

VALUE PARTNERS CLASSIC FUND

2018 ANNUAL
REPORT

For the year ended 31 December 2018



Value Partners Hong Kong Limited

43rd Floor, The Center

99 Queen's Road Central, Hong Kong

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

Email: vp1@vp.com.hk

Website: 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.

CONTENTS

| | <i>Pages</i> |
|--|--------------|
| General information | 2-3 |
| Manager's report | 4-14 |
| Statement of responsibilities of the Manager and the Trustee | 15 |
| Trustee's report | 16 |
| Independent auditor's report | 17-20 |
| Statement of financial position | 21 |
| Statement of comprehensive income | 22 |
| Statement of changes in net assets attributable to unitholders | 23 |
| Statement of cash flows | 24-25 |
| Notes to the financial statements | 26-62 |
| Investment portfolio (unaudited) | 63-68 |
| Investment portfolio movements (unaudited) | 69 |
| Performance record (unaudited) | 70-72 |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

GENERAL INFORMATION

Manager

Value Partners Hong Kong Limited
43rd Floor, The Center
99 Queen's 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
43rd Floor, The Center
99 Queen's Road Central
Hong Kong

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

GENERAL INFORMATION (Continued)

Recent awards and achievements

| Corporate Awards | |
|------------------|--|
| 2018 | <ul style="list-style-type: none"> • I&M Professional Investment Awards 2018 House Performance Awards: Offshore China Equity (10-Year) <i>– Insights and Mandate</i> • AM730, PRAAsia and Roadshow ListCo Excellence Awards 2018 Value Partners Group Limited – Best Listed Company (Main Board category) <i>– AM730, PRAAsia and Roadshow</i> • Forbes “Asia’s 200 Best Under A Billion” 2018 Value Partners Group was ranked among the top 200 leading listed companies in the Asia-Pacific with annual revenue between US\$5 million and US\$1 billion. <i>– Forbes Asia</i> • The 2018 Jingyi Awards HK-Stock Connect Companies: Outstanding Growth Potential Award <i>– Securities Times</i> • Listed Company Awards of Excellence 2018 Outstanding Listed Company (Main Board category) <i>– Hong Kong Economic Journal</i> • Benchmark Fund of the Year Awards 2018, Hong Kong Asia ex-Japan Equity House: Best-In-Class <i>– Benchmark</i> • Benchmark Fund of the Year Awards 2018, Hong Kong Greater China Equity House: Outstanding Achiever <i>– Benchmark</i> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT

The Greater China equities market endured a difficult year in 2018, with the MSCI Golden Dragon Index losing 14.8% amidst volatile conditions marked by rising geo-political tensions, the US-China trade dispute and concerns over China's moderating economic growth.

Unexpected trade policy headwinds

2018 was one of the most volatile calendar years since 2008, as unexpected trade policy headwinds and China's efforts to deleverage its economy formed a dismal combination that sent shockwaves across markets.

While China's economic slowdown due to the effects of tightening financial regulations was expected, few could have predicted the scale and severity of the US-China trade dispute that erupted in the middle of the year. Subsequent developments in the form of tariff announcements and negative rhetoric from both countries compounded China's slowing economy, triggering a massive negative reaction from the market.

From an overarching perspective, we believe it is to the benefit of both countries to come to an amicable agreement and the 90-day truce announced in December is a step in the right direction. However, it is important to point out that there are a number of key differences in US-China trade policies and beliefs. Whether or not they can be resolved in the 90-day period remains to be seen and any news arising from the negotiations is likely to be heavily scrutinised by the markets. This adds a layer of complexity to an already delicate market backdrop, in particular for the first half of 2019.

China's economic slowdown

Consequently, we expect the challenging economic environment to remain a consistent theme in 2019 even though China's deleveraging policies have indeed made progress with slowing real sector debt growth and declining shadow credit. That is because the deleveraging process has also brought about tightened liquidity and financing conditions, which increases overall credit risk as reflected by a rise in the number of financial product defaults.

Moreover, the tightened financing conditions have also resulted in a significant decline in fixed asset investments, which added further downside pressure on the Chinese economy. To compound matters, there are also signs that household consumption – an important indicator of China's increasingly consumption-based economy – is also facing downside pressure with some durable sales softening in 2018.

One silver lining is China's increasingly flexible policy approach. The Chinese authorities have shown their willingness to step up supportive policies as and when they are needed, which includes accelerating spending on infrastructure, easing monetary policies to increase lending to small and medium-sized firms as well as income tax breaks to boost consumption.

We believe China has enough policy ammunition in its arsenal and part of the liquidity released by the expansionary monetary policies introduced will find its way to support the property market, which is an integral pillar of the Chinese economy. But even if the economy is to moderate, for example, 6% GDP growth, China would still be growing at a much faster pace than most developed economies.

MANAGER'S REPORT (Continued)

Portfolio strategy review

The Value Partners Classic Fund (the "Fund") lost 23.1% in 2018, while the MSCI Golden Dragon Index dropped fell 14.8% in comparison.

In 2018, the portfolio remained well-invested following what was a strong 2017. In hindsight, we should have increased the portfolio's cash level although the persistent back-and-forth between the US and China meant we did not hold a strong conviction to go on the defensive. Our lower technology exposure and rotation into quality businesses, in particular consumption-related stocks, helped protect the portfolio during the early parts of the year.

As markets took on a significantly more cautious tone later in the year, one of our key positioning – Chinese education sector – had to face significant policy headwinds. A new set of draft implementation rules meant greater tax impact for certain education companies even though the sector remains structurally important to China. Despite the uncertainties, a couple of our key Chinese education stocks remained key performance contributors to the portfolio. Meanwhile, select positions in auto manufacturers, for example, detracted due to the opening up of the industry on the back of pressure from the trade war.

Investment Case: CSPC Pharmaceutical Group Ltd. (1093 HK)

The healthcare sector was a key contributor to our portfolio in 2018. Despite a constructive overall outlook, the sector had a somewhat bumpy year, outperforming the market in the early parts of 2018 before being hit by a correction in the second half as a result of a vaccination scandal and price cutting policies concerning generic drugs.

We were selective in terms of our healthcare sector investment strategy, with our investment in CSPC among the key performance contributors. CSPC is one of the leading biopharmaceutical companies in China and it is also one of the largest suppliers of vitamin C and caffeine globally¹. The company possesses strong R&D capabilities for innovative drug developments and its flagship products in oncology drugs also recorded resilient growth (over 100% year-on-year growth in the first three quarters of 2018). The company's M&A strategy has also strengthened its R&D capabilities and product pipeline expansion. Supported by its innovative drugs, CSPC is less affected by the latest 4+7 GPO program, which puts pricing pressure on generic drugs, and allows it to have better pricing power over its peers.

Outlook

The macro uncertainty in 2018 is likely to spill over into the first half of 2019. The continued slowdown of economic growth in the region together with the uncertain trade policy outlook shall continue to create a volatile market backdrop. We shouldn't be too bearish, however, as China embarks on a more accommodative policy approach, while US monetary policies are expected to be less hawkish.

Investor sentiment has already fallen to fairly gloomy levels although the MSCI China Index's 12-month forward P/E of 10.1x² (close to 1 standard deviation below the 10-year average) does reflect a respectful margin of safety. The combination of low valuations and positive earnings growth helps to paint a more constructive 2019 outlook for the equity market.

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT (Continued)

Corporate update

A testament to our investment capabilities, we were awarded 28 industry awards in 2018 and extended our list of accolades to more than 200 since our inception in 1993. 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 investors.

Value Partners Hong Kong Limited

25 April 2019

1. Source: CSPC 2018 Interim Report
2. Source: MSCI, January 2019

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 31 December 2018. 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.

MANAGER’S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|---|-----------------|---|--|
| <p>AIA Group (Code: 1299 HK)</p> <p>Market cap: US\$100.2 billion</p> | Insurance | <p>Price: HKD65.00 P/EV*: 1.7x P/E: 15.8x P/B: 2.1x Yield: 2.1%</p> | <p>AIA is the largest independent publicly listed pan-Asian life insurance group – with a presence in 18 markets across the Asia-Pacific region.</p> <p>We expect AIA China to deliver superior new business growth of more than 40% in 2018-19E, as the company’s protection-oriented business in China is more resilient than most of its domestic peers.</p> <p>China will allow foreign insurers to own a majority stake in local joint ventures in 2019-2020 and fully open the sector by 2021-22. This will provide further long-term growth potential for AIA in China.</p> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018 (Continued)

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|---|-----------|---|---|
| Alibaba Group (Code: BABA US) Market cap: US\$355.3 billion | Retailing | Price: USD137.07 P/E: 31.2x P/B: 6.9x Yield: 0% | <p>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.</p> <p>The company's cloud computing company ("AliCloud") and fintech business ("Ant Financial") are underpinning future growth potential.</p> <p>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 more enterprises are starting 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.</p> |

MANAGER'S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018 (Continued)

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|---|-----------------------|---|---|
| <p>AviChina Industry & Technology Co Ltd (Code: 2357 HK)</p> <p>Market cap: US\$3.9 billion</p> | <p>Capital goods</p> | <p>Price: HKD4.92 P/E: 16.2x P/B: 1.5x Yield: 0.8%</p> | <p>AviChina principally engages in the research, development, manufacture and sale of aviation products. The company's main products include helicopters, aircrafts, trainers as well as aero-related parts and components.</p> <p>The company offers a broad exposure to the defense and civil aviation industry in China and is one of the very few stocks listed in Hong Kong to be able to provide such exposure. While China's defense industry is currently in the midst of reforms, it remains a key component of national policies.</p> |
| <p>Beijing Tong Ren Tang Chinese Medicine (Code: 3613 HK)</p> <p>Market cap: US\$1.3 billion</p> | <p>Pharmaceutical</p> | <p>Price: HKD12.31 P/E: 15.3x P/B: 4.0x Yield: 2.1%</p> | <p>Headquartered in Hong Kong, Beijing Tong Ren Tang Chinese Medicine is a distributor engaged in both retail and wholesale of Chinese medicine products in Hong Kong, Macau, and other overseas markets operating under the "Tong Ren Tang" brand. The company's business spans over 10 countries and regions and sells over 2,000 Chinese medicine products.</p> <p>As the company will change to list in the main board of the Hong Kong stock exchange soon, its valuation and liquidity are expected to improve.</p> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018 (Continued)

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|---|-----------------------------------|---|--|
| CSPC Pharmaceutical Group Ltd (Code: 1093 HK) Market cap: US\$9.0 billion | Pharmaceuticals, Biotechnology | Price: HKD11.30 P/E: 15.3x P/B: 3.4x Yield: 2.2% | <p>CSPC is one of the leading biopharmaceutical companies in China and it is also the largest supplier of vitamin C and caffeine globally.</p> <p>The company possesses strong R&D capabilities for innovative drug developments and its flagship products in oncology drugs also recorded resilient growth (over 100% year-on-year growth in the first three quarters of 2018).</p> <p>The company's M&A strategy has also strengthened its R&D capabilities and product pipeline expansion. Supported by its innovative drugs, CSPC is less affected by the latest 4+7 GPO program, which puts pricing pressure on generic drugs, and allows it to have better pricing power over its peers.</p> |
| Huaneng Renewables Corp Ltd (Code: 958 HK) Market cap: US\$2.8 billion | Utilities | Price: HKD2.10 P/E: 5.0x P/B: 0.6x Yield: 3.0% | <p>Huaneng Renewables principally engages in the 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.</p> <p>We expect the government to provide more clarity on clean energy subsidies soon, which will likely help renewable companies regain their growth momentum.</p> |

MANAGER'S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018 (Continued)

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|---|-----------|---|---|
| <p>Industrial & Commercial Bank of China (Code: 1398 HK)</p> <p>Market cap: US\$269.3 billion</p> | Banks | <p>Price: HKD5.59 P/E: 5.5x P/B: 0.7x Yield: 5.6%</p> | <p>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.</p> <p>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.</p> |
| <p>SIIC Environment (Code: 807 HK)</p> <p>Market cap: US\$0.5 billion</p> | Utilities | <p>Price: HKD1.55 P/E: 6.1x P/B: 0.4x Yield: 2.2%</p> | <p>SIIC Environment is a Singapore & HK dual 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.</p> <p>The company's accounting policy is more conservative than local peers, implying a high quality of earnings. 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.</p> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT (Continued)

10 biggest holdings of securities as at 31 December 2018 (Continued)

| Stock | Industry | Valuation (2019 Estimates) | Remarks |
|--|--|--|--|
| Taiwan Semiconductor Manufacturing (Code: 2330 TT) Market cap: US\$191.5 billion | Semiconductors and Semiconductor Equipment | Price: TWD225.50 P/E: 15.4x P/B: 3.2x Yield: 4.2% | <p>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.</p> <p>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.</p> <p>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.</p> |
| Techtronic Industries Co (Code: 669 HK) Market cap: US\$9.7 billion | Consumer durables and apparel | Price: HKD41.6 P/E: 14.8x P/B: 2.7x Yield: 2.5% | <p>Techtronic Industries ("TTI") is a global leader in designing, manufacturing and selling home-improvement products, including power tools, outdoor power equipment and floor-care appliances.</p> <p>TTI benefits from strong US housing market and Home Depot sales, its innovative cordless and smart power tool products helped market share gain as well as margins expansion. Floor-care business turning around shall continuously underpin the earnings growth sustainability.</p> |

*EV = Embedded Value

Note: The above investments made up 36.22% of Value Partners Classic Fund as at 31 December 2018. The stock prices are based on the closing of 31 December 2018.

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 2018

| Classes | NAV per unit |
|----------------------------|---------------------|
| "A" Units | USD283.55 |
| "B" Units | USD126.39 |
| "C" Units USD | USD15.85 |
| "C" Units HKD ⁵ | HKD124.1221 |
| "C" Units RMB | RMB11.34 |
| "C" Units AUD Hedged | AUD13.04 |
| "C" Units CAD Hedged | CAD12.69 |
| "C" Units HKD Hedged | HKD10.72 |
| "C" Units NZD Hedged | NZD13.49 |
| "C" Units RMB Hedged | RMB11.02 |
| "C" Units MDis USD | USD7.47 |
| "C" Units MDis HKD | HKD7.44 |
| "C" Units MDis RMB | RMB7.61 |
| "C" Units MDis RMB Hedged | RMB7.39 |
| "Z" Units | USD8.60 |

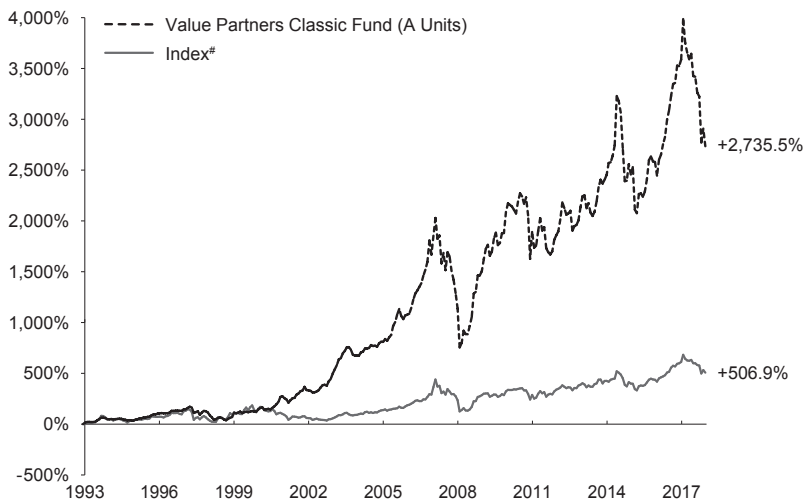
VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

MANAGER'S REPORT (Continued)

Performance since launch

From 1 April 1993 to 31 December 2018



^B 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.

[#] Index refers to Hang Seng Index (Price Return) since fund inception till 31 Dec 2004, thereafter it is the Hang Seng Index (Total Return) up to 30 Sep 2017. Hang Seng Index (Total Return) includes dividend reinvestment whereas Hang Seng Index (Price Return) does not take into account reinvestment of dividends. With effect from 1 Oct 2017, it is the MSCI Golden Dragon Index (Total Net Return), 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

(A Hong Kong unit trust)

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 2018.

For and on behalf of

HSBC Institutional Trust Services (Asia) Limited

Trustee

25 April 2019

**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 62, which comprise:

- the statement of financial position as at 31 December 2018;
- 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 2018, 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

(A Hong Kong unit trust)

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 2019

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

| | <i>Note</i> | 2018 US\$ | 2017 US\$ |
|---|-------------|----------------------|----------------------|
| Assets | | | |
| Financial assets at fair value through profit or loss | 3(d) | 1,004,749,677 | 1,534,964,849 |
| Amounts receivable on sales of investments | | 6,622,552 | – |
| Amounts receivable on issue of units | | 475,593 | 4,343,843 |
| Dividends receivables and other receivables | | 875,342 | 15,951,768 |
| Deposits with brokers | | 13,290,287 | – |
| Bank balances | 6(j) | <u>56,798,203</u> | <u>147,178,053</u> |
| Total assets | | <u>1,082,811,654</u> | <u>1,702,438,513</u> |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 3(d) | 26,481,124 | 25,580,693 |
| Amounts payable on purchase of investments | | 35,516,670 | 8,253,855 |
| Amounts payable on redemption of units | | 1,412,161 | 5,493,233 |
| Management fees payable | | 1,011,443 | 1,505,179 |
| Performance fees payable | | – | 85,421,326 |
| Distributions payable to unitholders | | 161,071 | 13,706 |
| Bank overdrafts | 6(j) | 24,984 | – |
| Accruals and other payables | 6(j) | <u>334,456</u> | <u>569,155</u> |
| Liabilities (excluding net assets attributable to unitholders) | | <u>64,941,909</u> | <u>126,837,147</u> |
| Net assets attributable to unitholders | 5 | <u>1,017,869,745</u> | <u>1,575,601,366</u> |

Signed by:

Value Partners Hong Kong Limited, *Manager*

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

The notes on pages 26 to 62 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 2018

| | Note | 2018 US\$ | 2017 US\$ |
|--|------|----------------------|----------------------|
| Income | | | |
| Dividends | | 34,389,708 | 36,261,072 |
| Interest on bank deposits | 6(j) | 40,521 | 66,672 |
| Net realised gains on investments | | 15,969,125 | 503,362,064 |
| Change in unrealised gains/losses on Investments | | (340,835,331) | 138,484,826 |
| Net foreign exchange (losses)/gains | | (565,028) | 3,152,183 |
| Other income | 6(g) | 1,195,310 | 805,489 |
| | | <u>(289,805,695)</u> | <u>682,132,306</u> |
| Expenses | | | |
| Management fees | 6(a) | (16,105,818) | (18,340,127) |
| Performance fees | 6(b) | – | (85,421,325) |
| Trustee fees | 6(c) | (1,619,536) | (1,806,575) |
| Transaction costs | 6(j) | (11,028,680) | (14,158,075) |
| Interest expense | 6(j) | (2,398,709) | (4,763,728) |
| Dividends on securities borrowed | | (132,232) | (572,191) |
| Stock borrowing fee | 6(j) | (217,158) | (347,070) |
| Registrar fee | 6(d) | – | (468,291) |
| Safe custody and bank charges | 6(j) | (49,491) | (43,139) |
| Legal and professional fees | | (85,962) | (123,413) |
| Auditor's remuneration | | (38,635) | (40,630) |
| Other operating expenses | | (1,237,780) | (1,047,776) |
| | | <u>(32,914,001)</u> | <u>(127,132,340)</u> |
| (Loss)/profit before tax | | (322,719,696) | 554,999,966 |
| Withholding tax on dividends and other investment income | 7(d) | (2,664,705) | (3,088,782) |
| Distributions to Unitholders | 8 | (1,377,334) | (41,713) |
| (Decrease)/increase in net assets attributable to unitholders from operations | | <u>(326,761,735)</u> | <u>551,869,471</u> |

The notes on pages 26 to 62 are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 | 2017 |
|--|----------------------|----------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Net assets attributable to unitholders as at 1 January | 1,575,601,366 | 1,405,075,000 |
| Issue of units | 501,509,462 | 449,057,869 |
| Redemption of units | (732,479,348) | (830,400,974) |
| Net decrease from unit transactions | (230,969,886) | (381,343,105) |
| (Decrease)/increase in net assets attributable to unitholders from operations | (326,761,735) | 551,869,471 |
| Net assets attributable to unitholders as at 31 December | <u>1,017,869,745</u> | <u>1,575,601,366</u> |

The notes on pages 26 to 62 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 2018

| | 2018 US\$ | 2017 US\$ |
|---|----------------------|--------------------|
| Cash flows from operating activities | | |
| (Decrease)/increase in net assets attributable to unitholders from operations | (326,761,735) | 551,869,471 |
| Adjustments for: | | |
| Dividends and interest on bank deposits | (34,430,229) | (36,327,744) |
| Interest expense | 2,398,709 | 4,763,728 |
| Stock borrowing fee and dividends on securities borrowed | 349,390 | 919,261 |
| Withholding tax on dividends and other investment income | 2,664,705 | 3,088,782 |
| Distribution to unitholders | 1,377,334 | 41,713 |
| | <u>(354,401,826)</u> | <u>524,355,211</u> |
| (Increase)/decrease in deposits with brokers | (13,290,287) | 18,045,085 |
| Decrease/(increase) in financial assets at fair value through profit or loss | 530,215,172 | (48,808,953) |
| Increase in financial liabilities at fair value through profit or loss | 900,431 | 17,633,961 |
| (Increase)/decrease in amounts receivable on sales of investments | (6,622,552) | 38,985,160 |
| Increase/(decrease) in amounts payable on purchase of investments | 27,262,815 | (76,644,801) |
| Decrease/(increase) in other receivables | 15,024,048 | (15,002,208) |
| Increase/(decrease) in bank overdrafts | 24,984 | (116,023,419) |
| (Decrease)/increase in management fees payable | (493,736) | 62,579 |
| (Decrease)/increase in performance fees payable | (85,421,326) | 85,418,163 |
| (Decrease)/increase in accruals and other payables | (186,785) | 161,000 |
| | <u>113,010,938</u> | <u>428,181,778</u> |
| Cash generated from operations | 113,010,938 | 428,181,778 |
| Dividends and interest on bank deposits received | 34,482,607 | 36,314,824 |
| Interest expense paid | (2,446,623) | (5,154,407) |
| Stock borrowing fee and dividends on securities borrowed paid | (349,390) | (919,261) |
| Withholding tax on dividends and other investment income paid | (2,664,705) | (3,076,657) |
| | <u>142,032,827</u> | <u>455,346,277</u> |
| Net cash inflow from operating activities | <u>142,032,827</u> | <u>455,346,277</u> |

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 | 2017 |
|--|-----------------------------|-----------------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Cash flows from financing activities | | |
| Distributions paid to unitholders | (1,229,969) | (28,007) |
| Proceeds from issue of units | 505,377,712 | 445,062,187 |
| Payments on redemption of units | <u>(736,560,420)</u> | <u>(832,514,309)</u> |
| Net cash outflow from financing activities | <u><u>(232,412,677)</u></u> | <u><u>(387,480,129)</u></u> |
| Net (decrease)/increase in cash and cash equivalents | (90,379,850) | 67,866,148 |
| Cash and cash equivalents as at 1 January | <u>147,178,053</u> | <u>79,311,905</u> |
| Cash and cash equivalents as at 31 December, representing bank balances | <u><u>56,798,203</u></u> | <u><u>147,178,053</u></u> |

The notes on pages 26 to 62 are an integral part of these financial statements.

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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 the 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.

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 2018***

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

Classification and measurement of debt assets is 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.

IFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification or measurement of financial instruments as outlined in note 2 (d). The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

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.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Fund.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, 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.

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**2 SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Financial assets and liabilities at fair value through profit or loss****(i) Classification***– Assets*

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.

– Liabilities

The Fund 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 held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss.

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

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

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 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 | | | Estimated impact on net assets US\$ |
|-------------------------------|--|--|---------------------------|--|
| | Non- Monetary net assets US\$ equivalent | Monetary net assets US\$ equivalent | Percentage change % | |
| As at 31 December 2018 | | | | |
| Australian dollar | – | 22,639,733 | +/-5 | +/-1,131,987 |
| Canadian dollar | – | 8,088,118 | +/-5 | +/-404,406 |
| Euro | – | 343 | +/-5 | +/-17 |
| Hong Kong dollar* | 538,934,189 | 25,776,618 | +/-0 | – |
| Indonesian rupiah | – | 820 | +/-5 | +/-41 |
| Korean won | – | 206 | +/-5 | +/-10 |
| New Zealand dollar | – | 3,843,511 | +/-5 | +/-192,176 |
| Pound sterling | 15,767 | – | +/-5 | +/-788 |
| Renminbi | 67,385,413 | 9,390,245 | +/-5 | +/-3,838,783 |
| Singapore dollar | – | 61,637 | +/-5 | +/-3,082 |
| Taiwan dollar | 91,704,762 | 15,129,729 | +/-5 | +/-5,341,725 |
| | <u>698,040,131</u> | <u>84,930,960</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 US\$ equivalent | Monetary net assets/ (liabilities) US\$ equivalent | | |
| As at 31 December 2017 | | | | |
| 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> | | |

* 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 2018 and 2017, 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:

| | % of net assets | |
|--|-----------------|-------|
| | 2018 | 2017 |
| Financial assets at fair value through profit or loss | | |
| Listed equity securities | | |
| China | 8.67 | 7.65 |
| Hong Kong | | |
| – H shares | 18.00 | 23.30 |
| – Red chips | 9.48 | 7.07 |
| – Others | 25.19 | 23.31 |
| Singapore | 1.50 | 5.49 |
| South Korea | – | 1.20 |
| Taiwan | 9.01 | 7.03 |
| United Kingdom | 0.00 | 0.00 |
| United States | 11.25 | 7.55 |
| | 83.10 | 82.60 |
| Listed Investment Fund | 0.21 | – |
| Participation notes | 4.19 | 3.87 |
| Quoted debt securities | 3.17 | 1.73 |
| Unlisted equity securities | – | – |
| Unlisted investment funds | 8.04 | 9.14 |
| Currency forwards | 0.00 | 0.08 |
| | 98.71 | 97.42 |

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 | |
|---|-----------------|---------------|
| | 2018 | 2017 |
| Financial liabilities at fair value through profit or loss | | |
| Listed equity securities | | |
| Hong Kong | | |
| – H shares | (0.44) | (1.62) |
| – Others | (1.90) | – |
| United States | (0.23) | – |
| | <u>(2.57)</u> | <u>(1.62)</u> |
| Currency forwards | <u>(0.03)</u> | <u>(0.00)</u> |
| | <u>(2.60)</u> | <u>(1.62)</u> |

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

| | 2018 | 2017 |
|----------------------------|---------------|---------------|
| | % | % |
| Financials | 17.46 | 31.75 |
| Industrials | 8.89 | 10.58 |
| Utilities | 8.03 | 10.59 |
| Consumer discretionary | 8.49 | 5.91 |
| Information technology | 11.50 | 5.24 |
| Healthcare | 11.05 | 4.93 |
| Real estate | 4.06 | 1.17 |
| Consumer staples | 6.18 | 8.22 |
| Energy | 5.97 | 3.18 |
| Telecommunication services | 13.38 | 13.51 |
| Materials | 0.06 | 2.11 |
| Diversified | – | 0.18 |
| Others | 4.93 | 2.63 |
| | <u>100.00</u> | <u>100.00</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

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.

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 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 | |
|--|-------------------|-------|-----------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| | % | % | US\$ | US\$ |
| MSCI Golden Dragon Net Total Return Index | +/-30 | +/-30 | +/-235,213,248 | +/-409,323,419 |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(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 | |
|--------------------------------|-------------------|--------------------|
| | 2018 | 2017 |
| | US\$ | US\$ |
| Bank balances | 56,798,203 | 147,178,053 |
| Bank overdrafts | (24,984) | — |
| | <hr/> | <hr/> |
| Total interest sensitivity gap | <u>56,773,219</u> | <u>147,178,053</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.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit and counterparty risk (Continued)

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

| | 2018 US\$ | 2017 US\$ |
|--|---------------|---------------|
| Counterparty | | |
| Cash with banks | | |
| Aa2 | 56,798,203 | 147,178,053 |
| Deposits with brokers | | |
| Unrated | 13,290,287 | – |
| Investments placed with custodian and other broker | | |
| Aa2 | 1,004,749,677 | 1,534,964,849 |
| Amounts receivable on issue of units | | |
| Unrated | 475,593 | 4,343,843 |

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 31 December 2018 and 31 December 2017, all other receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of Aa2 or higher and are due to be settled within 1 week. 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 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.

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 (Continued)

The table below summarises the credit quality of the Fund's portfolio of debt securities at the reporting date. The credit ratings are issued by Moody's.

| | 2018 US\$ | 2017 US\$ |
|----------------------|--------------------------|--------------------------|
| Credit rating | | |
| B1 | 25,280,557 | 27,193,552 |
| Unrated* | <u>6,970,854</u> | <u>—</u> |
| | <u><u>32,251,411</u></u> | <u><u>27,193,552</u></u> |

* *In order to monitor the credit quality of the "Unrated" debt securities, the Manager, on the basis of internal research, prepares its own assessment. The Manager reviews the key financial metrics of the issue and structural features of the instruments and concludes these "Unrated" debt securities in general have a relatively low risk of default. The Manager considers there is no significant risk on the unrated debt securities at the reporting date as there was limited history of default on the unrated debt securities in the past. As at 31 December 2018 and 2017, the issuers of limited unrated debt securities were not rated by Moody's.*

The table below summarises the unrated debt securities as stated in the table above by their issuers' credit rating as at the reporting date.

| | 2018 US\$ | 2017 US\$ |
|----------------------|-------------------------|-----------------|
| Credit rating | | |
| Unrated | <u>6,970,854</u> | <u>—</u> |
| | <u><u>6,970,854</u></u> | <u><u>—</u></u> |

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.

| | Less than 3 months | |
|--|---------------------------|----------------------|
| | 2018 | 2017 |
| | <i>US\$</i> | <i>US\$</i> |
| Net assets attributable to unitholders | 1,017,869,745 | 1,575,601,366 |
| Financial liabilities at fair value through profit or loss – non-derivatives | 26,219,176 | 25,559,025 |
| Financial liabilities at fair value through profit or loss – derivatives | 261,948 | 21,668 |
| Amounts payable on purchase of investments | 35,516,670 | 8,253,855 |
| Amounts payable on redemption of units | 1,412,161 | 5,493,233 |
| Management fees and performance fees payable | 1,011,443 | 86,926,505 |
| Distributions payable to redeemable participating shareholders | 161,071 | 13,706 |
| Bank overdrafts | 24,984 | – |
| Accruals and other payables | 334,456 | 569,155 |
| | <u>1,082,811,654</u> | <u>1,702,438,513</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 2018, the Fund was subject to one (2017: 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.

| | 2018 <i>US\$</i> | 2017 <i>US\$</i> |
|---|---------------------|---------------------|
| Financial assets | | |
| Equity securities pledged as collateral | 30,639,914 | 29,743,789 |
| Currency forwards | 11,163 | 1,232,658 |
| Financial liabilities | | |
| Currency forwards | <u>(261,948)</u> | <u>(21,668)</u> |
| Net amount | <u>30,389,129</u> | <u>30,954,779</u> |

As at 31 December 2018, equity securities amounting to US\$30,639,914 (2017: US\$29,743,789) 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 2018 and 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:

| Investor | % of net assets |
|-------------------------------|------------------------|
| As at 31 December 2018 | |
| Investor 1 | 14.69 |
| As at 31 December 2017 | |
| Investor 1 | 15.08 |
| Investor 2 | 11.52 |

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\$ |
|---|---------------------|--------------------|-----------------|----------------------|
| As at 31 December 2018 | | | | |
| Financial assets held for trading | | | | |
| Listed equity securities | 845,323,122 | – | 543,203* | 845,866,325 |
| Participation notes | – | 42,636,630 | – | 42,636,630 |
| Quoted debt securities | – | 32,251,411 | – | 32,251,411 |
| Listed investment funds | 2,164,588 | – | – | 2,164,588 |
| Unlisted investment funds | – | 81,819,560 | – | 81,819,560 |
| Currency forwards | – | 11,163 | – | 11,163 |
| | <u>847,487,710</u> | <u>156,718,764</u> | <u>543,203</u> | <u>1,004,749,677</u> |
| Financial liabilities held for trading | | | | |
| Listed equity securities | (26,219,176) | – | – | (26,219,176) |
| Currency forwards | – | (261,948) | – | (261,948) |
| | <u>(26,219,176)</u> | <u>(261,948)</u> | <u>–</u> | <u>(26,481,124)</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Fair value estimation (Continued)

| | Level 1 US\$ | Level 2 US\$ | Level 3 US\$ | Total US\$ |
|---|----------------------|--------------------|------------------|----------------------|
| As at 31 December 2017 | | | | |
| Financial assets held for trading | | | | |
| 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> |
| Financial liabilities held for trading | | | | |
| 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> |

* As at 31 December 2018, level 3 listed equity securities include 1 (2017: 2) investments whose trading was suspended.

As at 31 December 2018, the fair value of one unlisted equity security (2017: one unlisted equity security and one unlisted investment) was fully marked to zero.

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 listed 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.

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 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 |
|-------------------------------|--------------------|--|---------------------|
| As at 31 December 2018 | | | |
| Listed equity securities | 543,203 | Discounted last transacted price | Discount rate |
| As at 31 December 2017 | | | |
| Listed equity securities | 742,533 | Discounted last transacted price | Discount rate |
| Participation note | 847,122 | Last traded price of underlying securities | – |

The following table presents the transfers between levels for the year ended 31 December 2018. There were no transfers between levels for the year ended 31 December 2017.

| | Level 1 US\$ | Level 2 US\$ | Level 3 US\$ |
|----------------------------------|-----------------|-----------------|-----------------|
| 2018 | | | |
| Transfers between levels 1 and 3 | 16,724 | – | (16,724) |

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:

| | 2018 US\$ | 2017 US\$ |
|---|------------------|---------------------|
| Opening balance | 1,589,655 | 40,402,517 |
| Purchase | 5,233,299 | – |
| Sales | (6,040,921) | – |
| Transfer from level 3 to level 1 | (16,724) | – |
| Losses recognised in profit and loss | (222,106) | (38,812,862) |
| | <u>543,203</u> | <u>1,589,655</u> |
| Closing balance | <u>543,203</u> | <u>1,589,655</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>(182,606)</u> | <u>(38,565,301)</u> |

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

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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\$ |
| As at 31 December 2018 | | | |
| Currency forwards | AUD64,805,270 | 11,071 | – |
| Currency forwards | CNH58,800 | 92 | – |
| Currency forwards | (AUD31,612,098) | – | (152,694) |
| Currency forwards | (HKD46,585,451) | – | (1,821) |
| Currency forwards | (CAD11,005,861) | – | (69,040) |
| Currency forwards | (NZD5,611,093) | – | (38,308) |
| Currency forwards | (CNH109,511) | – | (85) |
| Participation notes on China equities | RMB77,593,965 | 11,280,817 | – |
| Participation notes on Vietnam equities | VND727,799,788,050 | 31,355,813 | – |
| | | <u>42,647,793</u> | <u>(261,948)</u> |

| | Notional amount | Fair value | |
|---|--------------------|-------------------|---------------------|
| | | Assets US\$ | Liabilities US\$ |
| As at 31 December 2017 | | | |
| 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 | – |
| | | <u>62,213,774</u> | <u>(21,668)</u> |

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 |
|--|---|-------------|--------|------------------------|-------------------|
| | | 2018 | 2017 | | |
| Strategic Asia Fund | China International Capital Corporation Hong Kong Asset Management Limited | 93.09% | 97.07% | Cayman Islands | Daily* |
| Value Partners China A Share Opportunity Fund | Value Partners Hong Kong Limited | 91.07% | 92.49% | Cayman Islands | Weekly* |
| Value Partner Global Contrarian Fund | Value Partners Hong Kong Limited | – | 19.07% | Cayman Islands | Bi-weekly* |
| Value Partners Hedge Fund Ltd | Value Partners Limited | 53.27% | 56.87% | Cayman Islands | Monthly* |
| Value Partners Ireland Fund Plc – Value Partners Greater China Equity Fund | Value Partners Hong Kong Limited | 83.60% | 90.20% | Ireland | Daily* |
| Value Partners Strategic Equity Fund | Value Partners Private Equity Limited | 1.59% | 1.59% | Cayman Islands | Suspended# |
| HSBC Global Liquidity Funds plc – US Dollar Liquidity Fund CI F | HSBC Global Asset Management (USA) Inc. | 0.02% | – | Ireland | Daily* |
| Emerging Market Fund CI A | China International Capital Corporation Hong Kong Asset Management Limited | 98.81% | – | Cayman Islands | Daily* |

* 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.

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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 |
|--|--------------------|--------------------|
| As at 31 December 2018 | | |
| HSBC Global Liquidity Funds plc – US Dollar Liquidity Fund | 5,650,192 | 0.56 |
| Value Partners China A Share Opportunity Fund | 11,842,067 | 1.16 |
| Emerging Market Fund | 10,522,384 | 1.04 |
| Strategic Asia Fund | 29,928,365 | 2.94 |
| Value Partners Hedge Fund Ltd | 5,117,552 | 0.50 |
| Value Partners Ireland Fund Plc – Value Partners Greater China Equity Fund CI USD A Unhedged | 18,759,000 | 1.84 |
| Value Partners Strategic Equity Fund | – | – |
| | <u>81,819,560</u> | <u>8.04</u> |
| As at 31 December 2017 | | |
| 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> |

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 2018 were US\$45,903,051 and US\$55,523,688 (2017: US\$15,000,000 and 144,259,792) respectively. The Fund intends to continue opportunistic trading in the Investee Funds. As at 31 December 2018, there were no capital commitment obligations and no amounts due to structured entities for unsettled purchases (2017: Nil and Nil respectively).

During the year ended 31 December 2018, total net loss of US\$31,052,654 (2017: gain of US\$148,061,173) 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, "C" units – Hedged, "C" units – MDis, "Z" units and "P" units RMB classes.

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, "Z" units and "P" units RMB classes 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.

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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 | |
|--------------------------|----------------|----------------|------------------|------------------|-------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| As at 1 January | 693,728 | 717,083 | 2,014,204 | 2,304,607 | 43,445,496 | 62,559,432 |
| Issue of units | – | – | 25,630 | 35,679 | 13,764,008 | 17,207,575 |
| Redemption of units | (20,932) | (23,355) | (416,315) | (326,082) | (24,602,763) | (36,321,511) |
| As at 31 December | <u>672,796</u> | <u>693,728</u> | <u>1,623,519</u> | <u>2,014,204</u> | <u>32,606,741</u> | <u>43,445,496</u> |

| | "C" units RMB | | "C" units AUD Hedged | | "C" units CAD Hedged | |
|--------------------------|------------------|----------------|-------------------------|------------------|-------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| As at 1 January | 351,200 | 882,958 | 2,408,653 | 3,604,969 | 1,148,980 | 882,026 |
| Issue of units | 367,147 | 508,752 | 3,654,194 | 3,497,664 | 1,503,755 | 1,830,127 |
| Redemption of units | (444,199) | (1,040,510) | (3,646,971) | (4,693,980) | (1,785,248) | (1,563,173) |
| As at 31 December | <u>274,148</u> | <u>351,200</u> | <u>2,415,876</u> | <u>2,408,653</u> | <u>867,487</u> | <u>1,148,980</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 REDEEMABLE UNITS (Continued)

Number of units in issue (Continued)

| | "C" units NZD Hedged | | "C" units HKD Hedged | | "C" units RMB Hedged | |
|---------------------|-------------------------|----------------|-------------------------|------------------|-------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| As at 1 January | 922,333 | 833,738 | 4,664,243 | 3,945,820 | 1,635,908 | 1,889,355 |
| Issue of units | 699,491 | 2,745,530 | 5,263,001 | 7,390,909 | 3,673,508 | 4,395,059 |
| Redemption of units | (1,208,082) | (2,656,935) | (5,557,002) | (6,672,486) | (2,911,148) | (4,648,506) |
| As at 31 December | <u>413,742</u> | <u>922,333</u> | <u>4,370,242</u> | <u>4,664,243</u> | <u>2,398,268</u> | <u>1,635,908</u> |

| | "C" units MDis USD | | "C" units MDis HKD | | "C" units MDis RMB | |
|---------------------|-----------------------|----------------|-----------------------|------------------|-----------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| As at 1 January | 242,922 | – | 1,805,725 | – | 19,411 | – |
| Issue of units | 3,274,091 | 256,710 | 35,931,812 | 2,551,928 | 772,318 | 19,411 |
| Redemption of units | (2,059,944) | (13,788) | (19,860,575) | (746,203) | (278,402) | – |
| As at 31 December | <u>1,457,069</u> | <u>242,922</u> | <u>17,876,962</u> | <u>1,805,725</u> | <u>513,327</u> | <u>19,411</u> |

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 2018 | 2017 | 2018 | 2017 |
| As at 1 January | 385,249 | – | 885,000 | – |
| Issue of units | 7,405,971 | 401,566 | 2,335,751 | 900,000 |
| Redemption of units | (2,672,498) | (16,317) | (124,401) | (15,000) |
| As at 31 December | <u>5,118,722</u> | <u>385,249</u> | <u>3,096,350</u> | <u>885,000</u> |
| | | | 2018 | 2017 |
| Net asset value per unit | | | | |
| "A" units | | | US\$283.55 | US\$368.78 |
| "B" units | | | US\$126.39 | US\$165.15 |
| "C" units USD | | | US\$15.85 | US\$20.71 |
| "C" units RMB | | | RMB11.34 | RMB14.03 |
| "C" units AUD Hedged | | | AUD13.04 | AUD17.21 |
| "C" units CAD Hedged | | | CAD12.69 | CAD16.79 |
| "C" units HKD Hedged | | | HKD10.72 | HKD14.24 |
| "C" units NZD Hedged | | | NZD13.49 | NZD17.60 |
| "C" units RMB Hedged | | | RMB11.02 | RMB14.33 |
| "C" units MDis USD | | | US\$7.47 | US\$10.16 |
| "C" units MDis HKD | | | HKD7.44 | HKD10.17 |
| "C" units MDis RMB | | | RMB7.61 | RMB9.91 |
| "C" units MDis RMB Hedged | | | RMB7.39 | RMB10.15 |
| "Z" units | | | US\$8.60 | US\$11.18 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)**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.

(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 and including any distribution declared or paid in respect of their relevant performance periods 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 |
|-------------------------------------|--------------------|-------------------|------------------------|----------------------|
| Year 2018 | | | | |
| "A" units | | | | |
| Director of the Manager | 34,669 | – | – | 34,669 |
| Spouse of a director of the Manager | 6,615 | – | – | 6,615 |
| "B" units | | | | |
| Director of the Manager | 14,749 | – | – | 14,749 |
| Spouse of a director of the Manager | 1,992 | – | – | 1,992 |
| "C" units MDis HKD | | | | |
| Value Partners Limited* | 8,040 | 277 | – | 8,317 |
| "C" units MDis RMB Hedge | | | | |
| Value Partners Limited* | 7,047 | 344 | – | 7,391 |
| "C" units MDis RMB | | | | |
| Value Partners Limited* | 7,047 | 275 | – | 7,322 |
| "C" units MDis USD | | | | |
| Value Partners Limited* | 1,005 | 35 | – | 1,040 |

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 |
|---|--------------------|-------------------|------------------------|----------------------|
| Year 2017 | | | | |
| "A" units | | | | |
| Director of the Manager | 34,669 | – | – | 34,669 |
| Spouse of a director of the Manager | 6,615 | – | – | 6,615 |
| "B" units | | | | |
| Director of the Manager | 14,749 | – | – | 14,749 |
| Spouse of a director of the Manager | 1,992 | – | – | 1,992 |
| "C" units USD | | | | |
| Director of parent company of the Manager | 78,409 | – | – | 78,409 |
| "C" units MDis HKD | | | | |
| Value Partners Limited* | – | 8,040 | – | 8,040 |
| "C" units MDis RMB Hedge | | | | |
| Value Partners Limited* | – | 7,047 | – | 7,047 |
| "C" units MDis RMB | | | | |
| Value Partners Limited* | – | 7,047 | – | 7,047 |
| "C" units MDis USD | | | | |
| Value Partners Limited* | – | 1,005 | – | 1,005 |

* 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 2018, total preliminary charges on issue of redeemable participating units amounting to US\$4,131,893 (2017: US\$3,603,309) 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 ended 31 December 2018 and 2017, 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 2018, the waived management fees are amounted to US\$1,195,225 (2017: US\$690,336).

(h) Investment in customized participation note

During the year ended 31 December 2018 and 2017, 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. The customized participation note was fully disposed during the year ended 31 December 2018. As at 31 December 2017, the investment amounted to US\$847,122.

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

During the year ended 31 December 2018, the Fund has transacted with other funds which are also managed by the Manager and/or its associates. The Fund sold investments amounting to US\$1,271,750 from such funds. The transactions were carried out at fair value of the investments on the date of the transactions. For the year ended 31 December 2017, There were no any transactions with other funds which are also managed by the Manager and it's related party.

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

In addition to the trust fee of US\$1,619,536 and the registrar fee of US\$nil (2017: US\$1,811,073 and US\$469,451 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.

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 (Continued)

| | 2018 US\$ | 2017 US\$ |
|---|-----------------------------|-----------------------------|
| Interest on bank deposits | 40,521 | 66,672 |
| Transaction costs* | (429,370) | (14,158,075) |
| Interest expense | (2,398,709) | (4,763,728) |
| Stock borrowing fee | (217,158) | (347,070) |
| Other income | – | 108,799 |
| Safe custody and bank charges | (49,491) | (43,139) |
| Sub custodian fees expense | (184,011) | – |
| Registrar and transfer agent fee expenses | (417,012) | – |
| | <u> </u> | <u> </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 2018 are US\$390,335,577 and 0.11% respectively (2017: US\$488,603 and 0.14% respectively). For the year ended 31 December 2018, these transactions represent 6.94% (2017: 5%) of the total purchases and sales of investments of the Fund.*

In addition to the trustee fee payable of US\$104,605 and registrar fee payable of US\$26,445 (2017: US\$149,140 and US\$38,725 respectively), as disclosed in Note 6(c), the Fund had the following additional balances with the Trustee and its related parties.

| | 2018 US\$ | 2017 US\$ |
|---------------------------------------|-----------------------------|-----------------------------|
| Bank balances | 56,797,294 | 147,177,591 |
| Bank overdrafts | (24,984) | – |
| Interest receivable | – | 30,384 |
| Transaction costs payable | 1,645 | 1,754 |
| Interest expense payable | – | 47,914 |
| Safe custody and bank charges payable | 2 | 2 |
| | <u> </u> | <u> </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 ("QFIIs") 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 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2018, the Fund declared total distributions to redeemable participating shareholders of US\$1,377,334 (2017: US\$41,713)

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

| Classes | 2018 | 2017 | Frequency | Ex-dividend dates* |
|---------------------------|------------|------------|-----------|--|
| "C" Units MDis USD | US\$0.0251 | – | Monthly | Last business day of January to May |
| "C" Units MDis USD | US\$0.0275 | – | Monthly | Last business day of June to September |
| "C" Units MDis USD | US\$0.0275 | US\$0.0251 | Monthly | Last business day of October to December |
| "C" Units MDis HKD | HKD0.0251 | – | Monthly | Last business day of January to May |
| "C" Units MDis HKD | HKD0.0275 | – | Monthly | Last business day of June to September |
| "C" Units MDis HKD | HKD0.0275 | HKD0.0251 | Monthly | Last business day of October to December |
| "C" Units MDis RMB | RMB0.0337 | – | Monthly | Last business day of January to May |
| "C" Units MDis RMB | RMB0.0257 | – | Monthly | Last business day of June to September |
| "C" Units MDis RMB | RMB0.0257 | RMB0.0337 | Monthly | Last business day of October to December |
| "C" Units MDis RMB Hedged | RMB0.0335 | – | Monthly | Last business day of January to May |
| "C" Units MDis RMB Hedged | RMB0.0399 | – | Monthly | Last business day of June to September |
| "C" Units MDis RMB Hedged | RMB0.0399 | RMB0.0335 | Monthly | Last business day of October to December |

* Last business day of each month in 2018 are 31 January 2018, 28 February 2018, 29 March 2018, 30 April 2018, 31 May 2018, 29 June 2018, 31 July 2018, 31 August 2018, 28 September 2018, 31 October 2018, 30 November 2018 and 31 December 2018.

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

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

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 2019.

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|--|------------|--------------------|--------------------|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | | | |
| Listed Equity Securities | | | |
| China | | | |
| China CYTS Tours Holding Co Ltd A Shrs | 5,288,746 | 9,910,872 | 0.97 |
| China National Accord Medicines Co Ltd B Shrs | 2,747,418 | 9,170,866 | 0.90 |
| China Resources Double Crane Pharmaceutical Co Ltd A Shrs | 5,156,647 | 9,063,584 | 0.89 |
| Fujian Septwolves Industry Co Ltd A Shrs (SZHK) | 5,734,007 | 5,168,401 | 0.51 |
| Huangshan Tourism Development Co Ltd B Shrs | 9,637,962 | 11,652,296 | 1.14 |
| Kweichow Moutai Co Ltd A Shrs | 63,562 | 5,452,092 | 0.54 |
| Shanghai Jahwa United Co Ltd A Shrs | 844,260 | 3,350,774 | 0.33 |
| Weifu High-Technology Group Co Ltd A Shrs (SZHK) | 6,244,198 | 16,031,480 | 1.58 |
| Xiamen Faratronic Co Ltd A Shrs | 1,582,616 | 9,695,637 | 0.95 |
| Yunnan Energy New Material Co Ltd | 676,490 | 4,859,398 | 0.48 |
| Zhejiang Chint Electrics Co Ltd A Shrs | 1,093,402 | 3,853,175 | 0.38 |
| | | 88,208,575 | 8.67 |
| Hong Kong – H Shares | | | |
| AviChina Industry & Technology Co Ltd H Shrs | 44,613,000 | 28,028,931 | 2.75 |
| Bank of China Ltd H Shrs | 556,500 | 240,194 | 0.02 |
| China International Capital Corp Ltd H Shrs | 6,846,400 | 12,851,671 | 1.26 |
| China Merchants Bank Co Ltd H Shrs | 4,668,500 | 17,109,577 | 1.68 |
| China Shenhua Energy Co Ltd H Shrs | 5,640,000 | 12,358,802 | 1.22 |
| Guangzhou R&F Properties Co Ltd H Shrs | 2,217,200 | 3,352,251 | 0.33 |
| Huaneng Renewables Corp Ltd H Shrs | 92,958,000 | 24,927,922 | 2.45 |
| Industrial and Commercial Bank of China Ltd H Shrs | 54,983,000 | 39,248,245 | 3.86 |
| PetroChina Co Ltd H Shrs | 15,790,800 | 9,840,201 | 0.97 |
| PICC Property And Casualty Co Ltd H Shrs | 22,930,000 | 23,453,981 | 2.30 |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|--|------------|--------------------|--------------------|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued) | | | |
| Listed Equity Securities (Continued) | | | |
| <i>Hong Kong – H Shares (Continued)</i> | | | |
| Zoomlion Heavy Industry Science and Technology Co Ltd H Shrs | 13,693,000 | 4,930,917 | 0.49 |
| ZTE Corp H Shrs | 3,626,400 | 6,853,579 | 0.67 |
| | | <u>183,196,271</u> | <u>18.00</u> |
| <i>Hong Kong – Red Chips</i> | | | |
| BOC Hong Kong Holdings Ltd | 1,902,500 | 7,069,646 | 0.69 |
| China Everbright International Ltd | 6,984,000 | 6,260,678 | 0.61 |
| China Jinmao Holdings Group Ltd | 18,030,000 | 8,104,354 | 0.80 |
| CNOOC Ltd | 12,491,000 | 19,300,234 | 1.90 |
| CSPC Pharmaceutical Group Ltd | 24,306,000 | 35,072,921 | 3.44 |
| Lenovo Group Ltd | 30,678,000 | 20,723,482 | 2.04 |
| | | <u>96,531,315</u> | <u>9.48</u> |

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|--|-------------|--------------------|--------------------|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued) | | | |
| Listed Equity Securities (Continued) | | | |
| Hong Kong – Others | | | |
| AIA Group Ltd | 4,921,800 | 40,852,376 | 4.01 |
| ANTA Sports Products Ltd | 1,556,000 | 7,461,043 | 0.73 |
| Beijing Tong Ren Tang Chinese Medicine Co Ltd | 16,946,000 | 26,659,863 | 2.62 |
| Country Garden Services Holdings Co Ltd | 7,279,000 | 11,563,042 | 1.14 |
| Haier Electronics Group Co Ltd | 2,281,000 | 5,609,983 | 0.55 |
| Honghua Group Ltd | 31,799,000 | 1,664,859 | 0.16 |
| Hope Education Group Co Ltd | 176,634,000 | 19,172,257 | 1.88 |
| Innovent Biologics Inc | 6,557,500 | 20,180,659 | 1.98 |
| Kingdee International Software Group Co Ltd | 4,239,000 | 3,745,843 | 0.37 |
| Li Ning Co Ltd | 3,965,500 | 4,253,606 | 0.42 |
| Minsheng Education Group Co Ltd | 98,060,000 | 16,403,752 | 1.61 |
| Real Gold Mining Ltd | 14,179,500 | 543,203 | 0.05 |
| Sands China Ltd | 1,182,000 | 5,177,160 | 0.51 |
| Sany Heavy Equipment International Holdings Co Ltd | 14,612,000 | 4,981,968 | 0.49 |
| SIIC Environment Holdings Ltd | 224,658,980 | 44,466,760 | 4.37 |
| Techtronic Industries Co Ltd | 6,026,500 | 32,013,893 | 3.15 |
| Tencent Holdings Ltd | 167,100 | 6,700,174 | 0.66 |
| Tianli Education International Holdings Ltd | 27,356,000 | 4,925,516 | 0.49 |
| | | 256,375,957 | 25.19 |
| | | 256,375,957 | 25.19 |
| Singapore | | | |
| BOC Aviation Ltd | 2,070,500 | 15,321,761 | 1.50 |
| | | 15,321,761 | 1.50 |
| Taiwan | | | |
| Chunghwa Telecom Co Ltd | 3,321,000 | 12,304,840 | 1.21 |
| CTBC Financial Holding Co Ltd | 6,500,000 | 4,305,200 | 0.42 |
| E.Sun Financial Holding Co Ltd | 6,453,000 | 4,252,912 | 0.42 |
| MediaTek Inc | 2,704,000 | 20,347,826 | 2.00 |
| Mega Financial Holding Co Ltd | 8,803,000 | 7,490,257 | 0.74 |
| Taiwan Semiconductor Manufacturing Co Ltd | 5,059,000 | 37,405,879 | 3.67 |
| Wah Lee Industrial Corp | 3,442,000 | 5,597,849 | 0.55 |
| | | 91,704,763 | 9.01 |
| | | 91,704,763 | 9.01 |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|--|-----------|--------------------|--------------------|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued) | | | |
| Listed Equity Securities (Continued) | | | |
| United Kingdom | | | |
| Worldsec Ltd | 200,000 | 15,767 | 0.00 |
| United States | | | |
| Alibaba Group Holding Ltd ADR | 437,825 | 60,012,673 | 5.90 |
| Baozun Inc ADR | 108,154 | 3,159,178 | 0.31 |
| Four Seasons Education Cayman Inc ADR | 1,228,231 | 3,009,166 | 0.30 |
| iQIYI Inc ADR | 1,035,183 | 15,393,171 | 1.51 |
| Pinduoduo Inc ADR | 500,784 | 11,237,593 | 1.10 |
| RYB Education Inc ADR | 756,767 | 4,419,519 | 0.43 |
| Tencent Music Entertainment Group ADR | 1,307,157 | 17,280,616 | 1.70 |
| | | 114,511,916 | 11.25 |
| Listed Investment Fund | | | |
| Value China ETF | 460,000 | 2,164,588 | 0.21 |
| Participation Notes | | | |
| CICC Financial Trading (Kweichow Moutai Co Ltd A Shrs) P Note 01/04/2021 | 89,572 | 7,683,128 | 0.76 |
| CICC Financial Trading Ltd (Bros Eastern Co Ltd A Shrs) P Note 11/26/2021 | 4,222,906 | 3,395,216 | 0.33 |
| CICC Financial Trading Ltd (Joeone Co Ltd A Shrs) P Note 11/15/2021 | 105,126 | 202,473 | 0.02 |
| Macquarie Bank (Military Commercial Joint Stock Bank) P Note 03/29/2019 | 4,694,401 | 3,933,908 | 0.39 |
| Macquarie Bank Ltd (Bao Viet Holdings) P Note 03/31/2020 | 2,171,890 | 8,329,198 | 0.82 |
| Macquarie Bank Ltd (FPT Corp) P Note 06/01/2017 | 7,856,448 | 14,283,023 | 1.40 |
| Macquarie Bank Ltd (Saigon Securities Inc) P Note 03/29/2019 | 4,189,620 | 4,809,684 | 0.47 |
| | | 42,636,630 | 4.19 |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|--|------------|----------------------|--------------------|
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued) | | | |
| Quoted Debt Securities | | | |
| CHMT Peaceful Develop Asia Property Ltd 15.25% 10/25/2019 | 6,102,000 | 6,970,854 | 0.69 |
| Logan Property Holdings Co Ltd 5.75% 01/03/2022 | 26,647,000 | <u>25,280,557</u> | <u>2.48</u> |
| | | <u>32,251,411</u> | <u>3.17</u> |
| Unlisted Equity Securities | | | |
| EganaGoldpfeil Holdings Ltd | 6,885,464 | <u>—</u> | <u>—</u> |
| Unlisted Investment Funds | | | |
| Emerging Market Fund | 41,504 | 10,522,384 | 1.04 |
| HSBC Global Liquidity Funds plc – US Dollar Liquidity Fund | 5,650,192 | 5,650,192 | 0.56 |
| Strategic Asia Fund | 10,339 | 29,928,365 | 2.94 |
| Value Partners China A Share Opportunity Fund | 89,475 | 11,842,067 | 1.16 |
| Value Partners Hedge Fund Ltd | 149,069 | 5,117,552 | 0.50 |
| Value Partners Ireland Fund Plc – Value Partners Greater China Equity Fund CI USD A Unhedged | 1,850,000 | 18,759,000 | 1.84 |
| Value Partners Strategic Equity Fund | 238,180 | <u>0.00</u> | <u>0.00</u> |
| | | <u>81,819,560</u> | <u>8.04</u> |
| Currency Forwards | | <u>11,163</u> | <u>0.00</u> |
| Total financial assets at fair value through profit or loss | | <u>1,004,749,677</u> | <u>98.71</u> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2018

| | Holdings | Fair value US\$ | % of net assets |
|---|-------------|--------------------|--------------------|
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | | |
| Listed Equity Securities | | | |
| Hong Kong – H Shares | | | |
| Zhuzhou CRRC Times Electric Co Ltd H Shrs | (810,400) | (4,491,270) | (0.44) |
| Hong Kong – Others | | | |
| Country Garden Holdings Co Ltd | (4,567,000) | (5,557,813) | (0.55) |
| ENN Energy Holdings Ltd | (373,000) | (3,307,966) | (0.32) |
| Genscript Biotech Corp | (500,000) | (674,239) | (0.07) |
| Logan Property Holdings Co Ltd | (4,672,000) | (5,852,640) | (0.58) |
| SSY Group Ltd | (1,000,000) | (740,641) | (0.07) |
| Wuxi Biologics Cayman Inc | (500,000) | (3,201,998) | (0.31) |
| | | (19,335,297) | (1.90) |
| United States | | | |
| Huazhu Group Ltd | (83,570) | (2,392,609) | (0.23) |
| Currency Forwards | | | |
| | | (261,948) | (0.03) |
| Total financial liabilities at fair value through profit or loss | | (26,481,124) | (2.60) |
| Total investments, net | | 978,268,553 | 96.11 |
| Total investments, at cost (inclusive of transaction cost) | | 1,189,160,669 | |

INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | % of net assets | |
|-----------------------------------|-----------------|--------------|
| | 2018 | 2017 |
| Listed equity securities | | |
| China | 8.67 | 7.65 |
| Hong Kong | | |
| – H shares | 17.56 | 21.68 |
| – Red chips | 9.48 | 7.07 |
| – Others | 23.29 | 23.31 |
| Singapore | 1.50 | 5.49 |
| South Korea | – | 1.20 |
| Taiwan | 9.01 | 7.03 |
| United Kingdom | 0.00 | 0.00 |
| United States | 11.02 | 7.55 |
| | <hr/> | <hr/> |
| | 80.53 | 80.98 |
| Listed investment fund | 0.21 | – |
| Participation notes | 4.19 | 3.87 |
| Quoted debt securities | 3.17 | 1.73 |
| Unlisted equity securities | – | – |
| Unlisted investment funds | 8.04 | 9.14 |
| Currency forwards | (0.03) | 0.08 |
| | <hr/> | <hr/> |
| Total investments, net | <u>96.11</u> | <u>95.80</u> |

VALUE PARTNERS CLASSIC FUND

(A Hong Kong unit trust)

PERFORMANCE RECORD (UNAUDITED)

Net assets (at last traded price)

| | 2018 | 2017 | 2016 |
|---------------------------------|-------------------|-------------------|-------------------|
| Net assets | US\$1,017,869,745 | US\$1,575,601,366 | US\$1,405,126,466 |
| Net asset value per unit | | | |
| "A" units | US\$283.55 | US\$368.78 | US\$254.56 |
| "B" units | US\$126.39 | US\$165.15 | US\$114.57 |
| "C" units USD | US\$15.85 | US\$20.71 | US\$14.45 |
| "C" units RMB | RMB11.34 | RMB14.03 | RMB10.42 |
| "C" units AUD Hedged | AUD13.04 | AUD17.21 | AUD11.94 |
| "C" units CAD Hedged | CAD12.69 | CAD16.79 | CAD11.58 |
| "C" units HKD Hedged | HKD10.72 | HKD14.24 | HKD9.85 |
| "C" units NZD Hedged | NZD13.49 | NZD17.60 | NZD12.06 |
| "C" units RMB Hedged | RMB11.02 | RMB14.33 | RMB9.61 |
| "C" units MDis USD | US\$7.47 | US\$10.16 | — |
| "C" units MDis HKD | HKD7.44 | HKD10.17 | — |
| "C" units MDis RMB | RMB7.61 | RMB9.91 | — |
| "C" units MDis RMB Hedged | RMB7.39 | RMB10.15 | — |
| "Z" units | US\$8.60 | US\$11.18 | — |

PERFORMANCE RECORD (UNAUDITED) (Continued)

Performance record for the past 10 years

| | Highest issue price per unit | | | | | | |
|------|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | "A" units | "B" units | "C" units | "C" units | "C" units | "C" units | "C" units |
| | | | USD | RMB | AUD | CAD | NZD |
| | | | Hedged | Hedged | Hedged | Hedged | Hedged |
| US\$ | US\$ | US\$ | RMB | AUD | CAD | NZD | |
| 2018 | 412.64 | 184.71 | 23.16 | 15.31 | 19.23 | 18.76 | 19.69 |
| 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 | - | - | - | - |

| | Highest issue price per unit | | | | | | |
|------|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | "C" units | "C" units | "C" units | "C" units | "C" units | "C" units | "Z" units |
| | HKD | RMB | USD | HKD | RMB | RMB | |
| | Hedged | Hedged | MDis | MDis | MDis | MDis | |
| HKD | RMB | US\$ | HKD | RMB | RMB | | |
| 2018 | 15.93 | 16.04 | 11.35 | 11.38 | 10.83 | 11.33 | 12.51 |
| 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 | - | - | - | - | - | - | - |

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 | "C" units | "C" units | "C" units | "C" units |
| | | | USD | RMB | AUD | CAD | NZD |
| | | | Hedged | Hedged | Hedged | Hedged | Hedged |
| US\$ | US\$ | US\$ | RMB | AUD | CAD | NZD | |
| 2018 | 278.60 | 124.19 | 15.58 | 11.14 | 12.82 | 12.48 | 13.26 |
| 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 | - | - | - | - |

| | Lowest issue price per unit | | | | | | |
|------|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | "C" units | "C" units | "C" units | "C" units | "C" units | "C" units | "Z" units |
| | HKD | RMB | USD | HKD | RMB | RMB | |
| | Hedged | Hedged | MDis | MDis | MDis | MDis | |
| HKD | RMB | US\$ | HKD | RMB | RMB | | |
| 2018 | 10.54 | 10.81 | 7.37 | 7.34 | 7.51 | 7.29 | 8.45 |
| 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 | - | - | - | - | - | - | - |