

Phillip Wealth Funds
- Phillip HKD Money Market Fund

31 December 2023

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Investment Manager's report

Phillip Wealth Funds

- Phillip HKD Money Market fund

Review

For the year ended 31 December 2023, Phillip Wealth Funds – Phillip HKD Money Fund (“the Sub-Fund”) generated a net return of 3.49% p.a. net of fees. With the benchmark 1-week HIBOR average of 3.89% over the same period.

As of 31 December 2023, the Sub-Fund's Weighted Average Maturity (“WAM”) stood at 33.0 days. The Sub-fund primarily invested in fixed-rate bonds and bank deposits.

The Hong Kong economy revived in 2023, with inbound tourism and private consumption being the key drivers. For 2023 as a whole, real GDP grew at a rate of 3.2%, following a contraction of 3.7% in 2022. Meanwhile, Hong Kong's unemployment rate dropped to 2.9% for the three-month period ending in December 2023, comparing to the figure of 3.5% of the same period in 2022.

Regarding Hong Kong Dollar market, HKD spot rate experienced fluctuation in the year of 2023. In December 2023, HKD appreciated by 0.02% against the USD to 7.8118, compared to 1 year ago. Meanwhile, Aggregate Balance dropped dramatically to HKD45 billion, showing decreasing liquidity in the system.

Short-term interest rates continued to increase in this year. The Hong Kong interbank offered rate (HIBOR) for one month and three months reached 5.27% and 5.15% at the end of December 2023, compared to 4.35% and 4.99% a year ago, respectively.

Outlook

Hong Kong's economy recovered after the epidemic, but under the influence of the complex and volatile international environment and high interest rate environment, Hong Kong's economic recovery needs to be strengthened, and its public finance needs to enter the consolidation stage. The consolidated deficit of the SAR Government in 2024/25 is expected to narrow to HK \$48.1 billion, and the fiscal reserve is expected to be HK \$685.1 billion by the end of March 2025. Looking ahead, it is expected to reach a consolidated surplus by 2025/26 to 2028/29, and fiscal reserves are expected to recover to HK \$832.2 billion by the end of March 2029.

Although the exact timing and magnitude of the interest rate cuts remain uncertain for major central banks in other economies, the market and investors still predict it to be happened within the coming year. The lagged effects of pervious monetary tightening could be reversed, which could cause investment flows into Hong Kong economy. Meanwhile, the situation of Hong Kong's exports may improve as foreign currency is likely to depreciate against Hong Kong dollars.

Hong Kong's economy will expand further in 2024, with full-year GDP growth expected to be between 2.5% and 3.5%; Between 2025 and 2028, Hong Kong's average annual GDP growth is expected to be 3.2%.

Investment Manager's report

Phillip Wealth Funds

- Phillip HKD Money Market fund

(continued)

Outlook (continued)

Inflation is likely to pick up mildly for the remaining 2024 given that the price pressure domestically contributed by the economic recovery and the notable price pressure externally. Official forecast of headline inflation for 2024 is expected to be 2.4%.

Under the linked-exchange rate regime, interest rates in Hong Kong tend to follow those in the US. Provided that the terminal Federal Funds Rate is estimated to be 5.25% to 5.50%, we expect short term Hong Kong dollar interest rates will remain at a similar level.

The Sub-Fund has always reflected a target weighted average maturity of less than 60 days and weighted average life of less than 120 days, with overnight and 7 days liquidity of 7.5% and 15% respectively. The Sub-Fund will continue to focus its investments in high-quality short-term corporate papers of issuers with strong balance sheets, robust business models and steady operating cash flows, deposits and short terms money market securities in high quality bank counterparties and issuers with strong balance sheet and capital.

Trustee's Report

Phillip Wealth Funds - Phillip HKD Money Market Fund ("the Sub-Fund")

We hereby confirm that, in our opinion, the Manager of the Sub-Fund has, in all material respects, managed the Sub-Fund in accordance with the provisions of the trust deed dated 12 April 2017, as amended by Supplemental trust deeds dated 12 April 2017 and deed of retirement and appointment dated 28 May 2021 and Supplemental Deed of Trust dated 7 July 2022 (collectively the "Trust Deed"), for the year ended 31 December 2023.

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) For and on behalf of
) BNP Paribas, acting through its Hong Kong
) Branch
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Statement of responsibilities of the Manager and the Trustee

Manager's responsibilities

The Manager of Phillip Wealth Funds - Phillip HKD Money Market Fund ("the Sub-Fund") is required by the Code of Unit Trusts and Mutual Funds issued by the Securities and Futures Commission ("the SFC Code") 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 reasonable and appropriate; and
- prepare the financial statements on the on-going and continuity basis that the Sub-Fund will continue in operations 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 prevention and detection of fraud and other irregularities.

Phillip Wealth Funds ("the Trust") is an open-ended umbrella unit trust governed by its Trust Deed. As at 31 December 2023, the Trust has established one Sub-Fund, namely Phillip HKD Money Market Fund.

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;
- safeguard the property of the Sub-Fund and rights attached thereto;
- satisfy itself that sufficient accounting and other records have been maintained; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Sub-Fund.

Independent auditors' report to the unitholders of Phillip Wealth Funds - Phillip HKD Money Market Fund ("the Sub-Fund")

Report on the audit of financial statements

Opinion

We have audited the financial statements of the Sub-Fund set out on pages 9 to 38, which comprise the statement of financial position as at 31 December 2023, the statement of comprehensive income, the statement of changes in net assets attributable to unitholders and the cash flow statement for the year then ended and notes, comprising material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial disposition of the Sub-Fund as at 31 December 2023 and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of our report. We are independent of the Sub-Fund in accordance with Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("the IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 Auditor's 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 auditor's report thereon.

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

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

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

Independent auditors' report to the unitholders of
Phillip Wealth Funds -
Phillip HKD Money Market Fund ("the Sub-Fund")
(continued)

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 issued by the IASB 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 misstatement, 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, and the relevant disclosure provisions of Appendix E to the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the 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 auditor's 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. 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 and the relevant disclosure provisions of Appendix E to the SFC Code.

Independent auditors' report to the unitholders of Phillip Wealth Funds - Phillip HKD Money Market Fund ("the Sub-Fund") (continued)

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 ISAs, 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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
Phillip Wealth Funds -
Phillip HKD Money Market Fund ("the Sub-Fund")
(continued)

Report on matters under the relevant provisions of the Trust Deed 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 and the relevant disclosure provisions of Appendix E to the SFC Code.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Statement of financial position as at 31 December 2023 *(Expressed in Hong Kong dollars)*

	Note	2023 HK\$	2022 HK\$
Assets			
Financial assets measured at fair value through profit or loss	6	83,622,357	18,995,457
Bank deposits with maturity over three months at acquisition		187,057,421	85,122,053
Interest receivable		3,139,759	1,859,575
Cash and cash equivalents	7	<u>174,534,193</u>	<u>198,017,994</u>
Total assets		<u>448,353,730</u>	<u>303,995,079</u>
Liabilities			
Accrued expenses and other payables		<u>615,551</u>	<u>486,865</u>
Total liabilities		<u>615,551</u>	<u>486,865</u>
Net assets attributable to unitholders		<u>447,738,179</u>	<u>303,508,214</u>

Approved by the Trustee and the Manager on

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) For and on behalf of

) BNP Paribas, acting through its Hong Kong Branch

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) For and on behalf of

) Phillip Capital Management (HK) Limited

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The notes on pages 15 to 38 form part of these financial statements

Statement of comprehensive income for the year ended 31 December 2023 *(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>Year ended 31 December 2023 HK\$</i>	<i>Year ended 31 December 2022 HK\$</i>
Interest income calculated using the effective interest method	3	9,350,735	3,312,014
Other interest income	3	3,633,721	3,337,097
Net gains/(losses) on financial assets measured at fair value through profit or loss	4	703,972	(1,996,502)
Net foreign exchange gain/(loss)		68	(286,352)
Total revenue		13,688,496	4,366,257
Management fees	8(a)	(901,891)	(287,636)
Trustee's fees	8(b)	(70,123)	(85,686)
Custodian fees	8(c)	(179,970)	(250,684)
Auditor's remuneration		(159,999)	(137,301)
Legal and professional fee		(61,538)	(54,814)
Other operating expenses		(148,442)	(266,072)
Total operating expenses		(1,521,963)	(1,082,193)
Increase in net assets attributable to unitholders and total comprehensive income for the year		12,166,533	3,284,064

The notes on pages 15 to 38 form part of these financial statements

Statement of changes in net assets attributable to unitholders for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	Year ended 31 December 2023	Year ended 31 December 2022
Note	HK\$	HK\$
Balance at the beginning of the year	303,508,214	477,120,607
Increase in net assets attributable to unitholders and total comprehensive income for the year	12,166,533	3,284,064
Contributions and redemptions by unitholders		
<i>Class A</i>		
Subscription of units	1,750,701,253	978,913,272
Redemption of units	(1,583,230,179)	(1,115,809,729)
	167,471,074	(136,896,457)
<i>Class B</i>		
Subscription of units	11,170,000	-
Redemption of units	(46,577,642)	(40,000,000)
	(35,407,642)	(40,000,000)
Total contributions and redemptions by unitholders	132,063,432	(176,896,457)
Balance at the end of the year	447,738,179	303,508,214

The notes on pages 15 to 38 form part of these financial statements

Statement of changes in net assets attributable to unitholders for the year ended 31 December 2023 (continued)

(Expressed in number of units)

Class A

	<i>Note</i>	<i>2023</i>	<i>2022</i>
Balance at the beginning of the year		20,602,827.37	33,800,261.63
Subscription of units		164,963,191.45	94,535,092.04
Redemption of units		<u>(149,214,650.88)</u>	<u>(107,732,526.30)</u>
Balance at the end of the year	9(a)	36,351,367.94	20,602,827.37
Net asset value per unit		<u>10.7872</u>	<u>10.4223</u>

Class B

Balance at the beginning of the year		8,762,619.94	12,724,859.79
Subscription of units		1,085,210.63	-
Redemption of units		<u>(4,553,146.16)</u>	<u>(3,962,239.85)</u>
Balance at the end of the year	9(a)	5,294,684.41	8,762,619.94
Net asset value per unit		<u>10.5028</u>	<u>10.1317</u>

The notes on pages 15 to 38 form part of these financial statements

Cash flow statement for the year ended 31 December 2023 (Expressed in Hong Kong dollars)

	<i>Note</i>	<i>Year ended 31 December 2023 HK\$</i>	<i>Year ended 31 December 2022 HK\$</i>
Operating activities			
Increase in net assets attributable to unitholders and total comprehensive income for the year		12,166,533	3,284,064
Adjustments for:			
Interest income		(12,984,456)	(6,649,111)
Net change in unrealised gains financial assets measured at fair value through profit or loss		(242,837)	(896,573)
Net realized (gain)/loss from financial assets measured at fair value through profit or loss		(461,135)	2,893,075
Operating before changes in working capital		(1,521,895)	(1,368,545)
Purchase of financial assets measured at fair value through profit or loss		(428,922,929)	(279,506,515)
Proceeds from sale of financial assets measured at fair value through profit or loss		11,000,001	45,999,999
Proceeds from redemption of bonds upon maturity		354,000,000	368,500,000
Purchase of bank deposits with maturity over three months at acquisition		(101,935,368)	(85,122,053)
Increase in accrued expenses and other payables		128,686	237,214
Net cash (used in)/generated from operating activities		(167,251,505)	48,740,100
Interest received		11,704,272	5,948,594
Net cash (used in)/generated from operating activities		(155,547,233)	54,688,694
Proceeds from subscription of units		1,761,871,253	978,913,272
Payments on redemption of units		(1,629,807,821)	(1,155,809,729)
Net cash generated from/(used in) financing activities		132,063,432	(176,896,457)

Cash flow statement
for the year ended 31 December 2023
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>Year ended 31 December 2023 HK\$</i>	<i>Year ended 31 December 2022 HK\$</i>
Net decrease in cash and cash equivalents		(23,483,801)	(122,207,763)
Cash and cash equivalents at the beginning of the year		<u>198,017,994</u>	<u>320,225,757</u>
Cash and cash equivalents at the end of the year	7	<u><u>174,534,193</u></u>	<u><u>198,017,994</u></u>

The notes on pages 15 to 38 form part of these financial statements

Notes to the financial statements

(Expressed in *Hong Kong Dollar unless otherwise indicated*)

1. The Sub-Fund

Phillip HKD Money Market Fund (“the Sub-Fund”) is a Sub-Fund of Phillip Wealth Funds which is an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a Trust Deed dated 12 April 2017, as amended by supplemental trust deeds, between Phillip Capital Management (HK) Limited as manager (“the Manager”) and BNP Paribas, acting through its Hong Kong Branch as trustee (“the Trustee”).

The Sub-Fund seeks to preserve principal value and to maintain a high degree of liquidity while generating a higher rate of return as compared to personal deposits of the base currency by investing primarily in HKD-denominated money market instruments, short-term debt securities and short-term deposits.

There can be no assurance that the Sub-Fund will achieve its investment objective.

The Manager is responsible for the management of the Sub-Fund's assets. The Manager was incorporated with limited liability on 14 October 1993 in Hong Kong and is licensed by the SFC for type 4 (advising on securities) and type 9 (asset management) regulated activities.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Sub-Fund and monitoring the compliance by the Manager with the requirements of the Trust Deed. The registrar of the Sub-Fund is BNP Paribas, acting through its Hong Kong branch.

2. Material accounting policies

(a) *Statement of compliance*

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (“IASB”), and the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements of the SFC code. Material accounting policies adopted by the Sub-Fund are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Sub-Fund. Note 2(c) 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.

2. Material accounting policies (continued)

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Sub-Fund is Hong Kong dollar reflecting the fact that all the underlying investments of the Sub-Fund are denominated in Hong Kong dollar.

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

The preparation of financial statements in conformity with IFRSs requires the Manager and the Trustee to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, 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 assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(c) Changes in accounting policies

The Sub-Fund has consistently applied the accounting policies as set out in note 2 to all periods presented in these financial statements.

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Sub-Fund. None of these developments have had a material effect on how the Sub-Fund's results and financial position for the current or prior periods have been prepared or presented.

The Sub-Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollar at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollar at the foreign exchange rates ruling at the end of the reporting period. Foreign currency exchange differences arising on translation and realised gains and losses on disposal or settlement of monetary assets and liabilities are recognised in the statement of comprehensive income.

2. Material accounting policies (continued)

(d) *Foreign currency translation* (continued)

Foreign currency exchange differences relating to financial assets are included in net gains on financial assets. All other foreign currency exchange differences relating to monetary items including cash and cash equivalents are presented separately in profit or loss. Included in profit or loss line item net foreign exchange gain/(loss) are net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as fair value through profit or loss.

(e) *Financial assets and financial liabilities*

(i) Recognition and initial measurement

The Sub-Fund initially recognises financial assets and financial liabilities at FVTPL on the trade date, which is the date on which the Sub-Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

On initial recognition, the Sub-Fund classifies financial assets as measured at amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets of the Sub-Fund are measured at FVTPL.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held the Sub-Fund considers all of the relevant information about how the business is managed, including:

- The documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Sub-Fund's management;

2. Material accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Sub-Fund's continuing recognition of the assets.

The Sub-Fund has determined it has two business models.

- Held-to-collect business model: this includes bank deposits with maturity over three months, interest receivable, amount receivable on subscription and cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- Other business model: this includes certificates of deposit and bonds. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

2. Material accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement (continued)

In assessing whether the contractual cash flows are SPPI, the Sub-Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Sub-Fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration for of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Sub-Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

(iii) 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. The Sub-Fund measures instruments quoted in an active market at a quoted market price provided such price is within the bid-ask spread.

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.

2. Material accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(iv) Amortised cost measurement

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

(v) Impairment

The Sub-Fund recognises loss allowances for expected credit loss ("ECLs") on financial assets measured at amortised cost.

The Sub-Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the assets) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Sub-Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Sub-Fund's historical experience and informed credit assessment and including forward-looking information.

The Sub-Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Sub-Fund considers a financial asset to be default when:

- the borrower is unlikely to pay its credit obligations to the Sub-Fund in full, without recourse by the Sub-Fund to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The Sub-Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of ‘investment grade’. The Sub-Fund considers this to be Baa3 or higher per Moody’s or BBB- or higher per Standard & Poor’s.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of

2. Material accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(iv) Impairment (continued)

the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Sub-Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of assets and liabilities

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Sub-Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

2. Material accounting policies (continued)

(e) Financial assets and financial liabilities (continued)

(vi) Derecognition

The Sub-Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of owners of the financial asset are transferred or in which the Sub-Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Sub-Fund is recognised as a separate asset or liability.

The Sub-Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risk and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

The Sub-Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(vii) 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 legally enforceable right to offset the amounts and intends either to settle them 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 FVTPL and foreign exchange gains and losses.

(f) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Sub-Fund in the management of short-term commitments.

2. Material accounting policies (continued)

(g) Revenue recognition

Provided it is probable that the economic benefits will flow to the Sub-Fund and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Interest income

Interest income and expense presented in the statement of comprehensive income comprise interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(h) Expenses

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

(i) Related parties

- (a) 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 or the Sub-Fund's parent.

2. Material accounting policies (continued)

(i) Related parties (continued)

(b) 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 (a);
- (vi) A person identified in (a)(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.

(j) Subscriptions and redemptions

The Sub-Fund recognises unitholders' subscriptions and allots units upon receipt of a valid subscription application and derecognises them upon receipt of a valid redemption application.

(k) Units in issue

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.

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 redeemable date, and also in the event of the Sub-Fund's liquidation. The units is able to classify 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:

2. Material accounting policies (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 or 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.

During the year ended 31 December 2023, the Sub-Fund has two (2022: two) classes of redeemable units in issue, namely Class A and Class B. Class A was created and available to the public. Class B was created for subscription by institutional investors only. All the classes belong to the most subordinate class of financial instrument in 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 redeemable 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 2023 and are measured at the present value of the redemption amounts.

(l) **Establishment cost**

The establishment costs of the Sub-Fund consist of costs incurred to establish the Sub-Fund and enable them legally to do business. The establishment costs are recognised as an expense in the year in which they are incurred.

(m) **Taxation**

The Sub-Fund currently incurs no withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains will be recorded gross of withholding taxes in the statement of comprehensive income. Refer to Note 5 for details on taxation.

(n) **Transaction costs**

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

3. Interest income

	<i>Year ended 31 December 2023 HK\$</i>	<i>Year ended 31 December 2022 HK\$</i>
Interest income calculated using the effective interest method		
Cash and cash equivalents	4,280,178	2,353,799
Bank deposits with maturity over three months at acquisition	<u>5,070,557</u>	<u>958,215</u>
	<u><u>9,350,735</u></u>	<u><u>3,312,014</u></u>
Other interest income		
Interest income on financial assets at fair value through profit or loss	<u>3,633,721</u>	<u>3,337,097</u>

4. Net gains/(losses) on financial assets measured at fair value through profit or loss

	<i>Year ended 31 December 2023 HK\$</i>	<i>Year ended 31 December 2022 HK\$</i>
Realised gains/(losses) on financial assets measured at fair value through profit or loss	461,135	(2,893,075)
Net change in unrealised gains on financial assets measured at fair value through profit or loss	<u>242,837</u>	<u>896,573</u>
	<u><u>703,972</u></u>	<u><u>(1,996,502)</u></u>

5. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Sub-Fund is exempted from taxation under section 26A (1A) of the Hong Kong Inland Revenue Ordinance. The Sub-Fund currently does not incur withholding taxes imposed by certain countries on investment income. Such income is recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are shown as a separate item in the statement of comprehensive income.

6. Financial assets measured at fair value through profit or loss

	2023 HK\$	2022 HK\$
Debt securities		
Certificates of deposit	23,908,111	-
Bonds	<u>59,714,246</u>	<u>18,995,457</u>
	<u>83,622,357</u>	<u>18,995,457</u>
Investments, at cost	83,405,765	19,021,702
Net unrealised gain/(loss)	<u>216,592</u>	<u>(26,245)</u>
Investments, at market value	<u>83,622,357</u>	<u>18,995,457</u>

7. Cash and cash equivalents

	2023 HK\$	2022 HK\$
Bank deposits with maturity less than three months at acquisition	88,106,660	165,073,610
Cash at bank	<u>86,427,533</u>	<u>32,944,384</u>
	<u>174,534,193</u>	<u>198,017,994</u>

All of the cash at bank and bank deposits as at 31 December 2023 and 2022 are denominated in Hong Kong dollar.

8. Transactions with Trustee, Manager and Connected Persons

The following is a summary of significant related party transactions or transactions entered into during the year between the Sub-Fund and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the SFC Code.

All transactions during the year between the Sub-Fund and the Manager and its 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. The relevant receivables and payables are unsecured, interest-free and repayable on demand.

8. Transactions with Trustee, Manager and Connected Persons (continued)

(a) *Management fees*

The Sub-Fund appointed Phillip Capital Management (HK) Limited, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. The fee payable to the Manager is calculated at the rate of up to 0.5% of the net asset value for Class A and Class B. With effect from 1 July 2022 and 1 October 2022, the Manager has decided to reinstate the Management fee of Class A units of the Sub-Fund from 0% p.a. to 0.09% and 0.09% to 0.14% of the net asset value respectively. The management fee charged to the Sub-Fund in respect of the year amounted to HK\$901,891 (2022: HK\$287,636) and payable at the end of the year amounted to HK\$332,865 (2022: HK\$225,595).

(b) *Trustee's fees*

The fee payable to BNP Paribas, acting through its Hong Kong Branch ("the Trustee") is calculated at the rate of 0.03% per annum of the net asset value of the Sub-Fund. The Trustee's fee is accrued daily and calculated as at each valuation day. The Trustee's fee charged to the Sub-Fund in respect of the year amounted to HK\$70,123 (2022: HK\$85,686) and payable at the end of the year amounted to HK\$7,167 (2022: HK\$110,937).

(c) *Custodian and administration fees*

The Administrator and Custodian of the Sub-Fund is BNP Paribas, acting through its Singapore Branch, which is a group company of the Trustee. The administration fees and custodian fees incurred during the year amounted to HK\$87,654 (2022: HK\$107,108) and HK\$179,970 (2022: HK\$250,684) respectively. The administration fees and custodian fees payable by the Sub-Fund at 31 December 2023 was HK\$15,830 (2022: HK\$6,699) and HK\$52,576 (2022: HK\$16,542) respectively. The administration fees also include fee for financial reporting.

(d) *Registrar fees*

The Registrar of the Sub-Fund is BNP Paribas, acting through its Hong Kong Branch, which is a group company of the Trustee. The registrar fees incurred during the year amounted to HK\$35,061 (2022: HK\$42,843) and payable by the Sub-Fund at 31 December 2023 HK\$3,584 (2022: HK\$13,099).

(e) *Bank balances*

The bank balance (including bank deposits with maturity over three months at acquisition and cash and cash equivalent) of a bank account maintained with BNP Paribas, acting through its Singapore Branch, which is a group company of the Trustee, as at 31 December 2023 and 2022 amounted to HK\$86,427,533 (2022: HK\$32,944,384). During the year, interest earned from such bank account amounted to HK\$725,314 (2022: HK\$156,707).

8. Transactions with Trustee, Manager and Connected Persons (continued)

(f) Holdings in each of the Sub-Funds

The Sub-Fund allows the Trustee and its Connected Persons to subscribe for and redeem units in the Sub-Fund. For the year ended 31 December 2023 and 2022, there is no holdings in each Sub-Fund by the Trustee and its connected persons.

The Sub-Fund allows the Manager and its Connected Persons to subscribe for and redeem units in the Sub-Fund. For the year ended 31 December 2023 and 2022, there is no holdings in each Sub-Fund by the Manager and its Connected Persons.

(g) Investment transactions with connected persons of the Trustee or the Manager

During the years ended 31 December 2023 and 2022, the Sub-Fund did not execute through the Connected Persons of the Trustee who act as the brokers of the Sub-Fund.

9. Units issued and redeemed

(a) Number of units in issue

	<i>Class A</i> 2023	<i>Class A</i> 2022
Balance at 1 January	20,602,827.37	33,800,261.63
Subscriptions of units during the year	164,963,191.45	94,535,092.04
Redemptions of units during the year	<u>(149,214,650.88)</u>	<u>(107,732,526.30)</u>
Balance at 31 December	<u>36,351,367.94</u>	<u>20,602,827.37</u>
	<i>Class B</i> 2023	<i>Class B</i> 2022
Balance at 1 January	8,762,619.94	12,724,859.79
Subscriptions of units during the year	1,085,210.63	-
Redemptions of units during the year	<u>(4,553,146.16)</u>	<u>(3,962,239.85)</u>
Balance as at 31 December	<u>5,294,684.41</u>	<u>8,762,619.94</u>

(b) Net assets value per unit

Accordingly to the Explanatory Memorandum of the Sub-Fund, all classes of the Sub-Fund are denominated in Hong Kong dollar for dealing, which is also the presentation currency of the Sub-Fund. Class A units are available for issue to the public. Class B units are only offered to institutional investors who satisfy certain conditions and are not currently offered to the public. The net asset value per unit for each class of the Sub-Fund in their respective denomination currencies at the end of the reporting year is as follows:

	<i>Denomination</i> <i>currency</i>	2023	2022
Net asset value per unit			
- Class A units	HK\$	10.7872	10.4223
- Class B units	HK\$	<u>10.5028</u>	<u>10.1317</u>

10. Reconciliation of net asset values

The net asset value presented in the financial statements differs from that quoted for pricing purposes at the year end (“Dealing NAV”) are different, as the principles for calculating the Dealing NAV as set out in the Sub-Fund's Explanatory Memorandum are different from those required for financial reporting purposes under IFRSs. The following reconciliation provides details of the differences:

	2023 HK\$	2022 HK\$
Net asset value as reported in the financial statements as at 31 December	447,738,179	303,508,214
Adjustments for different basis adopted by the Sub-Fund in arriving at the Dealing NAV:		
Other adjustments	<u>(112,123)</u>	<u>(26,773)</u>
Dealing NAV as at 31 December	<u><u>447,626,056</u></u>	<u><u>303,481,441</u></u>

11. Financial instruments and associated risks

The Sub-Fund seeks to preserve principal value and to maintain a high degree of liquidity while generating a higher rate of return as compared to personal deposits of the base currency by investing primarily in HKD denominated money market instruments, short-term debt securities and short-term deposits. There can be no assurance that the Sub-Fund will achieve its investment objective.

The Sub-Fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager and the Trustee have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Sub-Fund. Unitholders should note that additional information in respect of risks associated with financial instruments in the Sub-Fund can be found in the Sub-Fund's Explanatory Memorandum.

The nature and extent of the financial instruments outstanding at the end of the reporting year and the risk management policies employed by the Sub-Fund are discussed below.

(a) Price risk

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Sub-Fund holds debt securities in the current year. As a result, the Sub-Fund is not exposed to significant price risk arising from changes in market price.

11 Financial instruments and associated risks (continued)

(b) Interest rate risk

Interest rate risk arises from changes in interest rates which may affect the value of debt instruments and therefore result in potential gain or loss to the Sub-Fund. The Sub-Fund's interest rate risk is managed on an ongoing basis by the Manager.

The following table indicates the year in which the interest-bearing assets and liabilities mature at the end of the reporting year.

	2023			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
Assets				
Financial assets measured at fair value through profit or loss	83,622,357	-	-	83,622,357
Bank deposits with maturity over three months at acquisition	187,057,421	-	-	187,057,421
Cash and cash equivalents	174,534,193	-	-	174,534,193
Total interest sensitivity gap	445,213,971	-	-	445,213,971
<hr/>				
	2022			Total HK\$
	1 year or less HK\$	Over 1 year to 5 years HK\$	Over 5 years HK\$	
Assets				
Financial assets measured at fair value through profit or loss	18,995,457	-	-	18,995,457
Bank deposits with maturity over three months at acquisition	85,122,053	-	-	85,122,053
Cash and cash equivalents	198,017,994	-	-	198,017,994
Total interest sensitivity gap	302,135,504	-	-	302,135,504

Interest rate sensitivity

At the end of the reporting year, assuming all other factors unchanged, it is estimated that an increase in interest rate of 100 (2022: 100) basis points would result in a decrease in the net assets attributable to the unitholders and the net assets for the year by HK\$ 101,922 (2022: HK\$21,066); an equal change in the opposite direction would result in an increase in the net assets attributable to unitholders by an equal amount.

11 Financial instruments and associated risks (continued)

(c) Currency risk

The Sub-Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Sub-Fund is exposed to risks that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Sub-Fund's assets or liabilities denominated in currencies other than the Hong Kong dollar.

The Sub-Fund's asset and liabilities are held in United States dollar and Hong Kong dollar. As Hong Kong dollar is linked currency of United States dollar, the functional currency of the Sub-Fund, the Sub-Fund has no significant exposure to currency risk. The Manager considers that asset and liabilities denominated in other currencies are immaterial and therefore they do not pose a significant currency risk exposure.

(d) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Sub-Fund. The Sub-Fund's exposure to credit risk is monitored by the Manager on an ongoing basis.

At 31 December 2023 and 2022, all of the Sub-Fund's financial assets were exposed to credit risk. These include investments and cash and cash equivalents placed with banks and the custodian.

Bankruptcy or insolvency of the banks and custodian may cause the Sub-Fund's right with respect to securities and cash held by the banks and custodian to be delayed or limited. The manager monitors the credit rating and financial position of the banks and custodian on an ongoing basis.

The table below summarises the credit rating of banks and custodians in which the Sub-Fund's assets are held as at 31 December 2023 and 2022:

	<i>Credit rating</i>	<i>Source of credit rating</i>
<i>As at 31 December 2023</i>		
<i>Bank and financial institution</i>		
BNP Paribas, acting through its Singapore Branch	A+	Standard & Poor's
China Construction Bank Corporation	A	Standard & Poor's
Sumitomo Mitsui Trust and Bank	A	Standard & Poor's
Sumitomo Mitsui Banking Corporation Hong Kong Branch	A	Standard & Poor's
<i>Custodian</i>		
BNP Paribas, acting through its Singapore Branch	A+	Standard & Poor's
United Overseas Bank	AA-	Standard & Poor's

11 Financial instruments and associated risks (continued)

(d) Credit risk (continued)

	<i>Credit rating</i>	<i>Source of credit rating</i>
<i>As at 31 December 2022</i>		
<i>Bank and financial institution</i>		
BNP Paribas, acting through its Singapore Branch	A+	Standard & Poor's
China Construction Bank Corporation	A	Standard & Poor's
Sumitomo Mitsui Trust and Bank	A	Standard & Poor's
Sumitomo Mitsui Banking Corporation Hong Kong Branch	A	Standard & Poor's
United Overseas Bank	AA-	Standard & Poor's
<i>Custodian</i>		
BNP Paribas, acting through its Singapore Branch	A+	Standard & Poor's

The credit ratings are based on the Long-Term Local Issuer Ratings published by the rating agency.

At the end of the reporting year, the Sub-Fund invested in debt securities with the following credit quality expressed as a percentage of debt securities:

	2023 % of NAV	2022 % of NAV
Rating (Moody's/Standard & Poor's)		
A*	0.67	-
Aa2	-	3.63
A1	1.11	-
A2	7.09	-
NR	9.81	-
	<u>18.68</u>	<u>3.63</u>

Source of credit rating is from Moody's except for the following

** Credit rating is from Standard & Poor's*

Credit risk arising from the Sub-Fund's investment in debt securities is managed by the reviewing and monitoring of the credit quality of debt securities or the issuers of the debt securities held by the Sub-Fund on an ongoing basis.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

11 Financial instruments and associated risks (continued)

(d) Credit risk (continued)

The carrying amounts of financial assets best represent the maximum credit risk exposure at the end of the reporting year.

As at 31 December 2023 and 2022, there were no significant concentrations of credit risk to counterparties except to the Custodian.

Financial assets subject to IFRS 9's impairment requirements

Impairment on cash and cash equivalents, bank deposits with maturity over three months at acquisition, amount receivable on subscription and interest receivable has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Sub-Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

The Sub-Fund monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties. To determine whether published ratings remain up to date and to assess whether there has been significant increase in credit risk at the reporting date that has not been reflected in the published ratings, the Sub-Fund supplements this by reviewing changes in bond yields, where available, prices together with available press and regulatory information about the counterparties.

12-month and lifetime probabilities of default are based on historical data supplied by S&P, Moody's and Fitch for each credit rating and are recalibrated. Loss given default parameters generally reflect an assumed recovery rate of 40%. However, if the asset were credit-impaired, then the estimate of loss would be based on a specific assessment of expected cash shortfalls and on the original effective interest rate.

As at 31 December 2023 and 2022, the Sub-Fund recognised there is no impairment allowance on cash and cash equivalents, bank deposits with maturity over three months at acquisition, amount receivable on subscription and interest receivable.

11 Financial instruments and associated risks (continued)

(e) *Liquidity risk*

Liquidity risk arises from the risk that Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner. The Sub-Fund is exposed to daily liquidity risk on redemption of units.

The Manager's policy is to regularly monitor current and expected liquidity requirements of the Sub-Fund to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

The Sub-Fund's investments are considered to have insignificant exposures to liquidity risk as they are all readily realisable under normal market conditions.

The Sub-Fund's redemption policy allows redemptions on any business day in Hong Kong, subject to a minimum redemption amount of HK\$10 for class A.

As at 31 December 2023 and 2022, the Sub-Fund's financial liabilities are due within one year.

(f) *Capital management*

The Sub-Fund's capital at the reporting date is represented by its redeemable units.

The Sub-Fund's objective in managing the capital is to ensure a stable and strong base to achieve long-term capital growth, and to manage liquidity risk arising from the redemptions. The Manager manages the capital of the Sub-Fund in accordance with the Sub-Fund's investment objectives and policies stated in the Sub-Fund's Explanatory Memorandum.

There were no changes in the policies and procedures during the year with respect to the Sub-Fund's approach to its capital management.

The amount and the movement of net assets attributable to unitholders are stated in the statement of changes in net assets attributable to unitholders. As the redeemable units are redeemed on demand at the unitholders' option, the actual level of redemption may differ significantly from historic experience.

12. Fair value information

The Sub-Fund's financial instruments are measured at fair value at the reporting date. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments including interest receivable and other payables, the carrying amounts approximate fair values due to the immediate or short-term nature of these financial instruments.

Valuation of financial instruments

The Sub-Fund's accounting policy on fair value measurements is detailed in significant accounting policy in note 2(e)(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.

12 Fair value information (continued)

Valuation of financial instruments (continued)

For debt securities which are listed on exchanges or those with daily dealer price quotations, the fair value are based on quoted market prices in active markets that are considered less than active. For all other financial instruments, the Sub-Fund determines fair value using valuation techniques.

The following analyses financial instruments at fair value the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

2023

	<i>Level 1</i> HK\$	<i>Level 2</i> HK\$	<i>Level 3</i> HK\$	<i>Total</i> HK\$
Unlisted but quoted fixed income instruments	<u>-</u>	<u>83,622,357</u>	<u>-</u>	<u>83,622,357</u>

2022

	<i>Level 1</i> HK\$	<i>Level 2</i> HK\$	<i>Level 3</i> HK\$	<i>Total</i> HK\$
Unlisted but quoted fixed income instruments	<u>-</u>	<u>18,995,457</u>	<u>-</u>	<u>18,995,457</u>

During the year ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

13. Distributions

The Manager currently does not intend to make any distributions of income and any income earned by the Sub-Fund will be re-invested and reflected in the value of units of the Sub-Fund. If the Manager intends to make any distribution in respect of the Sub-Fund, the Manager will give unitholders of the Sub-Fund not less than 30 days' notice (or such other notice period as agreed with the Hong Kong Securities and Futures Commission). No distribution statement is prepared as no distribution has been made.

14. Soft dollar commission

As regards to the Sub-Fund, the manager has not entered into any soft dollar commission arrangements during the year.

15. Possible impact of new standards issued but not yet effective for the year ended 31 December 2023

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 2023, and which have not been adopted in these financial statements. These include the following which may be relevant to the Sub-Fund.

	<i>Effective for accounting periods beginning on or after</i>
HKFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to HKAS 1, <i>Presentation of financial statements: Classification of Liabilities as Current or non-current</i>	1 January 2023
Amendments to HKAS 1, <i>Presentation of financial statements</i> and HKAS Practice Statement 2, <i>Making materiality judgements: Disclosure of accounting policies</i>	1 January 2023
Amendments to HKAS 8, <i>Accounting policies, changes in accounting estimates and errors; Definition of accounting estimates</i>	1 January 2023
Amendments to HKAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i>	1 January 2023

The Sub-Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Sub-Fund's results of operations and financial position.

Portfolio statement as at 31 December 2023 (unaudited)

(Expressed in Hong Kong dollar)

By Geography (Primary)	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of net assets value %</i>
Debt instruments- Unlisted but quoted			
Certificates of deposit			
AUSTRAILA			
Industrial & Commercial Bank Of China Limited/Sydney 5.4% due 27/02/2024	10,000,000	10,000,620	2.23
CHINA			
China Construction Bank Corporation/Tokyo 0% due 16/02/2024	14,000,000	13,907,491	3.11
Total certificates of deposit		23,908,111	5.34
Bonds			
BRITISH VIRGIN ISLANDS			
Wharf REIC Finance BVI Limited 1.15% due 22/04/2024	10,000,000	9,875,733	2.20
CAYMAN ISLANDS			
ABCD Finance Cayman Limited 2.87% due 08/04/2024	3,000,000	2,984,610	0.67
CDBL Funding 2 4.7% due 08/02/2024	20,000,000	19,999,678	4.47
HONG KONG SAR			
Swire Properties MTN Financing Limited 2.95% due 22/02/2024	7,000,000	6,979,247	1.56
NETHERLANDS			
Toyota Motor Finance Netherlands BV 2.64% due 21/02/2024	5,000,000	4,981,978	1.11
UNITED STATES OF AMERICA			
Citigroup Global Markets Incorporation 2.95% due 28/04/2024	15,000,000	14,893,000	3.33
Total bonds		59,714,246	13.34
Debt instruments (total)		83,622,357	18.68
Other net assets		364,115,822	81.32
Total net assets		447,738,179	100.00
Total investments, at cost		83,405,765	

Portfolio statement as at 31 December 2023 (unaudited) (continued) (Expressed in Hong Kong dollar)

The weighted average maturity and the weighted average life of the portfolio of the Sub-Fund are 32 days and 32 days respectively.

	<i>Market value</i>	<i>% of net assets</i>
	HK\$	value
		%
Daily liquid asset	442,359,752.79	100
Weekly liquid asset	442,359,752.79	100

Statement of movements in portfolio holdings (unaudited) for the year ended 31 December 2023

	% of net asset value	
	2023	2022
Debt instruments - Unlisted but quoted	18.68	6.26
Other net assets	<u>81.32</u>	<u>93.74</u>
Total net assets	<u><u>100.00</u></u>	<u><u>100.00</u></u>

Performance record (unaudited)

(a) Net asset values (calculated in accordance with IFRS)

	<i>Net asset value per unit</i>		<i>Net asset value</i>
	<i>Class A</i>	<i>Class B</i>	
	HK\$	HK\$	HK\$
As at			
31 December 2023	10.7872	10.5028	447,738,179
31 December 2022	10.4223	10.1317	303,508,214
31 December 2021	10.3328	10.0489	477,120,607
31 December 2020	10.3245	10.0415	549,579,578

(b) Highest and lowest price record (dealing net asset value per unit)

	<u><i>Year ended 31 December 2023</i></u>		
	<i>Denomination</i>	<i>Highest net</i>	<i>Lowest net</i>
		<i>currency</i>	<i>asset value</i>
		<i>per unit</i>	<i>per unit</i>
Net asset value per unit			
- Class A units	HK\$	10.7845	10.4262
- Class B units	HK\$	10.5002	10.1356

	<u><i>Year ended 31 December 2022</i></u>		
	<i>Denomination</i>	<i>Highest net</i>	<i>Lowest net</i>
		<i>currency</i>	<i>asset value</i>
		<i>per unit</i>	<i>per unit</i>
Net asset value per unit			
- Class A units	HK\$	10.4214	10.3326
- Class B units	HK\$	10.1308	10.0439

	<u><i>Year ended 31 December 2021</i></u>		
	<i>Denomination</i>	<i>Highest net</i>	<i>Lowest net</i>
		<i>currency</i>	<i>asset value</i>
		<i>per unit</i>	<i>per unit</i>
Net asset value per unit			
- Class A units	HK\$	10.3339	10.3278
- Class B units	HK\$	10.0503	10.0448

Performance record (unaudited) (continued)

c) Highest and lowest price record (dealing net asset value per unit) (continued)

	<u>Year ended 31 December 2020</u>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit			
- Class A units	HK\$	10.3276	10.2717
- Class B units	HK\$	<u>10.0446</u>	<u>10.0000</u>
	<u>Year ended 31 December 2019</u>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit			
- Class A units	HK\$	<u>10.2704</u>	<u>10.1248</u>
	<u>Year ended 31 December 2018</u>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit			
- Class A units	HK\$	<u>10.1239</u>	<u>10.0158</u>
	<u>Year ended 31 December 2017</u>		
	<i>Denomination currency</i>	<i>Highest net asset value per unit</i>	<i>Lowest net asset value per unit</i>
Net asset value per unit			
- Class A units	HK\$	<u>10.0152</u>	<u>10.0000</u>

Administration

Manager

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Hong Kong

Directors of the Manager

Mr. Lim Wah Sai
Mr. Wong Wai Kit, Louis
Mr. Lim Wen Sheong, Linus
Ms. Loh Yang Nee, Sabrina

Trustee

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Administration (continued)

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