

VALUE PARTNERS TAIWAN FUND

**2016** ANNUAL  
REPORT

For the year ended 30 June 2016



**Value Partners Hong Kong 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 units in any of the funds.*

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

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# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## GENERAL INFORMATION

### Manager

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

### Directors of the Manager

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

### 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, Registrar's Agent and Administrator'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 Taiwan law*  
Russin & Vecchi  
Bank Tower, 9th Floor  
205 TunHwa North Road  
Taipei, Taiwan, R.O.C.

*With respect to Hong Kong law*  
King & Wood Mallesons  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### Auditor

PricewaterhouseCoopers  
18 Forum Lane  
Camana Bay  
P.O. Box 258  
Grand Cayman, KY1-1104  
Cayman Islands

### Information available from:

Value Partners Hong Kong Limited  
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Email : [fis@vp.com.hk](mailto:fis@vp.com.hk)  
Website : [www.valuepartners-group.com](http://www.valuepartners-group.com)

## GENERAL INFORMATION (Continued)

### Recent awards and achievements

#### Corporate awards

- 2016 • **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*

## MANAGER'S REPORT

### Performance and market review

During the second quarter of 2016, Value Partners Taiwan Fund (the "Fund") gained 3.9% in USD terms. For reference, the Taiwan Stock Exchange Index ("TWSE") was flat while the MSCI Taiwan Index increased by 0.7% over the same period, respectively. On a year-to-date basis, the Fund was up 9.3%. For reference, the aforementioned indices were up 7.0% and 8.5% over the same period, respectively.

Taiwan's stock market pulled back at the beginning of the second quarter as investors turned more risk adverse after the outperformance of the region in the first quarter of 2016. The market, however, experienced a relief rebound in late May and ended the quarter with a gain. With corporate earnings announced during the second quarter and the inaugural address of Taiwan's new President Tsai Ing-wen delivered on 20 May, overhangs on corporate outlook and political uncertainties were cleared. Meanwhile, the current dividend season (June to August) has made Taiwan's stockmarket more attractive in the region. We expect a relatively stable market in the coming months.

### New President Tsai takes office

During the second quarter of 2016, political uncertainties clouded Taiwan's stock market as investors were worried that President Tsai may send unexpected signals in her inaugural speech that may add tension to the cross-straits relationship. Her lukewarm speech on 20 May 2016, however, showed that she stroke a balance of interests between her own party and China. This was welcomed by the market and relieved political concerns. While China is still putting on hold its official talk with Taiwan (such as the Economic Cooperation Framework Agreement which has not been in huge progress in the past few years), it seems unlikely too for China to take an aggressive stance during the early part of President Tsai's administration.

### Growth target revised but signs of support emerge

On the macro-economic front, the official growth domestic product ("GDP") forecast for 2016 was revised down for the second time this year, from 1.47% (in February) to 1.1% amid continuous exports weakness resulted by moderating global growth. While the annual growth of export orders remained in the negative territory, there were some signs of improvement as the decline magnitude has been narrowing. Export orders in June fell 2.4% year-on-year, compared with -5.8% in May and -11.1% in April.

Meanwhile, the Central Bank of the Republic of China ("CBC") on 30 June announced to cut the discount rate by 12.5 basis points to 1.375% amid persistent global stagnation and heightened uncertainties after the "Brexit" vote. While this is the fourth rate cut since September last year, CBC is expected to maintain an easing bias as lower inflation pressure (inflation rate at 1.2% year-on-year in May) and large current account surplus (USD20.7 billion in the first quarter) leave ample room for CBC to support the economy.

## MANAGER'S REPORT (Continued)

### Portfolio update and outlook

During the second quarter, our holdings in information technology and consumer discretionary sectors contributed the most to the Fund's gain. We maintained our lower weighting in material sector which protected us from the pull back of this sector. Our stock picks in various sectors have been performing well and added to the positive performance of the Fund during the quarter. These include both large caps as well as mid- and small-cap names such as Far EasTone Telecommunications, Uni-President Enterprises, WPG Holdings, Largan Precision and a company specializing in pneumatic tools.

While "Brexit" could increase market volatilities, we do not see significant impact on Taiwan's fundamental outlook. We continue to monitor the global demand picture as this has more implications to Taiwan. So far we see the global demand remains lukewarm and Apple's current product cycle remains soft, and thus it is not easy for a structural upturn in Taiwan's stock market. However, Taiwan is still a relatively stable market in the region with diversified exposure and attractive dividend yield. We expect more small- and medium-business ("SMB") companies in Taiwan to grow as new generation successors take the lead of their businesses. We also see the new Taiwan government keen to commit more resources to support SMBs' development. We like the diversity of the market and still see plenty of bottom-up stock picking opportunities in Taiwan.

### Value Partners Hong Kong Limited

14 October 2016

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in USD terms on NAV-to-NAV basis with dividends reinvested) as at 30 June 2016. Performance data is net of all fees.*

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

*The views expressed are the views of Value Partners Hong Kong Limited only and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All 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.*

*Investors should note investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the explanatory memorandum for details and risk factors in particular those associated with investment in emerging markets.*

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

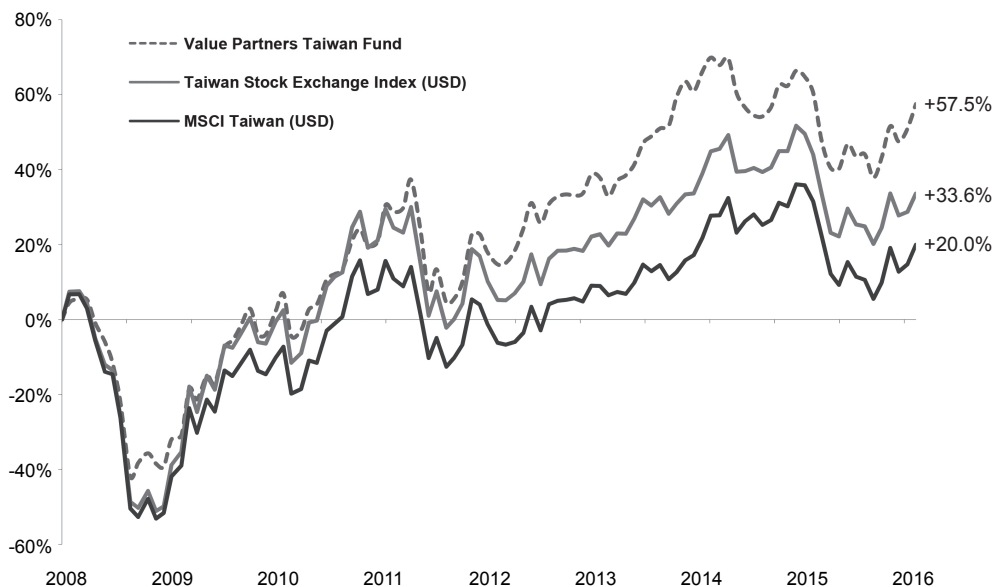
## MANAGER'S REPORT (Continued)

### Value Partners Taiwan Fund

NAV per unit = US\$15.75 (as at 30 June 2016)

### Since launch return compared to indices

From 3 March 2008 to 30 June 2016





## **STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE**

### **Manager's responsibilities**

The Manager, Value Partners Hong Kong Limited, is required by the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong and the Trust Deed dated 30 January 2008 (as amended) to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of Value Partners Taiwan Fund (the "Fund") at the end of that period and of the transactions for the period then ended. In preparing these financial statements, the Manager is required to:

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

The Manager is also required to manage the Fund in accordance with the Trust Deed dated 30 January 2008 (as amended) and take reasonable steps for the prevention and detection of fraud and other irregularities.

### **Trustee's responsibilities**

The Trustee, Bank of Bermuda (Cayman) Limited, is required to:

- ensure that the Fund is managed by the Manager in accordance with the Trust Deed dated 30 January 2008 (as amended) 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 Fund and rights attaching thereto; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Fund.

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## TRUSTEE'S REPORT

We hereby confirm that, in our opinion, the Manager, Value Partners Hong Kong Limited, has, in all material respects, managed Value Partners Taiwan Fund in accordance with the provisions of the Trust Deed dated 30 January 2008 (as amended) for the year ended 30 June 2016.

For and on behalf of

**Bank of Bermuda (Cayman) Limited**

Trustee

14 October 2016

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

*(A Cayman Islands Unit Trust)*

### **Report on the financial statements**

We have audited the accompanying financial statements of Value Partners Taiwan Fund (the "Fund") set out on pages 11 to 28, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

The Trustee and the Manager (the "Management") of the Fund are responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 30 January 2008 (as amended) (the "Trust Deed"), and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the "SFC Code"), and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **VALUE PARTNERS TAIWAN FUND**

(A Cayman Islands Unit Trust)

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

*(A Cayman Islands Unit Trust)*

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 30 June 2016, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Report on other legal and regulatory disclosure requirements**

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

#### **Other matters**

This report, including the opinion, has been prepared for and only for the trustee represented by the Fund in accordance with the terms of our engagement letter dated 21 October 2015 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **PricewaterhouseCoopers**

Cayman Islands

14 October 2016

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 US\$	2015 US\$
<b>Assets</b>			
Financial assets at fair value through profit or loss	3(d)	58,882,673	67,661,484
Amounts receivable on sales of investments		358,492	3,713
Amounts receivable on issue of units		1,285,764	64
Dividends and interest receivables		471,999	362,536
Bank balances		5,063,070	7,775,755
<b>Total assets</b>		<u>66,061,998</u>	<u>75,803,552</u>
<b>Liabilities</b>			
Amounts payable on purchases of investments		618,854	754,778
Amounts payable on redemption of units		68,021	1,752,544
Management fee payable	5(a)	66,728	81,578
Accruals and other payables		44,351	42,033
<b>Total liabilities</b>		<u>797,954</u>	<u>2,630,933</u>
<b>Net assets attributable to unitholders</b>	4	<u><u>65,264,044</u></u>	<u><u>73,172,619</u></u>

Signed by:

Value Partners Hong Kong Limited, *Manager*

Bank of Bermuda (Cayman) Limited, *Trustee*

The notes on pages 15 to 28 are an integral part of these financial statements.

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 US\$	2015 US\$
<b>Income</b>			
Dividends		2,662,493	3,479,360
Interest on bank deposits		205	354
Net realised loss on investments		(5,650,904)	(515,289)
Change in unrealised gain/loss on investments		4,047,187	(4,687,901)
Net foreign exchange loss		(558,670)	(144,475)
<b>Total net income/(loss)</b>		<u>500,311</u>	<u>(1,867,951)</u>
<b>Expenses</b>			
Management fee	5(a)	800,396	826,816
Trustee fee	5(c)	111,854	115,446
Transaction handling fee		603,699	842,020
Safe custody and bank charges		64,230	71,564
Auditor's remuneration		35,720	35,450
Legal and professional fees		24,035	13,045
Other operating expenses		93,731	114,277
<b>Total operating expenses</b>		<u>1,733,665</u>	<u>2,018,618</u>
<b>Loss before tax</b>		<u>(1,233,354)</u>	<u>(3,886,569)</u>
Withholding tax on dividend income	6(c)	(559,073)	(595,999)
<b>Loss for the year</b>		<u><u>(1,792,427)</u></u>	<u><u>(4,482,568)</u></u>

The notes on pages 15 to 28 are an integral part of these financial statements.

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

FOR THE YEAR ENDED 30 JUNE 2016

	<b>2016</b>	<b>2015</b>
	<i>US\$</i>	<i>US\$</i>
<b>Net assets attributable to unitholders as at 1 July</b>	73,172,619	71,112,122
Issue of units	3,736,730	19,918,364
Redemption of units	(9,852,878)	(13,375,299)
<b>Net (decrease)/increase from capital transactions</b>	(6,116,148)	6,543,065
<b>Loss for the year</b>	(1,792,427)	(4,482,568)
<b>Net assets attributable to unitholders as at 30 June</b>	65,264,044	73,172,619

The notes on pages 15 to 28 are an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2016

	<b>2016</b>	<b>2015</b>
	<i>US\$</i>	<i>US\$</i>
<b>Cash flows from operating activities</b>		
Loss for the year	(1,792,427)	(4,482,568)
Adjustments for:		
Dividends	(2,662,493)	(3,479,360)
Interest on bank deposits	(205)	(354)
Withholding tax on dividend income	559,073	595,999
	<hr/>	<hr/>
	(3,896,052)	(7,366,283)
Decrease in financial assets at fair value through profit or loss	8,778,811	1,779,163
(Increase)/decrease in amounts receivable on sales of investments	(354,779)	651,836
Decrease in amounts payable on purchases of investments	(135,924)	(523,507)
Decrease in management fee payable, performance fee payable, accruals and other payables	(12,532)	(2,230,456)
	<hr/>	<hr/>
Cash generated from/(used in) operations	4,379,524	(7,689,247)
Dividends received	2,553,026	3,178,819
Interest on bank deposits received	209	350
Withholding tax on dividends paid	(559,073)	(595,999)
	<hr/>	<hr/>
<b>Net cash inflow/(outflow) from operating activities</b>	6,373,686	(5,106,077)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issue of units	2,451,030	19,921,425
Payments on redemption of units	(11,537,401)	(11,622,755)
	<hr/>	<hr/>
<b>Net cash (outflow)/inflow from financing activities</b>	(9,086,371)	8,298,670
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(2,712,685)	3,192,593
Cash and cash equivalents as at 1 July	7,775,755	4,583,162
	<hr/>	<hr/>
<b>Cash and cash equivalents as at 30 June,     representing bank balances</b>	<u>5,063,070</u>	<u>7,775,755</u>

The notes on pages 15 to 28 are an integral part of these financial statements.



## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 GENERAL INFORMATION**

Value Partners Taiwan Fund (the “Fund”) is an open-ended unit trust established by the Trust Deed dated 30 January 2008 (as amended). The Fund is registered under the Mutual Funds Law (revised) of the Cayman Islands, governed by the laws of the Cayman Islands and regulated by the Cayman Islands Monetary Authority. Besides, the Fund is authorised by the Securities and Futures Commission of Hong Kong and is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the “Code”).

The Fund’s investment objective is to achieve long-term capital growth through primarily investing in equity and equity-linked securities of companies that are listed on (a) the Taiwan Stock Exchange; (b) the Gre Tai Securities Market; or (c) any stock exchange but which have their main operations or majority of assets in or derive the majority of their income from Taiwan. This includes companies incorporated and/or quoted outside Taiwan. The Fund’s investment activities are managed by Value Partners Hong Kong Limited (the “Manager”). The Fund’s administration is delegated to HSBC Institutional Trust Services (Asia) Limited, an affiliate of Bank of Bermuda (Cayman) Limited (the “Trustee”). The principal office of the Fund is P.O. Box 513, HSBC House, 68 West Bay Road, Grand Cayman KY1-1106, Cayman Islands.

### **2 SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Basis of preparation**

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

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

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

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

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

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

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

IFRS 9 “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. There were no changes to classification and measurement for financial liabilities at fair value through profit and loss, except for the requirement to recognise changes in own credit risk in other comprehensive income. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Fund is yet to assess IFRS 9’s full impact.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Fund.

#### **(b) Financial assets at fair value through profit or loss**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Financial assets at fair value through profit or loss (Continued)

##### *(iii) Measurement*

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

##### *(v) Transfer between levels of fair value hierarchy*

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

#### (c) Income

Dividend income is recognised when the right to receive payment is established.

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

#### (d) Expenses

Expenses are accounted for on an accrual basis.

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

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

#### **(e) Foreign currency translation**

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

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

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

#### **(f) Taxation**

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

#### **(g) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less.

#### **(h) Redeemable units**

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

Units of the Fund are redeemable at the options of the unitholders and are classified as equity in the statement of financial position which represents the net assets attributable to unitholders (or "net asset value" or "net assets" or "NAV"). The units are entitled to dividends and payment of a proportionate share based on the Fund's net asset value per unit on the redemption day.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT

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

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

#### (a) Market risk

##### (i) Foreign exchange risk

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

The table below includes both monetary and non-monetary assets and liabilities held in foreign currencies together with the percentage of reasonable possible change in foreign exchange rates and the estimated impact on net assets.

	Total net foreign currency exposures		Percentage change %	Estimated impact on net assets US\$
	Non- monetary net assets US\$ equivalent	Monetary net assets US\$ equivalent		
<b>As at 30 June 2016</b>				
Taiwan dollar	58,882,673	5,252,143	+/-5	+/-3,206,741
<b>As at 30 June 2015</b>				
Hong Kong dollar*	-	46,228	+/-0	-
Taiwan dollar	67,661,484	4,622,371	+/-5	+/-3,614,193

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

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (ii) Price risk

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

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

	% of net assets	
	2016	2015
<b>Listed equity securities</b>		
Taiwan	90.22	92.47

The table below shows the analysis of equity securities by industry.

	2016	2015
	%	%
Information technology	57.00	61.46
Telecommunication services	12.82	1.97
Financials	7.43	13.95
Consumer discretionary	6.84	1.48
Industrials	6.69	4.27
Consumer staples	5.34	3.07
Materials	2.11	8.38
Real estates	1.77	1.84
Energy	-	2.17
Healthcare	-	1.41
	<u>100.00</u>	<u>100.00</u>

As at 30 June 2016, the Fund had exposure to 1 security (2015: nil) greater than 10% of net assets.

	Fair value US\$	% of net assets
<b>As at 30 June 2016</b>		
Taiwan Semiconductor Manufacturing Co., Ltd.	6,725,493	10.31

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

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

The table below summarises the sensitivity of the Fund's portfolio of listed equity securities to equity price movements. The analysis is based on the assumptions that the Taiwan Stock Exchange Index increased/decreased with all other variables held constant and that the fair value of the Fund's portfolio of listed equity securities moved according to their historical correlation with the index. The Fund is not directly correlated with any market indices. The index should be used for guidance and performance comparison purposes only. The Manager does not manage price risk with reference to any market index.

	Percentage change		Estimated impact on net assets	
	2016 %	2015 %	2016 US\$	2015 US\$
Taiwan Stock Exchange Index	+/-30	+/-30	+/-15,935,045	+/-20,438,163

##### (iii) Interest rate risk

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

Bank balances are subject to interest rate risk as the return is derived from the current inter-bank lending rates; however, the interest rate risk is not actively managed as it is not considered significant. As a result, no sensitivity analysis was deemed necessary.

#### (b) Credit and counterparty risk

The Fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges that the Manager considers to be well established. All transactions 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 only made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail.

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Credit and counterparty risk (Continued)

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

Counterparty	2016	2015
	US\$	US\$
Bank balances		
Aa2	5,063,070	7,775,755
Amounts receivable on sales of investments		
Aa2	358,492	3,713
Investments placed with the custodian		
Aa2	58,882,673	67,661,484

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

#### (c) Liquidity risk

The Fund is exposed to daily redemption of units. The Manager may limit the total number of units redeemed on any dealing day to 10% of the total number of units in issue in accordance with the Trust Deed dated 30 January 2008 (as amended).

The table below analyses the Fund's non-derivative financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 3 months	
	2016	2015
	US\$	US\$
Amounts payable on purchases of investments	618,854	754,778
Amounts payable on redemption of units	68,021	1,752,544
Management fee payable	66,728	81,578
Accruals and other payables	44,351	42,033
	<u>797,954</u>	<u>2,630,933</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### *Capital management*

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

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

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

The markets in which the Fund invests may be relatively illiquid and the liquidity of these markets may fluctuate substantially over time. Investment of the Fund's assets in relatively illiquid securities may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes. The risk of illiquidity also arises in the case of over-the-counter transactions. The Manager monitors the liquidity of the Fund by conducting liquidity testing on the investment portfolio on a monthly and ad-hoc basis. The objective of testing is to monitor the liquidity of financial assets to meet the cash outflows on financial liabilities. As at 30 June 2016, the Fund held investments in listed equity securities of US\$58,882,673 (2015: US\$67,661,484) and other liquid assets, representing bank balances and amounts receivable on sales of investments, of US\$5,421,562 (2015: US\$7,779,468) that are expected to be able to realise within 7 days or less to generate cash inflows for managing liquidity risk. As detailed in the terms of the Trust Deed dated 30 January 2008 (as amended), there are circumstances whereby management of the Fund can suspend redemptions. Management is of the view that the possibility of these circumstances occurring is highly remote.

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

<b>Investor</b>	<b>% of net assets</b>
<b>As at 30 June 2016</b>	
Investor 1	37.28
Investor 2	22.72
Investor 3	11.11
<b>As at 30 June 2015</b>	
Investor 1	33.83
Investor 2	20.66
Investor 3	10.10

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Fair value estimation

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

	<b>Level 1</b> <i>US\$</i>	<b>Level 2</b> <i>US\$</i>	<b>Level 3</b> <i>US\$</i>	<b>Total</b> <i>US\$</i>
<b>As at 30 June 2016</b>				
Listed equity securities	58,882,673	-	-	58,882,673
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>As at 30 June 2015</b>				
Listed equity securities	67,661,484	-	-	67,661,484
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

The fair value of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the year end date. The Fund utilised the last traded market price for listed financial assets.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Financial instruments that trade in markets that are not considered to be active and are valued based on quoted market prices or broker quotes, or financial instruments for which there is no active market and are valued based on valuation models supported by observable inputs are classified within level 2. As at 30 June 2016 and 2015, the Fund did not hold any level 2 investments.

The fair value estimation of investments classified within level 3 have significant unobservable inputs, as they are traded infrequently. As at 30 June 2016 and 2015, the Fund did not hold any level 3 investments.

There was no transfer between levels for the years ended 30 June 2016 and 2015.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 REDEEMABLE UNITS

The Fund's units, which are redeemable at the unitholders' option, are the most subordinate units in issue, and are classified as equity.

Units are issued and redeemed at the unitholders' option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets by the total number of outstanding units.

All issued units are fully paid and have no par value. Each unit carries 1 vote. Units are entitled to dividends and payment of a proportionate share based on the Fund's net asset value per unit on the redemption day.

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

In accordance with the provisions of the Fund's Trust Deed dated 30 January 2008 (as amended), investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions and for fees calculation. The carrying amount for redeemable units was calculated using last traded prices because that was the value at which these units were redeemable from the Fund.

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

	Number of units	
	2016	2015
<b>As at 1 July</b>	4,557,866.01	4,186,522.17
Issue of units	246,372.76	1,196,131.34
Redemption of units	(660,206.61)	(824,787.50)
	<hr/>	<hr/>
<b>As at 30 June</b>	4,144,032.16	4,557,866.01
	<hr/> <hr/>	<hr/> <hr/>
<b>Net asset value per unit</b>		
- Single class	US\$15.75	US\$16.05
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

**(a) Management fee**

The Manager is entitled to receive a management fee which represents 1.25% per annum of the net asset value of the Fund. The management fee is calculated and accrued daily and payable monthly in arrears.

**(b) Performance fee**

The Manager is entitled to receive a performance fee which represents 15% of the product of the average number of units in issue during the year and the amount by which the net asset value per unit as at 30 June of each year (the "Performance Fee Valuation Day") (prior to the deduction of any provision for performance fee and any distribution declared or paid in respect of that performance period) exceeds the higher of (i) the initial offer price of US\$10.00 and (ii) the net asset value per unit as at the Performance Fee Valuation Day of the preceding performance period in respect of which a performance fee was last paid to the Manager (after deduction of all fees, including any performance fee, and taking into account the subscription and redemption instructions received in respect of the Fund as of the Performance Fee Valuation Day and any distribution declared or paid in respect of that preceding performance period). The performance fee is calculated and accrued daily and payable yearly in arrears.

**(c) Trustee fee**

The Trustee is entitled to receive a trustee fee which represents a variable fee of (i) 0.17% per annum on the first US\$400 million of net asset value of the Fund; (ii) 0.15% per annum on the next US\$400 million of net asset value of the Fund; and (iii) 0.13% per annum of net asset value of the Fund thereafter, subject to a minimum of US\$5,000 per month. The variable fee is calculated and accrued daily and payable monthly in arrears. The Trustee is also entitled to a fixed fee of US\$3,000 per annum payable monthly in arrears.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

#### (d) Holding in the Fund by the Manager and its related parties/connected persons

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

	As at 1 July	Subscription of units	Redemption of units	As at 30 June
<b>Year 2016</b>				
Dato' Seri Cheah Cheng Hye*	460,507.01	-	-	460,507.01
Value Partners Multi-Asset Fund**	-	97,978.43	-	97,978.43
<b>Year 2015</b>				
Dato' Seri Cheah Cheng Hye*	460,507.01	-	-	460,507.01

\* Dato' Seri Cheah Cheng Hye is a director of the Manager.

\*\* Value Partners Multi-Asset Fund is managed by Value Partners Limited.

The Fund allows the Manager and its related parties/connected persons to subscribe for, and redeem, units of the Fund. All such transactions are entered into in the ordinary course of business and on normal commercial terms. In addition, certain fees and charges may be waived by the Manager.

#### (e) Preliminary charges

The Manager is entitled to receive a preliminary charge on issue of units which represents up to 5% of the issue price. For the year ended 30 June 2016, total preliminary charges on issue of units, amounting to US\$19,270 (2015: US\$1,723) was received by the Manager. The preliminary charges are not reflected in the financial statements of the Fund.

## 6 TAXATION

### (a) Cayman Islands

The Fund has obtained an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with Section 81 of the Trusts Law (2001 Revision) of the Cayman Islands, for a period of 50 years from 20 October 2008, no laws thereafter enacted in the Cayman Islands imposing any tax or duty on income, capital assets, gains or appreciations will apply to the Fund.

### (b) Hong Kong

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

### (c) Other jurisdictions

Overseas withholding tax was charged on certain dividend income received during the year.

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

### **7 DISTRIBUTION**

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

### **8 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 Fund (as may be permitted under applicable rules and regulations) from brokers and other persons through whom investment transactions are carried out (the “brokers”). Soft dollars may be received from them provided that the quality of transaction execution is consistent with best execution standards and brokerage rates are not in excess of the customary full-service brokerage rates.

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

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

### **9 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Trustee and the Manager on 14 October 2016.

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 30 JUNE 2016

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities</b>			
<b>Taiwan</b>			
Aerospace Industrial Development Corp	792,000	1,080,357	1.66
Aten International Co Ltd	467,000	1,259,580	1.93
Aurora Corp	714,000	1,157,682	1.77
Basso Industry Corp	848,000	2,402,877	3.68
Cathay Financial Holding Co Ltd	1,703,000	1,847,873	2.83
Chilisin Electronics Corp	150,000	280,413	0.43
Chipmos Technologies Inc	609,000	648,535	0.99
Chong Hong Construction Co Ltd	226,800	446,484	0.68
Chroma Ate Inc	541,000	1,288,095	1.97
Chunghwa Telecom Co Ltd	678,000	2,448,754	3.75
CTBC Financial Holding Co Ltd	1,236,000	645,666	0.99
Cub Elecparts Inc	21,000	235,026	0.36
E.Sun Financial Holding Co Ltd	1,128,169	664,534	1.02
Far EastTone Telecommunications Co Ltd	2,111,000	5,098,180	7.81
Formosa Plastics Corp	515,000	1,242,156	1.90
Gigabyte Technology Co Ltd	1,156,000	1,370,815	2.10
Global Lighting Technologies Inc	332,000	746,218	1.14
Global PMX Co Ltd	153,000	540,737	0.83
Greatek Electronics Inc	1,374,000	1,610,156	2.47
Holtek Semiconductor Inc	419,000	696,255	1.07
HTC Corp	104,000	333,705	0.51
Huaku Development Co Ltd	349,000	595,083	0.91
IBASE Technology Inc	251,000	521,360	0.80
King Slide Works Co Ltd	43,000	502,573	0.77
Largan Precision Co Ltd	28,000	2,556,424	3.92
Pegatron Corp	482,000	1,013,132	1.55
President Chain Store Corp	82,000	638,083	0.98
President Securities Corp	1,521,000	558,775	0.86
Promate Electronic Co Ltd	712,000	760,429	1.17
SDI Corp	1,127,000	1,177,452	1.80
Senao Networks Inc	66,000	325,335	0.50
Sercomm Corp	176,000	392,857	0.60
Shin Zu Shing Co Ltd	201,000	657,413	1.01
Siliconware Precision Industries Co Ltd	552,000	837,686	1.28
Sitronix Technology Corp	617,000	2,008,464	3.08
Superalloy Industrial Co Ltd	61,000	321,472	0.49

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

## INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30 JUNE 2016

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed Equity Securities (Continued)</b>			
<i>Taiwan (Continued)</i>			
Taishin Financial Holding Co Ltd	1,703,000	654,675	1.00
Taiwan Semiconductor Manufacturing Co Ltd	1,335,000	6,725,493	10.31
Test Research Inc	543,820	723,273	1.11
Topco Scientific Co Ltd	329,888	680,108	1.04
TXC Corp	802,000	1,111,403	1.70
TYC Brother Industrial Co Ltd	649,000	529,164	0.81
Uni-President Enterprises Corp	1,274,134	2,508,293	3.84
Wah Lee Industrial Corp	694,000	1,010,147	1.55
WPG Holdings Ltd	2,483,000	2,882,823	4.42
WT Microelectronics Co Ltd	1,148,138	1,445,139	2.22
Zippy Technology Corp	1,393,000	1,701,519	2.61
		<hr/>	<hr/>
		58,882,673	90.22
		<hr/>	<hr/>
<b>Total financial assets at fair value through profit or loss</b>		58,882,673	90.22
		<hr/> <hr/>	<hr/> <hr/>
<b>Total investments, at cost (inclusive of transaction cost)</b>		55,662,648	
		<hr/> <hr/>	



**INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)**

*FOR THE YEAR ENDED 30 JUNE 2016*

	% of net assets	
	2016	2015
<b>Listed equity securities</b>		
Taiwan	90.22	92.47
	<hr/>	<hr/>
<b>Total investments</b>	90.22	92.47
	<hr/> <hr/>	<hr/> <hr/>

## VALUE PARTNERS TAIWAN FUND

(A Cayman Islands Unit Trust)

### PERFORMANCE RECORD (UNAUDITED)

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	US\$	US\$	US\$
Net assets	65,264,044	73,172,619	71,112,122
Net asset value per unit	15.75	16.05	16.99

#### Performance record since inception

	<b>Highest issue price per unit US\$</b>	<b>Lowest redemption price per unit US\$</b>
2016	16.10	12.97
2015	17.21	14.92
2014	16.99	13.16
2013	14.02	11.36
2012	13.73	10.25
2011	13.46	9.89
2010	10.69	8.03
2009 (Since inception)	10.72	5.81