

SEMI ANNUAL REPORT (UNAUDITED)

TEMPLETON CHINA OPPORTUNITIES FUND (A SUB-FUND OF FRANKLIN TEMPLETON FUND SERIES)

FOR THE PERIOD ENDED
30 JUNE 2021



FRANKLIN
TEMPLETON

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REPORT OF THE MANAGER

FOR THE PERIOD ENDED 30 JUNE 2021

Chinese equities rose over the six month period to end-June 2021, but were outpaced by the advance in Emerging Market (“EM”) equities more broadly.

During the first quarter, EMs made early gains that helped cushion them later as optimism around increased US stimulus, COVID-19 vaccination drives and improved economic prospects waned amidst concerns over rising inflation, higher US Treasury yields and resurgent outbreaks. Following a general advance at the start of the period, China’s market fell back over the first quarter. Caution around monetary policy, stock valuations, US-China tensions and increased regulatory scrutiny of Chinese internet firms overshadowed a continued economic recovery. China’s increased emphasis on fair competition, consumer protection and data security within the internet industry was a key issue for much of the period, driving some drive near-term share-price volatility.

EM equities rose over a volatile second quarter, finishing behind developed market stocks. Investors swung between optimism and caution as they weighed COVID-19 vaccine rollouts, economic reopenings and higher commodity prices against fresh virus outbreaks and rising inflation. Concerns that the US Federal Reserve could tighten monetary policy sooner than expected capped risk appetite. Chinese equities moved higher amidst mixed economic data, policy normalisation concerns, tighter regulations for the internet industry, and US-China tensions. Whilst increased regulation in the internet industry led to some uncertainty, we believe that, overall, regulators are likely keen to ensure the sustainable development of the internet space for all stakeholders, rather than curb its growth potential.

On the economic front, China’s Gross Domestic Product (“GDP”) growth rose by 18.3% year-on-year (“y/y”) over the first three months of 2021 as the country recovered from COVID-19-related restrictions in early 2020 against a backdrop of improved domestic and international demand. This was in comparison with 6.5% y/y growth logged in the fourth quarter of 2020.

From here, although the worldwide impact of COVID-19 is expected to abate as accelerating vaccine inoculation drives normalisation, some countries continue to be impacted by additional waves and COVID-19 variant concerns, especially for populations that remain unvaccinated. In general, however, we expect to see a gradual global recovery with EMs, especially China, taking the lead.

Overall, we maintain our fundamental preference for businesses that are domestically oriented, with quality franchises that may be less sensitive to global macro-related fluctuations. At a sector level, we believe that local, consumption-driven growth will remain a core theme for EM economies. We believe companies with strong premium-brand positioning and superior products should see sustainable and higher-than-average industry growth levels in the years to come. Rising long-term disposable income trends are also expected to bolster these companies. Businesses that have pricing power irrespective of an inflationary environment are also attractive to us.

There are also opportunities in areas that could see an acceleration of digitisation, local technology adoption and innovation, consolidation and carbon neutrality. These developments could help accelerate economic growth, whilst creating opportunities for well-positioned, innovative companies.

Additionally, we continue to see manufacturing companies in key Asian economies gain share globally, including China, where technological advancement is on a par with or superior to developed country peers. Supportive factors include supply constraints by overseas competitors that were disrupted by the COVID-19 pandemic, and secular industry transformation globally, especially in areas such as automation and decarbonisation.

However, we remain watchful for key risks going into the second half of 2021, including a further surge in commodity prices and additional government regulatory involvement in the private sector, following moves in the internet sector, as well as education. New waves of the COVID virus pandemic could also negatively impact the global recovery. We will also continue to monitor the monetary policy environment, the value of the renminbi and strength of the economic recovery in China.

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STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	30 June 2021 USD	31 December 2020 USD
Assets			
Current assets			
Investments	3	13,191,432	11,236,358
Amounts receivable from subscription		20,780	55,365
Dividends receivable and other accounts receivable		19,689	2,078
Due from brokers		146,596	–
Cash and cash equivalents	4	8,171,879	158,770
Total assets		<u>21,550,376</u>	<u>11,452,571</u>
Liabilities			
Current liabilities			
Amounts payable on redemption		8,348,155	139,943
Due to brokers		44,800	–
Accrued expenses		118,057	76,032
Liabilities (excluding net assets attributable to unitholders)		<u>8,511,012</u>	<u>215,975</u>
Net assets attributable to unitholders	5	<u>13,039,364</u>	<u>11,236,596</u>

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE 2021

	Note	1 January 2021 to 30 June 2021 USD	1 January 2020 to 30 June 2020 USD
Income			
Dividend income		37,762	11,735
Interest on bank deposits	6(g)	18	585
Change in unrealised gain/loss on fair value of investments		(1,433,129)	1,164,396
Realised gain on sale of investments		1,648,704	69,826
Net gain/(loss) on foreign exchange		364	(33)
Total investment income		<u>253,719</u>	<u>1,246,509</u>
Expenses			
Management fee	6(d)	124,443	61,081
Distribution fee		49,777	24,433
Trustee fee	6(d)	3,982	1,955
Registrar fee	6(d)	36,111	36,000
Custody fee	6(d)	2,080	1,936
Fund administration fee	6(d)	19,911	9,773
Audit fee		11,607	9,417
Legal and professional fees		–	12,630
Transaction costs	6(e)	9,846	2,549
Other operating expenses		1,471	4,032
Total expenses		<u>259,228</u>	<u>163,806</u>
Profit/(loss) before tax		(5,509)	1,082,703
Withholding taxes		(2,194)	(706)
Increase/(decrease) in net assets attributable to unitholders from operations		<u>(7,703)</u>	<u>1,081,997</u>

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE PERIOD ENDED 30 JUNE 2021

	1 January 2021 to 30 June 2021 USD	1 January 2020 to 30 June 2020 USD
Balance at the beginning of the period	11,236,596	9,905,203
Subscription of units	11,601,962	2,979,525
Redemption of units	(9,791,491)	(2,455,750)
Increase/(decrease) in net assets attributable to unitholders from operations	(7,703)	1,081,997
Balance at the end of the period	<u>13,039,364</u>	<u>11,510,975</u>

NUMBER OF UNITS IN ISSUE

	1 January 2021 to 30 June 2021		1 January 2020 to 30 June 2020	
	Class A (acc) HKD	Class A (acc) USD	Class A (acc) HKD	Class A (acc) USD
Number of units in issue at the beginning of the period	735,154.263	422,689.876	1,291,231.160	482,923.904
Subscription of units	24,697.448	502,279.432	17,532.120	193,921.816
Redemption of units	(300,847.187)	(408,580.259)	(313,224.135)	(119,240.321)
Number of units in issue at the end of the period	<u>459,004.524</u>	<u>516,389.049</u>	<u>995,539.145</u>	<u>557,605.399</u>

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2021

	Note	1 January 2021 to 30 June 2021 USD	1 January 2020 to 30 June 2020 USD
Cash flows from operating activities			
Purchase of investments		(9,728,826)	(1,604,920)
Disposal of investments		7,887,940	1,314,244
Dividend income received		20,151	8,609
Interest on bank deposits received		18	585
Management fee paid		(115,783)	(60,198)
Distribution fee paid		(9,964)	(15,795)
Trustee fees paid		(3,705)	(1,927)
Registrar fees paid		(36,209)	(36,000)
Custody fees paid		(1,683)	(1,946)
Fund administration fee paid		(18,526)	(9,632)
Audit fee paid		(18,487)	(17,817)
Legal and professional fees paid		–	(12,630)
Transaction costs paid		(9,846)	(2,549)
Other operating expenses paid		(3,000)	(4,032)
Withholding taxes paid		(2,194)	(706)
Net cash used in operating activities		<u>(2,040,114)</u>	<u>(444,714)</u>
Cash flows from financing activities			
Subscription of units		11,636,547	2,975,831
Redemption of units		<u>(1,583,279)</u>	<u>(2,304,308)</u>
Net cash generated from financing activities		<u>10,053,268</u>	<u>671,523</u>
Net increase in cash and cash equivalents		8,013,154	226,809
Cash and cash equivalents at the beginning of the period		158,770	117,045
Effect of foreign exchange rate changes		<u>(45)</u>	<u>(3)</u>
Cash and cash equivalents at the end of the period	4	<u>8,171,879</u>	<u>343,851</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2021

1 General Information

Franklin Templeton Fund Series (the “Trust”) was constituted under a Trust Deed dated 1 November 2012 and Supplemental Deed dated 31 December 2019 (the “Trust Deeds”), between Franklin Templeton Investments (Asia) Limited (the “Manager”) and Cititrust Limited (the “Trustee”). The terms of the Trust Deeds are governed by the laws of Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”). The Trust is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”). The Trust is an umbrella fund, whereby comprising one sub-fund, namely Templeton China Opportunities Fund (the “Fund”). The Fund was launched on 12 November 2012 and commenced operations on 3 December 2012.

The investment objective and policy of the Fund is to achieve long term capital appreciation by investing, directly or indirectly, in China A-Shares and equity securities of Chinese companies listed in China or foreign securities markets, or companies or issuers which derive the principal portion of their revenues from the Chinese economies or have the principal portion of their assets in the Chinese economies. These equity securities include, but are not limited to, China A-Shares through Templeton China A Shares Fund, China B-Shares, China H-Shares and red-chip stocks. Under normal market conditions, at least 70% of the Fund’s total net assets will be invested in domestic China A-Shares equity securities indirectly through Templeton China A Shares Fund. The Fund currently does not invest in financial derivative instruments for any purposes.

2 Summary of 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 the periods presented, unless otherwise stated, and are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in the annual financial statements.

2.1 Basis of presentation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain accounting estimates. It also requires the Trustee and Manager (collectively, the “Management”) to exercise their judgement in the process of applying the Fund’s accounting policies.

(a) Standards and amendments to existing standards effective 1 January 2021

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2021 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 January 2021 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

2.2 Foreign currency translation

(a) Functional and presentation currency

The Fund’s net assets are mainly invested in Templeton China A Shares Fund which is denominated in United States dollar (“USD”). The Management considers the USD to be the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The USD is the currency in which the Fund measures its performance and reports its results. The financial statements are presented in USD which is the Fund’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

2 Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the year end date. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within “net gain/(loss) on foreign exchange”.

Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the statement of comprehensive income within “change in unrealised gain/loss on fair value of investments” and “realised gain/(loss) on sale of investments”.

2.3 Financial assets

2.3.1 Classification

The Fund classifies its investments based on both the Fund’s business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund’s debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund’s business model’s objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund’s policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

2.3.2 Recognition, derecognition and measurement

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. Financial assets at fair value through profit or loss are initially recognised at fair value.

Financial assets 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.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within “change in unrealised gain/loss on fair value of investments” and “realised gain/(loss) on sale of investments” in the year in which they arise.

2.4 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, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

2 Summary of significant accounting policies (continued)

2.4 Structured entities (continued)

The Fund considers its investments in Templeton China A Shares Fund (the “Underlying Fund”) to be investments in unconsolidated structured entities. The Fund invests in the Underlying Fund whose objective is to achieve long term capital appreciation by investing at least 70% of its total net assets in China A-Shares. The Underlying Fund finances its operations by issuing redeemable units which are puttable at the holder’s option and entitles the holder to a proportional stake in the Underlying Fund’s net assets. The Fund holds redeemable units in the Underlying Fund.

The change in fair value of the Underlying Fund is included in the statement of comprehensive income in “change in unrealised gain/loss on fair value of investments”.

2.5 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 securities) are based on quoted market prices at the close of trading on the reporting date. The Fund utilises the last traded market price as fair valuation inputs for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent ordinary transactions between market participants, reference to other instruments that are substantially the same, discounted cash flow analysis, options pricing models and other valuation techniques commonly used by market participants.

The Fund’s investment in the Underlying Fund is subject to the terms and conditions of the Underlying Fund’s constitutional documents. The investment in the Underlying Fund is valued at fair value which is based on the latest net asset value of the Underlying Fund’s redeemable units, as determined by the Underlying Fund’s administrator. “Change in unrealised gain/loss on fair value of investments” in the statement of comprehensive income includes the change in fair value of the Underlying Fund.

2.6 Income and expenses

(a) Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive payment is established.

(b) Interest income

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

(c) Other income

Other income is recognised in the statement of comprehensive income on an accrual basis.

(d) Expenses

Expenses are recognised in the statement of comprehensive income on an accrual basis.

2.7 Taxation

No provision for Hong Kong profits tax has been made as the Fund was authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and hence its profits are excluded from the charge to profits tax under Section 26A of the Inland Revenue Ordinance.

2 Summary of significant accounting policies (continued)

2.7 Taxation (continued)

The Fund may incur withholding taxes on certain investment income. Such income is recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are shown as a separate item in the statement of comprehensive income.

2.8 Proceeds and payments on subscription and redemption of units

The net asset values of the Fund are computed for each dealing day. Prices for subscriptions and redemptions of units are calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day.

Units in the Fund are classified as liabilities in the statements of financial position. This represents the price at which the unitholders can redeem the units.

2.9 Receivables

Receivables are recognised initially at fair value, and subsequently carried at amortised cost using the effective interest method. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2.10 Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.11 Due from and due to brokers

Amounts due from and due to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the period end date respectively. The due from brokers balance is held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2.12 Accrued expenses

Accrued expenses are recognised initially at fair value, and subsequently stated at amortised cost using the effective interest method. These are short term in nature and the carrying amounts approximate the fair values.

2 Summary of significant accounting policies (continued)

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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 assets and settle the liabilities simultaneously.

2.14 Transaction costs

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, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

3 Financial risk management

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

Risks arising from holding financial instruments are inherent in the Fund's activities and are managed through a process of ongoing identification, measurement and monitoring. The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date and risk management policies employed are disclosed in Notes 3.1 to 3.5.

Risks associated with Underlying Fund

The Fund's investment in the Underlying Fund is subject to the terms and conditions of the Underlying Fund's offering documentation and is susceptible to market price risk arising from uncertainties about future values of the Underlying Fund.

The right of the Fund to request redemption of its investment in the Underlying Fund is on a daily basis.

The exposure to the investment in the Underlying Fund at fair value by strategy employed is disclosed in the following table. This investment is included under "Investments" in the statement of financial position.

	Net asset value of the Underlying Fund USD	Net asset value of the Fund USD	Investment fair value USD	% of net assets attributable to holders of redeemable units
Strategy				
30 June 2021				
Equity long	37,825,974	13,039,364	9,952,349	76.32%
Strategy				
31 December 2020				
Equity long	35,642,783	11,236,596	8,846,323	78.73%

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

The Fund's maximum exposure to loss from its interests in the Underlying Fund is equal to the total fair value of its investments in the Underlying Fund.

Once the Fund has disposed of its units in the Underlying Fund, the Fund ceases to be exposed to any risk from the Underlying Fund.

3 Financial risk management (continued)

The Fund's investment strategy is stated in Note 1. Total purchases in the Underlying Fund during the period ended 30 June 2021 were USD6,775,000 (30 June 2020: USD600,000). As at 30 June 2021, there was no capital commitment obligation and no amount due to the Underlying Fund for unsettled purchase (31 December 2020: Nil).

During the period ended 30 June 2021, total net gain derived from investments in the Underlying Fund was USD201,026 (30 June 2020: USD1,217,879).

The Underlying Fund invests in China A-Shares and is exposed to other financial risks as part of its investment activities.

3.1 Market risk

Information on the total fair value of financial instruments exposed to risk, as well as compliance with the established investment guidelines as defined in the Fund's explanatory memorandum, is monitored by the Manager. These investment guidelines reflect the strategy and market environment of the Fund, as well as the acceptable risk levels. In order to avoid excessive concentration of risk, the Manager monitors the exposure to ensure concentration of risk remains within acceptable levels at both the Fund level and the Underlying Fund level.

Although the Manager does not manage the Fund based on specific risk exposures of the Underlying Fund, the Fund is exposed to various risks, including market price risk, currency risk, interest rate risk, liquidity risk and credit risk, through direct investments and the investments of the Underlying Fund.

(a) Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's market positions are being monitored by the Manager on a daily basis. The risk is minimised through selection of securities in accordance with the investment guidelines and investment strategies at both the Fund level and the Underlying Fund level.

Value-at-risk ("VAR")

One of the principal tools used to monitor market risk exposure is VaR; which estimates the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities, taking into account inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. The Fund tracks VaR as a percentage of Net Asset Value ("NAV"), taking into account its portfolio, cash and outstanding trade positions, over a 20-day holding period and at a 99% confidence level.

For the period ended 30 June 2021 and year ended 31 December 2020, the MSCI Barra risk factor Model and Bloomberg PORT risk factor model outputs were used to forecast the ex-ante Monte Carlo VaR at a 99% confidence level over a 20-day horizon.

The Manager recognises that while VaR is a valuable guide to risk, it has its limitations. The use of historical data to derive correlations may not encompass all potential events, particularly events which may be extreme in nature. In addition, both the size and probability of actual portfolio losses can differ significantly from the losses predicted by VaR. As a result, VaR may be under-estimated or over-estimate due to the assumptions placed on the risk factors and the relationship between such factors.

Using VaR, the market risk of the Fund has been computed using a 20-day holding period at 99% as follows:

	30 June 2021	31 December 2020
VaR (%)	14.374%	13.736%
VaR (USD)	3,070,762	1,565,235

3 Financial risk management (continued)

3.1 Market risk (continued)

(a) Market price risk (continued)

As at period/year end, the overall market exposures for the Fund were as follows:

Templeton China Opportunities Fund

	Fair value USD	30 June 2021 % of net assets	Fair value USD	31 December 2020 % of net assets
Quoted Investment Funds				
China	9,952,349	76.32	8,846,323	78.73
Listed Equities				
China	3,239,083	24.85	2,390,035	21.27
Total Investments	13,191,432	101.17	11,236,358	100.00

The Fund invested 76.32% (31 December 2020: 78.73%) of its net asset value into the Underlying Fund at 30 June 2021.

The table below is a summary of sector allocation with concentrations exceeding 10% of the Fund's net asset value as at period/year end.

Sector Allocation	30 June 2021 % of net assets	31 December 2020 % of net assets
Consumer Discretionary	18.62	20.43
Consumer Staples	9.54	11.06
Financials	11.04	12.78
Health Care	11.13	9.04
Industrials	16.97	13.26
Information Technology	14.81	11.10
Materials	10.48	15.24

(b) Currency risk

The Fund holds assets and liabilities denominated in Hong Kong dollar and US dollar which are currently pegged within a narrow range and therefore is not subject to significant volatility in exchange rates.

(c) Interest rate risk

The Fund does not hold interest-bearing securities other than cash and cash equivalents. However, the exposure to interest rate risk is considered minimal as the cash and cash equivalents are short term in nature.

3.2 Liquidity risk

Liquidity risk is the risk that Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemption of units. Therefore, assets of the Fund are mainly invested in securities which are traded in active markets and can be readily disposed of. The Manager is entitled to limit the number of units redeemed on each dealing day to 10% of the total value of units in issue. In addition, sufficient cash and cash equivalents are maintained to meet normal operating requirements.

The following table analyses the financial assets and liabilities for the Fund into relevant maturity groupings based on the remaining period at the period end date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flow.

Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

	Less than 1 month USD	1-12 months USD	Total USD
As at 30 June 2021			
Assets			
Current assets			
Investments	13,191,432	–	13,191,432
Amounts receivable from subscriptions	20,780	–	20,780
Dividends and other accounts receivable	16,741	2,948	19,689
Due from brokers	146,596	–	146,596
Cash and cash equivalents	8,171,879	–	8,171,879
Total assets	21,547,428	2,948	21,550,376
Liabilities			
Current liabilities			
Amounts payable on redemption	8,348,155	–	8,348,155
Due to brokers	44,800	–	44,800
Accrued expenses	105,818	12,239	118,057
Net assets attributable to unitholders	13,039,364	–	13,039,364
Total liabilities	21,538,137	12,239	21,550,376
As at 31 December 2020			
Assets			
Current assets			
Investments	11,236,358	–	11,236,358
Amounts receivable from subscriptions	55,365	–	55,365
Dividends receivable	2,078	–	2,078
Cash and cash equivalents	158,770	–	158,770
Total assets	11,452,571	–	11,452,571
Liabilities			
Current liabilities			
Amounts payable on redemption	139,943	–	139,943
Accrued expenses	55,384	20,648	76,032
Net assets attributable to unitholders	11,236,596	–	11,236,596
Total liabilities	11,431,923	20,648	11,452,571

Units are redeemed on demand at unitholder's option. However, the Management does not envisage that contractual maturity disclosed in the table above will be representative of the actual cash outflows, as the unitholders typically retain their units for the medium term. As at 30 June 2021, there is 1 unitholder (31 December 2020: 2 unitholders) that individually held more than 10% of the Fund's net assets attributable to unitholders.

3.3 Credit risk

This relates to the risk that an issuer or counterparty is unable or unwilling to meet a commitment or obligation it has entered into with the Fund. The Fund is exposed to credit risk on its balances with banks and brokers. Impairment provisions are made for losses that have been incurred by the reporting date, if any.

All transactions in listed/quoted securities are settled on a delivery versus payment basis using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made when the Fund's custodian banks have received payments. For a purchase, payments are made once the securities have been received by the Fund's custodian banks. The trade will fail if either party fails to meet its obligation.

The Fund only buys and sells securities through brokers who have been approved as an acceptable counterparty according to the Manager internal counterparty credit review procedures.

3 Financial risk management (continued)

3.3 Credit risk (continued)

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2021, all investments, cash and short term deposits are held with counterparties with a Moody's credit rating of Aa3 or higher (31 December 2020: Aa3 or higher). Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Underlying Fund is managed by a related company of the Templeton investment council within the same group and hence no credit risk is expected to arise from the investments in the Underlying Fund.

The maximum exposure to credit risk at the period end date is the carrying amount of the financial assets.

3.4 Capital risk management

The capital of the Fund is represented by the net assets attributable to unitholders which is presented in the statement of financial position. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders; and to maintain a strong capital base to support the development of the investment activities of the Fund. The Manager monitors capital on the basis of the net asset value and the subscriptions and redemptions of the Fund.

3.5 Fair value estimation

The fair value of financial assets and financial liabilities traded in active markets are based on quoted market prices at the close of trading on the period end date. The Fund used the last traded market price as its fair valuation inputs for both financial assets and financial liabilities.

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.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker and industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

HKFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

3 Financial risk management (continued)

3.5 Fair value estimation (continued)

The determination of what constitutes “observable” requires significant judgement by the Fund. The Fund considers observable data to be that market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses, within the fair value hierarchy, the Fund’s investments measured at fair value as at period/year end:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
30 June 2021				
Assets				
Quoted investment funds	–	9,952,349	–	9,952,349
Equity securities	3,239,083	–	–	3,239,083
	3,239,083	9,952,349	–	13,191,432
31 December 2020				
Assets				
Quoted investment funds	–	8,846,323	–	8,846,323
Equity securities	2,390,035	–	–	2,390,035
	2,390,035	8,846,323	–	11,236,358

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, these securities use valuation techniques to derive the fair value. As at 30 June 2021 and 31 December 2020, the Fund did not have investments classified under Level 3.

For the period ended 30 June 2021 and year ended 31 December 2020, there were no transfers of financial instruments between levels.

The assets and liabilities, except investments, included in the statement of financial position are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

4 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of 3 months or less:

	30 June 2021 USD	31 December 2020 USD
Cash at bank	8,171,879	158,770

5 Number of units in issue and net assets attributable to unitholders

The Fund has no regulatory imposed restrictions or specific capital requirements on the subscriptions and redemptions of units. The Manager is entitled to limit the daily redemptions to 10% of the total units in issue. The relevant movements are shown in the statement of changes in net assets attributable to unitholders. In accordance with the objectives outlined in

5 Number of units in issue and net assets attributable to unitholders (continued)

Note 1 and the financial risk management policies in Note 3, the Manager endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowings of up to 25% of the latest available net asset value of the Fund or disposal of securities where necessary.

The following table details the net asset value per unit of each class of units at the reporting date:

	30 June 2021		31 December 2020	
	Net assets per class USD	Net asset value per unit	Net assets per class USD	Net asset value per unit
Class A (acc) HKD	1,337,852	HKD22.63	2,053,661	HKD21.66
Class A (acc) USD	11,701,512	USD22.66	9,182,835	USD21.72
Net assets attributable to unitholders	<u>13,039,364</u>		<u>11,236,596</u>	

6 Transactions with related parties including 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, the Trustee, the Manager and their connected persons. Connected persons of the Trustee and the Manager are those as defined in the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the period were carried out in the normal course of business and on normal commercial terms. To the best of the Trustee's and the Manager's knowledge, the Fund does not have any other transactions with connected persons except for those disclosed below.

(a) Management fee

The Manager is entitled to receive a management fee of 1.25% per annum of the net asset value of the Fund. This fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

(b) Trustee, registrar and custody fees

The Trustee, Cititrust Limited, is entitled to receive a Trustee fee calculated at a rate of 0.04% per annum of the net asset value.

The Fund utilises the custodian and banking services of Citibank, N.A. (Hong Kong Branch), and registrar services of Citicorp Financial Services Limited, which are the associates of the Trustee.

The registrar fee is calculated and accrued on each dealing day and is paid monthly in arrears to Citicorp Financial Services Limited. It is subject to a minimum of USD72,000 per annum. The registrar fee includes various transaction and monthly processing and maintenance fees in accordance with its normal scale of charges. The custodian of the Fund, Citibank, N.A. (Hong Kong Branch), is entitled to receive a fee at the maximum rate of 0.025% per annum of the Fund's net asset value for the custody of the assets of the Fund.

(c) Fund administration fee

The fund administrator which is the same entity as the Manager is entitled to receive a fund administration fee of 0.20% per annum of the Fund's net asset value. The fund administration fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

(d) The following table details the related-party transaction for the period and as at period/year end:

	Expenses		Accruals	
	30 June 2021 USD	30 June 2020 USD	30 June 2021 USD	31 December 2020 USD
Management fee	124,443	61,081	20,013	11,353
Trustee fee	3,982	1,955	640	363
Registrar fee	36,111	36,000	6,000	6,098
Custody fee	2,080	1,936	843	446
Fund administration fee	19,911	9,773	3,202	1,817
Total	<u>186,527</u>	<u>110,745</u>	<u>30,698</u>	<u>20,077</u>

6 Transactions with related parties including the Trustee, the Manager and their connected persons (continued)

(e) Investment transactions with associates of the Trustee

	30 June 2021	30 June 2020
Citigroup Global Markets Inc. ("Citi")		
Aggregate value of purchase and sale of securities transacted by Citi (USD)	–	53,026
% of total purchases and sales of securities during the period/year	–	1.79
Total commission paid to Citi (USD)	–	73
Average commission rate (%)	–	0.14
Total commission paid by the Fund (USD)	9,846	2,549

(f) Investment transactions with Underlying Fund

The Underlying Fund, Templeton China A Shares Fund, is managed by a related company of the Manager, Templeton Investment Counsel, LLC, within the same group. The following table details the related-party transactions during the period ended 30 June 2021 and 30 June 2020:

	30 June 2021 USD	30 June 2020 USD
Underlying Fund		
Purchases	6,775,000	600,000
Sales	(5,870,000)	(630,000)

Refer to Note 3 for further details on this Underlying Fund.

(g) Cash and cash equivalents

All bank balances of the Fund are held in interest bearing accounts with Citibank, N.A. (Hong Kong Branch) and are earning interest on which amounted to USD18 during the period ended 30 June 2021 (30 June 2020: USD585).

(h) Investments

All direct investments of the Fund are held in a custodian account with Citibank, N.A. (Hong Kong Branch).

7 Soft commission arrangement

The Manager and its connected persons may effect transactions for the account of the Fund through the agency of another person with whom the Manager and its connected persons have an arrangement under which such other person agrees to pay in whole or in part for the provision of goods to and/or the supply of services to the Manager or its connected persons in consideration of the Manager or its connected persons procuring that such other person (or person connected thereto) executes transactions to be entered into for the account of the Fund.

The Manager shall procure that no such contractual arrangements are entered into unless the goods and services to be provided pursuant thereto are of demonstrable benefit to unitholders whether by assisting the Manager in its ability to manage the Fund or otherwise. Research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment related publications may be considered as beneficial to unitholders.

During the periods ended 30 June 2021 and 2020, the Manager and its connected persons entered into soft commission arrangements with brokers relating to dealing in the assets of the Fund, consistent with the above.

The following table details the amounts of transaction executed and their related commissions during the period under the soft commission arrangement:

	30 June 2021 USD	30 June 2020 USD
Amounts of transactions executed	2,654,740	506,866
Commissions	1,902	455

8 Bank loans, overdrafts and other borrowings

The Fund had no bank loan, overdraft or other borrowing as at 30 June 2021 and 31 December 2020.

9 Security lending arrangements

The Fund did not enter into any security lending arrangement during the periods ended 30 June 2021 and 2020.

10 Negotiability of assets

As at 30 June 2021 and 31 December 2020, there was no statutory or contractual requirement restricting the negotiability of the assets of the Fund.

11 Commitments

The Fund had no commitment as at 30 June 2021 and 31 December 2020.

12 Contingent liabilities

The Fund had no contingent liability as at 30 June 2021 and 31 December 2020.

INVESTMENT PORTFOLIO, AS AT 30 JUNE 2021

	Holdings	Fair value (USD)	% of NAV
Investments (101.17%)			
Quoted Investment Funds (76.32%)			
China (76.32%)			
Templeton China A Shares Fund	317,761	9,952,349	76.32
Listed Equities (24.85%)			
China (24.85%)			
Alibaba Group Holding Ltd.	17,724	502,155	3.85
A-Living Smart City Services Co. Ltd., 144A, Reg S	46,500	231,449	1.77
China Construction Bank Corp., H	308,000	242,351	1.86
China Life Insurance Co. Ltd., H	34,000	67,430	0.52
China Merchants Bank Co. Ltd., H	29,500	251,687	1.93
China Molybdenum Co. Ltd., H	174,000	103,301	0.79
DiDi Global, Inc., ADR	3,200	45,248	0.35
JD.com, Inc., A	3,800	149,453	1.15
Kuaishou Technology, 144A, Reg S	4,000	100,346	0.77
KWG Group Holdings Ltd.	22,500	30,135	0.23
KWG Living Group Holdings Ltd., Reg S	11,538	14,799	0.11
Meituan, Reg S	7,100	292,957	2.25
NetEase, Inc.	4,400	99,672	0.76
Shimao Group Holdings Ltd.	45,000	110,340	0.85
Tencent Holdings Ltd.	7,000	526,458	4.04
Weichai Power Co. Ltd., H	76,000	168,930	1.30
Wuxi Biologics Cayman, Inc., 144A, Reg S	16,500	302,372	2.32
Total Investments		13,191,432	101.17
Other Net Liabilities		(152,068)	(1.17)
Net Assets as at 30 June 2021		13,039,364	100.00
Total Investments at cost as at 30 June 2021		10,092,355	

STATEMENT OF MOVEMENT IN PORTFOLIO HOLDINGS,
FOR THE PERIOD ENDED 30 JUNE 2021

	Percentage holdings of net assets 30 June 2021	Percentage holdings of net assets 31 December 2020
	%	%
Investments		
Sector Allocation		
Communication Services	5.57	4.27
Consumer Discretionary	18.62	20.43
Consumer Staples	9.54	11.06
Financials	11.04	12.78
Health Care	11.13	9.04
Industrials	16.97	13.26
Information Technology	14.81	11.10
Materials	10.48	15.24
Real Estate	1.19	1.93
Others	1.82	0.89
Total Investments	101.17	100.00
Other Net Assets	(1.17)	—*
Net Assets as at period/year end	100.00	100.00

*Amount less than 0.01%

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