

Annual Report

**GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND**

(A sub-fund of Guotai Junan Investment Fund, an umbrella unit trust established under the laws of Hong Kong)

For the year ended 31 December 2019

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

CONTENTS

	Pages
ADMINISTRATION AND MANAGEMENT	1
INVESTMENT MANAGER'S REVIEW	
- MARKET REVIEW	2
- MARKET OUTLOOK	2
- SUB-FUND'S PERFORMANCE	3
- INVESTMENT STRATEGY	4
REPORT OF THE TRUSTEE	5
INDEPENDENT AUDITOR'S REPORT	6 - 8
AUDITED FINANCIAL STATEMENTS	
Statement of profit or loss and other comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Statement of cash flows	12
Statement of distribution	13
Notes to financial statements	14 - 31
UNAUDITED STATEMENTS OF MOVEMENTS IN INVESTMENT PORTFOLIO	32
UNAUDITED INVESTMENT PORTFOLIO	33 - 35
UNAUDITED PERFORMANCE RECORD	36 - 37

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

ADMINISTRATION AND MANAGEMENT

Investment Manager

Guotai Junan Assets (Asia) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Directors of the Manager

YIM Fung
QI Haiying
LI Guangjie (*appointed 20 September 2019*)
LAI Changhua (*appointed 20 September 2019*)
CHIU Simon Siu Hung

Trustee and Registrar

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

Auditor

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Legal Adviser

Deacons
5th Floor, Alexandra House
18 Chater Road Central
Hong Kong

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

For the year ended 31 December 2019

INVESTMENT MANAGER'S REVIEW

MARKET REVIEW

After a volatile and painful period in 2018, global equity markets recovered in 2019. Although fear of global economic slowdown and lack of progress between US and China trade talks keep volatility high, an accommodative FED and the hope of the two largest world economies will eventually agree on a first-phase deal to avoid recession sent the equity markets higher for the year.

The year began with relief for global stock markets, trade negotiation between US and China gave a glimpse of hope to the equity investor, better than expected corporate earnings helped many indices rebound strongly in the first quarter of 2019. But sentiment shifted quickly from May, trade talks stalled, and President Trump raised tariff on China and put Huawei on sanction list was the key driver for the market correction in all major markets. And concerns over inverted yield curves signaling a possible recession is another reason keeps equity investors cautious. Finally, the FED came to rescue by stop hiking interest rate and cut it three times in the second half, which helped stabilizing the market and sent S&P 500 higher by 28.9% for 2019.

For Hong Kong market, Hang Seng Index climbed 9.1% in 2019, underperforming other major equity markets indexes globally. After rebounding strongly in the first quarter, the worries of trade disputes escalation between US and China sent the market lower with an increased volatility. And then weighed by the increasingly intensified social activities throughout the second half of the year, sectors related to tourism and retail sales plummeted severely, Hong Kong technically entered economic recession, and HSI is the only major index decreased in second half globally. However, onshore market performed much better on expectation that the central government will implement more monetary and fiscal stimuli to stimulate the economy, especially on consumption related sectors, as export demand may be under pressure from the trade disputes. CSI 300 index increased 36.1% in 2019.

MARKET OUTLOOK

We expect that divergence in economic conditions and a possible wide spread monetary easing globally to be the overarching theme for global economy in 2020. Even though U.S. and China made the first phase trade deal in early January, the sentiment changed dramatically after the coronavirus epidemic hit China first, then the increasing risk of a global pandemic may put the global economy at the edge of recession. The latest U.S. economy continues its recovery with the strong job market readings, unemployment rate in U.S. stayed below 4% level, though inflations are not picking up as the FED expected yet. But the FED made an emergency cut of 50 bps as a preventive measure to mitigate the impact of the epidemic. While the other major economies are facing the same public health risk, making a slower economic growth or contraction a more realistic scenario. And there are still a lot of uncertainties on political events that may derail the global economy recovery, particularly the trade dispute between US and China and a crude oil shock as failed cooperation between OPEC and Russia. We suspect there might be more market volatility down the road for equity investors. With market volatility keeping at a much higher level and staying there for a while longer than we would like.

And for the greater China markets, we expect the central government would release more favorable policies, both monetary and fiscal, to revive the economy after the lock-down which successfully contained the spread of the coronavirus in China. And we also expect the new economy such as 5G and Internet related service sectors would keep benefitting from the technology upgrades and current epidemic situation.

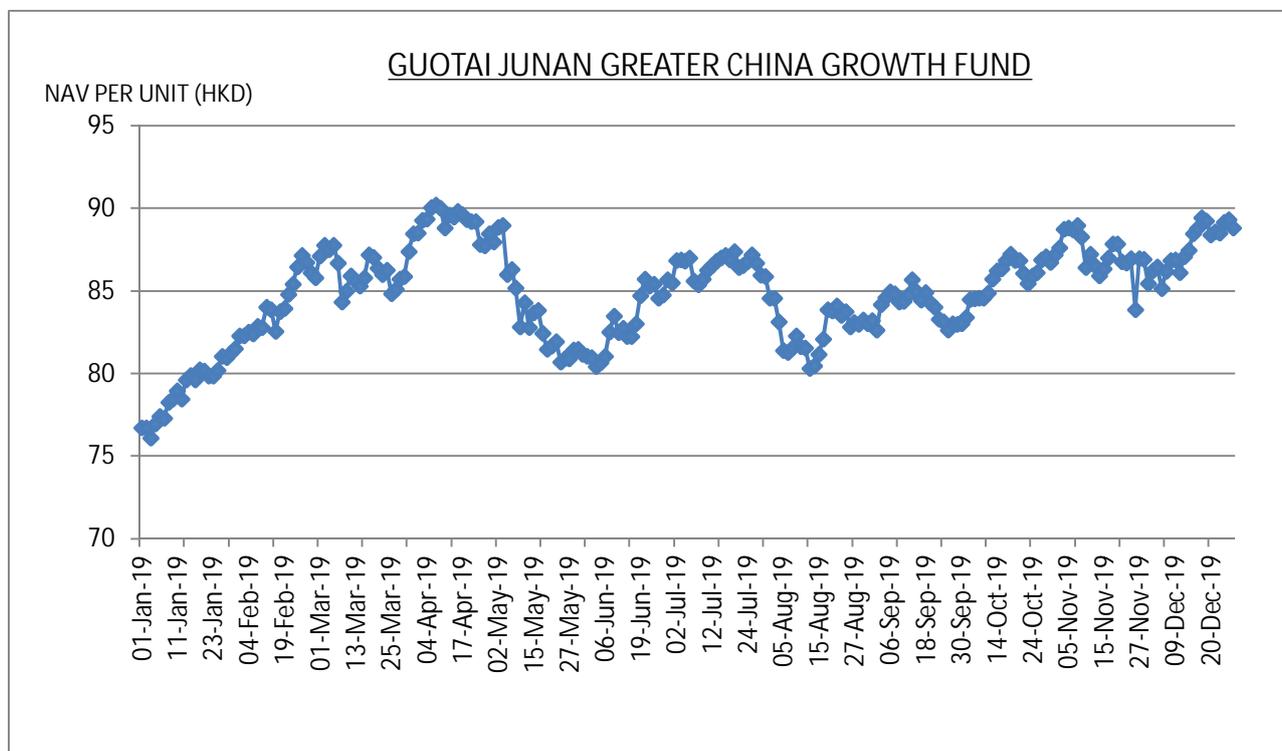
For Hong Kong market, after the roller coaster run in 2019, now Hong Kong market is trading at an attractive valuation level, we expect that a large part of the negativities have already been factored in.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

For the year ended 31 December 2019

INVESTMENT MANAGER'S REVIEW (continued)

SUB-FUND'S PERFORMANCE



Performance table

Index / Fund's Name	Jan - Dec 2019	Since Inception
	Rate of Return (%) *	Rate of Return (%)
Hang Seng China-Affiliated Total Return Index	33.2%	-64.2%
Taiwan TaieX Total Return Index	28.9%	117.9%
Hang Seng China Enterprises Total Return Index	14.5%	1.9%
Hang Seng Total Return Index	13.0%	56.9%
MSCI Golden Dragon Total Return Index	23.1%	65.3%
Guotai Junan Greater China Growth Fund	13.9%	-8.4%
MSCI China Daily Total Return Index	23.3%	37.7%

* Ranked by the total returns of indices for the Fund for Jan - Dec 2019.

The total return of the Guotai Junan Greater China Growth Fund ("GJGC" hereafter) increased by 13.9% in 2019 and recorded a loss of 8.4% since inception i.e. 19 Nov 2007.

In 2019, GJGC outperformed the total returns of the Hang Seng Index ("HSI") by 0.9% and underperformed Hang Seng China Enterprises Index ("HSCEI") by 0.7%. GJGC's portfolio had overweighted China-related consumer discretionary and industrials, which have outperformed the Hang Seng Index constituents.

As of 31 December 2019, GJGC's portfolio was well diversified. Amongst all exposure, financials, industrials, and consumer discretionary were the top weighed sectors, which made up of 20.54%, 17.63% and 17.62% of the NAV respectively.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

For the year ended 31 December 2019

INVESTMENT MANAGER'S REVIEW (continued)

INVESTMENT STRATEGY

We are conservatively optimistic on companies with good earning visibility and trading at reasonable valuation levels, meanwhile we would remain cautious when the volatility is at a very elevated level, stay defensive until good entry level presents itself.

We believe corporate earnings growth is the most important driver of the market performance, sector selection would still be as critical as ever, we believe sectors with strong cash flows, sectors benefit from the technology upgrades and sectors benefit from consumption upgrades would outperform the general market, and we would position ourselves accordingly.



.....
Guotai Junan Assets (Asia) Limited

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

For the year ended 31 December 2019

REPORT OF THE TRUSTEE

We hereby confirm that, in our opinion, the Manager of the Trust has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 29 August 2007 and supplemental deeds dated 31 October 2016 and 31 December 2019.


.....
HSBC Institutional Trust Services (Asia) Limited



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the Manager and the Trustee of
Guotai Junan Greater China Growth Fund,
(A sub-fund of Guotai Junan Investment Fund, an umbrella unit trust established under the laws of Hong Kong)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Guotai Junan Greater China Growth Fund (the "Sub-Fund") set out on pages 9 to 31, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statements of changes in equity, the statement of cash flows and the statement of distribution for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2019 and of its financial performance and its cash flows for the year then ended are in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The Manager and the Trustee of the Sub-Fund are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements of the Sub-Fund 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 Auditor's Report (continued)

To the Manager and the Trustee of
Guotai Junan Greater China Growth Fund,
(A sub-fund of Guotai Junan Investment Fund, an umbrella unit trust established under the laws of Hong Kong)

Responsibilities of the Manager and the Trustee 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 HKFRSs issued by the HKICPA, and for such internal control as the Manager and the Trustee 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 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 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 is required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 29 August 2007 and supplemental deeds dated 31 October 2016 and 31 December 2019 (collectively, the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds (the "SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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 HKSAs 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 access whether the financial statements have been properly prepared, in all material respect, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism 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.

Independent Auditor's Report (continued)

To the Manager and the Trustee of
Guotai Junan Greater China Growth Fund,
(A sub-fund of Guotai Junan Investment Fund, an umbrella unit trust established under the laws of Hong Kong)

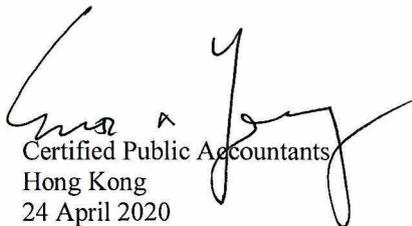
Auditor's responsibilities for the audit of the financial statements (continued)

- 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Certified Public Accountants
Hong Kong
24 April 2020

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 HK\$	2018 HK\$
INCOME			
Dividend income		1,118,256	1,386,437
Interest income		<u>33,018</u>	<u>24,861</u>
		<u>1,151,274</u>	<u>1,411,298</u>
EXPENSES			
Trustee fees	3	468,000	468,000
Bank charges		15,431	31,899
Valuation fees		134,374	134,965
Auditor's remuneration		198,980	62,250
Brokerage and handling fees	3	305,511	436,755
Management fees	3	952,328	996,083
Transaction fees		115,800	81,581
Registrar fees	3	43,705	42,340
Legal and professional fees		567,642	176,355
Miscellaneous expenses		<u>237,048</u>	<u>62,763</u>
		<u>3,038,819</u>	<u>2,492,991</u>
Loss before investment gain/(loss) and exchange differences		<u>(1,887,545)</u>	<u>(1,081,693)</u>
Investment gain/(loss) and exchange differences			
Net change in unrealised gain/(loss) on investments		8,657,576	(15,643,732)
Net realised gain on investments		946,996	5,347,187
Foreign exchange differences		<u>(1,860)</u>	<u>9,289</u>
Investment gain/(loss) and exchange differences		<u>9,602,712</u>	<u>(10,287,256)</u>
Profit/(loss) before tax		7,715,167	(11,368,949)
Withholding tax		<u>(35,405)</u>	<u>(49,606)</u>
Profit/(loss) for the year		7,679,762	(11,418,555)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>7,679,762</u></u>	<u><u>(11,418,555)</u></u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$	2018 HK\$
Assets			
Financial assets at fair value through profit or loss	5	66,208,692	44,058,259
Dividend receivables		2,522	-
Due from brokers		2,005,650	5,994,553
Interest receivables		8	134
Cash and bank balances	6	<u>5,985,889</u>	<u>9,799,876</u>
Total assets		<u><u>74,202,761</u></u>	<u><u>59,852,822</u></u>
Liabilities			
Financial liabilities at fair value through profit or loss	5	107,200	-
Other payables and accruals		732,458	298,415
Due to brokers		<u>-</u>	<u>634,816</u>
Total liabilities		<u><u>839,658</u></u>	<u><u>933,231</u></u>
Equity			
Net assets attributable to unitholders		<u>73,363,103</u>	<u>58,919,591</u>
Total liabilities and equity		<u><u>74,202,761</u></u>	<u><u>59,852,822</u></u>
Number of units in issue	8	825,747.65	755,062.82
Net asset value per unit	8	88.84	78.03



Guotai Junan Assets (Asia) Limited



HSBC Institutional Trust Services (Asia) Limited

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	HK\$
At 1 January 2018	75,443,036
Redemption of units	(22,344,655)
Subscription of units	17,239,765
Total comprehensive income for the year	<u>(11,418,555)</u>
At 31 December 2018 and 1 January 2019	58,919,591
Redemption of units	(13,961,205)
Subscription of units	20,724,955
Total comprehensive income for the year	<u>7,679,762</u>
At 31 December 2019	<u><u>73,363,103</u></u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	2019 HK\$	2018 HK\$
Cash flows from operating activities		
Profit/(loss) before tax	7,679,762	(11,418,555)
Adjustments for:		
Net change in unrealised (gain)/loss on investments	(8,657,576)	15,643,732
Net realised gain on investments	(946,996)	(5,347,187)
Interest income	(33,018)	(24,861)
Dividend income	(1,082,851)	(1,336,831)
	<u>(3,040,679)</u>	<u>(2,483,702)</u>
Payments on purchases of financial assets and liabilities at fair value through profit or loss	(96,647,188)	(101,338,318)
Proceeds from disposals of financial assets and liabilities at fair value through profit or loss	84,208,527	121,234,296
Decrease/(increase) in amounts due from brokers	3,988,903	(5,994,553)
Increase/(decrease) in other payables and accruals	434,043	(125,298)
Decrease in amounts due to brokers	(634,816)	(63,228)
Interest received	33,144	24,733
Dividend received	1,115,734	1,386,437
Withholding tax paid	(35,405)	(49,606)
Net cash flows (used in)/from operating activities	<u>(10,577,737)</u>	<u>12,590,761</u>
Cash flows from financing activities		
Proceeds from issuance of units	20,724,955	17,239,765
Payments on redemption of units	(13,961,205)	(22,344,655)
Net cash flows generated from/(used in) financing activities	<u>6,763,750</u>	<u>(5,104,890)</u>
Net (decrease)/increase in cash and cash equivalents	(3,813,987)	7,485,871
Cash and cash equivalents at beginning of the year	<u>9,799,876</u>	<u>2,314,005</u>
Cash and cash equivalents at end of the year	<u><u>5,985,889</u></u>	<u><u>9,799,876</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances	<u><u>5,985,889</u></u>	<u><u>9,799,876</u></u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

STATEMENT OF DISTRIBUTION

Year ended 31 December 2019

	HK\$
Undistributed income at 1 January 2018	-
Total comprehensive income for the year	(11,418,555)
Add: Net change in unrealised gain/(loss) on investments	<u>15,643,732</u>
Undistributed income before distribution	4,225,177
Transfer to capital	<u>(4,225,177)</u>
Undistributed income at 31 December 2018 and 1 January 2019	-
Total comprehensive income for the year	7,679,762
Less: Net change in unrealised gain/(loss) on investments	<u>(8,657,576)</u>
Undistributed loss before distribution	(977,814)
Transfer from capital	<u>977,814</u>
Undistributed income at 31 December 2019	<u><u>-</u></u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. THE TRUST AND THE SUB-FUND

Guotai Junan Investment Fund (the "Trust"), is a unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a Trust Deed dated 29 August 2007 and supplemental deeds dated 31 October 2016 and 31 December 2019 (collectively, the "Trust Deed") between Guotai Junan Assets (Asia) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"). The Trust will continue for a period of 100 years from the date of the Trust Deed or until it is terminated by the Manager or the Trustee. The Trust was originally constituted as an umbrella unit trust established under the laws of Cayman Islands and was registered with Cayman Island Monetary Authority on 3 September 2007. Pursuant to a Deed of Retirement and Appointment of Trustee dated 26 October 2016, the Trust was removed from the jurisdiction of the Cayman Islands to the jurisdiction of the Hong Kong Special Administrative Region and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of HSBC Trustee (Cayman) Limited effective 18 November 2016. The Trust currently consists of one sub-fund which is Guotai Junan Greater China Growth Fund (the "Sub-Fund") which has been authorised by the Hong Kong Securities and Future Commission (the "SFC"). Authorisation by the SFC does not imply official approval or recommendation.

The investment objective of the Sub-Fund is to provide investors with medium to long term capital appreciation over time.

2.1 BASIS OF PREPARATION

These financial statements of the Sub-Fund have been prepared on the basis of the relevant disclosure provisions of the Trust Deed, the relevant disclosure provisions as set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds established by the SFC (the "SFC Code") and Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong.

They have been prepared under the historical cost basis, except for financial assets and financial liabilities classified at fair value through profit or loss ("FVPL") that have been measured at fair value. The financial statements are presented in Hong Kong Dollars ("HK\$") and all values are rounded to the nearest dollar, except where otherwise indicated.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles adopted in the current year are consistent with those of the prior year; except that the Sub-Fund has adopted the following new revised accounting standard:

HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

The nature and the impact of the new standard and amendments are described below:

HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12. The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The interpretation has had no impact on the financial position or performance of the Sub-Fund.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Sub-Fund has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2019 in these financial statements. Among the new and revised HKFRSs, the following is expected to be relevant to the Sub-Fund's financial statements upon becoming effective:

Amendments to HKAS 1 and HKAS 8 *Definition of Material*¹

¹ Effective for annual periods beginning on or after 1 January 2020

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments to HKAS 1 and HKAS 8 were issued in January 2019 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and are not expected to have a significant impact on the Sub-Fund's financial statements upon adoption.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) **Classification**

In accordance with HKFRS 9, the Sub-Fund classifies their financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- (b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets

The Sub-Fund classifies their financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Sub-Fund's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Sub-Fund includes in this category short-term non-financing receivables including cash and cash equivalents, interest receivables, dividend receivable and due from brokers.

Financial assets measured at FVPL

A financial asset is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely collections of principal and interest ("SPPI") on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Fund includes in this category:

- Instruments held for trading. This includes investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) **Classification** (continued)

Financial liabilities

The Sub-Fund classifies their financial liabilities as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The Sub-Fund's business model for managing the financial liabilities
- The contractual cash flow characteristics of the financial liabilities

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at FVPL. The Sub-Fund includes in this category other payables and accruals and amount due to brokers.

Financial liabilities measured at fair value through profit or loss ("FVPL")

A financial liability is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to pay contractual cash flows, or to both pay contractual cash flows and purchase; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Fund includes in this category:

- Instruments held for trading. This category includes future contracts derivative contracts in an asset position which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

(ii) **Recognition**

The Sub-Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Sub-Fund commits to purchase or sell the asset.

(iii) **Initial measurement**

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Sub-Fund recognise the difference in profit or loss, unless specified otherwise.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) **Subsequent measurement**

After initial measurement, the Sub-Fund measures financial instruments which are classified as fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net change in unrealised gain/(loss) on investments. Net realised gain/loss on investments is classified as "fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount. Interest earned, and dividend revenue elements of such instruments are recorded separately in profit or loss.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Sub-Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(v) **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where (i) the rights to receive cash flows from the asset have expired or (ii) the Sub-Fund has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either:

- (a) the Sub-Fund has transferred substantially all the risks and rewards of the asset; or
- (b) the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Sub-Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Fund's continuing involvement in the asset. In that case, the fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Fund has retained. The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(vi) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

Fair value measurement

The Sub-Fund measures its investments in financial instruments at fair value at each reporting date. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Sub-Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Impairment of financial assets

The Sub-Fund holds only short-term receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, have chosen to apply an approach similar to the simplified approach for expected credit losses ("ECL") under HKFRS 9 to all its short-term receivables. Therefore, the Sub-Fund does not track changes in credit risk, but instead, recognises a loss allowance based on lifetime ECLs at each reporting date.

The Sub-Fund's approach to ECLs reflect a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Sub-Fund uses the provision matrix as a practical expedient to measure ECLs on short-term receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits, short term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Interest income and expense

Interest income and expense are recognised in profit or loss for all interest-bearing financial instruments using the effective interest method.

Dividend income

Dividend income is recognised when the Sub-Fund's right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of profit or loss.

Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as FVPL or loss are included in profit or loss in the statement of profit or loss as part of "net unrealised gain or loss on investments".

Redeemable units

Classification of redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Sub-Fund's net assets in the event of the Sub-Fund's liquidation.
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments.
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Sub-Fund's net assets.
- The total expected cash flows attributable to the redeemable units over the life of the instrument 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.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units (continued)

In addition to the redeemable units having all the above features, the Sub-Fund must have no other financial instrument or contract that has:

- Total cash flows 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.
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Sub-Fund continuously assess the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Sub-Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Sub-Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. Upon issuance of units, the consideration received is included in equity. Transaction costs incurred by the Sub-Fund in issuing or acquiring its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Own equity instruments that are reacquired are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs. The Sub-Fund's policy is not to keep shares in treasury, but rather to cancel them once repurchased. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issuance or cancellation of the Sub-Fund's own equity instruments.

Related parties

A party is considered to be related to the Sub-Fund if:

- (a) the party is a person or a close member of that person's family and 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 of a parent of the Sub-Fund;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Sub-Fund are members of the same Sub-Fund;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Sub-Fund 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 a post-employment benefit plan for the benefit of employees of either the Sub-Fund or an entity related to the Sub-Fund;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) 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); and
 - (viii) 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 parent of the Sub-Fund.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Sub-Fund is exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in profit or loss. For the purpose of the statement of cash flows, cash inflows from investments are presented gross of withholding taxes, when applicable.

Distribution to unitholders

The Sub-Fund recognises a liability to make cash distributions or non-cash distributions to unitholders when the distribution is authorised. The Manager may at its discretion make a cash distribution in Hong Kong Dollars or US Dollars on a semi-annual basis to unitholders. A corresponding amount is recognised directly in equity. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Sub-Fund's accounting policies, management has not made any significant judgements which have the significant effect on the amounts recognised in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Fair value of financial instruments

When the fair value of financial instruments recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and discount rates.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The Sub-Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the reasonable tax authority. Such differences of interpretation may arise on wide variety of issues depending on the conditions prevailing in the respective investment's domicile.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. **TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS**

The following is a summary of transactions entered into during the year between the Sub-Fund and its connected persons. Connected persons of the Sub-Fund are those as defined in the Code. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

Manager's and its affiliates' holdings in the Sub-Fund

The Manager may transact in the units of the Sub-Fund as principal provided that prior written notice is obtained from the Trustee. Details of units of the Sub-Fund held by the Manager's affiliates as at 31 December 2019 and 2018 are as below:

	2019	2018
Units of the Sub-Fund	<u>133,217</u>	<u>78,004</u>

Management fee

The Manager is entitled to receive a management fee at 1.5% of the net asset value of the Sub-Fund, respectively, per annum. The management fee is calculated and accrued as at each valuation day and payable monthly in arrears. As at 31 December 2019, management fee of HK\$95,541 (2018: HK\$76,801) was payable to the Manager at the end of the reporting period which is included within other payables and accruals in the statement of financial position.

Trustee fee

The Trustee is entitled to receive from the Sub-Fund, an annual fee at a sliding scale with a maximum rate of 0.14% per annum of the net asset value of the Sub-Fund as at the relevant valuation point subject to a minimum monthly fee of HK\$39,000. This fee is calculated and accrued on each valuation day and paid monthly in arrears. As at 31 December 2019, HK\$39,000 (2018: HK\$39,000) was payable to the Trustee at the end of the reporting period which is included within other payables and accruals in the statement of financial position.

The Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS (continued)

Registrar fee

The Trustee is also entitled to receive a fee for services in its capacity as Registrar at a fixed amount of HK\$40,000 per annum for the first 100 investors wherein HK\$780 per annum per investor thereafter for the Sub-Fund. Such fee may vary depending on the number of holders of redeemable units in the Sub-Fund and is calculated and paid monthly in arrears to the Trustee. There is no maximum amount applicable to the registrar fees. As at 31 December 2019, a registrar fee of HK\$3,897 (2018: HK\$3,592), was payable to the registrar at the end of reporting period which is included within other payables and accruals in the statement of financial position.

Further, the Trustee may appoint sub-custodians to safe-keep the assets of the Sub-Fund outside the PRC. All sub-custodian fees will be charged to the Sub-Fund and are calculated and paid monthly in arrears, in addition, to, any fees and expenses payable to the Trustee. The sub-custodian is entitled to recover all out-of-pocket expenses incurred in the performance of its duties in connection with the relevant Sub-Fund.

Brokerage and handling fees

Guotai Junan Securities (Hong Kong) Limited ("GJS"), the fellow subsidiary of the Manager, charged the Sub-Fund a brokerage and handling fee at a fixed rate of 1% for each initial public offering subscription and 0.18% for each listed securities transaction which was changed to 0.15% effective 15 May 2015. During the year ended 31 December 2019, included in the brokerage and handling fees in the statement of profit or loss and other comprehensive income was HK\$22,194 (2018: HK\$44,252), charged by GJS. No balances in relation to the brokerage and handling fee were payable by the Sub-Fund to GJS as at 31 December 2019 and 2018.

Bank balances

Bank balances are maintained with the Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), Hong Kong Branch, an affiliate of the Trustee. All bank balances were deposited with affiliate of the Trustee as at 31 December 2019 and 2018.

4. TAX

No provision for Hong Kong profits tax has been made for the Sub-Fund. The Sub-Fund is authorised by the SFC as a collective investment scheme pursuant to Section 104 of the SFC to offering to the retail public in Hong Kong. It is exempted from Hong Kong profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Dividend income is subject to withholding tax in certain jurisdictions and is the only item subject to taxation at an average applicable withholding tax rate of 10% (2018: 10%) in such jurisdictions for the Sub-Fund.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK\$	2018 HK\$
Financial assets at FVPL:		
Listed equity securities, at cost	58,268,267	44,775,411
Unrealised gain/(loss)	<u>7,940,424</u>	<u>(717,152)</u>
Total financial assets at FVPL	<u>66,208,692</u>	<u>44,058,259</u>
	2019 HK\$	2018 HK\$
Financial liabilities at FVPL:		
Futures	<u>(107,200)</u>	-
Total financial liabilities at FVPL	<u>(107,200)</u>	<u>-</u>

Valuation techniques

Listed investment in equity securities and derivatives

When fair values of publicly traded equity securities and derivatives are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy.

Unlisted investment in equity securities

On 31 December 2012, one listed equity held by the Sub-Fund were suspended from trading and was reclassified from Level 1 to Level 3. The listed suspended equity was written down to nil on 31 December 2012. Another listed equity held by the Sub-Fund, which were suspended from trading since 27 March 2015 was classified as Level 3 as its carrying amount of HK\$1,040,000 was valued at last trade price before suspension less a liquidating discount as determined by the Manager. As at 31 December 2019, the Manager considered that due to its lengthy suspension of trading, involvement in the litigation initiated by one of its substantial shareholders, continuous dealing with the forensic accountant for the forensic investigation and failure to provide audited annual reports for consecutive 3 years since 2014, so the Manager considered that the possibility to resume trading is remote. The fair value of this listed equity has been written down to nil during the year.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
(continued)

Valuation techniques (continued)

Unlisted investment in equity securities (continued)

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets and financial liabilities measured at FVPL at 31 December 2019 and 2018.

Financial assets at FVPL:

	2019 HK\$	2018 HK\$
Quoted prices in active markets (Level 1)	66,208,692	44,058,259
Significant observable inputs (Level 2)	-	-
Significant unobservable inputs (Level 3)	-	-
	<u>66,208,692</u>	<u>44,058,259</u>
At the end of year	<u>66,208,692</u>	<u>44,058,259</u>

Financial liabilities at FVPL:

	2019 HK\$	2018 HK\$
Quoted prices in active markets (Level 1)	(107,200)	-
Significant observable inputs (Level 2)	-	-
Significant unobservable inputs (Level 3)	-	-
	<u>(107,200)</u>	<u>-</u>
At the end of year	<u>(107,200)</u>	<u>-</u>

As at 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: no transfers into and out of Level 3).

Level 3 reconciliation

For the year ended 31 December 2019 and 2018, there was no movement in the fair value of financial instruments categorised within Level 3.

Sensitivity analysis to significant changes in unobservable inputs – Level 3

As at 31 December 2019 and 2018, the listed suspended equities have been written down to nil.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. CASH AND BANK BALANCES

The cash at bank was held with HSBC in interest bearing accounts as at 31 December 2019 and 2018. The bank balances are deposited with creditworthy banks with no recent history of default.

7. DISTRIBUTIONS

No distribution has been declared on behalf of the Sub-Fund during the year ended 31 December 2019 (2018: nil).

8. CAPITAL

As at 31 December 2019 and 2018, the Sub-Fund only has one single class of units in issue, being redeemable participating units. The redeemable participating units do not carry any voting rights. They carry the right to receive distributions and the rights to participate in the surplus assets of the Sub-Fund after the payment of all creditors upon liquidation of the Sub-Fund.

Redeemable participating units can be issued and redeemed on each valuation day, i.e. every business day of the calendar year. The holders of redeemable participating unit may redeem the redeemable participating units on any valuation day by no later than the dealing deadline, i.e. no later than the business hours of the business day of the calendar year. Redemption requests received after such time will be deemed to have been received on the next business day.

The calculation of the net asset value per unit of the Sub-Fund is based on the net assets of the Sub-Fund and the number of units in issue as at 31 December 2019 and 2018.

	2019 HK\$	2018 HK\$
Net Assets	<u>73,363,103</u>	<u>58,919,591</u>

Movement in the number of redeemable participating units issued for the year ended 31 December 2019 and 2018:

	2019	2018
Number of redeemable participating units:		
At beginning of the year	755,062.82	809,075.14
Issued during the year	242,053.24	183,665.76
Redeemed during the year	<u>(171,368.41)</u>	<u>(237,678.08)</u>
At the end of year	<u>825,747.65</u>	<u>755,062.82</u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. **SOFT COMMISSION ARRANGEMENTS**

Neither the Manager nor any of its connected persons has entered into any soft commission arrangements with brokers or dealers in respect of the transactions for the account of the Sub-Fund of the Trust.

10. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Sub-Fund is subject to various risks as the Sub-Fund invested in a number of financial instruments including listed equity securities and derivatives during the year.

The investment objective, strategy and restrictions apply to any investment at the time that investment is made. The Manager will be responsible for ensuring compliance at all times with the investment policies. Where any policy is breached, the Manager will ensure that immediate corrective action will be taken, except where the breach is due to appreciation or depreciation in the value of investments.

The Manager will also be managing the assets of the Sub-Fund and will minimise risk by applying a combination of bottom-up and top-down approaches including macroeconomic, industrial and company specific analysis so as to develop a high-quality investment portfolio. The Sub-Fund invests substantially all of its assets in Hong Kong listed "H" shares, "Red Chips", Shanghai and Shenzhen listed "B" shares and are broadly diversified with numerous exchange traded investments.

(a) **Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Sub-Fund is exposed to market risk on its investments. The Sub-Fund minimises its exposure to market risk by diversifying its listed investments broadly and monitoring its investments constantly on a real time basis by a team of fund managers.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Sub-Fund is exposed to interest rate risk as all of its cash and bank balances are placed in interest bearing accounts.

The Manager is responsible for monitoring and managing the interest rate exposure of the Sub-Fund. Financial assets of the Sub-Fund are predominately equity securities, which are interest free while the interest rate risks of the Sub-Fund are mainly attributable to interest bearing bank deposits. Accordingly, the Manager considers that exposures of the Sub-Fund to interest rate risk were minimal.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Such risk exposures arise from trading in securities in currencies other than the Sub-Fund's functional currencies. Fluctuations in exchange rates between the HK\$ and US\$ may affect its financial condition and results of operations, whereas the Manager considers the US\$/HK\$ exposure is minimal as HK\$ is pegged to US\$. Also, the Sub-Fund does not expose to significant currency risk as majority of its operations and transactions are in HK\$ and denominated in HK\$.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

Equity price risk

Equity price risk is the risk of unfavorable changes in the fair values of equities as a result of changes in the level of equity indices and the value of individual shares. The trading equity price risk exposure arises from the Sub-Fund's investment portfolio.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in Hang Seng Index ("HSI") and Hang Seng China Enterprises Index ("HSCEI"), with all other variables held constant, of the Sub-Fund's profit and net assets attributable to holders of redeemable units.

		2019 HK\$	2018 HK\$
HSI	+/-5%	+/-4,575,000	+/-2,204,000
HSCEI	+/-5%	<u>+/-3,349,000</u>	<u>-</u>

This analysis is based on the assumption that all the equity instruments move according to the historical correlation with the HSI and HSCEI and with all other variables held constant. In practice, the actual results may differ, and the difference could be material.

(b) Liquidity risk

Liquidity risk is the risk that the Sub-Fund will encounter difficulty in meeting obligation associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

As described in note 8 to the financial statements, the Sub-Fund is subject to cash redemptions of its redeemable units on every business day during the calendar year. The Sub-Fund considers that its exposure to liquidity risk is minimal as most of its investments are listed and actively traded.

The contractual undiscounted cash flows of the financial liabilities as at 31 December 2019 for the Sub-Fund is the same as their carrying amounts of HK\$839,658 (2018: HK\$933,231), as they are repayable less than three months.

(c) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation. The Sub-Fund minimises exposure to credit risk by only dealing with counterparties with high credit ratings.

The Sub-Fund is mainly exposed to credit risk on its investments placed with the brokers and amounts due from brokers. The Manager monitors the credit risk by monitoring the credit quality of brokers on a regular basis. If the credit quality or the financial position of brokers deteriorates significantly the Manager will deal with other providers. In addition, substantially all of the bank deposits of the Sub-Fund are held by the reputable financial institution located in Hong Kong.

The Sub-Fund's maximum exposure to credit risk in the event of counterparties failing to perform their obligations as of the end of the reporting period in relation to each class of recognised financial assets approximates to the carrying amount of those assets as indicated in the statement of financial position. The Sub-Fund adopts the method of deliver-against-payment in the settlement of all its transactions. This arrangement is effectively avoiding the counterparty risk from brokers.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

Credit risk disclosures are segmented into two sections based on whether the underlying financial investment is subject to HKFRS 9's impairment disclosure or not.

Financial assets subject to HKFRS 9's impairment requirements

The Sub-Fund's financial assets subject to the ECL model within HKFRS 9 are interest receivables, due from brokers, dividend receivables and cash and bank balances. At 31 December 2019, the total of interest receivables, dividend receivables, due from brokers and cash and bank balance was HK\$7,994,069 on which no loss allowance had been provided (2018: HK\$15,794,563 on which no loss had been incurred). There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: cash at bank and dividend receivables. All the Sub-Fund's cash at bank is held in major financial institution located in Hong Kong, which the Manager believes is of high credit quality. The Manager considers the Sub-Fund is not exposed to significant credit risk and no loss allowance has been made.

Financial assets not subject to HKFRS 9's impairment requirements

The Sub-Fund is exposed to credit risk on financial assets at fair value through profit or loss. These classes of financial assets are not subject to HKFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under HKFRS 9 represents the Sub-Fund's maximum exposure to credit risk on financial instruments not subject to the HKFRS 9 impairment requirements on the respective reporting dates.

(d) Capital management

The primary objective of the Sub-Fund's capital management is to safeguard the Sub-Fund's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise holders of redeemable units' value.

The Sub-Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristic of the financial assets. To maintain or adjust the capital structure, the Sub-Fund may adjust the investments held.

The Sub-Fund defines capital as the net assets attributable to holders of redeemable units. The Manager believes it has mitigated the risks to capital by following the investment guideline.

11. EVENTS AFTER THE REPORTING PERIOD

The outbreak of Coronavirus Disease ("COVID-19 outbreak") in early 2020 has had significant impact on global financial markets. The Manager will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Sub-Fund.

The published NAV per unit of the Sub-Fund have dropped by 10.25% from 1 January 2020 to 31 March 2020. This is considered to be a non-adjusting event after the reporting period. The Manager will continue to remain alert to the situation and monitor the subscriptions and redemptions of the Sub-Fund. During the period between the end of the reporting period and the date of authorisation of these financial statements, there was a net subscription of 17,403 units of the Sub-Fund.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 24 April 2020.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

UNAUDITED STATEMENTS OF MOVEMENTS IN INVESTMENT PORTFOLIO

31 December 2019

Holdings Summary

	% of Net Assets	
	2019	2018
Equity		
- Hong Kong	84.44	73.77
- United States	5.83	0.98
Futures		
- Hong Kong	(0.15)	-
	<u>90.12</u>	<u>74.75</u>

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

UNAUDITED INVESTMENT PORTFOLIO

31 December 2019

Listed equities	Holdings	Market Value (HKD)	% of Net Assets
HONG KONG			
AIA GROUP LTD	40,000	3,272,000	4.46
A-LIVING SERVICES CO. LTD	40,000	1,076,000	1.47
ANHUI CONCH CEMENT CO. LTD-H	20,000	1,136,000	1.55
BOC AVIATION LTD	50,000	3,962,500	5.40
BOSHIWA INTERNATIONAL HOLDING ¹	690,000	-	-
CHINA ANIMAL HEALTHCARE LTD ²	316,000	-	-
CHINA AOYUAN GROUP LIMITED	70,000	889,000	1.21
CHINA LESSO GROUP HOLDINGS LTD	300,000	2,997,000	4.09
CHINA LIFE INSURANCE CO. LTD	70,000	1,515,500	2.07
CHINA MENGNIU DAIRY CO. LTD	40,000	1,260,000	1.72
CHINA MERCHANTS BANK CO. LTD	60,000	2,403,000	3.28
CHINA MOLYBDENUM CO. LTD	456,000	1,523,040	2.08
CHINA RESOURCES LAND LTD	60,000	2,328,000	3.17
CITIC SECURITIES CO. LTD - H	75,000	1,333,500	1.82
COUNTRY GARDEN SERVICES HOLDINGS CO. LTD	30,000	787,500	1.07
CSC FINANCIAL CO. LTD	115,000	772,800	1.05
GALAXY ENTERTAINMENT GROUP LTD	20,000	1,148,000	1.56

¹ Trading for these securities was suspended since 15 March 2012. The security was written-down to nil.

² Trading for these securities was suspended since 30 March 2015. The security was written-down to nil.

GUOTAI JUNAN INVESTMENT FUND
- GUOTAI JUNAN GREATER CHINA GROWTH FUND

UNAUDITED INVESTMENT PORTFOLIO (continued)

31 December 2019

Listed equities	Holdings	Market Value (HKD)	% of Net Assets
HONG KONG			
GUANGDONG INVESTMENT LTD	80,000	1,304,000	1.78
INDUSTRIAL AND COMMERCIAL BANK OF CHINA	150,000	900,000	1.23
LI NING CO. LTD	50,000	1,167,500	1.59
MEITUAN DIANPING	40,000	4,076,000	5.56
NAGACORP LTD	110,000	1,496,000	2.04
NISSIN FOODS CO. LTD	100,000	619,000	0.84
PING AN INSURANCE (GROUP) CO. OF CHINA LTD	60,000	5,526,000	7.53
Q TECHNOLOGY GROUP CO. LTD	133,000	1,715,700	2.34
SHIMAO PROPERTY HOLDINGS LTD	50,000	1,510,000	2.06
SINO BIOPHARMACEUTICAL LTD	80,000	872,000	1.19
SUNNY OPTICAL TECHNOLOGY GROUP CO. LTD	20,000	2,698,000	3.68
TENCENT HOLDINGS LTD	7,000	2,629,200	3.58
TIMES CHINA HOLDINGS LTD	50,000	777,000	1.06
TIMES NEIGHBORHOOD HOLDINGS LTD	21,314	103,373	0.14
WUXI APPTec CO. LTD	16,000	1,546,400	2.11
WUXI BIOLOGICS CAYMAN INC	15,000	1,479,750	2.02
YICHANG HEC CHANGJIANG PHARMACEUTICAL CO. LTD	10,000	442,500	0.60
YIHAI INTERNATIONAL HOLDING LTD	25,000	1,142,500	1.56
ZHONGSHENG GROUP HOLDINGS LTD	30,000	957,000	1.30
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO. LTD	700,000	4,571,000	6.23

GUOTAI JUNAN INVESTMENT FUND
-GUOTAI JUNAN GREATER CHINA GROWTH FUND

UNAUDITED INVESTMENT PORTFOLIO (continued)

31 December 2019

Listed equities	Holdings	Market Value (HKD)	% of Net Assets
UNITED STATES			
ADVANCED MICRO DEVICES INC	2,500	892,906	1.22
ALIBABA GROUP HOLDING LTD	1,200	1,982,227	2.7
NEW ORIENTAL EDUCATION & TECHNOLOGY	1,000	944,307	1.29
TAIWAN SEMICONDUCTOR MANUFACTURING CO.LTD	1,000	452,489	0.62
Listed futures			
HANG SENG FUTURE - JAN 2020	(4)	(86,000)	(0.12)
HSCEI FUTURE - JAN 2020	(2)	(21,200)	(0.03)
TOTAL INVESTMENTS, AT FAIR VALUE		<u>66,101,492</u>	<u>90.12</u>
TOTAL INVESTMENTS, AT COST		<u>58,271,047</u>	

GUOTAI JUNAN INVESTMENT FUND
-GUOTAI JUNAN GREATER CHINA GROWTH FUND

UNAUDITED PERFORMANCE RECORD

31 December 2019

Net asset value

HK\$

31 December 2019	73,363,103
31 December 2018	58,919,591
31 December 2017	75,443,036

Net asset value per unit

HK\$

31 December 2019	88.84
31 December 2018	78.03
31 December 2017	93.25

GUOTAI JUNAN INVESTMENT FUND
-GUOTAI JUNAN GREATER CHINA GROWTH FUND
For the year ended 31 December 2019

UNAUDITED PERFORMANCE RECORD (continued)

31 December 2019

Published net asset value

Highest and lowest published net asset value per unit

HK\$

Financial year ended 31 December 2019

Highest published net asset value per unit 90.25

Lowest published net asset value per unit 76.13

Financial year ended 31 December 2018

Highest published net asset value per unit 105.66

Lowest published net asset value per unit 77.52

Financial year ended 31 December 2017

Highest published net asset value per unit 97.69

Lowest published net asset value per unit 72.89

Financial year ended 31 December 2016

Highest published net asset value per unit 80.57

Lowest published net asset value per unit 66.31

Financial year ended 31 December 2015

Highest published net asset value per unit 115.09

Lowest published net asset value per unit 67.32

Financial year ended 31 December 2014

Highest published net asset value per unit 89.67

Lowest published net asset value per unit 72.93

Financial year ended 31 December 2013

Highest published net asset value per unit 84.92

Lowest published net asset value per unit 67.61

Financial year ended 31 December 2012

Highest published net asset value per unit 76.01

Lowest published net asset value per unit 58.64

Financial year ended 31 December 2011

Highest published net asset value per unit 98.26

Lowest published net asset value per unit 54.84