

CCB INTERNATIONAL RMB FUND SERIES
CCB INTERNATIONAL – RMB FIXED INCOME FUND

(A sub-fund of an open-ended unit trust established as an umbrella fund under the laws of the Hong Kong)

Reports and Financial Statements

For the year ended
31 December 2016

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ADMINISTRATION AND MANAGEMENT

MANAGER

CCB International Asset Management Limited
12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

DIRECTORS OF THE MANAGER

Bai Yue
Li Ngai
Li Yuezhong (Resigned on 30 June 2016)
Lo Chak Bong Alfred Bing
Rattiwat Samson
Yang Feng (Resigned on 16 January 2016)

TRUSTEE AND REGISTRAR

BOCI-Prudential Trustee Limited
12/F & 25/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

AUDITORS

PricewaterhouseCoopers
21/F, Edinburgh Tower
15 Queen's Road Central
Hong Kong

SOLICITORS TO THE MANAGER

Deacons
5/F, Alexandra House
18 Chater Road
Central
Hong Kong

CUSTODIAN

Bank of China (Hong Kong) Limited
14/F, Bank of China Tower
1 Garden Road
Hong Kong

MANAGER'S REPORT

Market Review

Offshore RMB bond market had a volatile start for the year 2016. With the CNH/USD exchange rate continued its weakening trend, it was rumored that the People's Bank of China tightened RMB supply in the offshore market in order to intervene the offshore RMB exchange rate without depleting foreign exchange reserves. As a result, the Hong Kong Inter-bank Market (HIBOR) CNH overnight interest rate was squeezed up to an all-time high of 66.8% in January thus reversing the falling exchange rate while putting short term pressure on the Dim Sum Bond market. Both the offshore RMB and RMB bond markets returned to more stable condition at the back of a more dovish stance on US interest rates by the US Federal Reserve in February and March with Deutsche Bank Offshore RMB Bond Index moved up 1.19% while the CNH/USD exchange rate appreciated 1.63% during first quarter 2016. Total new issue size was 11.4 billion for the quarter.

In the second quarter, CNH/USD exchange rate resumed its falling trend. However, decline in new issuance of offshore RMB bonds had created an 'under supply' situation in the market resulting in very firm bond prices. The Deutsche Bank Offshore RMB Bond Index moved up 2.53% while the CNH/USD exchange rate declined 3.07%, partly due to the very strong USD (USD index up 1.36% during the quarter) post 23rd June Brexit referendum voted for the UK to leave EU, from end of March to end of June. Total new issue size was 56.4 billion for the quarter.

Dim Sum Bond market remained firm given that supply situation was still tight in third quarter. Deutsche Bank Offshore RMB Bond Index moved up 1.29% from end of June to end of September. With the Chinese Yuan going to be included in the International Monetary Fund (IMF)'s Special Drawing Rights (SDR) basket from 1st October with a weighting of 10.92% being announced, the CNH/USD exchange rate was very stable by declining only 0.06% during the period. Total new issue size was 28.9 billion for the quarter.

In fourth quarter, the 'unexpected' election of Donald Trump as the new US president drove both onshore and offshore RMB down against USD with the CNH/USD exchange rates reaching an all-time low of 1USD to offshore RMB6.99. As a result, HIBOR CNH overnight rate fluctuated widely in December with an intra-month range of between 3.3% and 15.2% before closing the month at 12.8%. The liquidity squeeze did not impact negatively on prices of CNH bond. Total new issue size was 37.3 billion for the quarter.

For the whole year 2016, primary market recorded with total issue size of RMB310.6 billion including certificate of deposit as compared to total issue size of RMB411.7 billion including certificate of deposit in 2015, representing a 24.5% decrease.

MANAGER'S REPORT (continued)

2016 Performance

CCB International RMB Fixed Income Fund ("The Fund") had 94.23% of its NAV invested in fixed income instrument as of 30 June 2016 as compared to 96.51% in 31 December 2015.

At the end of 2016, the Fund has 85.75% of its NAV invested in fixed income instruments with performance of 3.47% increase between 31 December 2015 and 31 December 2016.

Market Outlook and Strategies

For the year 2017, volatility in global currency and fixed income markets is expected to continue, if not to increase given the uncertainty in new policies to be introduced by the new US president, pace and magnitude of US interest rate hike outcome of the French presidential election and the commencing of UK Brexit negotiation with the EU.

Outlook on RMB exchanged rate, as reflected by the forward market, remains modestly bearish. Offshore RMB bond market could remain stable given the limited new supply but liquidity might not improve as a result of low investors' interest.

The Fund would continue to identify and invest in attractive offshore RMB bonds via the primary & secondary markets under a very disciplined investment approach.

CCB International Asset Management Limited

24 April 2017

TRUSTEE’S REPORT

We hereby confirm that, in our opinion, the Manager, CCB International Asset Management Limited, has, in all material respects, managed CCB International RMB Fund Series - CCB International - RMB Fixed Income Fund for the year ended 31 December 2016 in accordance with the provisions of the Trust Deed dated 29 December 2010, as amended.

On behalf of
BOCI-Prudential Trustee Limited, the Trustee
24 April 2017

INDEPENDENT AUDITOR’S REPORT

To the unitholders of
CCB International RMB Fund Series
CCB International – RMB Fixed Income Fund (the “Sub-Fund”)

Report on the Audit of the Financial Statements

Opinion

What we have audited

The financial statements of CCB International – RMB Fixed Income Fund (the “Sub-Fund”) set out on pages 9 to 38, which comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Sub-Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

INDEPENDENT AUDITOR’S REPORT (continued)

To the unitholders of
CCB International RMB Fund Series
CCB International – RMB Fixed Income Fund (the “Sub-Fund”)

Other Information

The Trustee and the Manager (the “Management”) of the Sub-Fund are responsible for the other information. The other information comprises the information included in the Administration and Management, Manager’s report, and Trustee’s report, but does not include the financial statements and our auditor’s report thereon.

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

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

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

Responsibilities of Trustee and the Manager for the Financial Statements

The Trustee and the Manager of the Sub-Fund are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management of the Sub-Fund is 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 Management either intends to liquidate the Sub-Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Management 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 December 2010 (“Trust Deed”) and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (the “SFC Code”).

INDEPENDENT AUDITOR'S REPORT (continued)

To the unitholders of

CCB International RMB Fund Series

CCB International – RMB Fixed Income Fund (the “Sub-Fund”)

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 responsibilities is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

INDEPENDENT AUDITOR’S REPORT (continued)

To the unitholders of
CCB International RMB Fund Series
CCB International – RMB Fixed Income Fund (the “Sub-Fund”)

Auditor’s Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Management’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 Management 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 Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 April 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB	2015 RMB
ASSETS			
Financial assets at fair value through profit or loss	3(a)	28,037,500	52,441,000
Prepaid expenses		13,878	11,105
Interest receivable		402,679	851,901
Cash and cash equivalents	5	4,481,320	2,441,403
TOTAL ASSETS		<u>32,935,377</u>	<u>55,745,409</u>
LIABILITIES			
Management fee payable	8(a)	19,417	85,534
Trustee fee payable	8(b)	40,000	40,000
Custodian fee payable	8(c)	693	1,224
Distribution payable	7	492,518	1,112,413
Accrued expenses and other payables		167,790	170,590
TOTAL LIABILITIES		<u>720,418</u>	<u>1,409,761</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>32,214,959</u>	<u>54,335,648</u>
NUMBER OF UNITS IN ISSUE	6	<u>328,345.50</u>	<u>556,206.64</u>
NET ASSET VALUE PER UNIT		<u>98.11</u>	<u>97.68</u>

The accompanying notes on pages 14 to 38 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB	2015 RMB
INCOME			
Interest from financial assets at fair value through profit or loss		2,099,370	5,149,443
Interest from bank deposits		11,596	15,130
Net gains/(losses) on financial assets at fair value through profit or loss	4	570,000	(225,800)
Net foreign exchange gains/(losses)		341	(6,113)
		<u>2,681,307</u>	<u>4,932,660</u>
EXPENSES			
Management fee	8(a)	(289,840)	(639,953)
Trustee fee	8(b)	(480,000)	(480,000)
License fee		(10,291)	(9,761)
Custodian fee	8(c)	(15,892)	(22,948)
Auditors' remuneration		(176,120)	(176,120)
Publishing charges		(9,159)	(8,492)
Brokerage fees and other transaction costs		(3,650)	(3,700)
Other expenses		(258)	(243)
		<u>(985,210)</u>	<u>(1,341,217)</u>
PROFIT BEFORE TAXATION		1,696,097	3,591,443
Taxation	9	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,696,097</u>	<u>3,591,443</u>

The accompanying notes on pages 14 to 38 are an integral part of these financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2016

	Notes	2016 RMB	2015 RMB
BALANCE AT BEGINNING OF 1 JANUARY		<u>54,335,648</u>	<u>103,765,115</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,696,097</u>	<u>3,591,443</u>
TRANSACTIONS WITH UNITHOLDERS RECORDED DIRECTLY IN EQUITY			
Subscription of units	6	11,783,490	3,119,322
Redemption of units	6	(34,504,246)	(53,076,312)
Distribution to unitholders	7	<u>(1,096,030)</u>	<u>(3,063,920)</u>
TOTAL TRANSACTIONS WITH UNITHOLDERS		<u>(23,816,786)</u>	<u>(53,020,910)</u>
BALANCE AT END OF 31 DECEMBER		<u>32,214,959</u>	<u>54,335,648</u>

The accompanying notes on pages 14 to 38 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB	2015 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Total comprehensive income for the year		1,696,097	3,591,443
Adjustments for:			
Interest from financial assets at fair value through profit or loss		(2,099,370)	(5,149,443)
Interest from bank deposits		(11,596)	(15,130)
Net decrease in financial assets at fair value through profit or loss		24,973,500	44,211,950
Net (gains)/losses on financial assets at fair value through profit or loss		(570,000)	225,800
Increase in prepaid expenses		(2,773)	(586)
(Decrease)/Increase in management fee payable		(66,117)	17,843
Decrease in trustee fee payable		–	(2,667)
Decrease in custodian fee payable		(531)	(1,194)
(Decrease)/Increase in accrued expenses and other payables		(2,800)	11,651
Cash generated from operations		23,916,410	42,889,667
Interest received		2,560,188	6,049,206
Net cash flow generated from operating activities		26,476,598	48,938,873

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2016

	Notes	2016 RMB	2015 RMB
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units		11,783,490	3,119,322
Payments for redemption of units		(34,504,246)	(53,321,602)
Distribution to unitholders		<u>(1,715,925)</u>	<u>(4,073,570)</u>
Net cash flow used in financing activities		<u>(24,436,681)</u>	<u>(54,275,850)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS FOR THE YEAR			
		2,039,917	(5,336,977)
Cash and cash equivalents at beginning of year		<u>2,441,403</u>	<u>7,778,380</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	5	<u><u>4,481,320</u></u>	<u><u>2,441,403</u></u>

The accompanying notes on pages 14 to 38 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

CCB International RMB Fund Series (the “Trust”) was constituted as an open-ended unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a trust deed dated 29 December 2010 (the “Trust Deed”) between CCB International Asset Management Limited (the “Manager”) and BOCI-Prudential Trustee Limited (the “Trustee”).

CCB International – RMB Fixed Income Fund (the “Sub-Fund”) was constituted as a separate sub-fund of the Trust on 25 March 2011. The Sub-Fund is an open-ended unit trust and is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”) under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC (the “SFC Code”). Authorisation by the SFC does not imply official approval or recommendation. As at 31 December 2016, no other sub-fund had been established by the Trust.

The investment objective of the Sub-Fund is to achieve long-term capital return while maintaining a steady flow of income through investment primarily in a diversified portfolio of debt instruments denominated in Renminbi (“RMB”). It may also invest in other RMB denominated deposits issued outside Mainland China, such as bank certificate of deposit, bank deposits and negotiated term deposits, commercial papers and short term bills and notes.

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 the year presented, unless otherwise stated.

(a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Sub-Fund’s accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- (i) *Standards and amendments to existing standards effective 1 January 2016 and have been adopted*

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2016 that have had a material impact on the Sub-Fund.

- (ii) *New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted*

- IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) *Basis of preparation (continued)*

- (ii) *New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted (continued)*

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more “rule-based” approach of IAS 39. This standard is not expected to have a significant impact on the financial statements of the Sub-Fund.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Sub-Fund.

(b) *Foreign currency*

- (i) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Sub-Fund operates (the “functional currency”). The subscriptions and redemptions of the redeemable units denominated in RMB. The performance of the Sub-Fund is measured and reported to the investors in RMB. The Directors of the Manager consider RMB as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in RMB, which is the Sub-Fund’s functional and presentation currency.

- (ii) *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 statement of financial position date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets at fair value through profit or loss

(i) Classification

All of the Sub-Fund's investments are classified as financial assets at fair value through profit or loss. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

(ii) Recognition/derecognition

Purchases and sales of investments are accounted for on the trade date basis. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Sub-Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all investments are measured at fair value. Realised and unrealised gains and losses on investments are recognised in the statement of comprehensive income in the year in which they arise.

(iv) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Financial assets at fair value through profit or loss (continued)*

(iv) *Fair value estimation (continued)*

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Sub-Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include reference to quotes provided by independent third parties, the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

(d) *Income and expenses*

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

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

Expenses are accounted for on an accrual basis.

(e) *Cash and cash equivalents*

Cash and cash equivalents include demand deposits with original maturities of three months or less.

(f) *Redeemable units*

All proceeds and payments for units issued and redeemed are shown as movements in the statement of changes in net assets attributable to unitholders. The net asset value of the Sub-Fund is computed daily. Prices for issues and redemptions are based on the latest available preceding valuation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Redeemable units (continued)

Units are issued and redeemed at the holder's option at prices based on the Sub-Fund's net asset value per unit at the time of issue or redemption. The Sub-Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units. In accordance with the provisions of the Sub-Fund's explanatory memorandum, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

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

The Sub-Fund has one class of redeemable units in issue. This is the most subordinate class of financial instruments in the Sub-Fund and ranks *pari passu* in all material respects and has identical terms and conditions.

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

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

The Sub-Fund's redeemable units meet all of these conditions and are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Distribution to unitholders*

No distribution will be paid out of the Sub-Fund's capital. Distributions are recognised in the statement of changes in net assets attributable to unitholders when they are approved by the Manager.

With reference to the Trust Deed, the amount available for distribution is the total net amount receivable by the Sub-Fund in respect of the relevant period ("Total Income") minus any expenses chargeable against income, subject to adjustments made in accordance with Clause 15.3 of the Trust Deed. Total Income would include amount receivable by way of interests (e.g. generated from bank deposits), dividends (e.g. from coupons), or other receipts as determined by the Manager to be in the nature of income. Capital gains or losses, whether realized or unrealized, do not form part of Total Income and therefore would not impact on the amount available for distribution.

(h) *Accrued expenses and other liabilities*

Accrued expenses and other liabilities are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

(i) *Transaction costs*

Transaction costs are costs incurred to acquire financial assets at fair value through profit or loss. They include the fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs are expensed as incurred in the statement of comprehensive income.

3 FINANCIAL RISK MANAGEMENT

The Sub-Fund's activities may expose it to a variety of risks including but not limited to: market risk (including market price, interest rate and currency), credit and counterparty risk and liquidity risk which are associated with the markets in which the Sub-Fund invests.

The following is a summary of the main risks and risk management policies.

(a) *Market price risk*

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

The Sub-Fund's market price risk is managed through diversification of the investment portfolio as well as investing in securities with strong fundamentals.

The following table shows the net market exposure the Sub-Fund has to various markets, incorporating the underlying market risk through all debt securities held by the Sub-Fund. Countries below represent where the debt securities were issued.

	As at 31 December 2016		As at 31 December 2015	
	Fair value RMB	% of NAV	Fair value RMB	% of NAV
Listed debt securities				
Hong Kong				
Consumer, Cyclical	—	—	4,950,000	9%
Diversified	—	—	2,036,000	4%
Financials	16,037,500	50%	21,725,000	40%
Technology	2,000,000	6%	4,925,000	9%
Singapore				
Financials	8,020,000	25%	14,805,000	27%
Industrial	1,980,000	6%	—	—
	<u>28,037,500</u>	<u>87%</u>	<u>48,441,000</u>	<u>89%</u>
Unlisted debt securities				
Financials	—	—	4,000,000	7%
	<u>—</u>	<u>—</u>	<u>4,000,000</u>	<u>7%</u>
Total liabilities	<u>28,037,500</u>	<u>87%</u>	<u>52,441,000</u>	<u>96%</u>

The Sub-Fund had no concentrations in individual investments exceeding 10% of the Sub-Fund's net asset value at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

The table below summarises the impact on the fair value of the Sub-Fund's financial assets at fair value through profit or loss on the Sub-Fund's net asset value as at 31 December 2016. The Fund is not directly correlated with any market index. The analysis is based on the assumption that the underlying investments in debt securities increased/decreased by a reasonable possible shift, with all other variables held constant. The Manager has used its view of what would be a "reasonable possible shift" in each key market to estimate the change in the sensitivity analysis below. However, this does not represent a prediction of the future movement in the corresponding key markets.

	2016		2015	
	Change in net assets if price changes by 1 %		Change in net assets if price changes by 1 %	
	RMB	+/-	RMB	+/-
Debt Securities	28,037,500	+/- 280,375	52,441,000	+/- 524,410

NOTES TO THE FINANCIAL STATEMENTS (continued)**3 FINANCIAL RISK MANAGEMENT (continued)****(b) Interest rate risk**

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow. The tables below summarise the Sub-Fund's exposure to interest rate risks at the reporting date. Included in the table are the Sub-Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

	Maturity less than 1 month RMB	Maturity 1-3 months RMB	Maturity over 3 months RMB	Non-interest bearing RMB	Total RMB
As at 31 December 2016					
<u>Assets</u>					
Financial assets at fair value					
through profit or loss	2,000,000	–	26,037,500	–	28,037,500
Prepaid expenses	–	–	–	13,878	13,878
Interest receivables	–	–	–	402,679	402,679
Cash and cash equivalents	4,481,320	–	–	–	4,481,320
Total assets	<u>6,481,320</u>	<u>–</u>	<u>26,037,500</u>	<u>416,557</u>	<u>32,935,377</u>
<u>Liabilities</u>					
Management fee payable	–	–	–	19,417	19,417
Trustee fee payable	–	–	–	40,000	40,000
Custodian fee payable	–	–	–	693	693
Distribution payable	–	–	–	492,518	492,518
Accrued expenses and other payable	–	–	–	167,790	167,790
Total liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>720,418</u>	<u>720,418</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

	Maturity less than 1 month RMB	Maturity 1-3 months RMB	Maturity over 3 months RMB	Non-interest bearing RMB	Total RMB
As at 31 December 2015					
<u>Assets</u>					
Financial assets at fair value					
through profit or loss	–	–	52,441,000	–	52,441,000
Prepaid expenses	–	–	–	11,105	11,105
Interest receivables	–	–	–	851,901	851,901
Cash and cash equivalents	2,441,403	–	–	–	2,441,403
Total assets	<u>2,441,403</u>	<u>–</u>	<u>52,441,000</u>	<u>863,006</u>	<u>55,745,409</u>
<u>Liabilities</u>					
Management fee payable	–	–	–	85,534	85,534
Trustee fee payable	–	–	–	40,000	40,000
Custodian fee payable	–	–	–	1,224	1,224
Distribution payable	–	–	–	1,112,413	1,112,413
Accrued expenses and other payable	<u>–</u>	<u>–</u>	<u>–</u>	<u>170,590</u>	<u>170,590</u>
Total liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,409,761</u>	<u>1,409,761</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(b) Interest rate risk (continued)

The Sub-Fund holds debt securities that expose the Sub-Fund to fair value interest rate risk. The following table demonstrated the sensitivity of the fair value of the Sub-Fund's debt securities to changes in interest rates, with all other variables held constant.

	Carrying value of financial assets at fair value through profit or loss RMB	Change in interest rate %	Impact in net asset value RMB +/-
As at 31 December 2016			
Debt securities	28,037,500	0.25%	83,412
As at 31 December 2015			
Debt securities	52,441,000	0.25%	218,941

Other than debt securities disclosed above, the interest-bearing financial assets also include cash and cash equivalents. The Manager considers that these funds are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. As a result, no sensitivity analysis on interest rate movement is required.

(c) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Sub-Fund is not exposed to currency risk arising from balances and transactions in foreign currencies as its assets and liabilities are mainly denominated in RMB, the Sub-Fund's functional and presentation currency. As a result, the management does not present sensitivity analysis of currency risk.

(d) Credit and counterparty risk

Credit and counterparty risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Sub-Fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(d) Credit and counterparty risk (continued)

All transactions in securities are settled or paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal, as delivery of securities sold is made only when the custodian has received payment. Payment is made on a purchase when the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The main concentration to which the Sub-Fund is exposed arises from the Sub-Fund's investments in bond securities. The Sub-Fund does not have explicit restrictions on the minimum credit ratings of securities it may hold. The Manager will actively manage the portfolio of the Sub-Fund. In case of credit rating downgrading, the Manager will adjust the positions in the portfolio using its credit analysis and rating systems that are designed to manage credit risks.

The table below summarises the Standard & Poor's credit rating of the Sub-Fund's debt portfolio as at 31 December 2016 and 31 December 2015.

Debt securities by rating category	2016	2015
	% of NAV	% of NAV
B	6%	—
BBB	6%	7%
Unrated	75%	89%
	<u>87%</u>	<u>96%</u>

The Sub-Fund's portfolio includes bonds which are unrated. The Manager adopted the same discipline, bottom up approach, in offshore RMB bonds' selection with or without credit ratings as well as portfolio construction. Research and analysis are conducted on the individual issuers' credit quality and repayment capability, with particular focus on possible risk factors that are specific to the issuer and to the issuers' industry, sector, and country. For the period ended 31 December 2016, there was no overdue and default in payment on the unrated bonds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(d) Credit and counterparty risk (continued)

The Sub-Fund is also exposed to counterparty risk on cash and cash equivalents.

The table below summarises the net exposure to the Sub-Fund's counterparty as at 31 December 2016 together with its credit rating.

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	4,481,320	A-1	S&P
<u>Custodian</u>			
Bank of China (Hong Kong) Limited	28,037,500	A-1	S&P

The table below summarises the net exposure to the Sub-Fund's counterparty as at 31 December 2015 together with its credit rating.

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	2,441,403	A-1	S&P
<u>Custodian</u>			
Bank of China (Hong Kong) Limited	52,441,000	A-1	S&P

The maximum exposure to credit risk as at 31 December 2016 is the carrying amount of the financial assets as shown on the statement of financial position excluding financial assets at fair value through profit or loss.

The Manager considers that none of these assets are impaired nor past due.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk

Liquidity risk is the risk that the Sub-Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Sub-Fund is exposed to daily redemptions of units in the Sub-Fund. The Sub-Fund invests the majority of its assets in securities that are traded in an active market which can be readily disposed of.

The table below analyses the Sub-Fund's non-derivative financial assets and financial liabilities into relevant groupings. The groupings for financial assets and that for financial liabilities are based on the remaining period at the reporting date to the expected receipt date and to the contractual maturity date respectively. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
As at 31 December 2016				
<u>Financial assets</u>				
Financial assets at fair value through profit				
or loss	–	28,037,500	–	28,037,500
Interest receivables	–	170,638	232,041	402,679
Cash and cash equivalents	4,481,320	–	–	4,481,320
	<u>4,481,320</u>	<u>28,208,138</u>	<u>232,041</u>	<u>32,921,499</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
As at 31 December 2016				
<u>Financial liabilities</u>				
Management fee payable	–	19,417	–	19,417
Trustee fee payable	–	40,000	–	40,000
Custodian fee payable	–	693	–	693
Distribution payable	–	492,518	–	492,518
Accrued expenses and other payables	–	–	167,790	167,790
	–	552,628	167,790	720,418

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
As at 31 December 2015				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	–	52,441,000	–	52,441,000
Interest receivables	–	403,708	448,193	851,901
Cash and cash equivalents	2,441,403	–	–	2,441,403
	2,441,403	52,844,708	448,193	55,734,304

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
As at 31 December 2015				
<u>Financial liabilities</u>				
Management fee payable	–	85,534	–	85,534
Trustee fee payable	–	40,000	–	40,000
Custodian fee payable	–	1,224	–	1,224
Distribution payable	–	1,112,413	–	1,112,413
Accrued expenses and other payables	–	–	170,590	170,590
	–	1,239,171	170,590	1,409,761

(f) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date.

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

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Sub-Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used include reference to quotes provided by independent third parties, the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Fair value estimation (continued)

For instruments for which there is no active market, the Sub-Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which markets were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 judgment, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires significant judgment by the Sub-Fund. The Sub-Fund considers observable data to be that market data that is 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)

3 FINANCIAL RISK MANAGEMENT (continued)

(f) Fair value estimation (continued)

The following tables analyse within the fair value hierarchy the Sub-Fund's financial assets at fair value through profit or loss as at 31 December 2016 and 2015.

	Level 2 RMB	Total RMB
As at 31 December 2016		
Debt securities	<u>28,037,500</u>	<u>28,037,500</u>
As at 31 December 2015		
Debt securities	<u>52,441,000</u>	<u>52,441,000</u>

RMB denominated bonds that trade in markets which are not considered to be active are valued based on quoted market prices and dealer quotations and classified within level 2. As level 2 investments include positions that are not traded in active markets, which are generally based on available market information.

For the year ended 31 December 2016 and 2015, there were no transfers between levels.

The Sub-Fund's other assets and liabilities are carried at amortized cost; their carrying values are a reasonable approximation of fair value.

(g) Capital risk management

The capital of the Sub-Fund is represented by the net assets attributable to holders of redeemable units. The amount of net asset attributable to holders of redeemable units can change significantly on a daily basis, as the Sub-Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Sub-Fund's objective when managing capital is to safeguard the Sub-Fund's ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Sub-Fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3 FINANCIAL RISK MANAGEMENT (continued)****(g) Capital risk management (continued)**

In order to maintain or adjust the capital structure, the Sub-Fund's policy is to perform the following:

- Monitor the level of daily subscriptions and redemptions relative to the assets it expects to be able to liquidate daily and adjust the amount of distributions the Sub-Fund pays to redeemable unitholders.
- Redeem and issue new units in accordance with the constitutional documents of the Sub-Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Director of the Manager monitors capital on the basis of the value of net assets attributable to redeemable unitholders.

4 NET GAINS/(LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	RMB	RMB
Net realized gains/(losses) on sale of investments	20,632	(445,489)
Change in unrealized gains in value of investments	549,368	219,689
	<u>570,000</u>	<u>(225,800)</u>

5 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	2016	2015
	RMB	RMB
Cash at bank	4,481,320	2,441,403
	<u>4,481,320</u>	<u>2,441,403</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 NUMBER OF UNITS IN ISSUE

The Sub-Fund has one class of redeemable units in issue, which are classified as equity. This is the most subordinate class of financial instruments in the Sub-Fund and ranks pari passu in all material respects and has identical terms and conditions.

The following is the subscription/(redemption) of units of the Sub-Fund during the end of reporting year:

	2016	2015
	No. of units	No. of units
As at 1 January	556,206.64	1,061,031.60
Subscription of units	119,998.79	31,956.92
Redemption of units	(347,859.93)	(536,781.88)
As at 31 December	<u>328,345.50</u>	<u>556,206.64</u>

7 DISTRIBUTION

	Distribution	Distribution
	RMB	per unit
		RMB
Distribution for 2016		
Interim dividend	603,512	2.00
Final dividend	492,518	1.50
Distribution for 2015		
Interim dividend	1,951,507	2.00
Final dividend	1,112,413	2.00

The Manager approved and declared the final dividend on 16 December 2016. The final dividend was paid to investors on 9 January 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TRANSACTIONS WITH RELATED PARTIES AND CONNECTED PERSON

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the “SFC Code”). All transactions entered into during the year between the Sub-Fund and the Manager and its Connected Persons were carried out in the normal course of business and on normal commercial terms.

(a) *Management fee*

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 0.7% per annum with respect to the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

The management fee for the year was RMB289,840 (2015: RMB639,953). As at 31 December 2016, management fee of RMB19,417 (31 December 2015: RMB85,534) was payable to the Manager.

(b) *Trustee fee*

The Trustee is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at a rate of 0.175% per annum of the net asset value of the Sub-Fund calculated, subject to a minimum monthly fee of RMB40,000, and accrued on each dealing day and is paid monthly in arrears.

The trustee fee for the year was RMB480,000 (2015: RMB480,000). As at 31 December 2016, trustee fee of RMB40,000 (31 December 2015: RMB40,000) was payable to the Trustee.

(c) *Custodian fee*

The Custodian is entitled to receive, on an annual basis, a custodian fee from the Sub-Fund, at a rate up to 0.025% per annum of the net asset value of the Sub-Fund calculated and accrued on each dealing day and is paid monthly in arrears.

The custodian fee for the year was RMB15,892 (2015: RMB22,948). As at 31 December 2016, custodian fee of RMB693 (31 December 2015: RMB1,224) was payable to the Custodian.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 TRANSACTIONS WITH RELATED PARTIES AND CONNECTED PERSON (continued)

(d) Cash and cash equivalents

	2016 RMB	2015 RMB
Bank balances with:		
Bank of China (Hong Kong) Limited	4,481,320	2,441,403

(e) Financial assets at fair value through profit or loss

	2016 RMB	2015 RMB
Debt securities held with:		
Bank of China (Hong Kong) Limited	28,037,500	52,441,000

9 TAXATION

No provision for Hong Kong profits tax has been made for the Sub-Fund as it was authorised as collective investment schemes under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempt from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

10 RECONCILIATION OF NET ASSETS VALUES

The Sub-Fund's capital is represented by redeemable units. Quantitative information about the Sub-Fund's capital is provided in the statement of changes in equity.

An issue or resale of units may take place on any business day. Issuance and repurchase of redeemable units is based on NAV per unit at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS (continued)**10 RECONCILIATION OF NET ASSETS VALUES (continued)**

The consideration received or paid for units issued or re-purchased respectively is based on the value of the Sub-Fund's net assets value per unit at the date of the transaction. The Sub-Fund's net asset value per unit is calculated by dividing the Sub-Fund's net assets with the total number of outstanding unit.

A reconciliation of the net asset value as reported in the statement of financial position to the net asset value as determined for the purposes of processing unit subscriptions and redemptions is provided below:

	2016 RMB	2015 RMB
Net asset value as per statement of financial position	32,214,959	54,335,648
Adjustment on prepaid expenses	55	–
Adjustment on interest receivable	(4,533)	–
Adjustment on cash and cash equivalents	(969)	–
Adjustment on management fee payable	616	–
Adjustment on trustee fee payable	1,291	–
Adjustment on custodian fee payable	22	–
Adjustment on distribution payable	492,518	1,112,413
Adjustment on other payable	(7,848)	440
Published net asset value	<u>32,696,111</u>	<u>55,448,501</u>
Published net asset value per unit	<u>99.57</u>	<u>99.69</u>

Note:

The published net asset value per unit represents the price to subscribe and redeem the Sub-Fund on the last business day of the year (i.e. 30 December 2016), while the net asset value per unit as reported in the statement of financial position included audit adjustments made to represent the price as at year ended 31 December 2016.

11 SOFT COMMISSION ARRANGEMENTS

The Manager and its connected persons may enter into soft commission arrangements with brokers under which certain goods and services used to support investment decision making will be received. The Manager and its connected persons will not make direct payment for these services but will transact an agreed amount of business with the brokers on behalf of the Sub-Fund and commission will be paid on these transactions.

The goods and services must be of demonstrable benefit to the Sub-Fund and may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis and data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications.

Since the inception of the Sub-Fund, the Manager had not participated in any soft dollar arrangements in respect of any transactions for the accounts of the Sub-Fund.

12 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 24 April 2017.

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the year ended 31 December 2016

	<u>Movements in nominal value</u>			
	At 31 December 2015	Additions	Disposals	At 31 December 2016
<u>LISTED DEBT SECURITIES</u>				
<u>Hong Kong</u>				
Carnival Group International Hldgs Ltd 11.5% S/A 04Dec2016	2,000,000	–	(2,000,000)	–
Central Plaza Development Ltd 6.875% S/A 17 Feb2019	4,000,000	–	(2,000,000)	2,000,000
China Construction Bank Corp 4.9% S/A 12Nov2024	4,000,000	–	(2,000,000)	2,000,000
China New Town Finance I Ltd 5.5% S/A 06May2018	–	3,000,000	–	3,000,000
Eastern Air Overseas Hong Kong Corp Ltd 4.8% S/A 13Mar2017	5,000,000	–	(5,000,000)	–
Greenland Hong Kong Hldgs Ltd 5.5% S/A 23Jan2018	–	5,000,000	(2,000,000)	3,000,000
Kunzhi Ltd 5.875% S/A 15Jan2017	5,000,000	–	(3,000,000)	2,000,000
Soar Rise Ltd 4.375% S/A 13Jun2017	5,000,000	–	(3,000,000)	2,000,000
Unican Ltd 5.6% S/A 18Sep2017	5,000,000	–	(3,000,000)	2,000,000
Zhongtai Intl Finance BVI Co Ltd 6.25% S/A 10Sep2017	4,000,000	–	(2,000,000)	2,000,000
<u>Singapore</u>				
Fantasia Hldgs Group Co Ltd 9.5% S/A 04May2019	–	4,000,000	(2,000,000)	2,000,000
Fuqing Investment Management Ltd 4.85% S/A 21Jul2018	4,000,000	–	(2,000,000)	2,000,000
Haikou Meilan Intl Airport Investment Ltd 7.25% S/A 18Jun2018	–	2,000,000	–	2,000,000
Start Plus Investments Ltd 5.55% S/A 24Jun2018	5,000,000	–	(3,000,000)	2,000,000
Trade & Development Bank Of Mongolia Llc 10% S/A 21Jan2017	4,000,000	–	(4,000,000)	–
Vast Expand Ltd 5.2% S/A 11Sep2017	2,000,000	–	–	2,000,000

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

For the year ended 31 December 2016

	At 31 December 2015	<u>Movements in nominal value</u>		At 31 December 2016
		Additions	Disposals	
<u>UNLISTED DEBT SECURITIES</u>				
PBOC Intl Note 3.1% S/A 28Oct2016	4,000,000	–	(4,000,000)	–

INVESTMENT PORTFOLIO (UNAUDITED)

For the year ended 31 December 2016

	Nominal value RMB	Fair value RMB	% of net assets
<u>LISTED DEBT SECURITIES</u>			
<u>Hong Kong</u>			
Central Plaza Development Ltd 6.875% S/A 17 Feb2019	2,000,000	2,000,000	6.21%
China Construction Bank Corp 4.9% S/A 12Nov2024	2,000,000	2,000,000	6.21%
China New Town Finance I Ltd 5.5% S/A 06May2018	3,000,000	3,022,500	9.38%
Greenland Hong Kong Hldgs Ltd 5.5% S/A 23Jan2018	3,000,000	3,000,000	9.31%
Kunzhi Ltd 5.875% S/A 15Jan2017	2,000,000	2,000,000	6.21%
Soar Rise Ltd 4.375% S/A 13Jun2017	2,000,000	1,980,000	6.15%
Unican Ltd 5.6% S/A 18Sep2017	2,000,000	2,015,000	6.26%
Zhongtai Intl Finance Bvi Co Ltd 6.25% S/A 10Sep2017	2,000,000	2,020,000	6.27%
<u>Singapore</u>			
Fantasia Hldgs Group Co Ltd 9.5% S/A 04May2019	2,000,000	2,015,000	6.25%
Fuqing Investment Management Ltd 4.85% S/A 21Jul2018	2,000,000	1,995,000	6.19%
Haikou Meilan Intl Airport Investment Ltd 7.25% S/A 18Jun2018	2,000,000	1,980,000	6.15%
Start Plus Investments Ltd 5.55% S/A 24Jun2018	2,000,000	2,015,000	6.25%
Vast Expand Ltd 5.2% S/A 11Sep2017	2,000,000	1,995,000	6.19%
Total investment portfolio (Cost: RMB27,925,688)		28,037,500	87.03%
Other net assets		4,177,459	12.97%
Total net assets		32,214,959	100%

Note: Investments are accounted for on a trade-date basis

PERFORMANCE TABLE (UNAUDITED)

(a) Price record (Dealing NAV)

Year	Highest RMB	Lowest RMB
2016	100.20	96.04
2015	100.31	95.06
2014	100.96	98.93
2013	101.14	95.72
2012	99.91	97.51
2011	100.41	98.01

(b) Total net asset value

	2016 RMB	2015 RMB	2014 RMB
Total net asset value	32,214,959	54,335,648	103,765,115

(c) Net asset value per unit

Net asset value per unit	98.11	97.68	97.79
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