

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 2014

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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
Lo Chak Bong Alfred Bing
Rattiwat Samson
Yang Feng
Yang Ning

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 remained active and relatively volatile in 2014. Primary market continued to grow with total issue size of RMB525.1 billion including certificate of deposit in 2014 as compared to total issue size of RMB367.6 billion including certificate of deposit in 2013. New issue split between bonds and certificate of deposit was approximately 49% and 51% respectively in 2014, as compared to approximately 34% and 66% respectively in 2013. Chinese Government, policy banks and state owned commercial banks accounted for a major portion of the new bonds issued in 2014.

In the first quarter of 2014, Shanghai Interbank Overnight Offered Rate (SHIBOR) shot up from 3.148% at the end of 2013 to a high of 4.847% before coming back down to 2.8% by the end of the quarter. During the same period, offshore RMB bond market experienced two relatively substantial corrections in January & March and offshore RMB (CNH) and onshore RMB (CNY) to US Dollar exchange rates depreciated around 2.4%.

Volatility dropped and market recovered in second quarter as a result of subsiding concern on further RMB exchange rate weakness and PBOC injected liquidity into the system, which was interpreted by the market as a move to avoid similar liquidity squeeze that happened in latter half of the second quarter in 2013.

With RMB continued to strengthen against the US Dollar in third quarter 2014, coupled with slowdown in new issues during the summer season, market continued to remain strong.

Deceleration in economic growth as indicated by various economic indicators and a 'not totally unexpected' interest rates cut by the PBOC put the RMB to US Dollar exchange rates under pressure again in fourth quarter 2014. On the other hand, offshore RMB bond market put on strong performance driven by the interest rates cut in November as well as expectation of further cuts given the benign level of inflation. However, market turned weak and corrected at the end of the quarter, particularly for high yield property names resulting from a potential credit event by a Hong Kong listed property development & investment company.

2014 Performance

CCB International RMB Fixed Income Fund ("The Fund") had 92.03% of its NAV invested in fixed income instrument as of 30 June 2014 as compared to 94.01% in 31 December 2013.

At the end of 2014, the Fund has 93.36% of its NAV invested in fixed income instruments with performance of 2.91% between 31 December 2013 and 31 December 2014. Deutsche Bank Offshore RMB Bond Indices reported an increase of 2.74% between 31 December 2013 and 31 December 2014.

MANAGER'S REPORT (continued)

Market Outlook and Strategies

We expect China economic growth would continue to edge down in 2015 while PBOC could have further interest rates cut & Required Reserve Ratio cuts to lower the level of 'real interest rates' and loosen the monetary condition.

As a result, there could be possible downward pressure on the RMB/US Dollar exchange rates, particularly with almost consensus market expectation that the US Federal Reserve could have its first interest rate hike within 2015 thus further narrowing the interest rates differential between the two currencies. However the first US rates hike should not be more than 25 basis point and the market is leaning towards the expectation of only one interest rate hike in 2015.

Offshore RMB bond market should benefit from the 'accommodative' interest rates movements in China while on the other hand, with RMB internalization to continue, we believe the PBOC would strike a balance between timing & magnitude of interest rates cuts and RMB/US Dollar exchange rates to optimize the impact of monetary loosening vs. exchange rates volatility.

The Fund would continue to adopt disciplined investment approach in identifying and investing in the offshore RMB bonds via both the primary and secondary markets to enhance investment return going forward.

CCB International Asset Management Limited
15 April 2015

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 2014 in accordance with the provisions of the Trust Deed dated 29 December 2010, as amended.

On behalf of
BOCI-Prudential Trustee Limited, the Trustee
15 April 2015

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 Financial Statements

We have audited the financial statements of the Sub-Fund set out on pages 7 to 38, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity attributable to unitholders, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Trustee and the Manager (the “Management”) of the Sub-Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 29 December 2010 (the “Trust Deed”) and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the “SFC Code”), 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.

Auditor's Responsibility

Our responsibility 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.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also 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.

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 Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Sub-Fund’s preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2014, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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, 15 April 2015

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 RMB	2013 RMB
ASSETS			
Financial assets at fair value through profit or loss	3(a)	96,878,750	141,265,000
Prepaid expenses		10,519	12,043
Subscription proceeds receivable		–	69,800
Interest receivable		1,736,534	1,556,743
Cash and cash equivalents	5	<u>7,778,380</u>	<u>10,881,881</u>
TOTAL ASSETS		<u><u>106,404,183</u></u>	<u><u>153,785,467</u></u>
LIABILITIES			
Management fee payable	8(a)	67,691	180,950
Trustee fee payable	8(b)	42,667	41,333
Custodian fee payable	8(c)	2,418	3,377
Distribution payable	7	2,122,063	2,741,576
Redemption payable		245,290	398,653
Accrued expenses and other payables		<u>158,939</u>	<u>149,446</u>
TOTAL LIABILITIES		<u><u>2,639,068</u></u>	<u><u>3,515,335</u></u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u><u>103,765,115</u></u>	<u><u>150,270,132</u></u>
NUMBER OF UNITS IN ISSUE	6	<u><u>1,061,031.60</u></u>	<u><u>1,523,097.72</u></u>
NET ASSET VALUE PER UNIT		<u><u>97.79</u></u>	<u><u>98.66</u></u>

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 RMB	2013 RMB
INCOME			
Interest from financial assets at fair value through profit or loss		6,153,747	7,478,805
Interest from bank deposits		34,064	160,197
Net (losses)/gains on financial assets at fair value through profit or loss	4	(762,555)	608,745
Net foreign exchange (losses)/gains		(1,670)	2,353
		<u>5,423,586</u>	<u>8,250,100</u>
EXPENSES			
Management fee	8(a)	(830,853)	(1,175,012)
Trustee fee	8(b)	(480,000)	(480,000)
License fee		(11,752)	(9,504)
Custodian fee	8(c)	(34,572)	(37,557)
Auditors' remuneration		(169,350)	(160,000)
Publishing charges		(7,722)	(7,698)
Brokerage fees and other transaction costs		(6,500)	(7,000)
Other expenses		(2,516)	(13,744)
		<u>(1,543,265)</u>	<u>(1,890,515)</u>
PROFIT BEFORE TAXATION		3,880,321	6,359,585
Taxation	9	<u>–</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>3,880,321</u>	<u>6,359,585</u>

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2014

	Notes	2014 RMB	2013 RMB
BALANCE AT BEGINNING OF 1 JANUARY		<u>150,270,132</u>	<u>192,500,940</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>3,880,321</u>	<u>6,359,585</u>
TRANSACTIONS WITH UNITHOLDERS RECORDED DIRECTLY IN EQUITY			
Subscription of units	6	4,438,020	6,969,469
Redemption of units	6	(50,420,738)	(49,996,562)
Distribution to unitholders	7	<u>(4,402,620)</u>	<u>(5,563,300)</u>
TOTAL TRANSACTIONS WITH UNITHOLDERS		<u>(50,385,338)</u>	<u>(48,590,393)</u>
BALANCE AT END OF 31 DECEMBER		<u>103,765,115</u>	<u>150,270,132</u>

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 RMB	2013 RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive income for the year	3,880,321	6,359,585
Adjustments for:		
Interest from financial assets at fair value through profit or loss	(6,153,747)	(7,478,805)
Interest from bank deposits	(34,064)	(160,197)
Decrease in financial assets at fair value through profit or loss	43,623,695	23,889,245
Net losses/(gains) on financial assets at fair value through profit or loss	762,555	(608,745)
Decrease in prepaid expenses	1,524	958
(Decrease)/increase in management fee payable	(113,259)	64,301
Increase in trustee fee payable	1,334	1,333
Decrease in custodian fee payable	(959)	(789)
Increase/(decrease) in accrued expenses and other payables	9,493	(9,388)
Cash generated from operations	41,976,893	22,057,498
Interest received	6,008,020	7,496,781
Net cash flow generated from operating activities	<u>47,984,913</u>	<u>29,554,279</u>

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2014

		2014	2013
		RMB	RMB
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of units		4,507,820	6,899,669
Payments for redemption of units		(50,574,101)	(50,450,490)
Distribution to unitholders		<u>(5,022,133)</u>	<u>(5,168,408)</u>
Net cash flow used in financing activities		<u>(51,088,414)</u>	<u>(48,719,229)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(3,103,501)	(19,164,950)
Cash and cash equivalents at beginning of year		<u>10,881,881</u>	<u>30,046,831</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	5	<u><u>7,778,380</u></u>	<u><u>10,881,881</u></u>

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

DISTRIBUTION STATEMENT

For the year ended 31 December 2014

	2014 RMB	2013 RMB
AMOUNT AVAILABLE FOR DISTRIBUTION BROUGHT FORWARD	–	–
Total comprehensive income for the year	3,880,321	6,359,585
Net losses/(gains) on financial assets at fair value through profit or loss	<u>762,555</u>	<u>(608,745)</u>
	4,642,876	5,750,840
Distribution declared in the year	(4,402,620)	(5,563,300)
Transfer to capital	<u>(240,256)</u>	<u>(187,540)</u>
AMOUNT AVAILABLE FOR DISTRIBUTION CARRIED FORWARD	<u>–</u>	<u>–</u>

The accompanying notes 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 2014, 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 2014 and have been adopted*

Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The adoption of this amendment 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 effective for the first time for the financial year beginning 1 January 2014 that would be expected to have a material impact on the Sub-Fund.

(ii) *New standards, amendments and interpretations effective after 1 January 2014 and have not been early adopted*

HKFRS 9, 'Financial instruments', addressing the classification, measurement and recognition of financial assets and financial liabilities, is effective for annual periods beginning on or after 1 January 2018. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. 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.

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 (losses)/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.

(d) *Income and expenses*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Income and expenses (continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 table below summarises the overall market exposures of the Sub-Fund by market and the impact of increases/decreases from 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 2014. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

	RMB	Change in net assets if price changes by 1% RMB
As at 31 December 2014		
Debt securities	<u>96,878,750</u>	<u>968,788</u>
As at 31 December 2013		
Debt securities	<u>141,265,000</u>	<u>1,412,650</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

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.

	2014 RMB	% of NAV
As at 31 December 2014		
Debt securities		
Listed debt securities		
Hong Kong		
Consumer, Cyclical	9,045,000	9%
Diversified	8,980,000	9%
Financials	44,905,000	43%
Industrials	5,006,250	5%
Technology	9,900,000	9%
Singapore		
Financials	9,590,000	9%
	87,426,250	84%
Unlisted debt securities		
Consumer, Non-cyclical	9,452,500	9%
	9,452,500	9%
Total investments	96,878,750	93%

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

(a) Market price risk (continued)

	2013 RMB	% of NAV
As at 31 December 2013		
Debt securities		
Listed debt securities		
Berlin		
Financials	6,912,500	5%
Industrials	5,225,000	3%
Dublin		
Financials	5,568,750	4%
Hong Kong		
Consumer, Cyclical	8,097,500	5%
Financials	27,266,500	19%
Industrials	10,377,250	7%
Utilities	7,990,000	5%
Singapore		
Basic Materials	2,030,000	1%
Communications	3,007,500	2%
Consumer, Non-cyclical	8,500,000	6%
Financials	13,960,000	9%
	<u>98,935,000</u>	<u>66%</u>
Unlisted debt securities		
Consumer, Cyclical	13,702,500	9%
Consumer, Non-cyclical	12,687,500	9%
Financials	2,010,000	1%
Utilities	13,930,000	9%
	<u>42,330,000</u>	<u>28%</u>
Total investments	<u><u>141,265,000</u></u>	<u><u>94%</u></u>

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 2014					
<u>Assets</u>					
Financial assets at fair value					
through profit or loss	–	–	96,878,750	–	96,878,750
Prepaid expenses	–	–	–	10,519	10,519
Interest receivables	–	–	–	1,736,534	1,736,534
Cash and cash equivalents	7,778,380	–	–	–	7,778,380
Total assets	<u>7,778,380</u>	<u>–</u>	<u>96,878,750</u>	<u>1,747,053</u>	<u>106,404,183</u>
<u>Liabilities</u>					
Management fee payable	–	–	–	67,691	67,691
Trustee fee payable	–	–	–	42,667	42,667
Custodian fee payable	–	–	–	2,418	2,418
Distribution payable	–	–	–	2,122,063	2,122,063
Redemption payable	–	–	–	245,290	245,290
Accrued expenses and other payable	–	–	–	158,939	158,939
	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,639,068</u>	<u>2,639,068</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 2013					
<u>Assets</u>					
Financial assets at fair value					
through profit or loss	–	–	141,265,000	–	141,265,000
Prepaid expenses	–	–	–	12,043	12,043
Subscription proceeds receivables	–	–	–	69,800	69,800
Interest receivables	–	–	–	1,556,743	1,556,743
Cash and cash equivalents	10,881,881	–	–	–	10,881,881
Total assets	<u>10,881,881</u>	<u>–</u>	<u>141,265,000</u>	<u>1,638,586</u>	<u>153,785,467</u>
<u>Liabilities</u>					
Management fee payable	–	–	–	180,950	180,950
Trustee fee payable	–	–	–	41,333	41,333
Custodian fee payable	–	–	–	3,377	3,377
Distribution payable	–	–	–	2,741,576	2,741,576
Redemption payable	–	–	–	398,653	398,653
Accrued expenses and other payable	–	–	–	149,446	149,446
	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,515,335</u>	<u>3,515,335</u>

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

The following table demonstrated the sensitivity of the Sub-Fund's profit or loss for the year to reasonably possible change in interest rate, 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 asset value RMB +/-
As at 31 December 2014			
Debt securities	96,878,750	0.25%	540,099
As at 31 December 2013			
Debt securities	141,265,000	0.25%	593,313

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 2014 and 31 December 2013.

Debt securities by rating category	2014 % of NAV	2013 % of NAV
A+	—	1%
AA-	—	13%
BBB	8%	6%
Unrated	85%	74%
	<u>93%</u>	<u>94%</u>

The Manager has assessed the credit quality of the RMB denominated bonds based on the nature of issuers and historical information about the issuers' default rates.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 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 2014 together with its credit rating.

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	7,778,380	A-1	S&P
ICBC (Asia) Limited	–	P-1	Moody's

Custodian

Bank of China (Hong Kong) Limited	96,878,750	A-1	S&P
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The table below summarises the net exposure to the Sub-Fund's counterparty as at 31 December 2013 together with its credit rating.

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	5,877,298	A-1	S&P
ICBC (Asia) Limited	5,004,583	A-1	S&P

Custodian

Bank of China (Hong Kong) Limited	141,265,000	A-1	S&P
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The maximum exposure to credit risk as at 31 December 2014 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 2014				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	–	96,878,750	–	96,878,750
Subscription proceeds receivables	–	–	–	–
Interest receivables	–	922,638	813,896	1,736,534
Cash and cash equivalents	<u>7,778,380</u>	<u>–</u>	<u>–</u>	<u>7,778,380</u>
	<u>7,778,380</u>	<u>97,801,388</u>	<u>813,896</u>	<u>106,393,664</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 2014				
<u>Financial liabilities</u>				
Management fee payable	–	67,691	–	67,691
Trustee fee payable	–	42,667	–	42,667
Custodian fee payable	–	2,418	–	2,418
Distribution payable	–	2,122,063	–	2,122,063
Redemption proceeds payable	–	245,290	–	245,290
Accrued expenses and other payables	–	–	158,939	158,939
	–	2,480,129	158,939	2,639,068
	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
As at 31 December 2013				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	–	141,265,000	–	141,265,000
Subscription proceeds receivables	–	69,800	–	69,800
Interest receivables	–	239,925	1,316,818	1,556,743
Cash and cash equivalents	5,877,298	5,004,583	–	10,881,881
	5,877,298	146,579,308	1,316,818	153,773,424

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 2013				
<u>Financial liabilities</u>				
Management fee payable	–	180,950	–	180,950
Trustee fee payable	–	41,333	–	41,333
Custodian fee payable	–	3,377	–	3,377
Distribution payable	–	2,741,576	–	2,741,576
Redemption proceeds payable	–	398,653	–	398,653
Accrued expenses and other payables	–	–	149,446	149,446
	–	3,365,889	149,446	3,515,335

(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 2014 and 2013.

	Level 2 RMB	Total RMB
As at 31 December 2014		
Debt securities	<u>96,878,750</u>	<u>96,878,750</u>
As at 31 December 2013		
Debt securities	<u>141,265,000</u>	<u>141,265,000</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, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

For the year ended 31 December 2014 and 2013, 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 (LOSSES)/GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 RMB	2013 RMB
Net realised gain on sale of investments	974,056	266,941
Change in unrealized (loss)/gain in value of investments	(1,736,611)	341,804
	<u>(762,555)</u>	<u>608,745</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:

	2014 RMB	2013 RMB
Cash at bank	7,778,380	5,877,298
Short-term deposits	—	5,004,583
	<u>7,778,380</u>	<u>10,881,881</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:

	2014	2013
	No. of units	No. of units
As at 1 January	1,523,097.72	1,955,569.86
Subscription of units	44,790.98	70,388.17
Redemption of units	(506,857.10)	(502,860.31)
As at 31 December	<u>1,061,031.60</u>	<u>1,523,097.72</u>

7 DISTRIBUTION

	Distribution	Distribution
	RMB	per unit
		RMB
Distribution for 2014		
Interim dividend	2,280,557	2.00
Final dividend	2,122,063	2.00
Distribution for 2013		
Interim dividend	2,821,724	1.68
Final dividend	2,741,576	1.80

The Manager approved the proposed final dividend on 15 December 2014. The final dividend was declared on 2 January 2015 and was paid to investors on 7 January 2015.

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 RMB830,853 (2013: RMB1,175,012). As at 31 December 2014, management fee of RMB67,691 (2013: RMB180,950) 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 (2013: RMB480,000). As at 31 December 2014, trustee fee of RMB42,667 (2013: RMB41,333) 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 RMB34,572 (2013: RMB37,557). As at 31 December 2014, custodian fee of RMB2,418 (2013: RMB3,377) 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

	2014 RMB	2013 RMB
Bank balances with:		
Bank of China (Hong Kong) Limited	<u>7,778,380</u>	<u>5,877,298</u>

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

	2014 RMB	2013 RMB
Debt securities held with:		
Bank of China (Hong Kong) Limited	<u>96,878,750</u>	<u>141,265,000</u>

(f) Brokerage services

The Fund uses the brokerage services of a related party of the Manager or a related party of the Trustee to buy and sell investments. Details of transactions executed are as follows:

	2014 RMB	2013 RMB
Total aggregate value of transactions executed during the year	6,975,500	13,565,329
Commission paid during the year	–	–
Average rate of commission	0.00%	0.00%
Percentage of these transactions in value to total transactions of the year	<u>2.85%</u>	<u>6.03%</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

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:

	2014	2013
	RMB	RMB
Net asset value as per statement of financial position	103,765,115	150,270,132
Adjustment on preliminary expenses (note)	201,623	403,245
Adjustment on distribution payable	2,122,063	2,741,576
Adjustment on other payable	(4,728)	(7,422)
Published net asset value	<u>106,084,073</u>	<u>153,407,531</u>
Published net asset value per unit	<u>99.98</u>	<u>100.72</u>

Note:

The published net asset value per unit issued is calculated in accordance with the Explanatory Memorandum while the net asset value per unit as reported in the statement of financial position included an audit adjustment for recognition of all preliminary expenses incurred in the statement of comprehensive income.

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 15 April 2015.

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the year ended 31 December 2014

	At 31 December 2013	Movements in nominal value		At 31 December 2014
		Additions	Disposals	
<u>LISTED DEBT SECURITIES</u>				
<u>Berlin</u>				
Banco Btg Pactual Sa/Cayman Islands 4.1% S/A 26Mar2016	7,000,000	–	(7,000,000)	–
Lafarge Shui On Cement Ltd 9% S/A 14Nov2014 Regs	5,000,000	–	(5,000,000)	–
<u>Dublin</u>				
Russian Standard Bank (Russian Standard Finance Sa) 8% S/A 14Feb2015	5,500,000	–	(5,500,000)	–
<u>Hong Kong</u>				
AVIC Int'l Finance & Inv Ltd 4.8% S/A 09Jul2015 Regs	10,300,000	–	(5,300,000)	5,000,000
Carnival Group International Hldgs Ltd 11.5% S/A 04Dec2016	–	1,000,000	–	1,000,000
Central Plaza Development Ltd 7.6% S/A 29Nov2015 Regs	10,000,000	–	(10,000,000)	–
Central Plaza Development Ltd 6.875% S/A 17 Feb2019	–	10,000,000	–	10,000,000
China Construction Bank Corp 4.9% S/A 12Nov2024	–	8,000,000	–	8,000,000
China Datang Corp 3.6% S/A 25Apr2016	8,000,000	–	(8,000,000)	–
Eastern Air Overseas Hong Kong Corp Ltd 4.8% S/A 13Mar2017	–	9,000,000	–	9,000,000
Eastern Creation II Investment Hldgs Ltd 3.75% S/A 27Jun2017	–	2,000,000	(2,000,000)	–
Export-Import Bank Of China 3.65% S/A 14May2019	–	3,000,000	(3,000,000)	–
Far East Horizon Ltd 5.45% S/A 11Dec2016	5,000,000	–	(5,000,000)	–
Guosen Securities Overseas Co Ltd 6.4% S/A 24Apr2017	–	9,000,000	–	9,000,000

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

For the year ended 31 December 2014

	At 31 December 2013	Movements in nominal value		At 31 December 2014
		Additions	Disposals	
Hainan Airlines Hong Kong Co Ltd 6.25% S/A 22May2017	–	7,000,000	(7,000,000)	–
IT Ltd 6.25% S/A 15May2018	3,600,000	–	(3,600,000)	–
Kunzhi Ltd 5.875% S/A 15Jan2017	–	14,000,000	(4,000,000)	10,000,000
New World China Land Ltd 5.5% S/A 06Feb2018	10,400,000	–	(10,400,000)	–
Qilu Intl Finance Bvi Co Ltd 6.25% S/A 10Sep2017	–	4,000,000	–	4,000,000
RKI Finance 2013 Ltd 6% S/A 03Dec2016	1,000,000	–	(1,000,000)	–
Sinotruk Hong Kong Ltd 4.5% S/A 01Aug2014 Regs	5,000,000	–	(5,000,000)	–
Soar Rise Ltd 4.375% S/A 13Jun2017	–	8,000,000	–	8,000,000
Unican Ltd 5.6% S/A 18Sep2017	–	6,000,000	–	6,000,000
Yieldking Investment Ltd 5.15% S/A 31Jul2017	–	8,000,000	–	8,000,000
Singapore				
Asia Pacific Ports Dev 5.8% S/A 28Oct2014 Regs	8,500,000	–	(8,500,000)	–
Axiata SPV2 Bhd 3.75% S/A 18Sep2014	3,000,000	–	(3,000,000)	–
Gemdale Asia Hldg Ltd 5.625% S/A 21Mar2018	1,000,000	–	(1,000,000)	–
Kaisa Group Hldgs Ltd 6.875% S/A 22Apr2016	2,000,000	–	(2,000,000)	–
SK Global Chemical Investment Hong Kong Ltd 4.125% S/A 26Sep2016	2,000,000	–	(2,000,000)	–
Trade & Development Bank Of Mongolia Llc 10% S/A 21Jan2017	–	9,000,000	(1,000,000)	8,000,000
Vast Expand Ltd 5.2% S/A 11Sep2017	–	2,000,000	–	2,000,000
Value Success Intl Ltd 4.75% S/A 04Nov2018	4,000,000	–	(4,000,000)	–
Yanlord Land HK Co Ltd 5.375% S/A 23May2016	7,000,000	–	(7,000,000)	–

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

For the year ended 31 December 2014

		<u>Movements in nominal value</u>		
	At 31 December 2013	Additions	Disposals	At 31 December 2014
<u>UNLISTED DEBT SECURITIES</u>				
China Power New 3.75% S/A 29Apr2014 Ser HK	14,000,000	—	(14,000,000)	—
Hai Chao Trading Co Ltd 2% S/A 04Aug2014 Regs	14,000,000	—	(14,000,000)	—
Industrial & Commercial Bank of China Ltd 3.35% S/A 19Nov2016	2,000,000	—	(2,000,000)	—
Shandong Intl HK Ltd 5.8% S/A 07Dec2015	12,500,000	—	(3,000,000)	9,500,000

INVESTMENT PORTFOLIO (UNAUDITED)

For the year ended 31 December 2014

	Nominal value RMB	Fair value RMB	% of net assets
<u>LISTED DEBT SECURITIES</u>			
<u>Hong Kong</u>			
AVIC Int'l Finance & Inv Ltd 4.8% S/A 09Jul2015 Regs	5,000,000	5,006,250	4.82%
Carnival Group International Hldgs Ltd 11.5% S/A 04Dec2016	1,000,000	1,000,000	0.96%
Central Plaza Development Ltd 6.875% S/A 17 Feb2019	10,000,000	9,850,000	9.49%
China Construction Bank Corp 4.9% S/A 12Nov2024	8,000,000	8,050,000	7.76%
Eastern Air Overseas Hong Kong Corp Ltd 4.8% S/A 13Mar2017	9,000,000	9,045,000	8.72%
Guosen Securities Overseas Co Ltd 6.4% S/A 24Apr2017	9,000,000	9,045,000	8.72%
Kunzhi Ltd 5.875% S/A 15Jan2017	10,000,000	9,900,000	9.54%
Qilu Intl Finance Bvi Co Ltd 6.25% S/A 10Sep2017	4,000,000	3,950,000	3.81%
Soar Rise Ltd 4.375% S/A 13Jun2017	8,000,000	8,010,000	7.72%
Unican Ltd 5.6% S/A 18Sep2017	6,000,000	6,000,000	5.78%
Yieldking Investment Ltd 5.15% S/A 31Jul2017	8,000,000	7,980,000	7.69%

Singapore

Trade & Development Bank Of Mongolia Llc 10% S/A 21Jan2017	8,000,000	7,600,000	7.32%
Vast Expand Ltd 5.2% S/A 11Sep2017	2,000,000	1,990,000	1.92%

UNLISTED DEBT SECURITIES

Shandong Intl HK Ltd 5.8% S/A 07Dec2015	9,500,000	9,452,500	9.11%
Total investment portfolio (Cost: RMB97,535,994)		96,878,750	93.36%
Other net assets		6,886,365	6.64%
Total net assets		103,765,115	100.00%

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

PERFORMANCE TABLE (UNAUDITED)

(a) Price record (Dealing NAV)

Year	Highest RMB	Lowest RMB
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

	2014 RMB	2013 RMB	2012 RMB
Total net asset value	103,765,115	150,270,132	192,500,940

(c) Net asset value per unit

Net asset value per unit	97.79	98.66	98.43
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