



**FRANKLIN
TEMPLETON**

Semi-Annual Report
for the period ended
30 June 2020
(Unaudited)

Templeton China Opportunities Fund

(A SUB-FUND OF FRANKLIN TEMPLETON FUND SERIES)



TEMPLETON CHINA OPPORTUNITIES FUND
(A SUB-FUND OF FRANKLIN TEMPLETON FUND SERIES)

SEMI-ANNUAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2020
(UNAUDITED)

CONTENTS

	Page(s)
Report of the Manager	4
Statement of Financial Position	5
Statement of Comprehensive Income	6
Statement of Changes in Net Assets Attributable to Unitholders	7
Statement of Cash Flows	8
Notes to the Financial Statements	9-20
Investment Portfolio	21
Statement of Movement in Portfolio Holdings	22
Administration	23

REPORT OF THE MANAGER

FOR THE PERIOD ENDED 30 JUNE 2020

Chinese equities moved higher over the six months to end June 2020, compared with a decline in emerging-market (“EM”) equities more broadly.

During the first three months of the period, stocks worldwide tumbled. The escalation of the COVID-19 virus outbreak into a global pandemic disrupted segments of the world economy and fanned recession fears. Governments and central banks stepped in with massive fiscal and monetary stimulus measures. China’s stock market fell but pared some losses towards quarter end, as the country appeared to contain the virus and economic activity seemed to gradually improve.

China’s economy saw 6% year-on-year (“y/y”) gross domestic product (“GDP”) growth over the fourth quarter of 2019, matching the growth level of the previous quarter. However, following the negative economic impact of the pandemic, which caused non-essential businesses to shutter temporarily, GDP contracted by 6.8% y/y over the first three months of 2020.

Equity markets globally rallied over the second three months of the period. China’s stock market continued to move higher, helped by encouraging economic data. However, a resurgence in US-China frictions and a new coronavirus outbreak in Beijing checked investor sentiment.

With the onset of COVID-19, when the scale of the crisis was yet to be fully known, many investors believed that EMs like China would require a significant amount of fiscal and monetary stimulus to get back on track. While we have seen some stimulus measures across EMs, the biggest source of stimulus, both fiscal and monetary, has in fact come from the developed world. Certain strengths of the emerging world, including China, have been highlighted, including robust economies and corporate balance sheets.

Geopolitical risk returned to the fore towards period end, as border tensions between China and India heightened, with the latter imposing economic measures, including banning 50 Chinese apps and cancelling government contracts with Chinese contractors. While geopolitical headlines relating to China have created noise and near-term uncertainty in recent years, they are unlikely to derail China from its path to recovery, in our view. The latest stimulus measures, including sizable fiscal spending, announced at the National Party Congress in late May, should provide positive catalysts to the domestic recovery in the nearer term, not least because the country appears to have effectively managed the COVID-19 crisis, in our view. We believe this should stand China in good stead, relative to other countries, as and when the negative economic impacts of the pandemic crisis dissipate globally. The government did not set an explicit growth target for China’s economy for 2020 due to the high level of uncertainty around the pandemic and global situation. However, it emphasised that employment as well as social measures (protecting basic livelihood) will be key priorities this year. This implies growth support and continued measured and targeted policy stimulus—with room for further action if necessary—consistent with the trend Chinese policymakers have set thus far.

We remain positioned in long-term themes including consumption premiumisation, digitalisation, market consolidation, health care and technology. We believe that, in the short term, COVID-19 is accelerating the adoption of products or behaviours that are beneficial for some of these long-term themes.

This commentary is for informational purposes only. Any security mentioned is for illustration purpose only. It is not a recommendation to purchase, sell or hold any particular security.

Any security identified is not necessarily indicative of a portfolio’s holding at any one time. The underlying assumptions and these views are subject to change. There is no guarantee that any forecasts expressed will be realised. Franklin Templeton Investments accepts no liability whatsoever for any direct or indirect consequential loss arising from use of this report or any information, opinion or estimate herein.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020
(UNAUDITED)

	Note	30 June 2020 USD	31 December 2019 USD
ASSETS			
CURRENT ASSETS			
Investments	3	11,475,377	9,914,024
Amounts receivable from subscription		5,913	2,219
Dividends receivable		3,126	—
Cash and cash equivalents	4	343,851	117,045
TOTAL ASSETS		<u>11,828,267</u>	<u>10,033,288</u>
LIABILITIES			
CURRENT LIABILITIES			
Amounts payable on redemption		192,565	41,123
Due to broker		36,485	—
Accrued expenses		88,242	86,962
LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u>317,292</u>	<u>128,085</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	5	<u><u>11,510,975</u></u>	<u><u>9,905,203</u></u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

	Note	For the half year ended 30 June 2020 USD	For the half year ended 30 June 2019 USD
INCOME			
Dividend income		11,735	59,885
Interest income		585	5,263
Change in unrealised gain/loss on fair value of investments		1,164,396	2,998,063
Realised gain on sale of investments		69,826	35,568
Net loss on foreign exchange		(33)	(300)
TOTAL INVESTMENT INCOME		1,246,509	3,098,479
EXPENSES			
Management fee	6(d)	61,081	108,124
Distribution fee		24,433	43,250
Trustee, registrar and custody fees	6(d)	39,891	41,737
Fund administration fee	6(d)	9,773	17,300
Audit fee		9,417	8,959
Legal and professional fees		12,630	212
Other operating expenses		4,032	6,568
Transaction costs	6(e)	2,549	3,977
TOTAL EXPENSES		163,806	230,127
PROFIT BEFORE TAX		1,082,703	2,868,352
Withholding taxes		(706)	(4,293)
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FROM OPERATIONS		1,081,997	2,864,059

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

	Note	For the half year ended 30 June 2020 USD	For the half year ended 30 June 2019 USD
BALANCE AT THE BEGINNING OF THE PERIOD		9,905,203	13,487,730
Subscription of units		2,979,525	8,916,612
Redemption of units		(2,455,750)	(8,196,127)
Increase in net assets attributable to unitholders from operations		1,081,997	2,864,059
BALANCE AT THE END OF THE PERIOD	5	<u>11,510,975</u>	<u>17,072,274</u>

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2020
(UNAUDITED)

	Note	For the half year ended 30 June 2020 USD	For the half year ended 30 June 2019 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchase of investments		(1,604,920)	(5,423,935)
Disposal of investments		1,314,244	5,260,416
Dividend income received		8,609	50,793
Interest income received		585	5,263
Management fee paid		(60,198)	(106,448)
Distribution fee paid		(15,795)	(31,377)
Trustee, registrar and custody fees paid		(39,873)	(41,572)
Fund administration fee paid		(9,632)	(17,032)
Audit fee paid		(17,817)	(17,458)
Legal and professional fees paid		(12,630)	(212)
Other operating expenses paid		(4,032)	(6,568)
Transaction costs paid		(2,549)	(3,977)
Withholding taxes paid		(706)	(4,293)
NET CASH USED IN OPERATING ACTIVITIES		(444,714)	(336,400)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscription of units		2,975,831	8,904,362
Redemption of units		(2,304,308)	(8,256,067)
NET CASH GENERATED FROM FINANCING ACTIVITIES		671,523	648,295
Net increase in cash and cash equivalents		226,809	311,895
Cash and cash equivalents at the beginning of the period		117,045	180,021
Effect of foreign exchange rate changes		(3)	(114)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	343,851	491,802

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

1 General information

Franklin Templeton Fund Series (the “Trust”) was constituted under a Trust Deed dated 1 November 2012 and Supplemental Deed dated 31 December 2019 (the “Trust Deeds”), between Franklin Templeton Investments (Asia) Limited (the “Manager”) and Cititrust Limited (the “Trustee”). The terms of the Trust Deeds are governed by the laws of Hong Kong Special Administrative Region of the People’s Republic of China (“Hong Kong”). The Trust is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”). The Trust is an umbrella fund, whereby comprising one sub-fund, namely Templeton China Opportunities Fund (the “Fund”). The Fund was launched on 12 November 2012 and commenced operations on 3 December 2012.

The investment objective and policy of the Fund is to achieve long term capital appreciation by investing, directly or indirectly, in China A-Shares and equity securities of Chinese companies listed in China or foreign securities markets, or companies or issuers which derive the principal portion of their revenues from the Chinese economies or have the principal portion of their assets in the Chinese economies. These equity securities include, but are not limited to, China A-Shares through Templeton China A Shares Fund, China B-Shares, China H-Shares and red-chip stocks. Under normal market conditions, at least 70% of the Fund’s total net assets will be invested in domestic China A-Shares equity securities indirectly through Templeton China A Shares Fund. The Fund currently does not invest in financial derivative instruments for any purposes.

2 Summary of significant accounting policies

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

2.1 Basis of presentation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain accounting estimates. It also requires the Trustee and Manager (collectively, the “Management”) to exercise their judgement in the process of applying the Fund’s accounting policies.

(a) Standards and amendments to existing standards effective 1 January 2020

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2020 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 January 2020 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

2.2 Foreign currency translation

(a) Functional and presentation currency

The Fund’s net assets are mainly invested in Templeton China A Shares Fund which is denominated in United States dollar (“USD”). The Management considers the USD to be the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The USD is the currency in which the Fund measures its performance and reports its results. The financial statements are presented in USD which is the Fund’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the period end date. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within “net gain/(loss) on foreign exchange”.

Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the statement of comprehensive income within “change in unrealised gain/loss on fair value of investments” and “realised gain/(loss) on sale of investments”.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

2 Summary of significant accounting policies (continued)

2.3 Financial assets

2.3.1 Classification

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

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

2.3.2 Recognition, derecognition and measurement

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income. These are costs incurred to acquire and dispose of financial assets or liabilities. It may include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of comprehensive income within "change in unrealised gain/loss on fair value of investments" and "realised gain/(loss) on sale of investments" in the period in which they arise.

2.4 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Fund considers its investments in Templeton China A Shares Fund (the "Underlying Fund") to be investments in unconsolidated structured entities. The Fund invests in the Underlying Fund whose objective is to achieve long term capital appreciation by investing at least 70% of its total net assets in China A-Shares. The Underlying Fund finances its operations by issuing redeemable units which are puttable at the holder's option and entitles the holder to a proportional stake in the Underlying Fund's net assets. The Fund holds redeemable units in the Underlying Fund.

The change in fair value of the Underlying Fund is included in the statement of comprehensive income in "change in unrealised gain/loss on fair value of investments".

2.5 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded securities) are based on quoted market prices at the close of trading on the reporting date. The Fund utilises the last traded market price as fair valuation inputs for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent ordinary transactions between market participants, reference to other instruments that are substantially the same, discounted cash flow analysis, options pricing models and other valuation techniques commonly used by market participants.

The Fund's investment in the Underlying Fund is subject to the terms and conditions of the Underlying Fund's constitutional documents. The investment in the Underlying Fund is valued at fair value which is based on the latest net asset value of the Underlying Fund's redeemable units, as determined by the Underlying Fund's administrator. "Change in unrealised gain/loss on fair value of investments" in the statement of comprehensive income includes the change in fair value of the Underlying Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

2 Summary of significant accounting policies (continued)

2.6 Income and expenses

(a) Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive payment is established.

(b) Interest income

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

(c) Other income

Other income is recognised in the statement of comprehensive income on an accrual basis.

(d) Expenses

Expenses are recognised in the statement of comprehensive income on an accrual basis.

2.7 Taxation

No provision for Hong Kong profits tax has been made as the Fund was authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and hence its profits are excluded from the charge to profits tax under Section 26A of the Inland Revenue Ordinance.

The Fund may incur withholding taxes on certain 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.

2.8 Proceeds and payments on subscription and redemption of units

The net asset values of the Fund are computed for each dealing day. Prices for subscriptions and redemptions of units are calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day.

Units in the Fund are classified as liabilities in the statements of financial position. This represents the price at which the unitholders can redeem the units.

2.9 Receivables

Receivables are recognised initially at fair value, and subsequently carried at amortised cost using the effective interest method. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2.10 Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.11 Due from and due to brokers

Amounts due from and due to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the period end date respectively. The due from brokers balance is held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2.12 Accrued expenses

Accrued expenses are recognised initially at fair value, and subsequently stated at amortised cost using the effective interest method. These are short term in nature and the carrying amounts approximate the fair values.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

3 Financial risk management

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

Risks arising from holding financial instruments are inherent in the Fund's activities and are managed through a process of ongoing identification, measurement and monitoring. The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date and risk management policies employed are disclosed in Notes 3.1 to 3.5.

Risks associated with Underlying Fund

The Fund's investment in the Underlying Fund is subject to the terms and conditions of the Underlying Fund's offering documentation and is susceptible to market price risk arising from uncertainties about future values of the Underlying Fund.

The right of the Fund to request redemption of its investment in the Underlying Fund is on a daily basis.

The exposure to the investment in the Underlying Fund at fair value by strategy employed is disclosed in the following table. This investment is included under "Investments" in the statement of financial position.

Strategy	Net asset value of the Underlying Fund USD	Net asset value of the Fund USD	Investment fair value USD	% of net assets attributable to holders of redeemable units
30 June 2020				
Equity long	28,407,318	11,510,975	8,755,742	76.06%
31 December 2019				
Equity long	28,986,250	9,905,203	7,567,863	76.40%

The Fund's holding in the Underlying Fund, as a percentage of the Underlying Fund's total net asset value, will vary from time to time dependent on the volume of subscriptions and redemptions at the Underlying Fund level. It is possible that the Fund may, at any point in time, hold a majority of the Underlying Fund's total units in issue.

The Fund's maximum exposure to loss from its interests in the Underlying Fund is equal to the total fair value of its investments in the Underlying Fund.

Once the Fund has disposed of its units in the Underlying Fund, the Fund ceases to be exposed to any risk from the Underlying Fund.

The Fund's investment strategy is stated in Note 1. Total purchases in the Underlying Fund during the period ended 30 June 2020 were USD600,000 (30 June 2019: USD3,820,000). As at 30 June 2020, there was no capital commitment obligation and no amount due to the Underlying Fund for unsettled purchase (31 December 2019: Nil).

During the period ended 30 June 2020, total net gain derived from investments in the Underlying Fund was USD1,217,879 (30 June 2019: USD3,080,621).

The Underlying Fund invests in China A-Shares and is exposed to other financial risks as part of its investment activities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

3 Financial risk management (continued)

3.1 Market risk

Information on the total fair value of financial instruments exposed to risk, as well as compliance with the established investment guidelines as defined in the Fund's explanatory memorandum, is monitored by the Manager. These investment guidelines reflect the strategy and market environment of the Fund, as well as the acceptable risk levels. In order to avoid excessive concentration of risk, the Manager monitors the exposure to ensure concentration of risk remains within acceptable levels at both the Fund level and the Underlying Fund level.

Although the Manager does not manage the Fund based on specific risk exposures of the Underlying Fund, the Fund is exposed to various risks, including market price risk, currency risk, interest rate risk, liquidity risk and credit risk, through direct investments and the investments of the Underlying Fund.

(a) Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's market positions are being monitored by the Manager on a daily basis. The risk is minimised through selection of securities in accordance with the investment guidelines and investment strategies at both the Fund level and the Underlying Fund level.

Value-at-risk ("VaR")

One of the principal tools used to monitor market risk exposure is VaR; which estimates the amount of portfolio losses over a given time period with a given statistical confidence, based on the statistical analysis of historical price trends and volatilities, taking into account inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. The Investment Funds track VaR as a percentage of Net Asset Value ("NAV"), taking into account all portfolio positions (including cash), over a 20-day holding period and at a 99% confidence level.

For the period ended 30 June 2020 and year ended 31 December 2019, the MSCI Barra risk factor and Bloomberg PORT risk factor model outputs were used to forecast the ex-ante Monte Carlo VaR at the 99% confidence level over a 20-day horizon.

The Manager recognises that while VaR is a valuable guide to risk, it has its limitations. The use of historical volatility and correlation data may not encompass all potential events, particularly events which may be extreme in nature. In addition, both the size and probability of actual portfolio losses can differ significantly from the losses predicted by VaR. As a result, VaR may under-estimate or over-estimate actual losses due to the assumptions placed on the risk factors and the relationship between such factors.

Using VaR, the market risk of the Fund has been computed using a 20-day holding period at 99% as follows:

	30 June 2020	31 December 2019
VaR (%)	13.21%	12.79%
VaR (USD)	1,561,320	1,282,974

As at period/year end, the overall market exposures for the Fund were as follows:

	30 June 2020		31 December 2019	
	Fair value USD	% of net assets	Fair value USD	% of net assets
Investments				
China	<u>11,475,377</u>	<u>99.69</u>	<u>9,914,024</u>	<u>100.09</u>

The Fund invested 76.06% (31 December 2019: 76.40%) of its net asset value into the Underlying Fund at 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

3 Financial risk management (continued)

3.1 Market risk (continued)

The table below is a summary of sector allocation with concentrations exceeding 10% of the Fund's net asset value as at period/year end.

Sector Allocation	30 June 2020 % of net assets	31 December 2019 % of net assets
Consumer Discretionary	17.76	13.29
Consumer Staples	10.03	7.03
Financials	15.24	22.83
Industrials	10.58	9.82
Information Technology	10.08	14.61
Materials	14.18	8.85

(b) Currency risk

The Fund holds assets and liabilities denominated in Hong Kong dollar and US dollar which are currently pegged within a narrow range and therefore is not subject to significant volatility in exchange rates.

(c) Interest rate risk

The Fund does not hold interest-bearing securities other than cash and cash equivalents. However, the exposure to interest rate risk is considered minimal as the cash and cash equivalents are short term in nature.

3.2 Liquidity risk

Liquidity risk is the risk that Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemption of units. Therefore, assets of the Fund are mainly invested in securities which are traded in active markets and can be readily disposed of. The Manager is entitled to limit the number of units redeemed on each dealing day to 10% of the total value of units in issue. In addition, sufficient cash and cash equivalents are maintained to meet normal operating requirements.

The following table analyses the financial assets and liabilities for the Fund into relevant maturity groupings based on the remaining period at the period end date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flow.

Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

	Less than 1 month USD	1-12 months USD	Total USD
30 June 2020			
Assets			
Current assets			
Investments	11,475,377	—	11,475,377
Amounts receivable from subscription	5,913	—	5,913
Dividends receivable	3,126	—	3,126
Cash and cash equivalents	343,851	—	343,851
Total assets	<u>11,828,267</u>	<u>—</u>	<u>11,828,267</u>
Liabilities			
Current liabilities			
Amounts payable on redemption	192,565	—	192,565
Due to brokers	36,485	—	36,485
Accrued expenses	78,751	9,491	88,242
Net assets attributable to unitholders	<u>11,510,975</u>	<u>—</u>	<u>11,510,975</u>
Total liabilities	<u>11,818,776</u>	<u>9,491</u>	<u>11,828,267</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

3 Financial risk management (continued)

3.2 Liquidity risk (continued)

	Less than 1 month USD	1-12 months USD	Total USD
31 December 2019			
Assets			
Current assets			
Investments	9,914,024	—	9,914,024
Amounts receivable from subscription	2,219	—	2,219
Cash and cash equivalents	117,045	—	117,045
Total assets	10,033,288	—	10,033,288
Liabilities			
Current liabilities			
Amounts payable on redemption	41,123	—	41,123
Accrued expenses	69,070	17,892	86,962
Net assets attributable to unitholders	9,905,203	—	9,905,203
Total liabilities	10,015,396	17,892	10,033,288

Units are redeemed on demand at unitholder's option. However, the Management does not envisage that contractual maturity disclosed in the table above will be representative of the actual cash outflows, as the unitholders typically retain their units for the medium term. As at 30 June 2020, there are 2 unitholders (31 December 2019: 2 unitholders) that individually held more than 10% of the Fund's net assets attributable to unitholders.

3.3 Credit risk

This relates to the risk that an issuer or counterparty is unable or unwilling to meet a commitment or obligation it has entered into with the Fund. The Fund is exposed to credit risk on its balances with banks and brokers. Impairment provisions are made for losses that have been incurred by the reporting date, if any.

All transactions in listed/quoted securities are settled on a delivery versus payment basis using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made when the Fund's custodian banks have received payments. For a purchase, payments are made once the securities have been received by the Fund's custodian banks. The trade will fail if either party fails to meet its obligation.

The Fund only buys and sells securities through brokers who have been approved as an acceptable counterparty according to the Manager internal counterparty credit review procedures.

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2020, all investments, cash and short term deposits are held with counterparties with a Moody's credit rating of Aa3 or higher (31 December 2019: Aa3 or higher). Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Underlying Fund is managed by a related company of the Manager within the same group and hence no credit risk is expected to arise from the investments in the Underlying Fund.

The maximum exposure to credit risk at the period end date is the carrying amount of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

3 Financial risk management (continued)

3.4 Capital risk management

The capital of the Fund is represented by the net assets attributable to unitholders which is presented in the statement of financial position. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders; and to maintain a strong capital base to support the development of the investment activities of the Fund. The Manager monitors capital on the basis of the net asset value and the subscriptions and redemptions of the Fund.

3.5 Fair value estimation

The fair value of financial assets and financial liabilities traded in active markets are based on quoted market prices at the close of trading on the period end date. The Fund used the last traded market price as its fair valuation inputs for both financial assets and financial liabilities.

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker and industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

HKFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Fund. The Fund considers observable data to be that market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

3 Financial risk management (continued)

3.5 Fair value estimation (continued)

The following table analyses, within the fair value hierarchy, the Fund's investments measured at fair value as at period/year end:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
30 June 2020				
Assets				
Equity securities	2,719,635	—	—	2,719,635
Investment fund	—	8,755,742	—	8,755,742
	<u>2,719,635</u>	<u>8,755,742</u>	<u>—</u>	<u>11,475,377</u>
	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
31 December 2019				
Assets				
Equity securities	2,346,161	—	—	2,346,161
Investment fund	—	7,567,863	—	7,567,863
	<u>2,346,161</u>	<u>7,567,863</u>	<u>—</u>	<u>9,914,024</u>

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, these securities use valuation techniques to derive the fair value. As at 30 June 2020 and 31 December 2019, the Fund did not have investments classified under Level 3.

For the period ended 30 June 2020 and year ended 31 December 2019, there were no transfers of financial instruments between levels.

The assets and liabilities, except investments, included in the statement of financial position are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

4 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of 3 months or less:

	30 June 2020 USD	31 December 2019 USD
Cash at bank	<u>343,851</u>	<u>117,045</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

5 Number of units in issue and net assets attributable to unitholders

The Fund has no regulatory imposed restrictions or specific capital requirements on the subscriptions and redemptions of units. The Manager is entitled to limit the daily redemptions to 10% of the total units in issue. The relevant movements are shown in the statement of changes in net assets attributable to unitholders. In accordance with the objectives outlined in Note 1 and the financial risk management policies in Note 3, the Manager endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowings of up to 25% of the latest available net asset value of the Fund or disposal of securities where necessary.

The movements of units during the period are as follows:

	30 June 2020		30 June 2019	
	Class A (acc) HKD	Class A (acc) USD	Class A (acc) HKD	Class A (acc) USD
Number of units in issue at the beginning of the period	1,291,231.160	482,923.904	1,588,789.803	988,941.126
Subscription of units	17,532.120	193,921.816	398,871.288	604,114.289
Redemption of units	(313,224.135)	(119,240.321)	(668,365.430)	(511,940.009)
Number of units in issue at the end of the period	995,539.145	557,605.399	1,319,295.661	1,081,115.406

The following table details the net asset value per unit of each class of units at the reporting date:

	30 June 2020		31 December 2019	
	Net assets per class USD	Net asset value per unit	Net assets per class USD	Net asset value per unit
Class A (acc) HKD	2,154,222	HKD16.77	2,539,771	HKD15.32
Class A (acc) USD	9,356,753	USD16.78	7,365,432	USD15.25
Net assets attributable to unitholders	11,510,975		9,905,203	

6 Transactions with related parties including the Trustee, the Manager and its connected persons

The following is a summary of significant related party transactions/transactions entered into during the period between the Fund, the Trustee, the Manager and its connected persons. Connected persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the period were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with connected persons except for those disclosed below.

(a) Management fee

The Manager is entitled to receive a management fee of 1.25% per annum of the net asset value of the Fund. This fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

(b) Trustee, registrar and custody fees

The Trustee, Cititrust Limited, is entitled to receive a Trustee fee calculated at a rate of 0.04% per annum of the net asset value.

The Fund utilises the custodian, registrar and banking services of the Trustee and its associates.

The registrar fee is calculated and accrued on each dealing day and is paid monthly in arrears to Citicorp Financial Services Limited. It is subject to a minimum of USD72,000 per annum. The registrar fee includes various transaction and monthly processing and maintenance fees in accordance with its normal scale of charges. The custodian of the Fund, Citibank, N.A. (Hong Kong Branch), is entitled to receive a fee at the maximum rate of 0.025% per annum of the Fund's net asset value for the custody of the assets of the Fund.

(c) Fund administration fee

The fund administrator which is the same entity as the Manager is entitled to receive a fund administration fee of 0.20% per annum of the Fund's net asset value. The fund administration fee shall accrue daily based on the net asset value of the Fund and shall be payable monthly in arrears.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

6 Transactions with related parties including the Trustee, the Manager and its connected persons (continued)

(d) The following table details the related-party transactions for the period and as at period/year end:

	Expense		Accrual	
	30 June 2020 USD	30 June 2019 USD	30 June 2020 USD	31 December 2019 USD
Management fee	61,081	108,124	11,280	10,397
Trustee fee	1,955	3,460	361	333
Registrar fee	36,000	36,337	6,000	6,000
Custody fee	1,936	1,940	216	226
Fund administration fee	9,773	17,300	1,805	1,664
Total	110,745	167,161	19,662	18,620

(e) Investment transactions with associates of the Trustee

	30 June 2020	30 June 2019
Citigroup Global Markets Inc. ("Citi")		
Aggregate value of purchase and sale of securities transacted by Citi (USD)	53,026	471,484
% of total purchases and sales of securities during the period	1.79	4.41
Total commission paid to Citi (USD)	73	696
Average commission rate (%)	0.14	0.15
Total commission paid by the Fund (USD)	2,549	3,977

(f) Investment transactions with Underlying Fund

The Underlying Fund, Templeton China A Shares Fund, is managed by a related company of the Manager within the same group. The following table details the related-party transactions during the period ended 30 June 2020 and 30 June 2019:

	30 June 2020 USD	30 June 2019 USD
Underlying Fund		
Purchases	600,000	3,820,000
Sales	(630,000)	(3,940,000)

Refer to Note 3 for further details on this Underlying Fund.

(g) Cash and cash equivalents

All bank balances of the Fund are held in interest bearing accounts with Citibank, N.A. (Hong Kong Branch) and are earning interest on which amounted to USD585 during the period ended 30 June 2020 (30 June 2019: USD5,263).

(h) Investments

All direct investments of the Fund are held in a custodian account with Citibank, N.A. (Hong Kong Branch).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2020

(UNAUDITED)

7 Soft commission arrangement

The Manager and its connected persons may effect transactions for the account of the Fund through the agency of another person with whom the Manager and its connected persons have an arrangement under which such other person agrees to pay in whole or in part for the provision of goods to and/or the supply of services to the Manager or its connected persons in consideration of the Manager or its connected persons procuring that such other person (or person connected thereto) executes transactions to be entered into for the account of the Fund.

The Manager shall procure that no such contractual arrangements are entered into unless the goods and services to be provided pursuant thereto are of demonstrable benefit to unitholders whether by assisting the Manager in its ability to manage the Fund or otherwise. Research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment related publications may be considered as beneficial to unitholders.

During the period ended 30 June 2020 and 30 June 2019, the Manager and its connected persons entered into soft commission arrangements with brokers relating to dealing in the assets of the Fund, consistent with the above.

The following table details the amounts of transaction executed for which those commissions are soft received during the period:

	30 June 2020 USD	30 June 2019 USD
Amounts of transaction executed with soft commission	506,866	325,724
Value of soft commissions received	455	185

8 Bank loans, overdrafts and other borrowings

The Fund had no bank loans, overdrafts or other borrowings as at 30 June 2020 and 31 December 2019.

9 Security lending arrangements

The Fund did not enter into any security lending arrangements during the period ended 30 June 2020 and year ended 31 December 2019.

10 Negotiability of assets

As at 30 June 2020 and 31 December 2019, there was no statutory or contractual requirement restricting the negotiability of the assets of the Fund.

11 Commitments

The Fund had no commitment as at 30 June 2020 and 31 December 2019.

12 Contingent liabilities

The Fund had no contingent liability as at 30 June 2020 and 31 December 2019.

INVESTMENT PORTFOLIO

AS AT 30 JUNE 2020

(UNAUDITED)

	Holdings	Fair value USD	% of NAV
Investments (99.69%)			
Quoted Investment Funds (76.06%)			
China (76.06%)			
Templeton China A Shares Fund	396,515	8,755,742	76.06
Listed Equities (23.63%)			
China (23.63%)			
Alibaba Group Holding Ltd., ADR	2,628	565,073	4.91
A-Living Services Co. Ltd., H	14,250	71,798	0.62
Anhui Conch Cement Co. Ltd., H	17,500	117,866	1.02
China Construction Bank Corp., H	409,000	330,879	2.87
China Life Insurance Co. Ltd., H	112,000	225,435	1.96
China Merchants Bank Co. Ltd., H	33,500	154,093	1.34
China Mobile Ltd.	18,500	124,840	1.09
China Overseas Land & Investment Ltd.	42,500	128,591	1.12
KWG Group Holdings Ltd.	35,500	59,637	0.52
Meituan Dianping, B, Reg S	8,400	186,309	1.62
Tencent Holdings Ltd.	10,000	643,326	5.59
Weichai Power Co. Ltd., H	60,000	111,788	0.97
Total Investments		11,475,377	99.69
Other Net Assets		35,598	0.31
Net Assets as at 30 June 2020		11,510,975	100.00
Total Investments at cost as at 30 June 2020		8,580,558	

STATEMENT OF MOVEMENT IN PORTFOLIO HOLDINGS FOR THE PERIOD ENDED 30 JUNE 2020 (UNAUDITED)

	Percentage holdings of net assets 30 June 2020 %	Percentage holdings of net assets 31 December 2019 %
Investments		
Sector Allocation		
Communication Services	6.67	9.36
Consumer Discretionary	17.76	13.29
Consumer Staples	10.03	7.03
Financials	15.24	22.83
Health Care	9.42	9.32
Industrials	10.58	9.82
Information Technology	10.08	14.61
Materials	14.18	8.85
Real Estate	4.23	4.48
Others	1.50	0.50
Total Investments	99.69	100.09
Other Net Assets	0.31	(0.09)
Net Assets as at period/year end	100.00	100.00

ADMINISTRATION

MANAGER AND ADMINISTRATOR

Franklin Templeton Investments (Asia) Limited
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DIRECTORS OF THE MANAGER

Browning, Mark Banks
Chang, Wan David
Plafker, Jed Andrew
Wu, Wai Kwok

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CUSTODIAN

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REGISTRAR AND TRANSFER AGENT

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AUDITOR

PricewaterhouseCoopers
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Hong Kong



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