

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds

2016 ANNUAL
REPORT

For the year ended 31 December 2016



Value Partners Limited

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

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

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

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(A Cayman Islands unit trust)

GENERAL INFORMATION

Manager

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

Directors of the Manager

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

Trustee, Registrar, Administrator and Principal Office

Bank of Bermuda (Cayman) Limited
P.O. Box 513
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

Custodian and Registrar's Agent

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

Legal Advisors

With respect to Cayman Islands law:
Maples and Calder
53rd Floor, The Center
99 Queen's Road
Central, Hong Kong

With respect to Hong Kong law:
Deacons
5/F, Alexandra House
18 Chater Road
Central, Hong Kong

Auditors

KPMG
P.O. Box 493
Century Yard
Cricket Square
Grand Cayman KY1-1106
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Information available from:

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Email : fis@vp.com.hk
Website : www.valuepartners-group.com

GENERAL INFORMATION (Continued)**Recent awards and achievements****Corporate Awards**

- 2016**
- **The 14th China's Financial Annual Champion Awards 2016**
Value Partners: Best Asset Management Service Provider of the Year
– *Hexun.com*
 - **The Asset Benchmark Research Awards 2016 - G3 Bonds**
Top Investment House
Value Partners - Ranked 2nd in Hedge Fund category
– *The Asset Benchmark Survey*
 - **The Asset Triple A, Asset Servicing, Investor And Fund Management Awards 2016**
Asset Management Company Of The Year (Hong Kong)
Value Partners - Highly Commended Fund House
– *The Asset*
 - **Asset Management Awards 2016**
Fund House Of The Year - Hong Kong
– *Asianinvestor*
 - **Asset Management Awards For Excellence 2016**
Best Fund Provider - Greater China Equity
– *Asian Private Banker*
 - **Thomson Reuters Lipper Fund Awards 2016**
Best Equity Group (Hong Kong)
– *Thomson Reuters*
 - **2015 Best Of The Best Performance Awards**
Value Partners: 20-Year Award For Greater China
– *Asia Asset Management*
 - **2015 Best Of The Best Regional Awards**
Value Partners: Longevity Awards - Best Asset Management House Over The Last 20 Years (Co-Winner)
– *Asia Asset Management*
 - **International Financial Annual Champion Awards 2015**
Value Partners: Best Asset Management Service Provider
– *Seec And Hexun.com*

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MANAGER'S REPORT

2016 was a challenging year for China's stock market – it began with a widespread sell-off sparked by the failed circuit-breaking system, and its recovery later in the year was masked by concerns over China's slowdown, RMB depreciation, and poor global investment sentiment.

In the fourth quarter, China Convergence Fund (the "Fund") returned -4.2% amid heightened uncertainties post Donald Trump's US Presidential Election victory and emerging market outflows caused by higher inflation expectation in the US and a stronger USD. For reference, Hang Seng Index and MSCI China dropped 5.2% and 7.1% during the period, respectively.

On a full-year basis, the Fund dropped 8.7% in 2016, mainly dragged by performance in the first two months of the year. For reference, Hang Seng Index and MSCI China rose 4.3% and 0.9% during the period, respectively, in a year when large-cap benchmark stocks shined.

Portfolio strategy review

In view of the increased volatility in the market, we remained nimble throughout the year, particularly in the first half of 2016. We de-risked the portfolio by lifting cash weighting in January and February as concerns on China policy implementations emerged. After a more-than-20% broad-based market correction in the first two months, our portfolio returned to fully-invest as we believed valuations overshot on the downside with consensus earnings estimates being excessively conservative.

MANAGER'S REPORT (Continued)

Outlook

2017 will likely be another volatile year. In the US, a new president with strong business background will take the helm, and in Europe, more presidential and general elections are coming up. In this context, China remains relatively stable both economically and politically.

The Beijing government has made steady progress in pushing ahead supply-side reforms. The China manufacturing purchasing managers' index (PMI) rose to 51.7 in November – its highest reading since July 2014, and sentiment improved the most amongst large corporations. The producer price index (PPI) rallied in 2016 and is poised to strengthen further. Meanwhile, a new round of industrial restocking has also begun. Industrial and corporate profits rebounded, and household income growth continued to grow.

The 19th National Congress of the Communist Party of China will be held in the autumn of 2017. This twice-a-decade party congress – the previous was held in 2012 – is closely watched mostly due to a far-reaching change in the makeup of the top leadership of the Communist Party. It is not surprising that, against this backdrop, stability was once again highlighted as a top policy priority for 2017 at the recent Politburo meeting. Faced with political reshuffles, the Party would like anything but surprises.

Meanwhile, Trump has yet to prove to the market if he will put his anti-China rhetoric into protectionist policies. In our view, to make "America great again" via heavy infrastructure investment and tax cuts, a strong China is needed. At its worst, not only will a trade war hurt China but also bring backlash in the US as it will stoke inflation and dent domestic consumption. China, on the other hand, may have more firepower to cushion against such situation given its political control and its economy which is still growing relatively faster than other major economies.

Driven by expectations of continued earnings recovery and fiscal stimulus to maintain growth, we remain constructive on Greater China equities. While we believe global macro and policy uncertainties shall continue, our investment will focus on 1) quality stocks to combat RMB depreciation; 2) companies with strong research and development leadership to avoid cyclical risk, 3) consumption stocks that benefit from the robust spending on living standard improvement; 4) Hong Kong small and mid-cap stocks to embrace the southbound capital flow from the mainland and 5) quality China A-share companies trading at attractive valuations.

From our experience, investing in China is never plain sailing. There will be bumps along the way from external shocks and unexpected hiccups in policies execution. Pressure will still be on as China battles RMB depreciation and capital outflows while managing financial risks in the property and bond markets. In such an uncertain environment, investors should stick to a bottom-up stock-picking approach which focuses on fundamentals.

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MANAGER'S REPORT (Continued)

Corporate update

In December, Value Partners appointed Dr AU King Lun as the Group's Chief Executive Officer (CEO) to strengthen Value Partners' management team at a time that we call "an era of golden opportunities". As the CEO of Value Partners, Dr AU takes charge of the Group's business and corporate affairs. He brings with him almost 30 years of industry experience and network in the Asian asset management industry. Our vision is to become a world-class asset management group, and Dr AU together with the other very-capable managers we already have in our team can help us achieve our vision.

Value Partners Limited

20 April 2017

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 30 December 2016. Performance data is net of all fees.

The views expressed are the views of Value Partners 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 material has been obtained from sources believed to be reliable, but its 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)

5 biggest holdings of securities as at 30 December 2016

Stock	Industry	Valuation (2017 Estimates)	Remarks
Fuyao Glass Industry (Code: 600660 CH) Market cap: US\$7.0 billion	Automobile and components	Price: CNY18.63 P/E: 13.8x P/B: 2.5x Yield: 4.5%	Founded in 1987, Fuyao Glass Industry manufactures and distributes automobile glass, decorated glassware and other industrial glassware through its subsidiaries. It also provides glass installation service. Fuyao Glass also actively promotes the construction of the production and sales base for automotive glass and raw materials in the US. It has achieved substantial progress in globalizing its business through its transition into bulk production.
Shenzhou International (Code: 2313 HK) Market cap: US\$8.9 billion	Apparel	Price: HKD49.05 P/E: 18.1x P/B: 3.7x Yield: 3.0%	Shenzhou International is one of the largest garment manufacturers in China, with major customers such as Uniqlo, Nike and Adidas on an original equipment manufacturer ("OEM") basis. Its key competitive advantage is quick order turnaround time, a key performance indicator valued by brand owners, especially in today's fast-paced fashion industry. Due to a vertically integrated model (from yarn spinning, fabric knitting, dyeing and printing to final garment completion), its delivery time is significantly faster than peers. Shenzhou International also enjoys lower procurement costs due to bulk purchases. The company continues to grow with good visibility on its order books.
Sundart Holdings (Code: 1568 HK) Market cap: US\$1.3 billion	Consumer durables and apparel	Price: HKD4.50 P/E: 16.9x P/B: 3.5x Yield: 2.3%	Sundart is an integrated fitting-out contractor in Hong Kong and Macau, specializing in providing fitting-out work for residential properties and hotel projects. It engages in the manufacturing, sourcing and distribution of interior decorative materials, and the leasing of intellectual property. In addition, Sundart also provides project management and consultancy services. With the support of its parent company, A share listed Jangho Group the company is also seeking to expand its business in mainland China.

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MANAGER'S REPORT (Continued)

Stock	Industry	Valuation (2017 Estimates)	Remarks
Sunny Optical Tech (Code: 2382 HK) Market cap: US\$4.8 billion	Technology hardware	Price: HKD33.95 P/E: 23.3x P/B: 6.0x Yield: 1.2%	Sunny Optical Technology engages in designing and manufacturing optical components, including glass and plastic lenses, lens sets and camera modules for mobile phones and digital cameras, as well as microscopes and surveying instruments. The company is a primary supplier for top-tier Chinese handset vendors including Huawei, Lenovo and Coolpad. Sunny Optical Technology is well-positioned to benefit from the smartphone boom and smartphone camera upgrade cycle in China and other emerging markets.
Tencent Holdings (Code: 700 HK) Market cap: US\$231.9 billion	Internet	Price: HKD189.70 P/E: 28.6x P/B: 8.0x Yield: 0.4%	Tencent Holdings is a leading provider of online games, premium messaging services, internet value added services, and advertising and ecommerce services in China. Its instant messenger "QQ" has the largest online community base with over 800 million accounts. Leveraging its large active user base, it offers good long-term monetization potential.

Note: The above investments made up 32% of China Convergence Fund as at 30 December 2016. The stock prices are based on the closing of 30 December 2016.

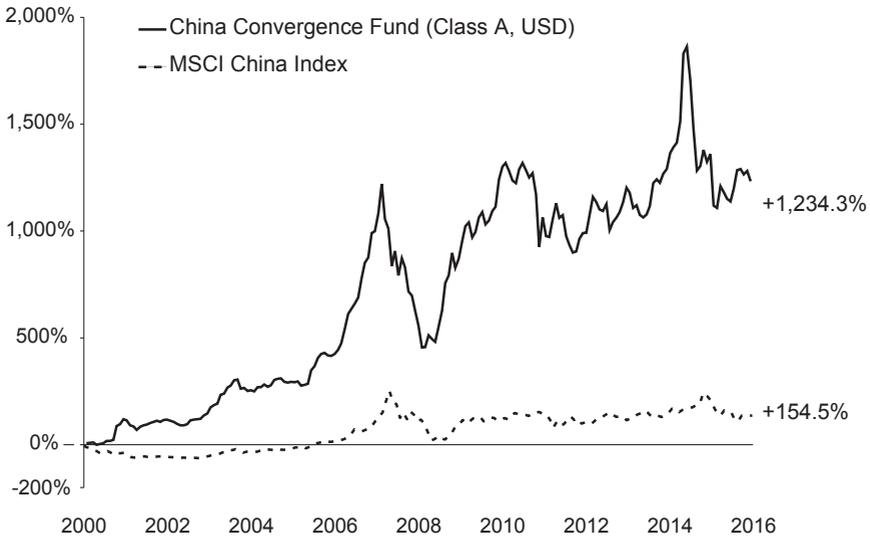
Individual stock performance/yield is not necessarily indicative of overall fund performance.

MANAGER'S REPORT (Continued)

China Convergence Fund – NAV as at 31 December 2016

Classes	NAV per unit
Class A USD	USD133.43
Class A AUD Hedged	AUD8.80
Class A CAD Hedged	CAD10.17
Class A NZD Hedged	NZD10.26
Class Z	USD11.85

**Since launch return compared to Index
From 14 July 2000 to 31 December 2016**



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STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

The Manager of the China Convergence Fund (the "Sub-fund") is required by the Hong Kong Code on Unit Trusts and Mutual Funds established by the Hong Kong Securities and Futures Commission and the Trust Deed to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Sub-fund at the end of that period and of the transactions for the period then ended. In preparing these financial statements the Manager is required to:

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

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

Trustee's responsibilities

The Trustee of the Sub-fund is required to:

- ensure that the Sub-fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Sub-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 Sub-fund.

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TRUSTEE'S REPORT TO THE UNITHOLDERS OF VALUE PARTNERS INTELLIGENT FUNDS – CHINA CONVERGENCE FUND

We hereby confirm that, in our opinion, the Manager has in all material respects, managed the China Convergence Fund (the "Sub-fund") in accordance with the provisions of the Trust Deed dated 21 June 2000 and supplemental Trust Deeds dated 22 October 2001, 3 November 2003, 10 November 2003 and 10 December 2004 and the Deed of Substitution dated 31 May 2005 and supplemental Trust Deed to the Deed of Substitution dated 30 March 2007, 24 June 2011 and 25 June 2013 of the Sub-fund for the year ended 31 December 2016.

For and on behalf of

Bank of Bermuda (Cayman) Limited

Trustee,
20 April 2017

CHINA CONVERGENCE FUND

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INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE PARTNERS INTELLIGENT FUNDS

– CHINA CONVERGENCE FUND

(A Cayman Islands Unit Trust)

Report on the audit of financial statements

Opinion

We have audited the financial statements of China Convergence Fund (the “Sub-fund”), a sub-fund of Value Partners Intelligent Funds (the “Trust”), set out on pages 16 to 57, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial disposition of the Sub-fund as at 31 December 2016, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Sub-fund in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the “Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditors' report thereon

The Manager and the Trustee of the Sub-fund are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
VALUE PARTNERS INTELLIGENT FUNDS
– CHINA CONVERGENCE FUND (Continued)**

(A Cayman Islands Unit Trust)

Report on the audit of financial statements (Continued)

Responsibilities of the Manager and the Trustee of the Sub-fund for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed, as amended, and the relevant disclosure provisions of Appendix E of the SFC Code.

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INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF VALUE PARTNERS INTELLIGENT FUNDS

– CHINA CONVERGENCE FUND (Continued)

(A Cayman Islands Unit Trust)

Report on the audit of financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Sub-fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee of the Sub-fund.
- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Sub-fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee of the Sub-fund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
VALUE PARTNERS INTELLIGENT FUNDS
– CHINA CONVERGENCE FUND (Continued)**

(A Cayman Islands Unit Trust)

**Report on matters under the relevant provisions of the Trust Deed, as amended,
and the relevant disclosure provisions of Appendix E of the SFC Code**

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

KPMG
Cayman Islands

20 April 2017

CHINA CONVERGENCE FUND

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 US\$	2015 US\$
Assets			
Financial assets at fair value through profit or loss	6, 10(f), 12	344,740,354	547,617,636
Interest, dividends and other receivables		118,081	73,755
Amounts due from unitholders		73,875	1,042,622
Amounts due from brokers	5	197,645	8,528,332
Cash held with bank	4, 10(d)	597,983	50,464,224
Total assets		<u>345,727,938</u>	<u>607,726,569</u>
Liabilities			
Financial liabilities at fair value through profit or loss	6, 12	27,701,818	47,586,256
Bank overdraft	4, 10(d)	27,188,315	29,549,993
Amounts due to unitholders		528,610	705,089
Amounts due to brokers	5	2,050	9,238,831
Management fees payable	10(a)	305,143	525,873
Performance fees payable	10(b)	200	121,810
Trustee fees payable	10(c)	36,952	62,661
Tax provision	9	122,040	14,348
Accrued expenses and other payables		120,678	328,539
Total liabilities		<u>56,005,806</u>	<u>88,133,400</u>
Net assets attributable to unitholders		<u>289,722,132</u>	<u>519,593,169</u>

The notes on pages 21 to 57 form part of these financial statements.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2016

	Note	2016	2015
Represented by:			
– Net assets attributable to unitholders		<u>US\$289,722,132</u>	<u>US\$519,593,169</u>
Total number of units in issue:			
– Class A	11(a)	2,120,855	3,214,763
– Class A AUD Hedged	11(b)	21,928	60,826
– Class A CAD Hedged	11(c)	1,810	–
– Class A NZD Hedged	11(d)	1,506	–
– Class Z	11(e)	<u>555,731</u>	<u>3,873,100</u>
Net asset value per unit:			
– Class A		USD 133.43	USD 146.20
– Class A AUD Hedged		AUD 8.80	AUD 9.40
– Class A CAD Hedged		CAD 10.17	CAD –
– Class A NZD Hedged		NZD 10.26	NZD –
– Class Z		<u>USD 11.85</u>	<u>USD 12.70</u>

Approved and authorised for issue by the Manager and the Trustee on 20 April 2017.

Signed by:

Value Partners Limited, Manager

Bank of Bermuda (Cayman) Limited, Trustee

The notes on pages 21 to 57 form part of these financial statements.

CHINA CONVERGENCE FUND

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 US\$	2015 US\$
Interest income	10(d)	95,530	81,218
Dividend income		8,146,849	8,131,178
Net losses from financial assets and liabilities at fair value through profit or loss	7	(36,869,522)	(61,414,607)
Net foreign exchange losses		(159,173)	(97,153)
Other income	10(d), 10(f)	<u>519,987</u>	<u>213,059</u>
Net investment loss		<u>(28,266,329)</u>	<u>(53,086,305)</u>
Management fees	10(a)	(4,513,969)	(6,188,319)
Transaction fees	10(d)	(2,381,323)	(3,827,437)
Trustee fees	8, 10(c)	(598,689)	(736,865)
Performance fees	10(b)	(200)	(121,810)
Professional fees		(24,229)	(53,004)
Stock loan fee expenses	10(d)	(197,195)	(62,692)
Interest expenses	10(d)	(569,836)	(378,372)
Bank charges	10(d)	(61,367)	(53,932)
Dividend expenses		(1,269,128)	(470,210)
Auditors' remuneration		(38,702)	(39,869)
Annual fees		(3,498)	(2,459)
Other operating expenses		<u>(205,492)</u>	<u>(419,126)</u>
Operating expenses		<u>(9,863,628)</u>	<u>(12,354,095)</u>
Loss before taxation		(38,129,957)	(65,440,400)
Taxation	9	<u>(380,939)</u>	<u>(780,972)</u>
Loss and total comprehensive income for the year		<u>(38,510,896)</u>	<u>(66,221,372)</u>

The notes on pages 21 to 57 form part of these financial statements.

CHINA CONVERGENCE FUNDA Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 US\$	2015 US\$
Balance as at 1 January		519,593,169	342,160,429
Loss and total comprehensive income for the year		(38,510,896)	(66,221,372)
Issue of redeemable units			
– Class A	11(a)	51,435,673	431,001,640
– Class A AUD Hedged	11(b)	769,520	574,432
– Class A CAD Hedged	11(c)	49,639	–
– Class A NZD Hedged	11(d)	128,253	–
– Class Z	11(e)	6,889,960	602,374
		59,273,045	432,178,446
Redemption of redeemable units			
– Class A	11(a)	(202,085,044)	(188,373,442)
– Class A AUD Hedged	11(b)	(1,024,739)	(150,892)
– Class A CAD Hedged	11(c)	(35,871)	–
– Class A NZD Hedged	11(d)	(122,404)	–
– Class Z	11(e)	(47,365,128)	–
		(250,633,186)	(188,524,334)
Net (decrease)/increase from unit transactions		(191,360,141)	243,654,112
Balance as at 31 December		289,722,132	519,593,169

The notes on pages 21 to 57 form part of these financial statements.

CHINA CONVERGENCE FUND

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 US\$	2015 US\$
Operating activities			
Interest received		95,286	58,205
Interest paid		(569,836)	(378,372)
Dividends received (net of withholding tax)		7,765,940	7,637,314
Dividends paid		(1,269,128)	(470,210)
Other income received		475,875	218,226
Proceeds from sale of investments		675,859,180	651,044,420
Purchase of investments		(530,641,952)	(844,325,243)
Tax paid		—	(631,304)
Tax refunded		122,040	—
Operating expenses paid		<u>(8,774,095)</u>	<u>(15,260,406)</u>
Cash flows generated from/(used in) operating activities		<u>143,063,310</u>	<u>(202,107,370)</u>
Financing activities			
Proceeds from issue of redeemable units		60,241,792	431,415,224
Payments on redemption of redeemable units		<u>(250,809,665)</u>	<u>(188,441,499)</u>
Cash flows (used in)/generated from financing activities		<u>(190,567,873)</u>	<u>242,973,725</u>
Net (decrease)/increase in cash and cash equivalents		(47,504,563)	40,866,355
Cash and cash equivalents as at 1 January		<u>20,914,231</u>	<u>(19,952,124)</u>
Cash and cash equivalents as at 31 December	4	<u>(26,590,332)</u>	<u>20,914,231</u>

The notes on pages 21 to 57 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL

Value Partners Intelligent Funds (the “Trust”) is an open-ended umbrella unit trust established under the laws of the Cayman Islands pursuant to a Trust Deed dated 21 June 2000 (as amended) (the “Trust Deed”). The Trust was registered under the Mutual Funds Law of the Cayman Islands on 30 June 2000.

The Trust issues redeemable units in various sub-funds and as at 31 December 2016, the China Convergence Fund, JA-VP China New Century Fund, Chinese Mainland Focus Fund and JA-VP Chugokutairiku Focus Fund have been launched. The China Convergence Fund, JA-VP China New Century Fund and Chinese Mainland Focus Fund commenced operations on 17 July 2000, 7 March 2002 and 27 November 2003 respectively. The JA-VP Chugokutairiku Focus Fund commenced operations on 2 September 2004 and was terminated on 31 October 2012. The JA-VP China New Century Fund is not authorised in Hong Kong and not available to the general public in Hong Kong.

Each separate sub-fund may be represented in whole or in part by a separate portfolio and be maintained with separate accounting records. However, notwithstanding the operation of separate sub-funds and/or portfolios, the Trust may be treated as one entity. Thus all of the assets of the Trust may be available to meet all of the liabilities of the Trust, regardless of the separate sub-fund or portfolio to which such assets or liabilities are attributable. In practice, cross-unit liability will usually only arise where any sub-fund becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. In this case, all of the assets of the Trust attributable to the other sub-funds may be applied to cover the liabilities of the insolvent sub-fund.

These financial statements have been prepared for the Value Partners Intelligent Funds – China Convergence Fund (the “Sub-fund”). The financial statements of JA-VP China New Century Fund and Chinese Mainland Focus Fund have been prepared individually and consequently are not included in these financial statements.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 GENERAL (Continued)

As at 31 December 2016 and 2015, the combined net assets of the Trust are as follows:

Name of sub-funds	Combined net assets	
	2016 US\$	2015 US\$
China Convergence Fund	289,722,132	519,593,169
Chinese Mainland Focus Fund	114,374,767	142,250,707
JA-VP China New Century Fund	<u>6,626,011</u>	<u>8,254,639</u>
Value Partners Intelligent Funds	<u>410,722,910</u>	<u>670,098,515</u>

The investment activities of the Sub-fund are managed by Value Partners Limited (the “Manager”) and the administration of the Sub-fund is handled by Bank of Bermuda (Cayman) Limited (the “Administrator”) which has delegated its role to HSBC Institutional Trust Services (Asia) Limited.

The Sub-fund is authorised by the Hong Kong Securities and Futures Commission (the “SFC”) under Section 104 of the Hong Kong Securities and Futures Ordinance. The Sub-fund is also recognised by the Monetary Authority of Singapore as a restricted scheme under paragraph 3 of the Sixth Schedule of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”), the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements of the Hong Kong Code on Unit Trusts and Mutual Funds (the “SFC Code”) issued by the SFC. A summary of the significant accounting policies adopted by the Sub-fund is set out below.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation

The measurement currency of the financial statements is United States dollars (“USD”) and not Cayman Islands dollars reflecting the fact that most of the transactions are denominated in USD as well as Hong Kong dollars (“HKD”) which is pegged to the USD. Units of the Sub-fund are issued in USD, Australian dollars (“AUD”), Canadian dollars (“CAD”) and New Zealand dollars (“NZD”).

The financial statements are presented in USD.

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

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of financial position, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of financial position that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement relate to the determination of fair value of suspended equities with significant unobservable inputs and are disclosed in note 12.

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

(c) Foreign currency translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to USD at the foreign currency closing exchange rate ruling at the date of the statement of financial position. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to USD at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to trading investments are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in statement of comprehensive income.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Sub-fund. Of these, Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception* (the “Amendments”) are relevant to the Sub-fund’s financial statements and have been adopted since 1 January 2016.

The Amendments clarify that an investment entity may provide investment-related services to third parties – even if those activities are substantial to the entity – as long as the entity continues to meet the definition of an investment entity. The Amendments are effective for annual periods beginning on or after 1 January 2016.

The Manager concluded that the Sub-fund and Value Partners China A Share Opportunity Fund (the “Subsidiary”) each met the definition of an investment entity. Accordingly, the Sub-fund did not consolidate the Subsidiary but accounted for its investment in the Subsidiary at fair value through profit or loss. As a result, there are no changes resulting from the application of the Amendments. The Amendments were consistent with the Sub-fund’s previous accounting policy on the Subsidiary.

The Sub-fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

(e) Subsidiaries

“Subsidiaries” are investees controlled by the Sub-fund. The Sub-fund “controls” an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Sub-fund is an investment entity and measures investments in its subsidiaries at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities

(i) Classification

The Sub-fund designates all its investments in equity securities, investment funds, debt securities, foreign currency forward contracts, participation notes and warrants as financial assets and financial liabilities at fair value through profit or loss category. The category of financial assets and financial liabilities at fair value through profit or loss comprises financial instruments held for trading and financial instruments designated at fair value through profit or loss upon initial recognition.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

Financial assets that are classified as loans and receivables include balances due from unitholders and brokers and accounts receivables.

Financial liabilities that are not held for trading include balances due to unitholders and brokers and accounts payables.

(ii) Recognition

The Sub-fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of International Accounting Standard 39 ("IAS 39").

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) *Measurement*

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments held for trading are expensed immediately.

Subsequent to initial recognition, all trading instruments are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities are measured at amortised cost using the effective interest rate. Financial liabilities arising from the redeemable units issued by the Sub-fund are carried at the redemption amount representing the unitholders' right to a residual interest in the Sub-fund's assets.

(iv) *Fair value measurement principles*

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

When available, the Sub-fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

Net gains and losses on investments are included in the statement of comprehensive income. Net realised gains and losses from financial instruments at fair value through profit or loss are calculated using the average cost method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets and financial liabilities (Continued)

(v) *Derecognition*

The Sub-fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Sub-fund uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(vi) *Offsetting*

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

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

(g) *Impairment*

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

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

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Cash and cash equivalents

Cash comprises current deposits with banks and bank overdrafts. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bank overdrafts that are repayable on demand form an integral part of the Sub-fund's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Securities sold short and associated securities borrowing

Securities sold short are those positions where the Sub-fund has sold a security that it does not own in anticipation of a decline in the market value of the security and are classified as financial liabilities at fair value through profit or loss held for trading. To enter a short sale, the Sub-fund may need to borrow the security for delivery to the buyer. On each day, obligations to deliver securities borrowed by the Sub-fund to fulfil its short sale contracts are marked to market and an unrealised gain or loss is recorded in net losses from financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. While the transaction is open the Sub-fund will also incur an expense for any dividends or interest that will be paid to the lender of the securities.

(j) Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(k) Dividend income and expense

Dividend income relating to exchange-traded equity securities and dividend expense relating to securities sold short are recognised in the statement of comprehensive income on the ex-dividend date.

In some cases, the Sub-fund may choose to receive dividends in the form of additional shares rather than cash. In such cases the Sub-fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Expenses

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

(m) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments held for trading are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, net foreign exchange losses are foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as held for trading.

(n) Taxation

Under the current system of taxation in the Cayman Islands, the Sub-fund is exempt from paying taxes on income, profits or capital gains. The Trust has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from tax for a period of 50 years since inception of the Trust.

Capital gains, dividend and interest income received by the Sub-fund may be subject to withholding tax imposed in the country of origin. Capital gains and investment income are recorded gross of such taxes and the withholding tax is recognised in the statement of comprehensive income as incurred. Movement in deferred tax liabilities arising from taxable temporary differences on unrealised gains on investments and their tax bases are recognised in the statement of comprehensive income. Refer to note 9 for more details.

(o) Redeemable units

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

A puttable financial instrument that includes a contractual obligation for the Sub-fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Sub-fund's net assets in the event of Sub-fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Redeemable units (Continued)

- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Sub-fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-fund over the life of the instrument.

Before 25 September 2015, there were two classes of units named as Class A and Class Z. Class Z was created for institutional clients only. Since 25 September 2015, new classes of units known as Class A AUD Hedged, Class A CAD Hedged and Class A NZD Hedged were created. These classes of units are collectively referred to as "Class A Hedged". The launch date of Class A AUD Hedged, Class A CAD Hedged and Class A NZD Hedged is 27 October 2015, 7 January 2016 and 7 January 2016 respectively. As at 31 December 2016, the Sub-fund has five (2015: three) classes of redeemable units in issue. All are the most subordinate classes of financial instruments issued by the Sub-fund. They rank *pari passu* in all material respects and have the same terms and conditions other than different management fees rates. The redeemable units provide unitholders with the right to require redemption for cash at a value proportionate to the unitholders' share in the Sub-fund's net assets at each redemption date, and also in the event of the Sub-fund's liquidation. The redeemable units of the Sub-fund are classified as financial liabilities as at 31 December 2016 and 31 December 2015 and are measured at the present value of the redemption amounts.

Incremental costs directly attributable to the issue or redemption of redeemable units are recognised directly in equity as a deduction from the proceeds or part of the acquisition cost.

Repurchase of redeemable units

When redeemable units recognised as equity are redeemed, the amount paid on the redemption of the units is presented as a deduction from total equity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Related parties

- (1) A person, or a close member of that person's family, is related to the Sub-fund if that person:
- (i) has control or joint control over the Sub-fund;
 - (ii) has significant influence over the Sub-fund; or
 - (iii) is a member of the key management personnel of the Sub-fund.
- (2) An entity is related to the Sub-fund if any of the following conditions applies:
- (i) The entity and the Sub-fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is controlled or jointly controlled by a person identified in (1);
 - (vi) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (vii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Sub-fund or to the Sub-fund's parent.

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

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT

The investment objective of the Sub-fund is to provide unitholders with long-term capital appreciation by investing primarily in A, B and H Shares. A Shares and B Shares are shares listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in the People's Republic of China ("PRC"). A Shares are traded in Renminbi and B Shares are traded in USD and HKD. H Shares are shares listed on the Hong Kong Stock Exchange and are denominated in HKD.

The Sub-fund invests in listed and unlisted equity securities, debt security, foreign currency forward contracts, investment funds, participation notes and warrants and therefore is exposed to market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments held.

The Sub-fund's overall financial risk management program focuses on the analysis, evaluation and management of financial risks and seeks to minimise potential adverse effects on the Sub-fund's financial performance.

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

(a) Market risk

(i) Foreign exchange risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Sub-fund's overall currency positions are monitored on a daily basis by the Manager.

As at 31 December 2016, had USD weakened by 0.5% (2015: 0.5%) in relation to respective currencies, with all other variables held constant, the net asset value would have increased by the amounts shown below. The analysis was performed on the same basis for net foreign currency exposures as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

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

(i) *Foreign exchange risk (Continued)*

	Net foreign currency exposures <i>US\$</i>	Change in net asset value if the USD weakened by 0.5% <i>US\$</i>
As at 31 December 2016		
Australian dollar	136,847	684
Canadian dollar	24,146	121
Chinese Renminbi	52,108,422	260,542
New Zealand dollar	20,910	105
Singapore dollar	<u>1,197,162</u>	<u>5,986</u>
	<u><u>53,487,487</u></u>	<u><u>267,438</u></u>
As at 31 December 2015		
Australian dollar	427,831	2,139
Chinese Renminbi	61,114,426	305,572
Singapore dollar	<u>4,810,623</u>	<u>24,053</u>
	<u><u>66,352,880</u></u>	<u><u>331,764</u></u>

As the HKD is pegged to the USD, the Sub-fund does not expect any significant movements in HKD/USD exchange rate. A 0.5% (2015: 0.5%) appreciation of the USD against the above currencies would have resulted in an equal but opposite effect on the financial statements on the basis that all other variables remain constant.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Sub-fund trades in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, to take advantage of market movements.

All securities investments present a risk of loss of capital. The Manager moderates this risk through a careful selection of securities and other financial instruments within specified limits stated in the Explanatory Memorandum. The Sub-fund's overall market positions are monitored periodically by the Manager.

As at 31 December 2016 and 2015, the Sub-fund's overall market exposures and estimated market sensitivity were as follows:

	Fair value US\$	Relevant benchmark index for the Sub-fund	Reasonably possible change of the relevant benchmark index	Estimated change in net asset value US\$
As at 31 December 2016				
Financial assets at fair value through profit or loss	344,740,354	MSCI China Index	+/-30%	+/-92,535,979
Financial liabilities at fair value through profit or loss	(27,701,818)	MSCI China Index	+/-30%	-/+9,639,125
As at 31 December 2015				
Financial assets at fair value through profit or loss	547,617,636	MSCI China Index	+/-30%	+/-188,448,832
Financial liabilities at fair value through profit or loss	(47,586,256)	MSCI China Index	+/-30%	-/+13,217,620

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Price risk (Continued)

The Sub-fund is subject to certain inherent risks arising from selling securities short. The ultimate cost to the Sub-fund to acquire these securities may exceed the liability reflected in these financial statements. There were no significant concentrations of risk as at 31 December 2016 or 31 December 2015. No exposure to any individual investments exceeded 10% of the net assets attributable to unitholders either at 31 December 2016 or at 31 December 2015.

(iii) Interest rate risk

The majority of the Sub-fund's financial assets and liabilities are non-interest bearing. As a result, the Sub-fund is not subject to significant amount of risk due to fluctuations in the prevailing levels of market interest rates.

The Sub-fund's interest rate risk arises from bank balances of US\$597,983 (2015: US\$50,464,224) and bank overdraft of US\$27,188,315 (2015: US\$29,549,993). As at 31 December 2016, the maturity dates of the majority of interest-bearing assets are within 3 months. The bank balances and bank overdraft expose the Sub-fund to cash flow interest rate risk.

The debt security is also subject to interest rate risk. The interest rate risk is not considered significant and no sensitivity was deemed necessary.

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Sub-fund. Financial assets which potentially subject the Sub-fund to concentrations of credit risk consist principally of financial assets held with custodians, bank balances and receivables.

The Sub-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 with high credit ratings and 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. Accordingly, there is no significant concentration of credit risk.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The table below shows the major counterparties at the date of the statement of financial position. The credit ratings are issued by Moody's:

Counterparty	Credit rating	2016 US\$	2015 US\$
Bank A	A1	597,225	50,464,224
Bank B	Baa1	758	–
Custodian A	A1	341,755,272	547,617,636
Custodian B	Baa1	<u>2,985,082</u>	<u>–</u>
		<u>345,338,337</u>	<u>598,081,860</u>

The Sub-fund may invest in debt instruments which are unrated or rated with low credit ratings. These securities are subject to greater risk of loss of principal and interest than securities with higher credit ratings. The Sub-fund may also invest in emerging markets where the clearing, settlement and registration systems available to effect trades are less developed than those in more mature markets. These can result in delays and other difficulties in settling trades and registering transfers of securities.

As at 31 December, the Sub-fund invested in a debt security with the following credit quality:

Credit rating	2016 US\$	2015 US\$
Not rated	<u>1,805,357</u>	<u>1,806,428</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Sub-fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Sub-fund.

The markets in which the Sub-fund invests may be relatively illiquid and the liquidity of these markets generally has fluctuated substantially over time. Investment of the Sub-fund's assets in relatively illiquid securities may restrict the ability of the Sub-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. There is no regulated market for such transactions, and the prices will be established solely by dealers in those transactions. The Manager monitors the liquidity of the Sub-fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis.

The Sub-fund holds investments in an unlisted open-ended investment fund, which may be subject to redemption restrictions such as side pockets or redemption gates. As a result, the Sub-fund may not be able to liquidate some of its investments in these instruments in due time to meet its liquidity requirements.

The Sub-fund is exposed to daily cash redemption of units. The Manager considered that there is no significant liquidity risk on redemption of units as, according to the provisions of the Trust Deed dated 21 June 2000 (as amended) of the Sub-fund, the Manager may limit the total number of units redeemed on any dealing day to 10% of the total number of units in issue. The contractual maturity of all other liabilities is less than one month.

(d) Specific instruments

Forward contracts

Forward contracts are commitments either to purchase or sell a designated financial instrument, currency, commodity or index at a specified future date for a specified price and may be settled in cash or the underlying financial asset.

CHINA CONVERGENCE FUND

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Specific instruments (Continued)

Forward contracts (Continued)

Forward contracts result in exposure to market risk based on changes in market prices relative to contracted prices. Market risks arise due to the possible movement in foreign currency exchange rates, indices and securities' values underlying these instruments. In addition, because of the low margin deposits normally required in relation to notional contract sizes, a high degree of leverage may be typical of a forward contract and may result in substantial losses to the sub-funds. Forward contracts are generally subject to liquidity risk.

The Sub-fund had the following foreign currency forward contracts outstanding at 31 December 2016 and 31 December 2015.

Buy	Sell	Settlement date	Fair value assets US\$	Fair value liabilities US\$
As at 31 December 2016				
AUD189,364	USD136,781	25 January 2017	–	(211)
CAD18,127	USD13,501	25 January 2017	–	(60)
NZD15,255	USD10,536	25 January 2017	<u>56</u>	<u>–</u>
As at 31 December 2015				
AUD585,928	USD425,811	29 January 2016	<u>2,166</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CASH AND CASH EQUIVALENTS

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Cash held with bank	597,983	50,464,224
Bank overdraft	<u>(27,188,315)</u>	<u>(29,549,993)</u>
	<u>(26,590,332)</u>	<u>20,914,231</u>

No cash held (2015: US\$45,863,355) is restricted as disclosed in note 10(d).

5 AMOUNTS DUE FROM/TO BROKERS

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Amount receivable on sales of investments	197,645	8,528,332
Amount payable on purchase of investments	2,050	9,238,831

6 FINANCIAL ASSETS/(LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Financial assets at fair value through profit or loss		
Listed equity securities	293,610,043	462,885,116
Debt security	1,805,357	1,806,428
Foreign currency forward contracts	56	2,166
Investment fund	28,705,732	28,562,430
Participation notes	20,619,166	31,239,907
Warrants	<u>–</u>	<u>23,121,589</u>
	<u>344,740,354</u>	<u>547,617,636</u>
Financial liabilities at fair value through profit or loss		
Listed equity securities sold short	(27,701,547)	(47,586,256)
Foreign currency forward contracts	<u>(271)</u>	<u>–</u>
	<u>(27,701,818)</u>	<u>(47,586,256)</u>

Listed equity securities of US\$32,308,679 (2015: US\$6,875,201) are restricted as disclosed in note 10(d).

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 NET LOSSES FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 US\$	2015 US\$
Net losses from financial assets and financial liabilities at fair value through profit or loss		
Net realised (losses)/gains	(51,956,943)	9,384,592
Change in unrealised gains or losses	<u>15,087,421</u>	<u>(70,799,199)</u>
	<u><u>(36,869,522)</u></u>	<u><u>(61,414,607)</u></u>

8 TRUSTEE FEES

Bank of Bermuda (Cayman) Limited, the Trustee of the Sub-fund, is entitled to trustee fees which are determined based on the bi-weekly net asset value of the Sub-fund as below:

Net asset value	Trustee fee per annum shown as % of net asset value
First US\$400 million	0.15%
Thereafter	0.12%

The trustee fees are subject to a monthly minimum of US\$3,000 (2015: US\$3,000).

Under the terms of the Trust Deed (as amended), the Trustee is also entitled to a fixed annual fee of US\$3,000 (2015: US\$3,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 TAXATION

- (a) There are no taxes on income or gains in the Cayman Islands as the Trust has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital gains taxes until 2050. Accordingly, no provision for income taxes is included in these financial statements.
- (b) No provision for Hong Kong Profits Tax has been made in the financial statements as the Trust is exempt from taxation under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.
- (c) 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 Sub-fund invests in derivative instruments linked to “A” shares, issued by one or more Qualified Foreign Institutional Investors (“QFIIs”) or their affiliates as well as “A” shares of companies listed in the PRC, via the Manager’s QFII quota. Prior to 17 November 2014, a 10% tax was withheld by the QFIIs or custodian on all PRC sourced dividends and realised capital gains.

Notice issued on 14 November 2014

On 14 November 2014, the Ministry of Finance of the PRC (the “MoF”), the State Administration of Taxation of the PRC (“SAT”) and the China Securities Regulatory Commission (the “CSRC”) jointly issued the “Notice on temporary exemption of Corporate Income Tax on capital gains derived from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII” (the “Notice”).

According to the Notice, amongst other things:

- (i) QFIIs and RQFIIs, which do not have an establishment or place of business in the PRC or have an establishment or place in the PRC but the income so derived in the PRC is not effectively connected with such establishment, will be temporarily exempt from corporate income tax on gains derived from the transfer of PRC equity investment assets (including China “A” shares) effective from 17 November 2014;
- (ii) PRC corporate income tax will be imposed on gains by QFIIs and RQFIIs from transfer of equity investment assets (including China “A” shares) realised prior to 17 November 2014 in accordance with laws.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 TAXATION (Continued)

(c) (Continued)

As a result of the issue of the Notice, the Manager has decided on the following changes to the tax provisioning policy of the Sub-fund:

- (i) The Sub-fund has ceased to provide PRC withholding income tax for realised gains on derivative instruments linked to “A” shares and “A” shares on or after 17 November 2014;
- (ii) No PRC withholding income tax provision is made for unrealized gains for China A-shares. The tax provision made in relation to unrealised gains on the Sub-fund’s investments in derivatives on China equities and “A” shares has been released on 17 November 2014.

In June 2015, the Third Branch of Shanghai Municipal Office of the State Administration of Taxation issued a notice and a tax filing deadline of 30 September 2015 for all QFII/RQFII to declare and report the tax-related matters in relation to capital gains realised from the disposal of PRC equity investments prior to 17 November 2014. The Manager engaged a tax advisor to file the tax return and required documents by 30 September 2015 and the Sub-Fund has settled the PRC taxes on the gross realised gains derived from the disposal of “A” Shares prior to 17 November 2014.

The Sub-fund directly invests in “B” shares of companies listed in the PRC for subscription by foreign investors and may be subject to PRC withholding tax of 10% on dividend income. A 10% withholding tax may also be payable on the capital gains derived from the sale of “B” shares. Under current PRC tax laws, gains derived from the transfer of shares of PRC companies by non-residents should be subject to a withholding tax of 10%, unless exempt under relevant tax treaties. The SAT has remained silent on the collection of withholding tax for capital gains and until further clarification is issued by the SAT, the Manager considers that there is significant uncertainty in respect of whether the Sub-fund has any liability and the extent of such liability with respect to tax on capital gains derived from the sale of PRC “B” shares. In making this assessment, the Manager has considered (i) the current position of the SAT, (ii) the absence of a withholding mechanism of the relevant tax and (iii) current market practice. Accordingly, as at 31 December 2016 and 2015, the Sub-fund had not made any provision for the tax on capital gains on “B” shares based on the above judgments made by the Manager.

The Manager will continually reassess the withholding income tax provisioning approach on an on-going basis taking into account any recent development in the market.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 TAXATION (Continued)

(c) (Continued)

Taxation in statement of comprehensive income represents:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
Dividend withholding tax	380,939	504,034
Withholding tax on realised gains on investments	—	276,938
	380,939	780,972

Provision for taxation in the statement of financial position represents:

	2016	2015
	<i>US\$</i>	<i>US\$</i>
PRC withholding tax provision relating to prior years	122,040	368,714
PRC withholding tax provision for the year	380,939	780,972
Tax paid	(380,939)	(1,135,338)
PRC withholding tax provision as at year end	122,040	14,348

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Sub-fund entered into the following significant related party transactions with the Trustee, the Manager and their Connected Persons for the year. Connected Persons are those as defined in the SFC Code issued by the SFC. All transactions during the year between the Sub-fund and the Trustee, the Manager and their Connected Persons were entered into in the ordinary course of business and under normal commercial terms. To the best of the knowledge of the Trustee and the Manager, the Sub-fund did not have any other transactions with Connected Persons except for those disclosed below and elsewhere in these financial statements. The relevant receivables and payables are unsecured, interest-free and repayable on demand.

(a) Management fees

Under the Investment Management Agreement, the Manager receives a management fee monthly in arrears at an annual rate of 1.25%, 1.25% and 0.75% of the total net asset value for Class A units, Class A Hedged units and Class Z units respectively on each valuation day as defined in the Explanatory Memorandum. Management fees of US\$4,513,969 (2015: US\$6,188,319) were charged to statement of comprehensive income during the year. Included in liabilities as at 31 December 2016 are management fees payable of US\$305,143 (2015: US\$525,873).

(b) Performance fees

Under the Investment Management Agreement, the Manager is also entitled to a performance fee, calculated at a high-on-high basis, if the net asset value per unit as at the last valuation day of a financial year (prior to the accrual of any performance fee for that financial year) exceeds the higher of:

- (i) the net asset value per unit as at the close of business on the last valuation day in the last financial year in respect of which a performance fee was paid to the Manager in respect of the Sub-fund, after payment of such performance fee; and
- (ii) the initial offer price at which the units were first offered.

The rate of performance fees payable is 15% and is calculated by multiplying this fee rate by the product of the excess of the net asset value per unit (calculated as stated above) and the average of the number of units in issue immediately after each valuation day in the relevant financial year.

Performance fees of US\$200 (2015: US\$121,810) were charged to statement of comprehensive income during the year. Performance fees payable of US\$200 (2015: US\$121,810) are included in liabilities as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Trustee fees

The Trustee, a licensed trust company incorporated in the Cayman Islands, has certain duties and responsibilities as specified in the Explanatory Memorandum. The Trustee is entitled to receive a trustee fee calculated on the basis described in note 8. Trustee fees of US\$598,689 (2015: US\$736,865) were charged to statement of comprehensive income during the year. Included in liabilities as at 31 December 2016 are trustee fees payable of US\$36,952 (2015: US\$62,661).

(d) Transactions/balances with the group company of the Trustee

During the year, the Custodian of the Sub-fund, HSBC Institutional Trust Services (Asia) Limited, which is a group company of the Trustee of the Sub-fund, charged transaction fees of US\$6,440 (2015: US\$20,886) for handling each purchase or sale of investments.

During the year, the Sub-fund utilised the services of The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), which is a group company of the Trustee of the Sub-fund, in its purchase and sale of investments. Details of such transactions executed and fees paid are set out below:

	Value of transactions executed through HSBC US\$	% of total value of transactions of the Sub-fund	Commission and other fees paid to HSBC US\$	Average commission rate
Year 2016	122,242,317	10.22%	322,311	0.26%
Year 2015	84,795,076	5.77%	347,981	0.41%

The Sub-fund maintains bank accounts which are held as collateral for transactions involving borrowed securities with HSBC. No cash deposits (2015: US\$45,863,355) were held as collateral as at 31 December 2016.

Listed equity securities of US\$32,308,679 (2015: US\$6,875,201) were pledged as collateral as at 31 December 2016. HSBC, which is the party to whom the collateral is provided, does not have the right to sell or re-pledge the collateral. The Sub-fund classifies these pledged investments as financial assets at fair value through profit or loss in the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Transactions/balances with the group company of the Trustee (Continued)

Other information relating to the transactions/balances with HSBC is set out below:

	2016 <i>US\$</i>	2015 <i>US\$</i>
Bank accounts		
Bank balance	597,225	50,464,224
Bank overdraft	(27,188,315)	(29,549,993)
Interest income	4,520	81,218
Interest expenses	(569,836)	(378,372)
Bank charges	(61,257)	(53,932)
Borrowed securities		
Stock loan fee expenses	(197,195)	(62,692)
Other income – Rebate on stock loan fee	871	–

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(e) Manager’s and its related parties’ holding in the Sub-fund

As at 31 December 2016, 63,266 Class A units, 1,413 Class A CAD Hedged units and 1,506 Class A NZD Hedged units (2015: 63,419 Class A units) of the Sub-fund were held by the Manager. Units held by the related parties of the Manager are listed out below:

	Number of Class A units	
	2016	2015
Spouse of a director of the Manager	5,074	5,074

(f) Investment in a fund managed by the Manager

As at 31 December 2016, the Sub-fund held 238,420 units (2015: 208,744 units) of the Subsidiary (i.e. Value Partners China A Share Opportunity Fund), a fund managed by the Manager, with a fair value of US\$28,705,732 (2015: US\$28,562,430). No cash distribution (2015: US\$Nil) was received from the Subsidiary during the year.

Rebate on management fee of US\$242,262 (2015: Nil) received from the Subsidiary is included in other income on the statement of comprehensive income.

(g) Cross-trades with other funds managed by the Manager

In 2016, the Sub-fund transacted with a segregated account managed by the Manager. The Sub-fund purchased 32 securities amounting to US\$20,487,148. The transactions were carried out at the fair value of investments on the date of transaction. The decision was in the best interest of the Sub-fund and fell within the investment objectives and policies of the Sub-fund. The transactions were executed on arm’s length terms.

In 2015, the Sub-fund transacted with Milltrust Value Partners Greater China Fund, which is another fund managed by the Manager. The Sub-fund purchased one security amounting to US\$409,293. The transactions were carried out at the fair value of investments on the date of transaction. The decision was in the best interest of the Sub-fund and fell within the investment objectives and policies of the Sub-fund. The transactions were executed on arm’s length terms.

CHINA CONVERGENCE FUND

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 REDEEMABLE UNITS IN ISSUE

(a) Class A

	Number of units	
	2016	2015
As at 1 January	3,214,763	2,003,213
Issue of redeemable units	409,802	2,404,714
Redemption of redeemable units	<u>(1,503,710)</u>	<u>(1,193,164)</u>
As at 31 December	<u><u>2,120,855</u></u>	<u><u>3,214,763</u></u>

(b) Class A AUD Hedged

	Number of units	
	2016	2015
As at 1 January	60,826	–
Issue of redeemable units	117,351	82,813
Redemption of redeemable units	<u>(156,249)</u>	<u>(21,987)</u>
As at 31 December	<u><u>21,928</u></u>	<u><u>60,826</u></u>

(c) Class A CAD Hedged

	Number of units	
	2016	2015
As at 1 January	–	–
Issue of redeemable units	6,311	–
Redemption of redeemable units	<u>(4,501)</u>	<u>–</u>
As at 31 December	<u><u>1,810</u></u>	<u><u>–</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 REDEEMABLE UNITS IN ISSUE (Continued)

(d) Class A NZD Hedged

	Number of units	
	2016	2015
As at 1 January	–	–
Issue of redeemable units	18,806	–
Redemption of redeemable units	(17,300)	–
	1,506	–
As at 31 December	1,506	–

(e) Class Z

	Number of units	
	2016	2015
As at 1 January	3,873,100	3,825,929
Issue of redeemable units	555,731	47,171
Redemption of redeemable units	(3,873,100)	–
	555,731	3,873,100
As at 31 December	555,731	3,873,100

The rights attaching to each unit are as follows:

The holders of the units have the right to receive notice of, attend and vote at meetings of the Sub-fund. The holder of each such unit has the right to one vote for each such unit registered in his/her name. The holders are entitled to receive all dividends declared and paid by the Sub-fund. Upon winding up, the holders are entitled to a return of capital based on the net asset value per unit of the Sub-fund.

In respect of Class A and Class A Hedged units, any distributable profits of the Sub-fund may be accumulated or distributed by the Manager, in its absolute discretion. Where distributions are made, unless unitholders indicate otherwise to the Manager, any such distributions will automatically be reinvested in further units in the Sub-fund to be issued to such unitholders in proportion to the number of units held by them on the distribution date as defined in the Trust Deed (as amended).

In respect of Class Z Units, the Manager currently does not intend to pay dividends to unitholders. Therefore, any net income and net realised profits attributable to the Class Z units will be reinvested and reflected in their respective net asset values.

No distribution statement is prepared as no distribution has been made.

The Trust and the Sub-fund do not have any externally imposed capital requirements.

CHINA CONVERGENCE FUND

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 FAIR VALUE INFORMATION

The Sub-fund's investments are carried at fair value on the statement of financial position. The carrying amounts of other financial assets and liabilities approximate fair value due to the immediate or short-term nature of these financial instruments.

The Sub-fund's accounting policy on fair value measurements is discussed in note 2(f)(iv).

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 FAIR VALUE INFORMATION (Continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 <i>US\$</i>	Level 2 <i>US\$</i>	Level 3 <i>US\$</i>	Total <i>US\$</i>
As at 31 December 2016				
Financial assets at fair value through profit or loss				
Listed equity securities	290,855,909	2,439,899	314,235	293,610,043
Debt securities	–	1,805,357	–	1,805,357
Foreign currency forward contracts	–	56	–	56
Investment funds	–	28,705,732	–	28,705,732
Participation notes	–	20,619,166	–	20,619,166
	<u>290,855,909</u>	<u>53,570,210</u>	<u>314,235</u>	<u>344,740,354</u>
Financial liabilities at fair value through profit or loss				
Listed equity securities sold short	(27,701,547)	–	–	(27,701,547)
Foreign currency forward contracts	–	(271)	–	(271)
	<u>(27,701,547)</u>	<u>(271)</u>	<u>–</u>	<u>(27,701,818)</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 FAIR VALUE INFORMATION (Continued)

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
As at 31 December 2015				
Financial assets at fair value through profit or loss				
Listed equity securities	452,142,986	–	10,742,130	462,885,116
Debt securities	–	1,806,428	–	1,806,428
Foreign currency forward contracts	–	2,166	–	2,166
Investment funds	–	28,562,430	–	28,562,430
Participation notes	–	31,239,907	–	31,239,907
Warrants	–	23,121,589	–	23,121,589
	<u>452,142,986</u>	<u>84,732,520</u>	<u>10,742,130</u>	<u>547,617,636</u>
Financial liabilities at fair value through profit or loss				
Listed equity securities sold short	<u>(35,767,053)</u>	<u>–</u>	<u>(11,819,203)</u>	<u>(47,586,256)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 FAIR VALUE INFORMATION (Continued)

The following table presents the changes in the Level 3 fair value category for the years ended 31 December 2016 and 2015. The Sub-fund classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. The investment classified as level 3 was valued based on last transacted price. The changes in the unobservable inputs to the valuation models do not have a significant effect on the net asset value of the Sub-fund.

	As at 1 January US\$	Purchases, issuances and settlements (net) US\$	Transfer into Level 3 US\$	Transfer out of Level 3 US\$	Net gains/ (losses) included in the statement of comprehensive income US\$	As at 31 December US\$	Net unrealised gains/ (losses)* US\$
Year 2016							
Listed equity securities	10,742,130	(3,125,693)	-	(7,763,498)	461,296	314,235	(78,792)
Listed equity securities sold short	(11,819,203)	9,387,091	-	-	2,432,112	-	-
Year 2015							
Listed equity securities	549,862	3,425,403	6,923,700	-	(156,835)	10,742,130	(156,835)
Listed equity securities sold short	-	(10,544,953)	-	-	(1,274,250)	(11,819,203)	(1,274,250)

* Represents the amount of total net unrealised gains/(losses) recognised in the statement of comprehensive income for assets held at the end of the year.

During the year ended 31 December 2016, listed equity securities amounting to US\$7,763,498 have been transferred from Level 3 to Level 1 because quoted prices for these investments became available in an active market.

During the year ended 31 December 2015, listed equity securities amounting to US\$6,923,700 have been transferred from Level 1 to Level 3 because quoted prices for these investments were no longer available in an active market.

There were no transfer between Level 1 and Level 2 during the year ended 31 December 2016.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 INVESTMENT IN THE SUBSIDIARY

The Sub-fund invests in and controls the Subsidiary through a holding of 84% (2015: 47%) of its issued units. The Subsidiary is domiciled in the Cayman Islands and has no subsidiaries.

During the year except for the investment in the Subsidiary, the Sub-fund did not provide additional financial or other support to the Subsidiary and have no commitments or intention to do so. No financial or other support was provided without a contractual obligation to do so during the reporting period. At 31 December 2016, there were no contractual arrangements that could require the Sub-fund or the Subsidiary to provide financial support, including events or circumstances that could expose the fund to loss.

At 31 December 2016, there were no significant restrictions on the ability of the Subsidiary to transfer funds to the Sub-fund in the form of redemption of the units held by the Sub-fund.

These separate financial statements of the Sub-fund are its only financial statements.

14 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Included in financial assets at fair value through profit or loss on the Sub-fund's statement of financial position are certain investments in investment fund (see note 6). This investment fund represents investment in the Subsidiary, which is an open-ended fund established by a related company. This scheme provides the Sub-fund with a variety of investment opportunities through managed investment strategies.

The table below describes the types of structured entity that the Sub-fund does not consolidate but in which it holds an interest.

Type of structured entities	Nature and purpose	Interest held by the Sub-fund
Investment funds	To manage assets on behalf of the investors and earn fees. These vehicle is financed through the issue of units to investors	Investments in units issued by the investment funds

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**14 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES
(Continued)**

The table below sets out interests held by the Sub-fund in unconsolidated structured entity. The maximum exposure to loss is the carrying amount of the financial assets held by the Sub-fund.

	Number of invested funds by the Sub-fund	Total net assets of the structured entity US\$	Carrying amount included in financial assets at fair value through profit or loss US\$	Carrying amount as a % of total net assets attributable to unitholders
As at 31 December 2016				
Unlisted open-ended investment fund	1	33,936,780	28,705,732	9.91%
As at 31 December 2015				
Unlisted open-ended investment fund	1	60,516,099	28,562,430	5.50%

During the year, the Sub-fund did not provide financial support nor have any outstanding capital commitments to this investment fund and has no intention of providing financial or other support.

CHINA CONVERGENCE FUND

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 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") provided that the quality of transaction execution is consistent with best execution standards. 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 considers many judgemental factors deemed relevant in determining whether a broker provides best execution. In general, investment orders are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Sub-fund.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, <i>Disclosure Initiative</i>	1 January 2017
Amendments to IAS 12, <i>Recognition of Deferred Tax Assets for Unrealised Loss</i>	1 January 2017
IFRS 9, <i>Financial instruments</i>	1 January 2018

The Sub-fund is in the process of assessing the impact of these amendments and new standards on the Sub fund.

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THOROUGH PROFIT OR LOSS			
Listed Equity Securities			
China			
Anhui Gujing Distillery Co Ltd B Shares	2,323,053	8,987,013	3.10
Beijing Capital Development Co Ltd A Shares	899,925	1,529,775	0.53
Beijing SL Pharmaceutical Co Ltd A Shares	649,923	2,498,660	0.86
Central China Securities Co Ltd A Shares	1,000	576	—
Changshu Automotive Trim Co Ltd A Shares	1,000	1,503	—
China Merchants Securities Co Ltd A Shares	1,260,198	2,962,077	1.02
China Merchants Shekou Industrial Zone Co Ltd	1,265,336	2,985,082	1.03
China National Accord Medicines Co Ltd B Shares	983,858	5,898,301	2.04
China Yangtze Power Co Ltd A Shares	1,587,565	2,892,922	1.00
Ciwen Media Co Ltd	646,500	4,203,297	1.45
DHC Software Co Ltd A Shares	556,157	1,865,197	0.64
Dong-E E-Jiao Co Ltd A Shares	338,288	2,623,041	0.91
GoerTek Inc A Shares	741,063	2,828,786	0.98
Gree Electric Appliances Inc of Zhuhai A Shares	1,542,300	5,465,480	1.89
Hangzhou Hikvision Digital Technology Co Ltd A Shares	723,015	2,477,868	0.85
Hefei Meiling Company Ltd B Shares	1,339,990	781,043	0.27
Huadong Medicine Co Ltd A Shares	188,423	1,954,609	0.67
Jangho Group Co Ltd A Shares	1,499,946	2,299,305	0.79
Jiangsu Hengrui Medicine Co Ltd A Shares	358,637	2,348,756	0.81
Kweichow Moutai Co Ltd A Shares	114,300	5,497,423	1.90
Luthai Textile Co Ltd B Shares	334,818	401,970	0.14
NARI Technology Co Ltd A Shares	1,016,549	2,433,280	0.84
Ningbo Peacebird Fashion Co Ltd A Shares	1,000	3,066	—
Queclink Wireless Solutions Co Ltd A Shares	500	2,050	—
Shanghai Mechanical & Electrical Industry Co Ltd B Shares	2,097,461	4,580,855	1.58
Tasly Pharmaceutical Group Co A Shares	323,900	1,934,309	0.67
Wuxi Little Swan Co Ltd B Shares	618,500	1,952,478	0.67
ZTE Corp A Shares	1,231,619	2,827,538	0.98
Total China		74,236,260	25.62

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE			
THOROUGH PROFIT OR LOSS (Continued)			
Listed Equity Securities (Continued)			
<i>Hong Kong – H Shares</i>			
AviChina Industry & Technology Co Ltd H Shares	3,701,000	2,548,563	0.88
Guangzhou Baiyunshan Pharmaceutical Holdings Co Ltd H Shares	2,342,000	6,055,308	2.09
Harbin Electric Co Ltd H Shares	14,174,000	6,616,617	2.28
PetroChina Co Ltd H Shares	9,032,000	6,732,041	2.32
PICC Property And Casualty Co Ltd H Shares	3,736,000	5,819,810	2.01
Ping An Insurance (Group) Co of China Ltd H Shares	1,127,000	5,638,851	1.95
Poly Culture Group Corp H Shares	440,700	1,075,225	0.37
Sinopec Oilfield Service Corp H Shares	14,698,000	2,862,004	0.99
Weichai Power Co Ltd H Shares	1,944,000	2,993,199	1.03
Yunnan Water Industry Investment & Development Co Ltd H Shares	1,690,000	886,985	0.31
Zhuzhou CRRC Times Electric Co Ltd H Shares	1,665,000	8,448,779	2.92
ZTE Corp H Shares	5,816,920	10,111,556	3.49
		59,788,938	20.64
<i>Hong Kong – Red Chips</i>			
BeijingWest Industries International Ltd	21,198,400	5,303,222	1.83
China Overseas Land & Investment Ltd	2,102,000	5,570,312	1.92
China Power New Energy Development Co Ltd	3,256,000	1,717,286	0.59
China Resources Land Ltd	2,490,000	5,599,907	1.94
China Traditional Chinese Medicine Holdings Co Ltd	16,910,000	7,828,401	2.70
		26,019,128	8.98

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THOROUGH PROFIT OR LOSS (Continued)			
Listed Equity Securities (Continued)			
Hong Kong – Others			
Geely Automobile Holdings Ltd	8,555,000	8,174,726	2.82
Kingboard Laminates Holding Ltd	6,887,000	6,767,372	2.34
Luye Pharma Group Ltd	9,234,000	5,477,504	1.89
Minth Group Ltd	1,842,000	5,736,431	1.98
Q Technology (Group) Co Ltd	9,194,000	4,742,414	1.64
Real Gold Mining Ltd	3,046,000	314,235	0.11
Shenzhou International Group Holdings Ltd	2,476,000	15,661,186	5.40
Sino Biopharmaceutical Ltd	9,471,000	6,668,428	2.30
Sunac China Holdings Ltd	10,848,000	9,022,864	3.11
Sundart Holdings Ltd	34,200,000	19,846,029	6.85
Sunny Optical Technology Group Co Ltd	5,273,000	23,085,142	7.97
Tencent Holdings Ltd	760,000	18,591,564	6.42
Times Property Holdings Ltd	12,503,000	6,110,665	2.11
WH Group Ltd	2,688,500	2,173,765	0.75
		<u>132,372,325</u>	<u>45.69</u>
Total Hong Kong		<u>218,180,391</u>	<u>75.31</u>
Singapore			
SIIC Environment Holdings Ltd	2,542,850	1,028,178	0.35
United States			
ZTO Express Cayman Inc	13,688	165,214	0.06
Total listed equity securities		<u>293,610,043</u>	<u>101.34</u>
Unlisted Equity Securities			
Peace Mark (Holdings) Ltd	1,912,000	–	–
Debt Securities			
Petro-King Oilfd Service Conv 5% 03/30/2018	14,000,000	1,805,357	0.62
Investment Funds			
Value Partners China A Share Opportunity Fund	238,420	28,705,732	9.91

CHINA CONVERGENCE FUNDA Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)			
Participation Notes			
CICC Financial Trading Ltd (Anhui Heli Co Ltd A Shares) P Note 12/06/2019	1,699,985	3,112,672	1.08
CICC Financial Trading Ltd (Fuyao Group Glass Industry Co Ltd A Shares) P Note 12/15/2018	1,586,456	4,254,875	1.47
CICC Financial Trading Ltd (Guangxi Liugong Machinery Co Ltd A Shares) P Note 12/06/2019	2,599,920	2,735,116	0.94
Societe Generale (Fuyao Group Glass Industry Co Ltd A Shares) P Note 04/10/2017	3,921,142	<u>10,516,503</u>	<u>3.63</u>
		<u>20,619,166</u>	<u>7.12</u>
Derivative Assets			
Foreign currency forward contracts		<u>56</u>	<u>—</u>
Total financial assets at fair value through profit or loss		<u>344,740,354</u>	<u>118.99</u>

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			
Listed Equity Securities Sold Short			
<i>Hong Kong – H Shares</i>			
BYD Co Ltd H Shares	(550,000)	(2,897,275)	(1.00)
China Minsheng Banking Corp Ltd H Shares	(6,000,000)	(6,414,175)	(2.21)
CRRC Corp Ltd H Shares	(6,000,000)	(5,385,121)	(1.86)
Great Wall Motor Co Ltd H Shares	(8,000,000)	(7,469,019)	(2.58)
		<u>(22,165,590)</u>	<u>(7.65)</u>
<i>Hong Kong – Others</i>			
Bank of East Asia Ltd	(1,445,444)	<u>(5,535,957)</u>	<u>(1.91)</u>
Total listed equity securities sold short		<u>(27,701,547)</u>	<u>(9.56)</u>
Derivative Liabilities			
Foreign currency forward contracts		<u>(271)</u>	<u>–</u>
Total financial liabilities at fair value through profit or loss		<u>(27,701,818)</u>	<u>(9.56)</u>
Total investments		317,038,536	109.43
Cash and cash equivalents		(26,590,332)	(9.18)
Other net liabilities		<u>(726,072)</u>	<u>(0.25)</u>
Total net assets		<u>289,722,132</u>	<u>100.00</u>
Total investments, at cost		<u>313,766,530</u>	

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2016

	% of net assets	
	2016	2015
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed equity securities		
China	25.62	14.63
Hong Kong	75.31	73.54
Singapore	0.35	0.93
United States	0.06	–
	101.34	89.10
Unlisted equity securities		
Hong Kong	–	–
Debt securities	0.62	0.35
Investment funds	9.91	5.50
Participation notes	7.12	6.01
Warrants	–	4.44
Derivative assets		
Foreign currency forward contracts	–	–
	–	–
Total financial assets at fair value through profit or loss	118.99	105.40

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED) (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

	% of net assets	
	2016	2015
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Listed equity securities sold short		
Hong Kong	(9.56)	(9.16)
Derivative liabilities		
Forward currency forward contracts	—	—
Total financial liabilities at fair value through profit or loss	<u>(9.56)</u>	<u>(9.16)</u>
Total investments	109.43	96.24
Cash and cash equivalents	(9.18)	4.02
Other net liabilities	<u>(0.25)</u>	<u>(0.26)</u>
Total net assets	<u>100.00</u>	<u>100.00</u>

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

PERFORMANCE RECORD (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2016

Net asset values (at last traded prices)

	Net asset value per unit					Net asset value US\$
	Class A	Class A AUD	Class A CAD	Class A NZD	Class Z	
	USD	Hedged AUD	Hedged CAD	Hedged NZD	USD	
As at						
31 December 2016	133.43	8.80	10.17	10.26	11.85	289,722,132
31 December 2015	146.20	9.40	–	–	12.70	519,593,169
31 December 2014	146.89	–	–	–	12.52	342,160,429

CHINA CONVERGENCE FUND

A Sub-fund of Value Partners Intelligent Funds
(A Cayman Islands unit trust)

PERFORMANCE RECORD (UNAUDITED) (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2016

Highest issue and lowest redemption prices (at last traded prices)

	Highest issue price per unit				
	Class A	Class A AUD	Class A CAD	Class A NZD	Class Z
	USD	Hedged AUD	Hedged CAD	Hedged NZD	USD
Financial year ended					
31 December 2016	144.08	9.62	10.85	10.86	12.55
31 December 2015	213.00	10.00	–	–	18.39
31 December 2014	146.89	–	–	–	12.79
31 December 2013	131.55	–	–	–	11.26
31 December 2012	123.34	–	–	–	–
31 December 2011	143.50	–	–	–	–
31 December 2010	143.94	–	–	–	–
31 December 2009	114.29	–	–	–	–
31 December 2008	104.64	–	–	–	–
31 December 2007	132.22	–	–	–	–

	Lowest redemption price per unit				
	Class A	Class A AUD	Class A CAD	Class A NZD	Class Z
	USD	Hedged AUD	Hedged CAD	Hedged NZD	USD
Financial year ended					
31 December 2016	116.01	7.58	8.87	8.95	10.08
31 December 2015	130.25	9.04	–	–	11.32
31 December 2014	113.28	–	–	–	9.73
31 December 2013	105.43	–	–	–	9.91
31 December 2012	98.64	–	–	–	–
31 December 2011	97.34	–	–	–	–
31 December 2010	107.04	–	–	–	–
31 December 2009	57.62	–	–	–	–
31 December 2008	55.10	–	–	–	–
31 December 2007	73.43	–	–	–	–