

**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 2017

**CONTENTS**

	Pages
ADMINISTRATION AND MANAGEMENT	1
MANAGER’S REPORT	2
TRUSTEE’S REPORT	4
INDEPENDENT AUDITOR’S REPORT	5
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF COMPREHENSIVE INCOME	10
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	11
STATEMENT OF CASH FLOWS	12
NOTES TO THE FINANCIAL STATEMENTS	14
STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS	41
INVESTMENT PORTFOLIO	44
PERFORMANCE TABLE	45

This page intentionally left blank

## **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  
Lo Chak Bong Alfred Bing  
Rattiwat Samson (resigned on 1 December 2017)  
Hung Yat (appointed on 1 December 2017)

### **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

### Manager's comment

Offshore RMB interest rates & bond market started the year with squeezing of liquidity further intensified in January, Hong Kong Inter-bank Market (HIBOR) CNH overnight rate reaching an intra-month high of 61.33% and driving CNH/US\$ exchange rate to appreciate more than 2% during the month. However, CNH/US\$ exchange rate did not sustain its appreciation momentum and remained weak during first quarter. Sentiment on CNH bond market was weak given the tight onshore CNY interest rate environment with the Chinese Government 10 year bond yield moved from 3.066% to 3.31% during first quarter and the risk of possible further liquidity squeeze to support the currency. Total new issue size was approximately RMB 6.8 billion for the quarter.

In second quarter, onshore CNY interest rate continued to edge up with the Chinese Government 10 year bond yield moved from 3.31% to 3.578% while volume remained low with limited liquidity in the CNH bond market. Volatility in offshore RMB interest rates jumped substantially again during the quarter with Hong Kong Inter-bank Market (HIBOR) CNH overnight rate moved up from 2.76% to end the month at its intra-month high of 21.07% in May and from 21.07% to reach an intra-month high of 42.81% before closing at 1.18% in June. CNH/US\$ exchange rate moved up approximately 1.4%. The Fund being authorized by the China Foreign Exchange Trade System (CFETS) to be one of the first batch of investors to participate in the Hong Kong-China 'Bond Connect' (north bound) program launched in July 2017 resulting in opening up the Fund's investment universe to include the onshore bond market. Volume of new issuance in CNH bonds recovered somewhat to approximately RMB 23.5 billion in the second quarter.

The Fund established positions in the onshore fixed income market, via 'Bond Connect', and invested in high grade onshore bond of China Development Bank and CDs from the A share listed banks in the beginning of third quarter. CNH/US\$ exchange rate moved up almost 2% despite relatively stable onshore CNY interest rate & little liquidity squeeze in the Hong Kong Inter-bank Market (HIBOR) CNH overnight rate. Chinese Government 10 year bond yield moved from 3.57% to 3.63% and HIBOR CNH overnight rate moved from 1.08% to 3.72% during the quarter respectively. China's central bank announced a targeted reserve requirement ratio (RRR) cut to encourage inclusive financing at commercial banks to provide credit support for small and micro-sized enterprises and agricultural sector near the end of the quarter. Volume of new issuance in CNH bonds dropped to around RMB 4.1 billion in the third quarter.

Chinese Government 10 year bond yield resumed its upward momentum and jumped from 3.63% to 3.91% with an intra-quarter high of slightly over 4%. Because of limited liquidity and supply, yield in the offshore CNH bond market was not affected much. CNH/US\$ exchange rate moved up around 2%, despite HIBOR CNH overnight rate corrected from 3.72% to 1.72% in the last quarter of 2017. In fact, despite raising interest rates three times by the Federal Reserve, US\$ exchange rate had in general been weak against all major currencies as reflected by a 9.8% decline in the US\$ Index and a close to 6.6% depreciation against the RMB (CNH) in 2017. Volume of new issuance in CNH bonds recovered to around RMB 23.7 billion in the last quarter of the year and making a full year new issuance of around RMB 58.1 billion as compared to a total new issuance of RMB 134 billion in 2016.

## **MANAGER'S REPORT (continued)**

### **2017 Performance**

CCB International RMB Fixed Income Fund ("The Fund") had 75.99% of its NAV invested in fixed income instrument as of 30 June 2017 as compared to 87.03% in 31 December 2016.

At the end of 2017, the Fund has 80.79% of its NAV invested in fixed income instruments with a performance of 3.59% increase in NAV between 31 December 2016 and 31 December 2017.

### **Market outlook and strategy**

Last year, onshore interest rates had been driven up as reflected by the Shanghai Interbank Market (SHIBOR) CNY 1 year rate moving from 3.37% to 4.75 and the Chinese Government 10 year bonds yield moving from 3.06% to 3.91% respectively, resulting from the Government financial deleveraging policy to reduce and to manage debt and risk level in the financial system.

In 2018, the Chinese economy is expected to maintain similar growth rate recorded in 2017 and financial deleveraging policy should continue to be firmly in place to ensure financial risk could be well managed and controlled to allow the economy to continue its trajectory. In overseas market, interest rate normalization should continue, particularly in the United States given its expected healthy outlook in growth and employment. This should point to firmer interest rates in both the onshore CNY and offshore CNH rate markets while supporting RMB/US\$ exchange rate, despite the forward market remains modestly bearish.

Given the low liquidity and limited number of new issuance in the offshore RMB bond market while a number of Dim Sum bonds held by the Fund will be maturing in 2018 & 2019, the Fund would continue to expand its exposures in high quality issues in the onshore bond market with much better market breath & depth.

CCB International Asset Management Limited  
26 April 2018

## **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 2017 in accordance with the provisions of the Trust Deed dated 29 December 2010, as amended.

On behalf of  
BOCI-Prudential Trustee Limited, the Trustee  
26 April 2018

## **INDEPENDENT AUDITOR’S REPORT**

**To the unitholders of  
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”), a sub-fund of CCB International RMB Fund Series, set out on pages 9 to 40, which comprise:

- the statement of financial position as at 31 December 2017;
- 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 2017, 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 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 all of the information included in the annual report other than the financial statements and our auditor’s report thereon.

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

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

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

### **Responsibilities of the Management for the Financial Statements**

The Management of the Sub-Fund is 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, as amended (“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 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. We 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 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 Matters Under the Relevant Disclosure Provisions of the Trust Deed and the SFC Code**

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

PricewaterhouseCoopers  
Certified Public Accountants  
Hong Kong, 26 April 2018

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

	<b>Notes</b>	<b>2017 RMB</b>	<b>2016 RMB</b>
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	4(a)	30,897,823	28,037,500
Prepaid expenses		12,673	13,878
Interest receivable		401,461	402,679
Cash and cash equivalents	6	<u>8,031,746</u>	<u>4,481,320</u>
<b>TOTAL ASSETS</b>		<u><u>39,343,703</u></u>	<u><u>32,935,377</u></u>
<b>LIABILITIES</b>			
Management fee payable	9(a)	29,198	19,417
Trustee fee payable	9(b)	40,000	40,000
Custodian fee payable	9(c)	1,043	693
Distribution payable	8	420,073	492,518
Accrued expenses and other payables		589,670	167,790
Tax payable	10	<u>11,259</u>	<u>–</u>
<b>TOTAL LIABILITIES</b>		<u><u>1,091,243</u></u>	<u><u>720,418</u></u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	7	<u><u>38,252,460</u></u>	<u><u>32,214,959</u></u>

The accompanying notes on pages 14 to 40 are an integral part of these financial statements

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
<b>INCOME</b>			
Interest from financial assets at fair value through profit or loss		2,784,317	2,099,370
Interest from bank deposits		24,858	11,596
Net gains on financial assets at fair value through profit or loss	5	3,380,679	570,000
Net foreign exchange (losses)/gains		(879)	341
		<u>6,188,975</u>	<u>2,681,307</u>
<b>EXPENSES</b>			
Management fee	9(a)	(462,903)	(289,840)
Trustee fee	9(b)	(480,000)	(480,000)
License fee		(10,399)	(10,291)
Custodian fee	9(c)	(68,167)	(15,892)
Auditors' remuneration		(176,120)	(176,120)
Publishing charges		(9,359)	(9,159)
Brokerage fees and other transaction costs		(723,795)	(3,650)
Other expenses		(3,466)	(258)
		<u>(1,934,209)</u>	<u>(985,210)</u>
<b>PROFIT BEFORE TAXATION</b>		4,254,766	1,696,097
Withholding taxes	10	(11,259)	–
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>4,243,507</u>	<u>1,696,097</u>

The accompanying notes on pages 14 to 40 are an integral part of these financial statements

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
<b>BALANCE AT BEGINNING OF 1 JANUARY</b>		<u>32,214,959</u>	<u>54,335,648</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>4,243,507</u>	<u>1,696,097</u>
Subscription of units		311,508,485	11,783,490
Redemption of units		(308,897,088)	(34,504,246)
Distribution to unitholders	8	<u>(817,403)</u>	<u>(1,096,030)</u>
<b>TOTAL TRANSACTIONS WITH UNITHOLDERS</b>		<u>1,793,994</u>	<u>(23,816,786)</u>
<b>BALANCE AT END OF 31 DECEMBER</b>		<u>38,252,460</u>	<u>32,214,959</u>

The accompanying notes on pages 14 to 40 are an integral part of these financial statements

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Total comprehensive income for the year		4,243,507	1,696,097
Adjustments for:			
Interest from financial assets at fair value through profit or loss		(2,784,317)	(2,099,370)
Interest from bank deposits		(24,858)	(11,596)
Net (increase)/decrease in financial assets at fair value through profit or loss		(2,860,323)	24,403,500
Decrease/(increase) in prepaid expenses		1,205	(2,773)
Increase/(decrease) in management fee payable		9,781	(66,117)
Increase/(decrease) in custodian fee payable		350	(531)
Increase/(decrease) in accrued expenses and other payables		421,880	(2,800)
Increase in tax payable		11,259	–
Cash (used)/generated from operations		(981,516)	23,916,410
Interest received		2,810,393	2,560,188
<b>Net cash flow inflow from operating activities</b>		<b>1,828,877</b>	<b>26,476,598</b>

## STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from subscription of units		311,508,485	11,783,490
Payments for redemption of units		(308,897,088)	(34,504,246)
Distribution to unitholders		<u>(889,848)</u>	<u>(1,715,925)</u>
<b>Net cash flow inflow/(outflow) from financing activities</b>		<u>1,721,549</u>	<u>(24,436,681)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS FOR THE YEAR</b>		3,550,426	2,039,917
Cash and cash equivalents at beginning of year		<u>4,481,320</u>	<u>2,441,403</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR, REPRESENTING CASH AT BANK</b>	6	<u><u>8,031,746</u></u>	<u><u>4,481,320</u></u>

The accompanying notes on pages 14 to 40 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”). As at 31 December 2017, 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 Management of the Sub-Fund to exercise its judgement in the process of applying the Sub-Fund’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

*New standards, amendments and interpretations effective after 1 January 2017 and have not been early adopted*

- IFRS 9 “Financial instruments”

IFRS 9 ‘Financial Instruments’ addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Sub-Fund’s investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Sub-Fund’s financial statements.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(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 gains on financial assets at fair value through profit or loss’.

#### *(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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### (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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(f) Redeemable units (continued)*

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.

#### *(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.

#### *(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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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.

#### (j) *Taxation*

Under the section 26A(IA) of the Hong Kong Inland Revenue Ordinance, the Sub-Fund is exempt from paying income taxes.

The Sub-Fund currently incurs withholding taxes imposed by the People's Republic of China (the 'PRC') on interest 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.

#### (k) *Comparative figures*

When necessary, comparative figures have been restated to conform to the current year's presentation.

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### **PRC tax provision**

In preparing these financial statements, the Manager has made certain assumptions and used various estimates concerning the tax exposure which is dependent on what might happen in the future. The resulting accounting estimates may not equal the related actual results.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### PRC tax provision (continued)

Under the general tax provision of PRC Corporate Income Tax Law (“PRC CIT Law”), the non-PRC residents with no place of effective management, establishment or place of business in the PRC may be subject to 10% PRC withholding income tax (“WIT”) on the PRC-sourced income, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

In addition, the non-PRC residents with interest income derived from the debt securities will be subject to 10% withholding interest income tax. Pursuant to the PRC CIT Law, debt securities issuers in PRC are obligated to withhold the 10% interest income tax for those foreign debt securities holders who are subject to the interest income tax in the PRC. However, interest income derived from government bonds issued by the State Council’s finance departments and/or local government bonds approved by the State Council is exempt from PRC WIT under the PRC CIT Law.

Furthermore, according to the notice Caishui [2016] 36 (“Circular 36”), Value-Added Tax (“VAT”) at 6% shall be levied on the difference between the selling and buying prices of those marketable securities starting from 1 May 2016. The gains derived by Bond Connect investors and through the Bond Connect from trading of marketable securities (including other PRC listed securities) are exempted from VAT in the PRC under Circular 36. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT. However, the prevailing VAT regulations do not specifically exempt VAT on interest received by Bond Connect investors. Hence, gains derived by Bond Connect investor and interest income on non-government bonds (including corporate bonds) technically should be subject to 6% VAT. In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities (the “VAT related taxes”).

#### Interest income on debt securities in PRC

The Management considers that the enforcement of PRC withholding tax, VAT and the VAT related taxes arising from debt securities is uncertain as at the date of approval of these financial statements. The Manager has exercised significant judgment in their assessment of the PRC withholding tax expense and the related tax provision.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Interest income on debt securities in PRC (continued)

##### PRC withholding tax

For the debt securities disposed of during the year, Management has not made provision on the accrued interest income of debt securities during the year and as at reporting date as they consider that:

- (i) the issuers of debt securities are required to withhold 10% interest income tax at the coupon payment date before distributing the interest income to the bond holder; and
- (ii) the Manager has sold the debt securities before the coupon payment dates or the maturity dates of the debt securities.

##### VAT, urban maintenance and construction tax and educational surcharge

As at 31 December 2017, the Manager does not consider that the potential VAT exposure arising from the Sub-Fund's accumulated interest income received from PRC non-government bonds since 1 May 2016 to be material.

### 4 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)****4 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.

	<b>As at 31 December 2017</b>		<b>As at 31 December 2016</b>	
	<b>Fair value</b>		<b>Fair value</b>	
	<b>RMB</b>	<b>% of NAV</b>	<b>RMB</b>	<b>% of NAV</b>
Listed debt securities				
Hong Kong				
Financials	7,064,850	18%	16,037,500	50%
Technology	—	—	2,000,000	6%
Singapore				
Financials	—	—	8,020,000	25%
Industrial	4,963,820	13%	1,980,000	6%
Consumer Staples	2,951,250	8%	—	—
	<u>14,979,920</u>	<u>39%</u>	<u>28,037,500</u>	<u>87%</u>
Unlisted debt securities				
Financials	15,917,903	42%	—	—
	<u>15,917,903</u>	<u>42%</u>	<u>—</u>	<u>—</u>
	<u>30,897,823</u>	<u>81%</u>	<u>28,037,500</u>	<u>87%</u>

Except for the investment in Government and other public securities not exceeding 30% of the Sub-Fund's net asset value, the Sub-Fund had no concentrations in other individual investments exceeding 10% of the Sub-Fund's net asset value at 31 December 2017.

Refer to note 4(b) for the sensitivity analysis performed on the Sub-Fund's investment portfolio.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 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
<b>As at 31 December 2017</b>					
<u>Assets</u>					
Financial assets at fair value					
through profit or loss	2,000,000	1,001,330	27,896,493	–	30,897,823
Prepaid expenses	–	–	–	12,673	12,673
Interest receivables				401,461	401,461
Cash and cash equivalents	8,031,746	–	–	–	8,031,746
Total assets	<u>10,031,746</u>	<u>1,001,330</u>	<u>27,896,493</u>	<u>414,134</u>	<u>39,343,703</u>
<u>Liabilities</u>					
Management fee payable	–	–	–	29,198	29,198
Trustee fee payable	–	–	–	40,000	40,000
Custodian fee payable	–	–	–	1,043	1,043
Distribution payable	–	–	–	420,073	420,073
Accrued expenses and other payable	–	–	–	589,670	589,670
Total liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,079,984</u>	<u>1,079,984</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****4 FINANCIAL RISK MANAGEMENT (continued)***(b) Interest rate risk (continued)*

	<b>Maturity less than 1 month RMB</b>	<b>Maturity 1-3 months RMB</b>	<b>Maturity over 3 months RMB</b>	<b>Non-interest bearing RMB</b>	<b>Total RMB</b>
<b>As at 31 December 2016</b>					
<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)

### 4 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. Interest rate exposures are expressed in terms of rate of weighted average modified duration. The Manager monitors the interest rate risks by quantifying market exposure in duration terms. 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	Total portfolio weighted average modified duration	Change in interest rate %	Impact in net asset value RMB +/-
<b>As at 31 December 2017</b>				
Debt securities	30,897,823	0.81	0.25%	62,568
<b>As at 31 December 2016</b>				
Debt securities	28,037,500	1.19	0.25%	83,412

Other than debt securities disclosed above, the interest-bearing financial assets also include cash and cash equivalents. The Manager considers that the Sub-Fund is 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (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.

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 debt 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 credit quality of the Sub-Fund's debt portfolio based on the issuers' credit rating, which represents 80.79% (2016: 87.03%) of net asset value, as at 31 December 2017 and 2016.

Credit rating agency	Rating range	2017
		% of net asset value
Moody's	B1 to A1	31.30%
S&P	BB- to A	23.59%
Chengxin	AAA	5.21%
Dagong	AA- to AA+	15.46%
Shanghai Brilliance	AA+	5.23%
		<u>80.79%</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (d) Credit and counterparty risk (continued)

Credit rating agency	Rating range	2016 % of net asset value
Moody's	B1	6.21%
S&P	B+ to A	28.03%
Chengxin	AAA	12.53%
Dagong	AA+	12.34%
Shanghai Brilliance	AAA	6.19%
Unrated	N/A	21.73%
		<u>87.03%</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.

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 2017 together with its credit rating.

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	8,031,746	A-1	S&P
<u>Custodian</u>			
Bank of China (Hong Kong) Limited	30,897,823	A-1	S&P

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (d) Credit and counterparty risk (continued)

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 maximum exposure to credit risk as at 31 December 2017 and 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 (2016: Nil).

#### (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.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (e) Liquidity risk (continued)

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	More than 1 month but less than 1 year RMB	Total RMB
<b>As at 31 December 2017</b>				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	–	30,897,823	–	30,897,823
Interest receivables	–	73,962	327,499	401,461
Cash and cash equivalents	8,031,746	–	–	8,031,746
	<u>8,031,746</u>	<u>30,971,785</u>	<u>327,499</u>	<u>39,331,030</u>
<u>Financial liabilities</u>				
Management fee payable	–	29,198	–	29,198
Trustee fee payable	–	40,000	–	40,000
Custodian fee payable	–	1,043	–	1,043
Distribution payable	–	420,073	–	420,073
Accrued expenses and other payables	–	421,880	167,790	589,670
	<u>–</u>	<u>912,194</u>	<u>167,790</u>	<u>1,079,984</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 4 FINANCIAL RISK MANAGEMENT (continued)

## (e) Liquidity risk (continued)

	On demand RMB	Less than 1 month RMB	More than 1 month but less than 1 year RMB	Total RMB
<b>As at 31 December 2016</b>				
<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>
<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
	<u>–</u>	<u>552,628</u>	<u>167,790</u>	<u>720,418</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (f) Fair value estimation (continued)

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.

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 2017 and 2016.

	Level 2 RMB	Total RMB
<b>As at 31 December 2017</b>		
Debt securities	<u>30,897,823</u>	<u>30,897,823</u>
<b>As at 31 December 2016</b>		
Debt securities	<u>28,037,500</u>	<u>28,037,500</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 2017 and 2016, there were no transfers between levels.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 4 FINANCIAL RISK MANAGEMENT (continued)

#### (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.

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

### 5 NET GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB	2016 RMB
Net realised gains on sale of investments	3,462,603	20,632
Change in unrealised (loss)/gains in value of investments	(81,924)	549,368
	<u>3,380,679</u>	<u>570,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)****6 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:

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Cash at bank	8,031,746	4,481,320
	<u>8,031,746</u>	<u>4,481,320</u>

**7 NUMBER OF UNITS IN ISSUE AND NET ASSET VALUE PER UNIT**

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:

	<b>2017</b>	<b>2016</b>
	<b>Number of units</b>	<b>Number of units</b>
As at 1 January	328,345.50	556,206.64
Subscription of units	3,107,851.68	119,998.79
Redemption of units	<u>(3,054,312.48)</u>	<u>(347,859.93)</u>
As at 31 December	<u>381,884.70</u>	<u>328,345.50</u>
	<b>RMB</b>	<b>RMB</b>
Net asset value per unit	100.16	98.11

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 8 DISTRIBUTION

	Distribution RMB	Distribution per unit RMB
<b>Distribution for 2017</b>		
Interim dividend	397,330	1.00
Final dividend	420,073	1.10
<b>Distribution for 2016</b>		
Interim dividend	603,512	2.00
Final dividend	492,518	1.50

The Manager approved and declared the final dividend on 18 December 2017. The final dividend was paid to investors on 8 January 2018.

### 9 TRANSACTIONS WITH THE TRUSTEE AND ITS RELATED PARTIES AND THE MANAGER AND ITS CONNECTED PERSONS

The following is a summary of significant related party transactions/transactions entered into during the year between the Sub-Fund and the Trustee and its related parties and the Manager and its Connected Persons. Connected Persons of the Manager are those as defined in 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. To the best of the manager's knowledge, the Sub-Fund does not have any other transactions with Connected Persons except for those disclosed below.

#### (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 RMB462,903 (2016: RMB289,840). As at 31 December 2017, management fee of RMB29,198 (2016: RMB19,417) was payable to the Manager.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****9 TRANSACTIONS WITH THE TRUSTEE AND ITS RELATED PARTIES AND THE MANAGER AND ITS CONNECTED PERSONS (continued)****(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 (2016: RMB480,000). As at 31 December 2017, trustee fee of RMB40,000 (2016: 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 RMB68,167 (2016: RMB15,892). As at 31 December 2017, custodian fee of RMB1,043 (2016: RMB693) was payable to the Custodian.

**(d) Cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Bank balances with:		
Bank of China (Hong Kong) Limited	8,031,746	4,481,320

Interest income amounted to RMB24,858 was earned from these bank balances during the year (2016: RMB11,596).

Bank charges of RMB966 were paid during the year (2016: RMB258).



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9 TRANSACTIONS WITH THE TRUSTEE AND ITS RELATED PARTIES AND THE MANAGER AND ITS CONNECTED PERSONS (continued)

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

	2017 RMB	2016 RMB
Debt securities held with:		
Bank of China (Hong Kong) Limited	<u>30,897,823</u>	<u>28,037,500</u>

During the year ended 31 December 2017, the Sub-Fund held the debt security issued by the Bank of China Limited Johannesburg Branch, who is the fellow subsidiary of the Trustee (2016: Nil).

Debt security invested in:  
Bank Of China Ltd/Johannesburg 4.88% S/A 20Apr2020

	2017 RMB	2016 RMB
Nominal value brought forward	–	–
Additions	1,000,000	–
Disposals	<u>–</u>	<u>–</u>
Nominal value as at 31 December	<u>1,000,000</u>	<u>–</u>

Interest income amounted to RMB34,227 was earned from the debt security during the year (2016: Nil). Net gains of RMB13,190 was earned from the debt security during the year (2016: Nil).

During the year ended 31 December 2017 and 31 December 2016, the Sub-Fund held the debt security issued by the China Construction Bank Corporation, who is the fellow subsidiary of the Manager.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****9 TRANSACTIONS WITH THE TRUSTEE AND ITS RELATED PARTIES AND THE MANAGER AND ITS CONNECTED PERSONS (continued)****(e) Financial assets at fair value through profit or loss (continued)**

Debt security invested in:

China Construction Bank Corp 4.9% S/A 12Nov2024

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Nominal value brought forward	2,000,000	4,000,000
Additions	—	—
Disposals	—	(2,000,000)
	<u>—</u>	<u>(2,000,000)</u>
Nominal value as at 31 December	<u>2,000,000</u>	<u>2,000,000</u>

Interest income amounted to RMB98,000 was earned from the debt security during the year (2016: RMB137,468).

Net gains of RMB11,660 was earned from the debt security during the year (2016: RMB18,813).

**10 TAXATION**

Taxation in the statement of comprehensive income represents:

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
PRC withholding taxes	<u>11,259</u>	<u>—</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Sub-Fund is exempt from taxation under section 26A(IA) of the Hong Kong Inland Revenue Ordinance.

Certain interest income received by the Sub-Fund is subject to withholding tax imposed in the PRC for interest earned. Refer to note 3 for details.

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

### **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 26 April 2018.

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

For the year ended 31 December 2017

At 31 December 2016 RMB	Movements in nominal value		At 31 December 2017 RMB
	Additions RMB	Disposals RMB	

**LISTED DEBT SECURITIES****Hong Kong**

Bank Of China Ltd/Johannesburg 4.88% S/A 20Apr2020	–	1,000,000	–	1,000,000
Bohai General Capital Ltd 6.4% S/A 16Oct2017	–	3,200,000	(3,200,000)	–
Central Plaza Development Ltd 6.875% S/A 17Feb2019	2,000,000	–	–	2,000,000
China Construction Bank Corp 4.9% S/A 12Nov2024	2,000,000	–	–	2,000,000
China New Town Finance I Ltd 5.5% S/A 06May2018	3,000,000	–	(3,000,000)	–
CNI Capital Ltd 4.3% S/A 11Nov2019	–	2,000,000	(2,000,000)	–
Greenland Hong Kong Hldgs Ltd 5.5% S/A 23Jan2018	3,000,000	–	(1,000,000)	2,000,000
Kunzhi Ltd 5.875% S/A 15Jan2017	2,000,000	–	(2,000,000)	–
Soar Rise Ltd 4.375% S/A 13Jun2017	2,000,000	–	(2,000,000)	–
Unican Ltd 5.6% S/A 18Sep2017	2,000,000	–	(2,000,000)	–
Zhongtai Intl Finance Bvi Co Ltd 6.25% S/A 10Sep2017	2,000,000	–	(2,000,000)	–

**Singapore**

Chong Qing Grain Group Co Ltd 4.02% Q 14Jul2019	–	3,000,000	–	3,000,000
Fantasia Hldgs Group Co Ltd 9.5% S/A 04May2019	2,000,000	–	(2,000,000)	–
Fuqing Investment Management Ltd 4.85% S/A 21Jul2018	2,000,000	–	(2,000,000)	–
Haikou Meilan Intl Airport Investment Ltd 7.25% S/A 18Jun2018	2,000,000	1,000,000	–	3,000,000
Hna Group Intl Co Ltd 8% S/A 13Nov2017	–	3,000,000	(3,000,000)	–
Loncin Hldg Co Ltd 4.5% Q 05Dec2019	–	2,000,000	(2,000,000)	–
Start Plus Investments Ltd 5.55% S/A 24Jun2018	2,000,000	–	(2,000,000)	–
Tianjin Eco-City Investment & Development Co Ltd 4.65% S/A 29Oct2018	–	3,000,000	(1,000,000)	2,000,000

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

For the year ended 31 December 2017

	<u>Movements in nominal value</u>			
	At 31 December 2016 RMB	Additions RMB	Disposals RMB	At 31 December 2017 RMB
<u>Singapore (continued)</u>				
Vast Expand Ltd 5.2% S/A 11Sep2017	2,000,000	–	(2,000,000)	–
<u>UNLISTED DEBT SECURITIES</u>				
<u>China</u>				
Agricultural Bank Of China Ltd/Singapore 5% A 15Mar2018 Fxcd	–	1,000,000	–	1,000,000
Agricultural Development Bank Of China 4.48% A 20Nov2019 Shch	–	10,000,000	(10,000,000)	–
Agricultural Development Bank Of China Co Ltd 3.5% A 16Dec2018 Cdc	–	20,000,000	(20,000,000)	–
Bank Of Communications Co Ltd/Sydney 4.3% A 30May2018 Fxcd	–	3,000,000	–	3,000,000
Bank Of Hangzhou Co Ltd 0% A 31Oct2017 Shch	–	3,000,000	(3,000,000)	–
Bank Of Nanjing Co Ltd 0% A 17Oct2017 Shch	–	6,000,000	(6,000,000)	–
China Dev Bk 3.68% A 23Oct2018 Cdc	–	60,000,000	(60,000,000)	–
China Dev Bk 4.74% A 11Oct2018 Cdc	–	50,000,000	(50,000,000)	–
China Development Bank 1 Year Cndr+0.7% Q 24Feb2018 Cdc	–	10,000,000	(10,000,000)	–
China Development Bank 3.83% N/A 20Oct2018 Cdc	–	206,000,000	(196,000,000)	10,000,000
China Development Bank 3.88% A 19Apr2020 Cdc	–	100,000,000	(100,000,000)	–
China Development Bank Corp 3.05% A 25Aug2026 Cdc	–	10,000,000	(10,000,000)	–
China Development Bank Corp 4.04% A 10Apr2027 Cdc	–	1,980,000,000	(1,980,000,000)	–

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

For the year ended 31 December 2017

	<u>Movements in nominal value</u>			At 31 December 2017 RMB
	At	Additions RMB	Disposals RMB	
	31 December			
	2016 RMB			
<u>China (continued)</u>				
China Development Bank Corp 4.14% A 11Sep2020 Cdc	–	50,000,000	(50,000,000)	–
China Development Bank Corp 4.24% A 24Aug2027 Cdc	–	2,480,000,000	(2,480,000,000)	–
China Government Bond 3.73% A 19Oct2022 Cdc	–	100,000,000	(100,000,000)	–
China Govt Bond 3.13% A 13Apr2022 Cdc	–	200,000,000	(200,000,000)	–
China Govt Bond 3.33% A 03Aug2018 Cdc	–	200,000,000	(200,000,000)	–
China Govt Bond 3.59% S/A 03Aug2027 Cdc	–	760,000,000	(760,000,000)	–
China Govt Bond 3.82% S/A 02Nov2027 Cdc	–	360,000,000	(360,000,000)	–
China Minsheng Banking Corp Ltd 0% A 11Oct2017 Shch	–	3,000,000	(3,000,000)	–
China National Gold Group Corp 4.68% A 22May2018 Shch	–	10,000,000	(10,000,000)	–
Citic Corp Ltd 4.35% A 30Apr2018 Shch	–	2,000,000	–	2,000,000
Export-Import Bank Of China 4.53% A 14Jul2018 Cdc	–	25,000,000	(25,000,000)	–

## INVESTMENT PORTFOLIO (UNAUDITED)

For the year ended 31 December 2017

	Nominal value RMB	Fair value RMB	% of net assets
<b><u>LISTED DEBT SECURITIES</u></b>			
<b><u>Hong Kong</u></b>			
Bank Of China Ltd/Johannesburg 4.88% S/A 20Apr2020	1,000,000	1,013,190	2.65%
Central Plaza Development Ltd 6.875% S/A 17Feb2019	2,000,000	2,040,000	5.33%
China Construction Bank Corp 4.9% S/A 12Nov2024	2,000,000	2,011,660	5.26%
Greenland Hong Kong Hldgs Ltd 5.5% S/A 23Jan2018	2,000,000	2,000,000	5.23%
<b><u>Singapore</u></b>			
Chong Qing Grain Group Co Ltd 4.02% Q 14Jul2019	3,000,000	2,951,250	7.72%
Haikou Meilan Intl Airport Investment Ltd 7.25% S/A 18Jun2018	3,000,000	2,963,820	7.75%
Tianjin Eco-City Investment & Development Co Ltd 4.65% S/A 29Oct2018	2,000,000	2,000,000	5.23%
		14,979,920	39.17%
<b><u>UNLISTED DEBT SECURITIES</u></b>			
<b><u>China</u></b>			
Agricultural Bank Of China Ltd/Singapore 5% A 15Mar2018 Fxcd	1,000,000	1,001,330	2.62%
Bank Of Communications Co Ltd/Sydney 4.3% A 30May2018 Fxcd	3,000,000	2,992,845	7.83%
China Development Bank 3.83% N/A 20Oct2018 Cdc	10,000,000	9,929,570	25.96%
Citic Corp Ltd 4.35% A 30Apr2018 Shch	2,000,000	1,994,158	5.21%
		15,917,903	41.62%
Total investment portfolio (Cost: RMB30,867,935)		30,897,823	80.79%
Other net assets		7,354,637	19.21%
Total net assets		38,252,460	100%

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

## PERFORMANCE TABLE (UNAUDITED)

### (a) Price record (Dealing NAV)

Year/period ended 31 December	Highest RMB	Lowest RMB
2017	101.43	97.56
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 (since inception)	100.41	98.01

### (b) Total net asset value

	2017 RMB	2016 RMB	2015 RMB
Total net asset value	38,252,460	32,214,959	54,335,648

### (c) Net asset value per unit

Net asset value per unit	100.16	98.11	97.68
--------------------------	--------	-------	-------