an investment entity. The Fund is required to account for unconsolidated structured entities at fair value through profit and loss.

#### **(c) Interest in unconsolidated structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

The Fund considers all of its investments in investee funds to be investments in unconsolidated structured entities. The Fund invests in investee funds whose objectives range from achieving medium to long term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by the group companies of the Manager who apply various investment strategies to accomplish the respective investment objectives of the Investee Funds.

The change in fair value of each investee fund is included in the statement of comprehensive income.

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

##### **(i) Classification**

The Fund classifies its investments as financial assets or liabilities at fair value through profit or loss. These financial assets and liabilities are classified as held for trading.

All derivatives are carried in assets when amounts are receivable by the Fund and in liabilities when amounts are payable by the Fund.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

##### (ii) *Recognition/derecognition*

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

##### (iii) *Measurement*

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are presented in the statement of comprehensive income in the year in which they arise.

Dividend on short sales of equity securities is included in the statement of comprehensive income within dividends on securities borrowed.

##### (iv) *Fair value estimation*

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.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on last traded prices at the close of trading on the reporting date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Debt securities are fair valued based on quoted prices inclusive of accrued interest.

Investments in Investee Funds are stated at fair value based on the net asset value per unit/share of the respective funds as determined by the administrators of the relevant funds or stated at last traded prices if the Investee Funds are listed or traded on an exchange.

Over-the-counter derivatives that are not traded in an active market is determined by using broker quotes or valuation techniques.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****2 SIGNIFICANT ACCOUNTING POLICIES (Continued)****(e) Income**

Dividends are recognised when the right to receive payment is established.

Interest income on bank deposit is recognised in the statement of comprehensive income on a time-proportionate basis using the effective interest method.

Interest income on debt securities is recognised in the statement of comprehensive income within “net realised gains/(losses) on investments” and “change in unrealised gains/losses on investments”.

**(f) Expenses**

Expenses are accounted for on an accrual basis.

**(g) Transaction cost**

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisors, brokers and dealers. Transaction costs when incurred, are immediately recognised in statement of comprehensive income as an expense.

**(h) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

**(i) Collateral**

The Fund pledged investments as collateral at the reporting date. The party to whom the collateral is provided does not have the right to sell or re-pledge the collateral and the Fund classifies these pledged investments as financial assets at fair value through profit or loss in the statement of financial position.

Cash collateral provided by the Fund is identified in the statement of financial position as margin deposit and is not included as a component of cash and cash equivalents.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Foreign currency translation

The financial statements are presented in United States dollar, which is the Fund's functional and presentation currency.

The Fund has adopted the United States dollar as the functional currency of the Fund since the subscriptions and redemptions of the Fund are mainly transacted in United States dollars. In addition, performance measurement and reporting to the unitholders as well as settlement of fees and expenses are carried out in United States dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

#### (k) Taxation

The Fund currently incurs withholding tax imposed by certain countries on investment income and capital gains. Such income is recorded gross of withholding tax in the statement of comprehensive income.

#### (l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and exclude overdrafts with the broker as they are restricted for investment purposes. Bank overdrafts are shown in current liabilities in the statement of financial position.

#### (m) Redeemable units

The net asset value per unit is computed for each dealing day. The price at which units are issued or redeemed is calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day.

Units of the Fund are redeemable at the options of the unitholders and are classified as financial liabilities in the statement of financial position which represents the net assets attributable to unitholders (or "net asset value" or "net assets" or "NAV"). The units are carried at the redemption amount that is payable at the reporting date if the unitholders exercise their right to redeem their units of the Fund.

#### (n) Distributions payable to unitholders

Proposed distributions to unitholders are recognised in the statement of comprehensive income when they are appropriately authorised and no longer at the discretion of the Fund. The distribution on the units is recognised as a finance cost in the statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit and counterparty risk and liquidity risk.

The risks and respective risk management policies employed by the Fund to manage these risks are discussed below:

#### (a) Market risk

##### (i) Foreign exchange risk

The Fund may hold assets denominated in currencies other than the United States dollar, the functional currency, it may therefore be exposed to foreign exchange risk. The Fund's overall currency positions are monitored on a daily basis by the Manager.

The table below includes both monetary and non-monetary assets and liabilities held in foreign currencies together with the percentage of reasonable possible change in foreign currencies and the estimated impact on net assets. Non-monetary investments include equity securities and derivatives.

	Total net foreign currency exposures		Percentage change %	Estimated impact on net assets US\$
	Non-Monetary net assets US\$ equivalent	Monetary net assets/ (liabilities) US\$ equivalent		
<b>As at 31 December 2017</b>				
Australian dollar	–	(2,680,172)	+/-5	-/+134,009
Canadian dollar	–	765,907	+/-5	+/-38,295
Euro	–	359	+/-5	+/-18
Hong Kong dollar*	835,133,329	30,568,597	+/-0	–
Indonesian rupiah	–	7,107,121	+/-5	+/-355,356
Korean won	18,950,615	353,608	+/-5	+/-965,211
New Zealand dollar	–	65,476	+/-5	+/-3,274
Pound sterling	16,724	–	+/-5	+/-836
Renminbi	87,472,496	27,456,652	+/-5	+/-5,746,457
Singapore dollar	86,598,088	1,185,538	+/-5	+/-4,389,181
Taiwan dollar	110,733,484	44,134,839	+/-5	+/-7,743,416
	<u>1,138,904,736</u>	<u>108,957,925</u>		

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL RISK MANAGEMENT (Continued)

##### (a) Market risk (Continued)

##### (i) Foreign exchange risk (Continued)

	Total net foreign currency exposures		Percentage change %	Estimated impact on net assets US\$
	Non-Monetary net assets	Monetary net assets		
	US\$ equivalent	US\$ equivalent		
<b>As at 31 December 2016</b>				
Australian dollar	–	31,119,056	+/-5	+/-1,555,953
Canadian dollar	–	7,644,175	+/-5	+/-382,209
Euro	–	5,471	+/-5	+/-274
Hong Kong dollar*	730,509,563	36,592,005	+/-0	–
Indonesian rupiah	–	7,156,974	+/-5	+/-357,849
Korean won	63,671,522	23	+/-5	+/-3,183,577
New Zealand dollar	–	7,042,539	+/-5	+/-352,127
Pound sterling	15,215	–	+/-5	+/-761
Renminbi	74,537,304	11,232,688	+/-5	+/-4,288,500
Singapore dollar	90,838,750	–	+/-5	+/-4,541,938
Taiwan dollar	190,423,309	15,906,314	+/-5	+/-10,316,481
	<u>1,149,995,663</u>	<u>116,699,245</u>		

\* The Hong Kong dollar is currently linked to the United States dollar, the functional currency, within a narrow range, and is therefore not exposed to significant foreign exchange risk.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 FINANCIAL RISK MANAGEMENT (Continued)**

**(a) Market risk (Continued)**

**(ii) Price risk**

The Manager manages price risk primarily through diversification of the portfolio and through a careful selection of securities and other financial instruments within specified limits as stated in the Explanatory Memorandum. The Fund's overall market positions are monitored on a daily basis by the Manager.

As at 31 December 2017 and 2016, the Fund had no exposure to a single security greater than 10% of net assets.

The Fund's overall market exposures at the reporting date were as follows:

	<b>% of net assets</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial assets at fair value through profit or loss</b>		
<b>Listed equity securities</b>		
China	7.65	7.01
Hong Kong		
– H shares	23.30	16.40
– Red chips	7.07	5.67
– Others	23.31	27.03
Singapore	5.49	6.46
South Korea	1.20	4.53
Taiwan	7.03	13.55
United Kingdom	0.00	0.00
United States	7.55	5.63
	82.60	86.28
<b>Participation notes</b>	3.87	8.26
<b>Quoted debt securities</b>	1.73	1.89
<b>Unlisted investment funds</b>	9.14	9.34
<b>Currency forwards</b>	0.08	0.00
	97.42	105.77

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL RISK MANAGEMENT (Continued)

##### (a) Market risk (Continued)

##### (ii) Price risk (Continued)

	% of net assets	
	2017	2016
<b>Financial liabilities at fair value through profit or loss</b>		
<b>Listed equity securities</b>		
Hong Kong		
– H shares	(1.62)	(0.48)
– Others	–	(0.08)
	<u>(1.62)</u>	<u>(0.56)</u>
<b>Currency forwards</b>	<u>(0.00)</u>	<u>(0.01)</u>
	<u>(1.62)</u>	<u>(0.57)</u>

The table below shows the analysis of the net position of equity securities and equity derivatives by industry.

	2017	2016
	%	%
Financials	31.75	15.84
Industrials	10.58	4.86
Utilities	10.59	7.57
Consumer discretionary	5.91	16.85
Information technology	5.24	16.43
Healthcare	4.93	4.53
Real estate	1.17	4.85
Consumer staples	8.22	5.36
Energy	3.18	7.32
Telecommunication services	13.51	10.40
Materials	2.11	3.31
Diversified	0.18	–
Others	2.63	2.68
	<u>100.00</u>	<u>100.00</u>

The Fund may sell securities of an issuer short. Short sales made by the Fund involve certain risks and special considerations. Possible losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk (Continued)

##### (ii) Price risk (Continued)

The table below summarises the sensitivity of the Fund's portfolio of listed equity securities, equity derivatives and investment funds to equity price movements. The analysis is based on the assumptions that the MSCI Golden Dragon Net Total Return Index (2016: MSCI China Index) increased/decreased with all other variables held constant and that the fair value of the Fund's portfolio of listed equity securities and notional value of the Fund's derivatives moved according to their historical correlation with the index. The Manager does not manage price risk with reference to any market index. The index used below is for guidance and performance comparison only.

	Percentage change		Estimated impact on net assets	
	2017	2016	2017	2016
	%	%	US\$	US\$
MSCI China Index	-	+/-30	-	+/-325,705,044
MSCI Golden Dragon Net Total Return Index	+/-30	-	+/-409,323,419	-

##### (iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flow will fluctuate due to changes in market interest rates.

The table below summaries the Fund's financial assets and liabilities at the reporting date which expose it to the risk associated with the effects of fluctuations in the prevailing levels of market interest rates, categorised by remaining maturity dates.

	Less than 1 month	
	2017 US\$	2016 US\$
Bank balances	147,178,053	79,311,905
Bank overdrafts	-	(116,023,419)
Total interest sensitivity gap	<u>147,178,053</u>	<u>(36,711,514)</u>

Any bank balances and overdrafts with brokers are placed/borrowed at short term market interest rate and the Manager considers that the Fund is not subject to significant amount of risk due to the stable and low fluctuation in the prevailing levels of market interest rates.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Credit and counterparty risk

The Fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges that the Manager considers to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made when the broker has received payment. In a purchase, payment is made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail.

The table below shows the exposures to major counterparties at the reporting date. The credit ratings are issued by Moody's.

	2017 US\$	2016 US\$
<b>Counterparty</b>		
Cash with banks		
Aa2	147,178,053	79,311,905
Deposits with brokers		
Unrated*	–	18,045,085
Investments placed with custodian and other broker		
Aa2	1,534,964,849	1,486,155,896
Amounts receivable on issue of units		
Unrated*	4,343,843	348,161

\* *The credit quality of deposits with brokers and amounts receivable on issue of units that are neither past due nor impaired can be assessed by historical information about counterparties default rates. The Manager considers there is no significant risk on such deposits at the reporting date as there was no default history on such deposit in the past.*

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets, excluding equity securities, as shown in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk

The table below analyses the Fund's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table below reflects captions of the statement of financial position items and shows how much of the net assets can be redeemed if the Manager does not exercise the 10% redemption gate.

	<b>Less than 3 months</b>	
	<b>2017</b>	<b>2016</b>
	<i>US\$</i>	<i>US\$</i>
Net assets attributable to unitholders	1,575,601,366	1,405,075,000
Financial liabilities at fair value through profit or loss - non-derivatives	25,559,025	7,826,363
Financial liabilities at fair value through profit or loss - derivatives	21,668	120,369
Amounts payable on purchase of investments	8,253,855	84,898,656
Amounts payable on redemption of units	5,493,233	7,606,568
Management fees and performance fees payable	86,926,505	1,445,763
Distributions payable to redeemable participating shareholders	13,706	-
Bank overdrafts	-	116,023,419
Accruals and other payables	569,155	786,709
	<u>1,702,438,513</u>	<u>1,623,782,847</u>

Disclosure is required whenever there is a master netting arrangement irrespective of whether any balances have actually been offset in accordance with IAS 32 "Financial Instruments: Presentation". As at 31 December 2017, the Fund was subject to one (2016: one) passive hedging arrangements with its derivative counterparty. The arrangement gives the Fund and the counterparties the legally enforceable right to set-off certain financial assets and liabilities.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

The Fund and its counterparty have elected to settle all transactions on a gross basis; however, each party has the option to settle all open obligations on a net basis in the event of default of the other party. Per the terms of the master netting agreement, an event of default includes failure by a party to make payment when due, failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied after notice of such failure is given to the party or bankruptcy.

The following table presents the Fund's financial assets and liabilities eligible to offsetting had the Fund elected to enforce the master netting agreement and similar agreements at the reporting date. The amount to be offset is limited to the absolute value of financial assets or financial liabilities within the same counterparty.

	<b>2017</b>	<b>2016</b>
	<i>US\$</i>	<i>US\$</i>
<b>Financial assets</b>		
Equity securities pledged as collateral	29,743,789	63,593,640
Currency forwards	1,232,658	43,689
<b>Financial liabilities</b>		
Currency forwards	<u>(21,668)</u>	<u>(120,369)</u>
Net amount	<u>30,954,779</u>	<u>63,516,960</u>

As at 31 December 2017, equity securities amounting to US\$29,743,789 (2016: US\$63,593,640) were pledged as collateral for stocks borrowed.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (c) Liquidity risk (Continued)

##### *Capital Management*

The capital of the Fund is represented by the net assets attributable to unitholders which is subject to daily subscriptions and redemptions of redeemable units. The Fund's objective for capital management is to provide returns and long-term capital growth for unitholders.

In order to maintain the capital structure, the Manager performs the following:

- Monitor subscriptions and redemptions activities relative to liquid assets;
- To protect the interest of unitholders and in exceptional circumstances, the Manager may limit the total number of units redeemed on any redemption day to 10% in aggregate of the total number of units in issue; and
- Monitor fund investment guidelines and restrictions, in accordance with the Explanatory Memorandum.

The markets in which the Fund invests may be relatively illiquid and the liquidity of these markets may fluctuate substantially over time. Investment of the Fund's assets in relatively illiquid securities may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes. The risk of illiquidity also arises in the case of over-the-counter transactions. As at 31 December 2017, the Manager considers that the amount of such illiquid investments is relatively insignificant compared to the net assets attributable to unitholders and the majority of the Fund's asset can be realised within 7 days or less to generate cash inflows for managing liquidity risk.

Below presents a list of investors who held more than 10% of the net assets of the Fund:

<b>Investor</b>	<b>% of net assets</b>
<b>As at 31 December 2017</b>	
Investor 1	15.08
Investor 2	11.52
<b>As at 31 December 2016</b>	
Investor 1	15.57
Investor 2	12.17

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Fair value estimation

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value as at the reporting date.

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>As at 31 December 2017</b>				
<b>Financial assets held for trading</b>				
Listed equity securities	1,300,810,994	–	742,533*	1,301,553,527
Participation notes	–	60,133,994	847,122	60,981,116
Quoted debt securities	–	27,193,552	–	27,193,552
Unlisted investment funds	–	144,003,996	–	144,003,996
Currency forwards	–	1,232,658	–	1,232,658
	<u>1,300,810,994</u>	<u>232,564,200</u>	<u>1,589,655</u>	<u>1,534,964,849</u>
<b>Financial liabilities held for trading</b>				
Listed equity securities	(25,559,025)	–	–	(25,559,025)
Currency forwards	–	(21,668)	–	(21,668)
	<u>(25,559,025)</u>	<u>(21,668)</u>	<u>–</u>	<u>(25,580,693)</u>
<b>As at 31 December 2016</b>				
<b>Financial assets held for trading</b>				
Listed equity securities	1,210,744,458	–	1,478,018*	1,212,222,476
Participation notes	–	77,068,075	38,924,499	115,992,574
Quoted debt securities	–	26,594,772	–	26,594,772
Unlisted investment funds	–	131,302,385	–	131,302,385
Currency forwards	–	43,689	–	43,689
	<u>1,210,744,458</u>	<u>235,008,921</u>	<u>40,402,517</u>	<u>1,486,155,896</u>
<b>Financial liabilities held for trading</b>				
Listed equity securities	(7,826,363)	–	–	(7,826,363)
Currency forwards	–	(120,369)	–	(120,369)
	<u>(7,826,363)</u>	<u>(120,369)</u>	<u>–</u>	<u>(7,946,732)</u>

\* As at 31 December 2017, listed equity securities include 2 (2016: 2) investments whose trading was suspended.

As at 31 December 2017, the fair value of one unlisted equity security and one unlisted investment fund (2016: one unlisted equity security and one unlisted investment) was fully marked to zero.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 FINANCIAL RISK MANAGEMENT (Continued)**

**(d) Fair value estimation (Continued)**

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equity securities and a daily traded unlisted investee fund. The Fund does not adjust the quoted price for these investments.

Financial instruments that trade in markets that are not considered to be active and are valued based on quoted market prices or broker quotes, or financial instruments for which there is no active market and are valued based on valuation models supported by observable inputs are classified within level 2.

Investments classified within level 3 have significant unobservable inputs, as they are traded infrequently.

The Manager considers that changes in the inputs to the valuation models would not have a significant effect on the net asset value of the Fund. No quantitative analysis has been presented. The table below summarises the key unobservable inputs adopted by the Manager in determining the fair value.

	Fair value US\$	Valuation technique	Unobservable inputs
<b>As at 31 December 2017</b>			
Listed equity securities	742,533	Discounted last transacted price	Discount rate
Participation note	847,122	Last traded price of underlying securities	–
<b>As at 31 December 2016</b>			
Listed equity securities	1,478,018	Discounted last transacted price	Discount rate
Participation note	38,924,499	Last traded price of underlying securities	–

There were no transfers between levels for the years ended 31 December 2017 and 2016.

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL RISK MANAGEMENT (Continued)

##### (d) Fair value estimation (Continued)

The following tables present the movement in level 3 investments for the year:

	<b>2017</b> <i>US\$</i>	<b>2016</b> <i>US\$</i>
<b>Opening balance</b>	40,402,517	161,709,662
Losses recognised in profit and loss	<u>(38,812,862)</u>	<u>(121,307,145)</u>
<b>Closing balance</b>	<u>1,589,655</u>	<u>40,402,517</u>
Changes in unrealised gains/losses for the year included in the statement of comprehensive income for investments held at the end of the year	<u>(38,565,301)</u>	<u>(121,307,145)</u>

Other assets and liabilities are carried at amortised cost and their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(e) Derivative financial instruments

The Fund's derivative financial instruments at the reporting date are detailed as follows:

	Notional amount	Fair value	
		Assets US\$	Liabilities US\$
<b>As at 31 December 2017</b>			
Currency forwards	AUD43,217,983	654,345	–
Currency forwards	CAD18,945,159	346,091	–
Currency forwards	CNH27,060,083	35,096	–
Currency forwards	HKD65,708,048	11,372	–
Currency forwards	NZD16,293,124	185,754	–
Currency forwards	(AUD2,334,596)	–	(21,216)
Currency forwards	(CAD1,908)	–	(11)
Currency forwards	(CNH296,803)	–	(407)
Currency forwards	(HKD554,756)	–	(34)
Participation notes on China equities	RMB168,507,291	25,877,366	–
Participation notes on Vietnam equities	VND797,270,470,800	35,103,750	–
		62,213,774	(21,668)

	Notional amount	Fair value	
		Assets US\$	Liabilities US\$
<b>As at 31 December 2016</b>			
Currency forwards	(CAD275,927)	1,782	–
Currency forwards	(CNH228,856)	170	–
Currency forwards	HKD38,891,997	4,365	–
Currency forwards	NZD10,111,555	37,372	–
Currency forwards	AUD43,070,634	–	(65,124)
Currency forwards	CAD10,499,277	–	(35,225)
Currency forwards	CNH18,457,343	–	(19,899)
Currency forwards	(HKD6,917)	–	(1)
Currency forwards	(NZD53,414)	–	(120)
Participation notes on China equities	RMB559,816,687	80,581,767	–
Participation notes on Vietnam equities	VND806,320,564,000	35,410,807	–
		116,036,263	(120,369)

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 4 INVESTMENTS IN UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities consist of investments in investee funds which are subject to the terms and conditions of the respective investee funds' offering documents and are susceptible to market price risk arising from uncertainties about future values of those structured entities. The Manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager.

The Fund's holding in investee funds, as a percentage of the respective structured entity's total net asset value, will vary from time to time dependent on the volume of subscriptions and redemptions at structured entities level. It is possible that the Fund may, at any point in time, hold a majority of a structured entity's total shares/units in issue.

The table below summaries the Fund's holdings in investee funds as at the reporting date.

Investee funds	Fund manager	% Ownership		Place of incorporation	Dealing frequency
		2017	2016		
Strategic Asia Fund	China International Capital Corporation Hong Kong Asset Management Limited	97.07%	98.01%	Cayman Islands	Daily*
Value Partners China A Share Opportunity Fund	Value Partners Hong Kong Limited	92.49%	–	Cayman Islands	Weekly
Value Partners China A-Share Select Fund	Value Partners Hong Kong Limited	–	22.72%	Hong Kong	Daily*
Value Partners Global Contrarian Fund	Value Partners Hong Kong Limited	19.07%	22.44%	Cayman Islands	Bi-weekly*
Value Partners Hedge Fund Ltd	Value Partners Limited	56.87%	46.57%	Cayman Islands	Monthly*
Value Partners Ireland Fund Plc – Value Partners Greater China Equity Fund	Value Partners Hong Kong Limited	90.20%	92.49%	Ireland	Daily*
Value Partners Strategic Equity Fund	Value Partners Private Equity Limited	1.59%	1.59%	Cayman Islands	Suspended#

\* The Manager of the investee funds also has the ability to limit daily redemptions and withhold the requested amount. Under extraordinary circumstances, the Manager of the Investee Funds also has the ability to suspend redemptions.

# The redemption of Value Partners Strategic Equity Fund is suspended.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 INVESTMENTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

Movements in the fair value of the investee funds' portfolio and corresponding movements in the fair value of the Investee Funds may expose the Fund to a loss. The Fund's maximum exposure to loss from its interests in structured entities is equal to the total fair value of its investments in structured entities. Once the Fund has disposed of its shares/units in a structured entity, the Fund ceases to be exposed to any risk from that structured entity.

The exposure to investments in investee funds at fair value is disclosed in the following table. These investments are included in financial assets at fair value through profit or loss in the statement of financial position.

	Fair value US\$	% of net assets
<b>As at 31 December 2017</b>		
Strategic Asia Fund	94,124,614	5.97
Value Partners China A Share Opportunity Fund	16,419,628	1.04
Value Partners Global Contrarian Fund	4,816,694	0.31
Value Partners Greater China Equity Fund	21,441,500	1.36
Value Partners Hedge Fund Ltd	7,201,560	0.46
Value Partners Strategic Equity Fund	—	—
	<u>144,003,996</u>	<u>9.14</u>
<b>As at 31 December 2016</b>		
Strategic Asia Fund	60,606,677	4.31
Value Partners China A Share Select Fund	24,727,828	1.76
Value Partners Global Contrarian Fund	9,185,350	0.65
Value Partners Greater China Equity Fund	31,931,000	2.27
Value Partners Hedge Fund Ltd	4,851,530	0.35
Value Partners Strategic Equity Fund	—	—
	<u>131,302,385</u>	<u>9.34</u>

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 4 INVESTMENTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

Total purchases and total sales in structured entities during the year ended 31 December 2017 were US\$15,000,000 and 144,259,792 (2016: US\$50,000,000 and Nil) respectively. The Fund intends to continue opportunistic trading in the Investee Funds. As at 31 December 2017, there were no capital commitment obligations and no amounts due to structured entities for unsettled purchases (2016: Nil and Nil respectively).

During the year ended 31 December 2017, total net gain of US\$148,061,173 (2016: gain of US\$8,060,409) was recognised on investments in investee funds.

#### 5 REDEEMABLE UNITS

Units of the Fund are issued in different classes. All units are subject to daily redemption. The management fees charged to each classes of units are different as disclosed in note 6 (a). Applications for "A" units and "B" units were suspended since 2002 and 2009 respectively unless otherwise agreed by the Manager. New investors who wish to invest in the Fund and existing unitholders who wish to further subscribe for units in the Fund may subscribe for "C" units and "C" units – Hedged.

The Fund may enter into certain currency related transactions in order to hedge the currency exposure of the assets of the Fund attributable to a particular class into the class currency of the relevant class. Any financial instruments used to implement such strategies with respect to one or more classes shall be assets/liabilities of the Fund as a whole but will be attributable to the relevant classes and the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant class.

"A" units, "B" units, "C" units, "C" units – Hedged, "C" units – MDis and "Z" units are redeemable at the option of the unitholders, are subject to different management fee percentages and do not have identical features, and are therefore classified as financial liabilities. The units can be put back to the Fund for cash equal to a proportionate share of the Fund's net asset value. The units are carried at the redemption amount that is payable at the reporting date if the unitholders exercise their right to put the units back to the Fund.

The Fund's capital is represented by these units. The Fund's capital is shown as net assets attributable to unitholders in the statement of financial position. The Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of listed securities where necessary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 REDEEMABLE UNITS (Continued)

Number of units in issue

The movement of number of units in issue during the year was as follows:

	"A" units		"B" units		"C" units USD	
	2017	2016	2017	2016	2017	2016
As at 1 January	717,083	738,555	2,304,607	2,703,319	62,559,432	84,706,326
Issue of units	–	–	35,679	49,762	17,207,575	15,999,005
Redemption of units	(23,355)	(21,472)	(326,082)	(448,474)	(36,321,511)	(38,145,899)
<b>As at 31 December</b>	<b>693,728</b>	<b>717,083</b>	<b>2,014,204</b>	<b>2,304,607</b>	<b>43,445,496</b>	<b>62,559,432</b>

	"C" units RMB		"C" units AUD Hedged		"C" units CAD Hedged	
	2017	2016	2017	2016	2017	2016
As at 1 January	882,958	93,760	3,604,969	4,589,343	882,026	1,174,830
Issue of units	508,752	1,808,739	3,497,664	3,246,842	1,830,127	697,638
Redemption of units	(1,040,510)	(1,019,541)	(4,693,980)	(4,231,216)	(1,563,173)	(990,442)
<b>As at 31 December</b>	<b>351,200</b>	<b>882,958</b>	<b>2,408,653</b>	<b>3,604,969</b>	<b>1,148,980</b>	<b>882,026</b>

	"C" units NZD Hedged		"C" units HKD Hedged		"C" units RMB Hedged	
	2017	2016	2017	2016	2017	2016
As at 1 January	833,738	1,056,001	3,945,820	3,681,887	1,889,355	2,269,593
Issue of units	2,745,530	1,441,968	7,390,909	6,723,227	4,395,059	5,776,157
Redemption of units	(2,656,935)	(1,664,231)	(6,672,486)	(6,459,294)	(4,648,506)	(6,156,395)
<b>As at 31 December</b>	<b>922,333</b>	<b>833,738</b>	<b>4,664,243</b>	<b>3,945,820</b>	<b>1,635,908</b>	<b>1,889,355</b>

	"C" units MDis USD		"C" units MDis HKD		"C" units MDis RMB	
	2017	2016	2017	2016	2017	2016
As at 1 January	–	–	–	–	–	–
Issue of units	256,710	–	2,551,928	–	19,411	–
Redemption of units	(13,788)	–	(746,203)	–	–	–
<b>As at 31 December</b>	<b>242,922</b>	<b>–</b>	<b>1,805,725</b>	<b>–</b>	<b>19,411</b>	<b>–</b>

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 5 REDEEMABLE UNITS (Continued)

##### Number of units in issue (Continued)

	"C" units		"Z" units	
	MDis	RMB Hedged	2017	2016
As at 1 January	–	–	–	–
Issue of units	401,566	–	900,000	–
Redemption of units	(16,317)	–	(15,000)	–
As at 31 December	<u>385,249</u>	<u>–</u>	<u>885,000</u>	<u>–</u>

	2017	2016
<b>Net asset value per unit</b>		
"A" units	USD368.78	USD254.56
"B" units	USD165.15	USD114.57
"C" units USD	USD20.71	USD14.45
"C" units RMB	RMB14.03	RMB10.42
"C" units AUD Hedged	AUD17.21	AUD11.94
"C" units CAD Hedged	CAD16.79	CAD11.58
"C" units NZD Hedged	NZD17.60	NZD12.06
"C" units HKD Hedged	HKD14.24	HKD9.85
"C" units RMB Hedged	RMB14.33	RMB9.61
"C" units MDis USD	USD10.16	–
"C" units MDis HKD	HKD10.17	–
"C" units MDis RMB	RMB9.91	–
"C" units MDis RMB Hedged	RMB10.15	–
"Z" units	USD11.18	–

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

The following is a summary of significant related party transactions/transactions entered into during the period between the Fund and the Trustee, the Manager and their connected persons. Connected persons of the Trustee and the Manager are those as defined in the SFC Code. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****6 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS (Continued)****(a) Management fees**

The Manager is entitled to receive management fees which represent 0.75% per annum of that portion of the net asset value of the Fund attributable to "A" units and "Z" units, and 1.25% per annum of that portion of the net asset value of the Fund attributable to "B" units, "C" units and "C" units – Hedged, "C" units – MDis. The management fees are calculated and accrued daily and payable monthly in arrears.

**(b) Performance fees**

The Manager is entitled to receive a performance fees which represents 15% of the product of the average number of units in issue during the year and the amount by which the net asset value per unit as at the reporting date before accrual of performance fees exceeds the higher of (i) the initial issue price of the units and (ii) the highest value for the net asset value per unit as at 31 December for any preceding year in which a performance fees was last calculated and paid (after payment of the performance fee). The performance fees is calculated and accrued daily and payable yearly in arrears.

**(c) Trustee fees**

The Trustee is entitled to receive a trustee fee which represents a variable fee of (i) 0.15% per annum on the first US\$150 million of the net asset value of the Fund; (ii) 0.13% per annum on the next US\$150 million of the net asset value of the Fund; and (iii) 0.11% per annum thereafter. Under the terms of the Trust Deed, the Trustee is also entitled to a fixed annual fee of US\$3,000. The variable fee was calculated and accrued daily and payable monthly in arrears.

**(d) Registrar fee**

The Trustee is also entitled to 0.03% per annum of the Fund's NAV for the services provided as the Fund's registrar.

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

##### (e) Manager's and its related parties' holding in the Fund

The Manager and its related parties held units of the Fund as follows:

	As at 1 January	Issue of units	Redemption of units	As at 31 December
<b>Year 2017</b>				
<b>"A" units</b>				
Director of the Manager	34,669	–	–	34,669
Spouse of a director of the Manager	6,615	–	–	6,615
<b>"B" units</b>				
Director of the Manager	14,749	–	–	14,749
Spouse of a director of the Manager	1,992	–	–	1,992
<b>"C" units USD</b>				
Director of parent company of the Manager	78,409	–	–	78,409
<b>"C" units AUD Hedged</b>				
Value Partners Limited*	–	8,040	–	8,040
<b>"C" units CAD Hedged</b>				
Value Partners Limited*	–	7,047	–	7,047
<b>"C" units NZD Hedged</b>				
Value Partners Limited*	–	1,005	–	1,005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(e) Manager's and its related parties' holding in the Fund (Continued)

	As at 1 January	Issue of units	Redemption of units	As at 31 December
<b>Year 2016</b>				
<b>"A" units</b>				
Director of the Manager	34,669	–	–	34,669
Spouse of a director of the Manager	6,615	–	–	6,615
<b>"B" units</b>				
Director of the Manager	14,749	–	–	14,749
Spouse of a director of the Manager	1,992	–	–	1,992
<b>"C" units USD</b>				
Value Partners Limited*	741,290	–	(741,290)	–
Director of parent company of the Manager	78,409	–	–	78,409
<b>"C" units AUD Hedged</b>				
Value Partners Limited*	1,102	–	(1,102)	–
<b>"C" units CAD Hedged</b>				
Value Partners Limited*	1,106	–	(1,106)	–
<b>"C" units NZD Hedged</b>				
Value Partners Limited*	1,166	–	(1,166)	–

\* Value Partners Limited is the wholly owned subsidiary of the Manager.

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

##### (f) Preliminary charges

The Manager is entitled to receive a preliminary charge on issue of units which represents up to 5% of the issue price. For the year ended 31 December 2017, total preliminary charges on issue of redeemable participating units amounting to US\$3,603,309 (2016: US\$2,515,137) were received by the Manager. The preliminary charges are not reflected in the financial statements of the Fund.

##### (g) Investment in funds managed by the Manager or its related party

During the year and as of 31 December 2017 and 2016, the Fund invested in other funds, which are also managed by the Manager or its related party. Refer to note 4 for further details.

In accordance with the Fund's Explanatory Memorandum, the managers of these funds have waived the management fees payable by the Fund by refunding the relevant fees to the Fund, which is included in the statement of comprehensive income as "other income". For the year ended 31 December 2017, the waived management fees are amounted to US\$690,336 (2016: US\$1,071,985).

##### (h) Investment in customized participation note

During the year and as of 31 December 2017 and 2016, the Fund invested in a customized participation note which is designed to represent the net performance of the notional basket of certain China A Shares. The composition of the underlying basket of equity securities is determined by the Manager. As at 31 December 2017, the investment amounted to US\$847,122 (2016: US\$38,924,499).

##### (i) Cross trade with other funds managed by the Manager's related party

During the year ended 31 December 2017, the Fund does not have any transactions with other funds which are also managed by the Manager's related party.

During the year ended 31 December 2016, the Fund has purchased an investment of US\$6,059,150 from another fund which is managed by the Manager's related party.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

**(j) Other transaction and balances with the Trustee and its related parties**

In addition to the trust fee of US\$1,811,073 and the registrar fee of US\$469,451 (2016: US\$1,777,552 and US\$460,242 respectively), as disclosed in Note 6(c), the Fund had the following additional transactions with the Trustee and its related parties. All such transactions were entered into in the ordinary course of business and were on normal commercial terms.

	<b>2017</b>	<b>2016</b>
	<i>US\$</i>	<i>US\$</i>
Interest on bank deposits	66,672	19,821
Transaction costs*	(14,158,075)	(20,347,275)
Interest expense	(4,763,728)	(4,859,805)
Stock borrowing fee	(347,070)	(637,502)
Other income	108,799	–
Safe custody and bank charges	<u>(43,139)</u>	<u>(62,007)</u>

\* *The Fund paid commission to a related party of the Trustee for the purchases and sales of investments. The total aggregate value and the average commission rate of these transactions for the year ended 31 December 2017 are US\$488,603 and 0.14% respectively (2016: US\$11,051,394,443 and 0.18% respectively). For the year ended 31 December 2017, these transactions represent 5% (2016: 100%) of the total purchases and sales of investments of the Fund.*

In addition to the trustee fee payable of US\$149,140 and registrar fee payable of US\$38,725 (2016: US\$137,008 and US\$35,354 respectively), as disclosed in Note 6(c), the Fund had the following additional balances with the Trustee and its related parties.

	<b>2017</b>	<b>2016</b>
	<i>US\$</i>	<i>US\$</i>
Bank balances	147,177,591	79,313,212
Bank overdrafts	–	(116,023,419)
Interest receivable	30,384	520
Transaction costs payable	1,754	2,254
Interest expense payable	47,914	438,593
Safe custody and bank charges payable	<u>2</u>	<u>2</u>

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7 TAXATION

#### (a) Cayman Islands

The Fund has obtained an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with Section 81 of the Trusts Law (2001 Revision) of the Cayman Islands, for a period of 50 years from 1 April 1993, no laws thereafter enacted in the Cayman Islands imposing any tax or duty on income, capital assets, gains or appreciations will apply to the Fund.

#### (b) Hong Kong

No provision for Hong Kong profits tax has been made as the dividend and interest income and realised gains on sales of investments of the Fund are excluded from the charge to profits tax under Section 14, 26 or 26A of the Hong Kong Inland Revenue Ordinance.

#### (c) People's Republic of China ("PRC")

In preparing these financial statements, the Manager has made certain assumptions and used various estimates concerning the tax exposure which is dependent on what might happen in the future. The resulting accounting estimates may not equal the related actual results.

The Fund invests in various derivative instruments linked to "A" shares of companies listed in the PRC and in "A" shares through Stock Connect. Prior to 17 November 2014, a 10% tax was withheld by the relevant Qualified Foreign Institutional Investors ("QFIs") on all PRC sourced dividends and realised capital gains. With effect from 17 November 2014, a 10% tax is only withheld on all PRC sourced dividends only.

#### (d) Other jurisdictions

Overseas withholding tax was charged on certain dividend and investment income received during the years ended 31 December 2017 and 2016.

### 8 DISTRIBUTION

In accordance with the Explanatory Memorandum of the Fund, the Manager may determine to make a distribution out of the income and/or capital. During the year ended 31 December 2017, the Fund declared total distributions to redeemable participating shareholders of US\$41,713.

The table below summarises the dividend distribution made during the reporting period.

Classes	2017	Frequency	Ex-dividend dates*
"C" units MDis USD	USD0.0251	Monthly	Last business day of October to December
"C" units MDis HKD	HKD0.0251	Monthly	Last business day of October to December
"C" units MDis RMB	RMB0.0337	Monthly	Last business day of October to December
"C" units MDis RMB Hedged	RMB0.0335	Monthly	Last business day of October to December

\* Last business day of each month from October 2017 to December 2017 are 31 October 2017, 30 November 2017 and 29 December 2017.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****9 SOFT COMMISSION ARRANGEMENTS**

The Manager and/or any company associated with it and its delegates may enter into soft dollars/commission sharing arrangements with brokers through which brokerage transactions are entered on behalf of clients under management. The Manager may receive, and are entitled to retain, research products and services (known as soft dollar benefits) which are of demonstrable benefit to the Sub-fund (as may be permitted under applicable rules and regulations) from brokers and other persons through whom investment transactions are carried out (the “brokers”). Soft dollars may be received from them provided that the quality of transaction execution is consistent with best execution standards and brokerage rates are not in excess of the customary full-service brokerage rates.

Such soft dollar benefits may include research and advisory services; economic and political analysis; portfolio analysis, including valuation and performance measurement; market analysis, data and quotation services and software incidental to the above goods and services; clearing and custodian services and investment related publications. For the avoidance of doubt, soft dollar benefits do not include travel, accommodation, entertainment, general administrative goods and services, general office equipment or premises, membership fees, employee salaries or direct money payments.

The Manager will consider many judgemental factors deemed relevant in determining whether a broker will provide best execution. In general, investment orders will be allocated to brokers based on the range and overall quality of services offered by the broker. The core factors in determining the quality of services are the execution performance and capability of the broker. Other factors, such as the quality and quantity of research and investment ideas offered, access to potential investee companies and commission rate charges, would also be taken into consideration. Soft dollar benefits received from brokers should not be a determinant factor on allocating orders among brokers. The Manager has implemented policies and procedures to ensure that transactions executed with brokers pursuant to a soft dollar commission sharing arrangement are conducted in the best execution standard. Soft dollars benefits received by the Manager are used to facilitate in the Manager’s investment management process, such benefits assist the Manager in fulfilling its overall duty to clients and may be used in servicing any or all of the Manager’s client accounts over which the Manager exercises investment discretion. The Manager does not usually attempt to allocate/attribute the soft dollar benefits to individual client account, as goods and services obtained may be beneficial to all clients in general, including those client accounts that do not generate credit to acquire the soft dollar benefits.

**10 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Trustee and the Manager on 25 April 2018.

# VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

## INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities</b>			
<b>China</b>			
China National Accord Medicines Corp Ltd B Shrs	3,038,918	14,894,274	0.95
Gree Electric Appliances Inc of Zhuhai A Shrs (SZHK)	2,353,462	15,794,683	1.00
Huangshan Tourism Development Co Ltd B Shrs	13,331,662	18,171,055	1.15
Inner Mongolia Yili Industrial Group Co Ltd A Shrs (SHHK)	3,033,685	14,997,323	0.95
Kangde Xin Composite Material Group Co Ltd	5,513,114	18,796,294	1.19
Kweichow Moutai Co Ltd A Shrs (SHHK)	143,521	15,373,605	0.98
Luzhou Laojiao Company Limited	1,634,019	16,562,402	1.05
Wuliangye Yibin Co Ltd A Shrs (SZHK)	484,869	5,948,189	0.38
		<hr/>	
		120,537,825	7.65
		<hr/>	
<b>Hong Kong – H Shares</b>			
Agricultural Bank of China Ltd H Shrs	34,915,000	16,263,537	1.03
AviChina Industry & Technology Co Ltd H Shrs	37,636,000	20,035,416	1.27
Bank of China Ltd H Shrs	51,726,000	25,418,019	1.61
China CITIC Bank Corp Ltd H Shrs	25,179,000	15,788,328	1.00
China Construction Bank Corp H Shrs	8,579,000	7,904,434	0.50
China Everbright Bank Co Ltd H Shrs	20,772,000	9,702,257	0.62
China International Capital Corp Ltd H Shrs	19,561,600	40,703,007	2.58
China Pacific Insurance Group Co Ltd H Shrs	3,314,800	15,928,279	1.01
Hisense Kelon Electrical Holdings Co Ltd H Shrs	15,063,000	17,791,590	1.13
Huaneng Renewables Corp Ltd H Shrs	161,996,000	54,935,331	3.49
Industrial & Commercial Bank of China Ltd H Shrs	61,275,000	49,321,417	3.13
PetroChina Co Ltd H Shrs	48,476,000	33,808,419	2.15
Ping An Insurance Group Co of China Ltd H Shrs	5,724,000	59,587,994	3.78
		<hr/>	
		367,188,028	23.30
		<hr/>	

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed Equity Securities (Continued)</b>			
<b>Hong Kong – Red Chips</b>			
Beijing Tong Ren Tang Chinese Medicine Co Ltd	10,714,000	14,560,549	0.92
BOC Aviation Ltd	1,383,300	7,372,809	0.47
BOC Hong Kong Holdings Ltd	3,167,500	16,051,418	1.02
China Mobile Ltd	1,249,500	12,671,765	0.81
China Overseas Land & Investment Ltd	3,430,000	11,039,101	0.70
China Unicom Hong Kong Ltd	3,394,000	4,586,457	0.29
CSPC Pharmaceutical Group Ltd	18,024,000	36,396,512	2.31
Kunlun Energy Co Ltd	8,340,000	8,687,444	0.55
		111,366,055	7.07
<b>Hong Kong – Others</b>			
AAC Technologies Holdings Inc	193,500	3,451,798	0.21
China Education Group Holdings	20,611,000	17,355,077	1.10
China Maple Leaf Educational Systems Ltd	7,214,000	8,456,160	0.54
China New Higher Education Group Ltd	8,087,000	4,180,906	0.27
China Yuhua Education Corp Ltd	25,738,000	12,911,076	0.82
Chow Tai Fook Jewellery Group Ltd	9,768,000	10,249,934	0.65
CK Infrastructure Holdings Ltd	904,000	7,768,122	0.49
Galaxy Entertainment Group Ltd	2,724,000	21,856,279	1.39
Goldpac Group Ltd	6,370,000	1,931,921	0.12
HSBC Holdings PLC	4,863,600	49,759,717	3.16
Kerry Logistics Network Ltd	5,544,500	7,861,470	0.50
Kingboard Laminates Holding Ltd	9,907,000	15,441,555	0.98
KWG Property Holding Ltd	50,687,000	59,220,074	3.76
Man Wah Holdings Ltd	4,293,600	4,082,366	0.26
New World Development Co Ltd	5,278,000	7,929,377	0.50
Pacific Textiles Holdings Ltd	6,722,000	7,096,661	0.45
Real Gold Mining Ltd	14,179,500	725,809	0.05
Tao Heung Holdings Ltd	645,000	114,730	0.01
Techtronic Industries Co Ltd	7,527,500	49,079,094	3.11
Tencent Holdings Ltd	1,128,400	58,626,058	3.72
The Wharf Holdings Ltd	699,000	2,415,141	0.15
United Company RUSAL Plc	17,225,000	12,079,289	0.77
Wharf Real Estate Investment Co Ltd	699,000	4,651,383	0.30
		367,243,997	23.31

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed Equity Securities (Continued)</b>			
<b>Singapore</b>			
SIIC Environment Holdings Ltd	224,658,980	86,598,088	5.49
<b>South Korea</b>			
Samsung Electronics Co Ltd	9,663	18,950,615	1.20
<b>Taiwan</b>			
Fubon Financial Holding Co Ltd	5,003,000	8,547,382	0.54
Largan Precision Co Ltd	277,000	37,523,251	2.38
Mega Financial Holding Co Ltd	8,803,000	7,134,120	0.46
Taiwan Semiconductor Manufacturing Co Ltd	6,602,000	51,056,713	3.24
Wah Lee Industrial Corp	3,442,000	6,472,018	0.41
		110,733,484	7.03
<b>United Kingdom</b>			
Worldsec Ltd*	200,000	16,724	0.00
<b>United States</b>			
Alibaba Group Holding Ltd ADR	264,049	45,529,969	2.89
Baozun Inc	185,226	5,845,733	0.37
Four Seasons Education Cayman	663,886	5,974,974	0.38
RISE Education Cayman Ltd	378,019	5,590,901	0.36
RYB Education Inc	153,014	2,582,876	0.16
Weibo Corp	516,086	53,394,258	3.39
		118,918,711	7.55

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Participation Notes</b>			
CICC Financial Trading Ltd (Kweichow Moutai Co Ltd A Shrs) P Notes 03/19/2018	233,672	25,030,244	1.59
Customized China A Shares Tradable Index – Proprietary Index Linked Note	100,000,000	847,122	0.05
Macquarie Bank Ltd (Bao Viet Holdings) P Notes 01/25/2018	2,853,290	8,206,062	0.52
Macquarie Bank Ltd (FPT Corp) P Notes 04/03/2019	6,831,694	17,174,879	1.09
Macquarie Bank Ltd (Military Commercial Joint Stock Bank) P Notes 03/29/2019	3,944,876	4,410,371	0.28
Macquarie Bank Ltd (Saigon Securities Inc) P Notes 08/31/2017	4,189,620	5,312,438	0.34
		<u>60,981,116</u>	<u>3.87</u>
<b>Quoted Debt Securities</b>			
Logan Property Holdings Co Ltd 5.75% 01/03/2022	26,647,000	27,193,552	1.73
<b>Unlisted Equity Securities</b>			
EganaGoldpfeil Holdings Ltd*	6,885,464	–	–
<b>Unlisted Investment Funds</b>			
Strategic Asia Fund	20,743	94,124,614	5.97
Value Partners China A Share Opportunity Fund	89,475	16,419,628	1.04
Value Partners Global Contrarian Fund	564,677	4,816,694	0.31
Value Partners Hedge Fund Ltd	149,970	7,201,560	0.46
Value Partners Ireland Fund Plc – Value Partners Greater China Equity Fund	1,850,000	21,441,500	1.36
Value Partners Strategic Equity Fund	238,180	–	–
		<u>144,003,996</u>	<u>9.14</u>
<b>Currency Forwards</b>			
		<u>1,232,658</u>	<u>0.08</u>
<b>Total financial assets at fair value through profit or loss</b>		<u>1,534,964,849</u>	<u>97.42</u>

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities</b>			
<i>Hong Kong – H Shares</i>			
Fuyao Glass Industry Group Co Ltd H Shares	(6,061,600)	(25,559,025)	(1.62)
<b>Currency Forwards</b>		(21,668)	(0.00)
<b>Total financial liabilities at fair value through profit or loss</b>		(25,580,693)	(1.62)
<b>Total investments, net</b>		1,509,384,156	95.80
<b>Total investments, at cost (inclusive of transaction cost)</b>		1,372,045,061	

- *The trading of the equity securities has been suspended.*

**INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)**

FOR THE YEAR ENDED 31 DECEMBER 2017

	% of net assets	
	2017	2016
<b>Listed equity securities</b>		
China	7.65	7.01
Hong Kong		
– H shares	21.68	15.92
– Red chips	7.07	5.67
– Others	23.31	26.95
Singapore	5.49	6.46
South Korea	1.20	4.53
Taiwan	7.03	13.55
United Kingdom	0.00	0.00
United States	7.55	5.63
	<hr/>	<hr/>
	80.98	85.72
<b>Participation notes</b>	3.87	8.26
<b>Quoted debt securities</b>	1.73	1.89
<b>Unlisted investment funds</b>	9.14	9.34
<b>Currency forwards</b>	0.08	(0.01)
	<hr/>	<hr/>
<b>Total investments, net</b>	<u>95.80</u>	<u>105.20</u>

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### PERFORMANCE RECORD (UNAUDITED)

#### Net assets (at last traded price)

	2017	2016	2015
<b>Net assets</b>	US\$1,575,601,366	US\$1,405,126,466	US\$1,854,918,610
<b>Net asset value per unit</b>			
"A" units	USD368.78	USD254.56	USD263.00
"B" units	USD165.15	USD114.57	USD118.96
"C" units USD	USD20.71	USD14.45	USD15.00
"C" units RMB	RMB14.03	RMB10.42	RMB10.20
"C" units AUD Hedged	AUD17.21	AUD11.94	AUD12.26
"C" units CAD Hedged	CAD16.79	CAD11.58	CAD11.98
"C" units NZD Hedged	NZD17.60	NZD12.06	NZD12.39
"C" units HKD Hedged	HKD14.24	HKD9.85	HKD10.26
"C" units RMB Hedged	RMB14.33	RMB9.61	RMB9.79
"C" units MDis USD	USD10.16	–	–
"C" units MDis HKD	HKD10.17	–	–
"C" units MDis RMB	RMB9.91	–	–
"C" units MDis RMB Hedged	RMB10.15	–	–
"Z" units	USD11.18	–	–

PERFORMANCE RECORD (UNAUDITED) (Continued)

Performance record for the past 10 years

	Highest issue price per unit						
	"A" units	"B" units	"C" units				
			USD	RMB	AUD	CAD	NZD
			Hedged	Hedged	Hedged	Hedged	Hedged
USD	USD	USD	RMB	AUD	CAD	NZD	
2017	380.23	170.37	21.34	14.41	17.85	17.14	18.35
2016	281.21	126.76	15.99	10.93	13.17	12.83	13.21
2015	337.67	153.19	19.45	10.27	15.93	15.80	15.88
2014	267.03	121.39	15.31	-	12.42	12.24	12.28
2013	236.15	107.92	13.57	-	-	-	-
2012	222.32	98.22	12.33	-	-	-	-
2011	240.26	111.25	13.99	-	-	-	-
2010	239.02	110.92	13.98	-	-	-	-
2009	188.46	87.86	10.88	-	-	-	-
2008	196.45	92.48	-	-	-	-	-

	Highest issue price per unit						
	"C" units	"C" units	"C" units	"C" units	"C" units	"C" units	"Z" units
	HKD	RMB	MDis USD	MDis HKD	MDis RMB	MDis RMB	
	Hedged	Hedged	MDis	MDis	MDis	MDis	
HKD	RMB	USD	HKD	RMB	RMB		
2017	14.69	14.80	10.55	10.54	10.52	10.52	11.52
2016	10.84	10.49	-	-	-	-	-
2015	10.39	10.03	-	-	-	-	-
2014	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-
2009	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-

## VALUE PARTNERS CLASSIC FUND

(A Hong Kong Unit Trust)

### PERFORMANCE RECORD (UNAUDITED) (Continued)

#### Performance record for the past 10 years (Continued)

	Lowest issue price per unit						
	"A" units	"B" units	"C" units				
			USD	RMB	AUD	CAD	NZD
			Hedged	Hedged	Hedged	Hedged	Hedged
USD	USD	USD	RMB	AUD	CAD	NZD	
2017	255.63	115.04	14.51	10.44	11.99	11.62	12.11
2016	281.21	126.76	15.99	10.93	13.17	12.83	13.21
2015	337.67	153.19	19.45	10.27	15.93	15.80	15.88
2014	267.03	121.39	15.31	-	12.42	12.24	12.28
2013	236.15	107.92	13.57	-	-	-	-
2012	222.32	98.22	12.33	-	-	-	-
2011	240.26	111.25	13.99	-	-	-	-
2010	239.02	110.92	13.98	-	-	-	-
2009	188.46	87.86	10.88	-	-	-	-
2008	196.45	92.48	-	-	-	-	-

	Lowest issue price per unit						
	"C" units	"C" units	"C" units	"C" units	"C" units	"C" units	"Z" units
	HKD	RMB	MDis USD	MDis HKD	MDis RMB	MDis RMB	
	Hedged	Hedged	USD	HKD	RMB	RMB	
HKD	RMB	USD	HKD	RMB	RMB		
2017	9.89	9.68	9.64	9.67	9.59	9.63	9.96
2016	10.84	10.49	-	-	-	-	-
2015	10.39	10.03	-	-	-	-	-
2014	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-
2009	-	-	-	-	-	-	-
2008	-	-	-	-	-	-	-