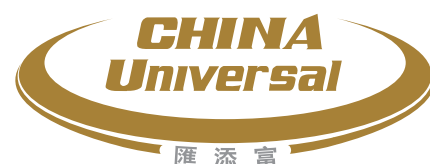


China Universal International Series **CUAM RMB Bond*plus* Fund**

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

Audited Financial Statements

For the period from 17 February 2012 (Date of Inception) to 31 December 2012



CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

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CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

ADMINISTRATION AND MANAGEMENT

MANAGER

China Universal Asset Management (Hong Kong) Company
Limited
2701, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DIRECTORS OF THE MANAGER

LIN Lijun (appointed on 17 February 2012)
XIAO Shunxi (appointed on 17 February 2012)
HAN Xianwang (appointed on 17 February 2012)
GAO Sheldon (appointed on 17 February 2012
and resigned on 1 June 2012)

SOLICITORS TO THE MANAGER

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

TRUSTEE AND REGISTRAR

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

AUDITORS

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

CUSTODIAN

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

RQFII CUSTODIAN

Bank of China Limited
No. 1 Fuxingmen Nei Dajie
Beijing, 100818
China

REPORT OF THE MANAGER

Market review

In the whole year of 2012, the market was always worried about the slowdown of domestic economy in Mainland China. To stimulate the economy, policy makers were extremely active. Interest rates and banks' reserve requirement rate were cut twice. The domestic equity market and bond market performed entirely different under such circumstances. From the establishment of the fund as at 17 February 2012 till the end of the year, China Securities Index 300 ("CSI300") dropped by 0.56%, which could have been more severe if the sudden surge in December had not occurred. Nonetheless, the bond market performed much better, rose by 3.19% according to Chinabond Composite Index.

Portfolio review

On December 31 our total published Net Asset Value ("NAV") was RMB458,857,231.11. The NAV per share on December 31 was 10.054 (A-class) and 10.119 (I-class) (dividend included). From February 17 to December 31, NAV of the fund increased by 3.00% (A-class) and 3.65% (I-class). The return of the benchmark, of which composed of 80% of CSI300 Index and 20% of Chinabond Composite Index, increased by 2.44% for the same period. The NAV for A-class and I-class outperformed the benchmark by 56 bps and 121 bps respectively. In 2012, the fund distributed dividends three times, RMB0.038 per unit in June, RMB0.050 per unit in September and RMB0.158 per unit in December.

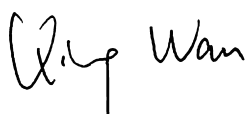
We had a positive bias towards credit bond, which including corporate bond, company bond, short-term financing bill and medium-term note. We focused on high-yield bonds, which had better performance than high-grade bonds. We allocated most of the assets on bond market and a very small part on equity security and convertible bond that is why the fund escaped from the downside risk of equity market, and it was the main factor contributed to the fund outperformance. Furthermore, before the bond market surged in Q2 of 2012, we had completed portfolio-building. And we lowered the fund position during bond market adjustment in Q3 and extended overall portfolio average duration in Q4 when the market started to rise again.

Market outlook

In 2013, we think that the equity market will perform better than the bond market, domestic economy will recover gradually, Consumer Price Index ("CPI") will rebound to 3% in the second half of 2013. We do not expect any interest rate cut or required reserve rate cut, so the return of bond market in 2013 is expected to be worsened. For the bond investment, we will favor short-term bond. As for equity, the market should be more active and optimistic because listed company's profits are believed to be better in 2013. We especially prefer non-cyclical sectors such as retail, medicine, electrical appliance, clothing and so on.

Changes in key investment personnel

Mr Sheldon GAO had resigned as the Director from the Manager on 1 June 2013 and Mr Xianwang HAN had been appointed as the Director of the Manager on the same day.



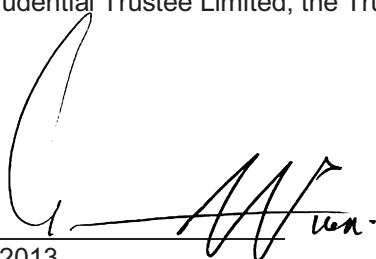
China Universal Asset Management (Hong Kong) Company Limited
26 April 2013

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, the Manager, China Universal Asset Management (Hong Kong) Company Limited, has, in all material respects, managed China Universal International Series – CUAM RMB Bondplus Fund for the period from 17 February 2012 (date of inception) to 31 December 2012 in accordance with the provisions of the Trust Deed dated 29 December 2011 and its supplemental deed.

On behalf of
BOCI-Prudential Trustee Limited, the Trustee

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a horizontal line, ending with a small 'un.'.

26 April 2013

Independent auditors' report

To the Trustee and the Manager of
CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

We have audited the financial statements of China Universal International Series – CUAM RMB Bondplus Fund (A sub-fund of China Universal International Series) (the “Trust”) and referred to as the “Sub-Fund”) set out on pages 6 to 27, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in net assets attributable to holders of redeemable units, the statement of cash flows and the statement of distribution for the period from 17 February 2012 (date of inception) to 31 December 2012, and a summary of significant accounting policies and other explanatory information.

Trustee's and Manager's responsibilities for the financial statements

The Trustee and the Manager of the Sub-Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Trustee and the Manager also have a responsibility to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed of the Sub-Fund dated 29 December 2011 (the “Trust Deed”) and the disclosure requirements specified in Appendix E to the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the “SFC Code”).

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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, and whether the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee and the Manager, 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.

Independent auditors' report (continued)

To the Trustee and the Manager of
CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

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 2012, and of its financial performance and cash flows for the period from 17 February 2012 (date of inception) to 31 December 2012 in accordance with Hong Kong Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion, the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.



Certified Public Accountants
Hong Kong
26 April 2013

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF COMPREHENSIVE INCOME

For the period from 17 February 2012 (date of inception) to 31 December 2012

	Notes	RMB
INCOME		
Interest income on financial assets at fair value		
through profit or loss		22,646,636
Other interest income		738,117
Net gain on financial assets at fair value		
through profit or loss	7	4,167,388
Foreign exchange differences, net		143
Sundry income		<u>13,701</u>
		<u>27,565,985</u>
EXPENSES		
Management fee	4	(5,921,125)
Trustee fee	4	(744,277)
Custodian fee	4	(284,657)
Legal and professional fee		(5,672)
Auditors' remuneration		(163,722)
Preliminary expense		(1,140,262)
Other expenses		<u>(357,724)</u>
		<u>(8,617,439)</u>
Operating profit		18,948,546
FINANCE COSTS		
Distribution to unitholders	6	<u>(12,212,141)</u>
Profit before tax		6,736,405
Withholding tax	5	<u>(2,539,946)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>4,196,459</u></u>

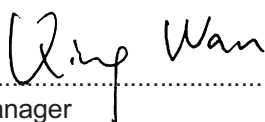
The accompanying notes are an integrate part of these financial statements.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	RMB
ASSETS		
Financial assets at fair value through profit or loss	7	413,331,665
Cash and cash equivalents	8	32,853,051
Interest receivable		15,322,626
Deposit reserve – China Exchange Clearing		308,000
Subscription proceeds receivable		99,010
Prepayments		<u>9,662</u>
TOTAL ASSETS		<u><u>461,924,014</u></u>
LIABILITIES		
Redemption proceeds payable		652,301
Management fee payable	4	534,846
Trustee fee payable	4	65,740
Other payables and accruals		186,223
Tax payable		<u>2,386,360</u>
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS)		<u><u>3,825,470</u></u>
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	10	<u><u>458,098,544</u></u>
TOTAL LIABILITIES AND EQUITY		<u><u>461,924,014</u></u>
NUMBER OF UNITS IN ISSUE		
- Class A units	9	36,248,935.84
- Class I units	9	9,313,713.06
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT		
- Class A units	10	10.041
- Class I units	10	10.105


.....
Manager


.....
Trustee

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the period from 17 February 2012 (date of inception) to 31 December 2012

	Note	Class A RMB	Class I RMB	Total RMB
At 17 February 2012 (date of inception)		-	-	-
Subscription of redeemable units		462,266,272	171,137,264	633,403,536
Redemption of redeemable units		(100,214,607)	(79,286,844)	(179,501,451)
Increase in net assets attributable to holders of redeemable units during the period		<u>1,927,475</u>	<u>2,268,984</u>	<u>4,196,459</u>
At 31 December 2012		<u><u>363,979,140</u></u>	<u><u>94,119,404</u></u>	<u><u>458,098,544</u></u>

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF CASH FLOWS

For the period from 17 February 2012 (date of inception) to 31 December 2012

	Note	RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		6,736,405
Adjustments for:		
Interest income on financial assets at fair value through profit or loss		(22,646,636)
Interest income on bank deposits		(738,117)
Distribution to unitholders		<u>12,212,141</u>
Increase in financial assets at fair value through profit or loss		(413,331,665)
Increase in deposit reserve-China Exchange Clearing		(308,000)
Increase in prepayments		(9,662)
Increase in management fee payable		534,846
Increase in trustee fee payable		65,740
Increase in other payables and accruals		<u>186,223</u>
Net cash used in operations		(417,298,725)
Tax paid		(153,586)
Interest received		<u>8,062,127</u>
Net cash flows used in operating activities		<u>(409,390,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units		633,304,526
Payments for redemption of units		(178,849,150)
Distribution to unitholders		<u>(12,212,141)</u>
Net cash flows provided by financing activities		<u>442,243,235</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		32,853,051
Cash and cash equivalents at beginning of period		<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u><u>32,853,051</u></u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balance	8	<u>32,853,051</u>
		<u><u>32,853,051</u></u>

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF DISTRIBUTION

For the period from 17 February 2012 (date of inception) to 31 December 2012

	Note	RMB
Undistributed income at 17 February 2012 (date of inception)		-
Increase in net assets attributable to holders of redeemable units during the period		4,196,459
Add: Finance costs – distribution to unitholders		12,212,141
Less: Unrealised gain on financial assets at fair value through profit or loss		(1,409,844)
Undistributed income before distribution		14,988,756
Interim distribution (RMB0.038 per unit) distributed on 13 June 2012	6	(2,176,197)
Interim distribution (RMB0.050 per unit) distributed on 13 September 2012	6	(2,656,920)
Final distribution (RMB0.158 per unit) distributed on 13 December 2012	6	(7,379,024)
Transfer to capital		(2,786,615)
Undistributed income at 31 December 2012		-

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 the Trust Deed. Total Income would include amount receivable by way of interests (e.g. generated from bank deposits and debt securities), or other receipts as determined by the Manager to be in the nature of income. Unrealised capital gain or loss does not form part of Total Income and therefore would not impact on the amount available for distribution.

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

1. THE SUB-FUND

China Universal International 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 2011 (the “Trust Deed”). The Trust currently consists of two sub-funds namely CUAM RMB Bondplus Fund and CUAM China-Hong Kong Strategy Fund.

CUAM RMB Bondplus Fund (the “Sub-Fund”) was constituted as a separate sub-fund of the Trust on 29 December 2011. The Sub-Fund is an open-ended unit trust authorized 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. The Sub-Fund was launched and incepted on 17 February 2012.

The Manager of the Trust is China Universal Asset Management (Hong Kong) Company Limited (the “Manager”) and the Trustee is BOCI-Prudential Trustee Limited (the “Trustee”). The Custodian is the Bank of China (Hong Kong) Limited (the “Custodian”) and the Renminbi Qualified Foreign Institutional Investors (“RQFII”) local custodian is the Bank of China Limited (the “RQFII Custodian”).

Two classes of units, namely Class A units and Class I units, are available for the Sub-Fund. Class A units and Class I units are subject to different management fee. For the period ended 31 December 2012, Class A units and Class I units were in issue.

The Sub-Fund invests in debt securities issued within the People's Republic of China (the “PRC”) and the PRC equity securities by using RQFII quota of the Manager. The RQFII quota of the Manager is RMB1.1 billion with a remaining quota of RMB665 million as at 31 December 2012.

The investment objective of the Sub-Fund is to achieve consistent return and long term capital growth by primarily (i.e. not less than 80% of its net assets) investing in the PRC Renminbi (“RMB”) fixed income securities.

2.1 BASIS OF PREPARATION

The financial statements of the Sub-Fund have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the relevant disclosure provisions of the Trust Deed dated 29 December 2011, and the relevant disclosure provisions specified in Appendix E to the SFC Code.

The financial statements have been prepared under the historical cost basis, except for financial assets classified at fair value through profit or loss that have been measured at fair value. The financial statements are presented in RMB and all values are rounded to the nearest RMB except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Sub-Fund has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

- HKFRS 7 Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*²
- HKFRS 9 *Financial Instruments*⁴
- HKFRS 13 *Fair Value Measurement*²
- HKAS 1 Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*¹
- HKAS 32 Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*³
- *Annual Improvements 2009-2011 Cycle Amendments to a number of HKFRSs issued in June 2012*²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The Manager is in the progress of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Manager considers that these new and revised HKFRSs are unlikely to have a significant impact on the Sub-Fund's results of financial performance or position for the Sub-Fund.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) Classification

The Sub-Fund classifies its financial assets and liabilities into the categories below in accordance with HKAS 39.

Financial assets at fair value through profit or loss

The Sub-Fund classifies all of its investments as financial assets held for trading.

Financial assets held for trading: financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes equity securities and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to subscription proceeds receivable, interest receivable on debt securities and other receivables.

Other financial liabilities

This category includes all financial liabilities. The Sub-Fund includes in this category amounts relating to distribution payable to unitholders and other short-term payables.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Recognition

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

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

(iii) Initial measurement

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

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

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in 'Net gain/ loss on financial assets at fair value through profit or loss'. Interest earned on such instruments are recorded separately in "Interest income on financial assets at fair value through profit or loss".

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Sub-Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement; and
- Either (a) the Sub-Fund has transferred substantially all the risks and rewards of the asset, or (b) the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled, or expires.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

Impairment of financial assets

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the profit or loss.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Offsetting financial instruments

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

Functional and presentation currency

The Sub-Fund's functional currency is RMB, which is the currency of the primary economic environment in which it operates. The Sub-Fund's performance is evaluated and its liquidity is managed in RMB. Therefore, RMB is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Sub-Fund's presentation currency is also RMB.

Foreign currency transactions

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

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the statement of comprehensive income as part of the *"Net gain/ loss on financial assets and liabilities at fair value through profit or loss"*. Exchange differences on other financial instruments are included in profit or loss in the statement of comprehensive income as *"Foreign exchange differences, net"*.

Amount due from broker

Amount due from broker is receivable for securities sold (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date.

Net assets attributable to holders of redeemable units

The Sub-Fund issues redeemable units, namely Class A units and Class I units, which are redeemable at the unitholder's option and are classified as financial liabilities.

The holder of redeemable units can redeem the units during the Hong Kong and PRC business days of each calendar month or such other day or days determined by the Manager and Trustee may agree from time to time for cash equal to a proportionate share of the Sub-Fund's net assets attributable to holders of redeemable units of the relevant classes.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets attributable to holders of redeemable units (continued)

Redeemable units are issued and redeemed at the holder's option at prices based on the Sub-Fund's net assets attributable to holders of redeemable units per unit at the time of issue or redemption. The Sub-Fund's net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders by the number of units in issue.

Distributions to unitholders

Distributions are at the discretion of the Manager. A distribution to the Sub-Fund's unitholders is included in profit or loss in the statement of comprehensive income as the "*Finance costs*". A proposed distribution is recognised as a liability in the period in which it is approved by the Manager of the Sub-Fund.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and demand deposits with original maturities of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when appropriate.

Interest income

Interest income is recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

Net gain on financial assets at fair value through profit or loss

This item includes changes in the fair value of financial assets as at "fair value through profit or loss" and excludes interest income and expense.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as "fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

NOTES TO THE FINANCIAL STATEMENTS

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

Taxes

In some jurisdiction, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Sub-Fund's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Estimates

The key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Sub-Fund based its estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Sub-Fund. Such changes are reflected in the assumptions when they occur.

Taxation

In preparing these financial statements, the management 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

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4. FEES

Management fee

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 1.5% for Class A units and 0.75% for Class I units (up to maximum of 3% per annum in total by giving not less than one month's prior notice to the unitholders) per annum with respect to the net assets attributable to holders of redeemable units of each class of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

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 assets attributable to holders of redeemable units 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.

Custodian and RQFII Custodian fee

The Custodian is entitled to receive, on an annual basis, custodian fees from the Sub-Fund, at a rate up to 0.1% per annum of the net assets attributable to holders of redeemable units of the Sub-Fund calculated and accrued on each dealing day and is paid monthly in arrears. The fees and charges payable to the RQFII Custodian are borne by the Custodian.

As at 31 December 2012, no fees were the payable to the Custodian.

5. INCOME TAX

Hong Kong Tax

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

PRC Tax

Under PRC laws and regulations, foreign investors (such as the Sub-Fund) may be subject to a 10% withholding tax on income (such as dividend/interest and capital gains) imposed on securities issued by PRC tax resident enterprises.

Capital gains Tax

Specific rules governing taxes on RQFII's capital gains derived from trading of PRC investment securities have yet to be announced. In the absence of such specific rules, PRC income tax treatment should be governed by the general tax provisions of the Corporate Income Tax Law, which stipulates a 10% tax on a withholding basis for capital gains derived on disposal of PRC investment securities. Therefore, in light of the potential liability, the Sub-Fund has elected to withhold a 10% tax provision on both capital gains realised and unrealised on the PRC investment securities.

The capital gains tax for the period from 17 February 2012 (date of inception) to 31 December 2012 was RMB785,552.

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5. INCOME TAX (continued)

PRC Tax (continued)

Distribution Tax

A 10% PRC withholding tax has been levied on dividend and interest payments from PRC companies to foreign investors. As such, the RQFII will pass on this tax liability to the Sub-Fund in the form of a distribution tax and therefore, the Sub-Fund is subject to a distribution tax of 10%. There is no assurance that the rate of the distribution tax will not be changed by the PRC tax authorities in the future.

The distribution tax for the period from 17 February 2012 (date of inception) to 31 December 2012 was RMB1,754,394.

6. DISTRIBUTION

	RMB
Interim dividend (RMB0.038 per unit) distributed on 13 June 2012	2,176,197
Interim dividend (RMB0.050 per unit) distributed on 13 September 2012	2,656,920
Final dividend (RMB0.158 per unit) distributed on 13 December 2012	<u>7,379,024</u>
	<u><u>12,212,141</u></u>

During the year, the Manager has declared, on behalf of the Sub-Fund, interim dividend of RMB2,176,197 (at RMB0.038 per unit), RMB2,656,920 (at RMB0.050 per unit) and a final dividend of RMB7,379,024 (at RMB0.158 per unit). The distributions were paid out on 19 June 2012, 19 September 2012 and 19 December 2012, respectively.

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31 December 2012

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	RMB
Held for trading	
- Quoted debt securities	<u>413,331,665</u>
Total financial assets at fair value through profit or loss	<u>413,331,665</u>
Net gains or losses recognised in relation to financial assets at fair value through profit or loss:	
- realised gain	2,757,544
- unrealised gain	<u>1,409,844</u>
Net gain	<u>4,167,388</u>

The Sub-Fund classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

The determination of what constitutes 'observable' requires significant judgment by the Sub-Fund. The Sub-Fund considers observable data to be 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 table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value at 31 December 2012.

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Financial assets held for trading:				
- Quoted debt securities	-	<u>413,331,665</u>	-	<u>413,331,665</u>
	<u>-</u>	<u>413,331,665</u>	<u>-</u>	<u>413,331,665</u>

There are no investments classified within level 3 and no transfers of fair value measurements between level 1 and level 2 for the period from 17 February 2012 (date of inception) to 31 December 2012.

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31 December 2012

8. CASH AND CASH EQUIVALENTS

RMB

Bank balance	<u>32,853,051</u>
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The bank balance is the cash at bank held in interest bearing accounts with Bank of China (Hong Kong) Limited and Bank of China Limited, affiliate companies of the Trustee.

9. NUMBER OF UNITS IN ISSUE

The following is the subscription/(redemption) of units of the Sub-Fund during the period from 17 February 2012 (date of inception) to 31 December 2012:

	Number of Class A units	Number of Class I units
At 17 February 2012 (date of inception)	-	-
Subscription of units	46,124,987.31	17,087,195.20
Redemption of units	(9,876,051.47)	(7,773,482.14)
At 31 December 2012	<u>36,248,935.84</u>	<u>9,313,713.06</u>

10. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

A reconciliation of the net assets attributable to holders of redeemable units as reported in the statement of financial position to the net assets attributable to holders of redeemable units as determined for the purposes of processing unit subscriptions and redemptions is provided below:

	2012 RMB
Published net assets attributable to holders of redeemable units	458,857,231
Unrecorded redemption on 31 December 2012	(157,690)
Recognition of preliminary expense (a)	(600,997)
Net assets attributable to holders of redeemable units (per financial statements)	<u>458,098,544</u>

Notes:

- (a) The published net assets are calculated in accordance with the explanatory memorandum where preliminary expenses are capitalized and to be amortized over the first five years of the operation of the Sub-Fund, while the net assets as reported in the audited financial statements, the preliminary expenses are expensed as incurred, as required under HKFRS.

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NOTES TO THE FINANCIAL STATEMENTS

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10. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (continued)

<u>At 31 December 2012</u>	Published net assets per unit RMB	Net assets per unit (per audited financial statement) RMB
Class A units		
Net assets attributable to holders of redeemable units per unit	<u>10.054</u>	<u>10.041</u>
Class I units		
Net assets attributable to holders of redeemable units per unit	<u>10.119</u>	<u>10.105</u>

Capital management

The Sub-Fund's objectives for managing capital are to invest the capital in investments in order to achieve its investment objective while maintaining sufficient liquidity to meet the expenses of the Sub-Fund, and to meet redemption requests as they arise.

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES

Investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in investing in securities and there can be no assurance that any appreciation in value will occur. The value of investments and the income from them fluctuate and therefore the value of the redeemable participating units can fall as well as rise.

The performance of the Sub-Fund will be affected by a number of risk factors, including the following:

Market risk

Market risk is the risk of loss arising from uncertainty concerning movements in market prices and rates, including observable variables such as interest rates, credit spreads, exchange rates, and others that may be only indirectly observable such as volatilities and correlations. Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation etc. which may have significant impact on the value of the investments. Market movement may therefore result in substantial fluctuation in the net assets attributable to holders of redeemable units per unit of the Sub-Fund.

The maximum risk resulting from financial instruments equals their fair value.

The Sub-Fund assumes market risk in trading activities. The Sub-Fund distinguishes market risk as follows:

- Fixed income securities price risk
- Interest rate risk
- Foreign exchange risk

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

Market risk (continued)

Fixed income securities price risk

Fixed income securities price risk is the risk of unfavorable changes in the fair values of debt securities as the result of changes in the value of individual fixed income securities. Generally, the prices fluctuation of fixed income securities is in connection with interest rate changes. Prices of fixed income securities rise when interest rates fall, whilst their prices fall when interest rates rise. And the fixed income securities price risk exposure arises from the Sub-Fund's investments in fixed income securities.

Management's estimation of the effect on changes in net assets attributable to holders of redeemable units for the period due to a reasonably possible change in the applicable fixed income index, Chinabond Composite Index, which is an internally predetermined benchmark for fixed income investment of the Sub-Fund, with all other variables held constant, is indicated in the table below. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material.

Market index	Change in	Effect on net assets attributable to holders
	index price	of redeemable units and on changes
		in net assets attributable to holders of
		redeemable units for the period
	%	RMB/Unit
Chinabond Composite Index	±3.19%	±0.431

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 interest-bearing assets and future cash flow.

As the Sub-Fund has invested in fixed income securities whose values are driven significantly by changes in interest rates, the Sub-Fund is subject to interest rate risk. When interest rates rise, the value of previously acquired fixed income securities will normally fall because new debt securities acquired will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously acquired debt securities will normally rise. The Manager regularly assesses the economic condition, monitor changes in interest rates outlook and takes appropriate measures accordingly to control the impact of interest rate risk.

The majority of interest rate exposure arises on investments in debt securities. Most of the Sub-Fund's investments in debt securities carry fixed interest rates and the average duration of the fixed income portion is around 2.5 years. The Manager considers the movement in interest rates will have insignificant impact on the interest income.

The Sub-Fund also has interest-bearing bank deposits. As the bank deposits are on demand, the Manager considers the movement in interest rates will have insignificant cash flow impact on the daily net assets attributable to holders of redeemable units as at 31 December 2012 and therefore no sensitivity analysis of interest on bank deposits is presented.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Sub-Fund holds assets and liabilities predominately denominated in RMB, the functional currency of the Sub-Fund. The Manager considers the Sub-Fund is not exposed to significant currency risk and therefore no sensitivity analysis is presented.

Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. The Sub-Fund is exposed to cash redemptions of its redeemable units on every business day during the calendar year.

Liquidity risk may also result from an inability to sell a financial asset quickly at an amount close to its fair value. The Sub-Fund invests generally in the PRC bond market. The RMB denominated bond market is at a developing stage and the market capitalisation and the trading volume may be lower than those of the more developed markets. In the absence of an active market, the Sub-Fund may need to hold the debt securities until their maturity date. Even if a secondary market develops, the price at which debt securities are traded may be higher or lower than the initial subscription price due to many factors including prevailing interest rates. Further, the bid and offer spread of the price of debt securities may be wide and significant trading costs therefore be incurred. The Sub-Fund may suffer losses when such investments are sold.

The Manager seeks to control the liquidity risk of the investment portfolio in order to meet unitholders' redemption requests. However, if sizable redemption requests are received, the Manager may need to liquidate investment at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses as a result.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Sub-Fund can be required to pay.

Financial assets

Analysis of equity and debt securities at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

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11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

Liquidity risk (continued)

Financial assets (continued)

The following table summarises the maturity profile of the Sub-Fund's financial liabilities. Balances due within one year equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Sub-Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Sub-Fund's contractual commitments and liquidity.

	On demand RMB	Less than 3 month RMB	3-6 months RMB	Total RMB
At 31 December 2012				
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	-	413,331,665	-	413,331,665
Cash and cash equivalents	32,853,051	-	-	32,853,051
Interest receivable	-	15,322,626	-	15,322,626
Deposit reserve – China Exchange Clearing	308,000	-	-	308,000
Subscription proceeds receivable	-	99,010	-	99,010
Total financial assets	<u>33,161,051</u>	<u>428,753,301</u>	<u>-</u>	<u>461,914,352</u>
<u>Financial liabilities</u>				
Redemption proceeds payable	-	652,301	-	652,301
Management fee payable	-	534,846	-	534,846
Trustee fee payable	-	65,740	-	65,740
Other payables and accruals	-	10,958	175,265	186,223
Net assets attributable to holders of redeemable units	<u>458,098,544</u>	<u>-</u>	<u>-</u>	<u>458,098,544</u>
Total financial liabilities	<u>458,098,544</u>	<u>1,263,845</u>	<u>175,265</u>	<u>459,537,654</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

Credit and counterparty risk

The Sub-Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

If the issuer of any of the fixed income securities in which the Sub-Fund's assets are invested defaults, the performance of the Sub-Fund will be adversely affected.

The Sub-Fund have majority of fixed income securities invested in credit rating of AAA bonds. The default risk of the issuer is expected to be lowered by investing in a high credit rating instruments. However, it is worth to note that due to the limited access of the Chinese fixed income securities, the credit rating are normally provided by Chinese local rating agencies, including but not limited to four major agencies (i) China Chengxin International Credit Rating Co., Ltd. (a joint-venture with Fitch Ratings and the International Finance Corporation [IFC]); (ii) China Lianhe Credit Rating Co. Ltd.; (iii) Dagong Global Credit Rating Co., Ltd. (in partnership with Moody's); and (iv) Shanghai Far East Credit Rating Co., Ltd. Chinese fixed income securities are not usually rated by internationally recognized credit ratings agency like Moody's, Standard & Poor's and Fitch Ratings. Below table showing the allocation of fixed income securities in the bond portfolio in terms of credit ratings:

As of Dec 31 2012	Assigned by the Chinese local rating agencies	Percentage of fixed income portfolio (%)
	AAA	4.84
	AA	94.19
	A	0.97
	BBB or below	0.00
	Government Bond*	0.00

*China government bonds have no credit ratings

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

12. TRANSACTIONS WITH MANAGER AND ITS CONNECTED PERSONS

Connected persons of the Manager are those as defined in the SFC Code. All transactions entered into during the period 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 what is disclosed in Note 4 to the financial statements and below.

A. Bank deposits and investments held by the Trustee's affiliates

The Sub-Fund's bank deposits and investments were held by the Trustee's affiliates, Bank of China (Hong Kong) Limited and Bank of China Limited. Further details of the balances held are described in Note 8 to the financial statements. During the period, interest income on these bank balances was RMB204,590.

All transactions entered into during the period 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.

13. 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, computer hardware associated with specialized software or research services and performance insurance.

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.

14. EVENTS AFTER THE REPORTING PERIOD

On 5 March 2013, the Manager declared, on behalf of the Sub-Fund, interim dividend of RMB2,465,973 (at RMB0.058 per unit). This distribution was paid out on 19 March 2013.

During the period between the end of the reporting period and the date of authorisation of these financial statements, the Sub-Fund has a total subsequent subscription and redemption of RMB51,983,366 and RMB78,317,008 respectively.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 26 April 2013.

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2012

	Movements			At 31 December 2012
	At 17 February 2012 (date of inception)	Additions	Disposals	
<u>LISTED EQUITIES</u>				
BEIJING SHOUHANG RESOURCES SAVING CO LTD-A	-	500	(500)	-
GUANGDONG DELIAN GROUP CO LTD-A	-	500	(500)	-
Total listed equities	-	1,000	(1,000)	-

QUOTED DEBT SECURITIES

Denominated in RMB

China

AGRICULTURAL DEVELOPMENT BANK OF CHINA 3.76% A 13JUL2019	-	10,000,000	(10,000,000)	-
BEIJING TONGRENTANG CO LTD CB 0.5% A 04DEC2017	-	3,000,000	(3,000,000)	-
BETTER LIFE INVESTMENT GROUP CO LTD 7.2% A 05MAR2013	-	30,000,000	(30,000,000)	-
CHANGZHOU WUJIN CITY CONSTRUCTION INVESTMENT 6.22% A 08JUN2018	-	20,000,000	(10,000,000)	10,000,000
CHINA NATIONAL PETROLEUM CORP 4.69% A 11JAN2022	-	20,000,000	(20,000,000)	-
CHINA SHIPBUILDING INDUSTRY CORP CB 0.5% A 04JUN2018	-	4,067,000	(4,067,000)	-
CHINA VANKE CO LTD 7% A 05SEP2013	-	30,749,600	(30,749,600)	-
CHINT GROUP CORP LTD 6.82% A 30AUG2012	-	20,000,000	(20,000,000)	-
DALIAN CONTAINER TERMINAL CO LTD 4.85% A 20MAY2013	-	10,000,000	-	10,000,000
DAQIN RAILWAY CO LTD 4.88% A 10DEC2015	-	20,000,000	-	20,000,000
DAQIN RAILWAY CO LTD 5.48% A 18AUG2013	-	5,100,000	(5,100,000)	-
E-LAND INTL FASHION SHANGHAI CO 5.65% A 07MAY2015	-	20,000,000	-	20,000,000
EXPORT-IMPORT BANK OF CHINA 4.04% A 25OCT2014	-	50,000,000	(50,000,000)	-
HANZHONG CITY CONSTRUCTION INVESTMENT & DEVELOPMEN CO LTD 7.48% A 14MAR2018	-	3,971,000	-	3,971,000
HUADIAN POWER INTL CO 5.6% A 12AUG2012	-	10,000,000	(10,000,000)	-
HUAYI BROTHERS MEDIA CORP 7.5% A 21FEB2013	-	20,000,000	(20,000,000)	-
JIAN CITY CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 7.8% A 20APR2019	-	30,000,000	-	30,000,000
JIAN CITY CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 7.8% A 20APR2019	-	30,000,000	(30,000,000)	-
JIANGSU LIANYUN DEVELOPMENT GROUP CO LTD 6.1% A 19JUN2019	-	10,000,000	-	10,000,000
KANGMEI PHARMACEUTICAL CO LTD 6% A 17JUN2018	-	48,000,000	(28,005,000)	19,995,000

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STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2012

	Movement			At 31 December 2012
	At 17 February 2012 (date of inception)	Additions	Disposals	
QUOTED DEBT SECURITIES (Continued)				
Denominated in RMB (Continued)				
<i>China</i> (Continued)				
KINGFA SCI & TECH CO LTD 8.2% A 24JUL2013	-	17,873,000	(14,266,000)	3,607,000
LIANHE CHEMICAL TECHNOLOGY CO LTD 7.3% A 21FEB2019	-	10,102,200	-	10,102,200
MESNAC CO LTD 5.48% A 02JUN2016	-	10,474,000	(5,237,000)	5,237,000
MIANYANG INVESTMENT HLDG GROUP CO LTD 7.7% A 26MAR2019	-	20,000,000	-	20,000,000
MIANYANG INVESTMENT HLDG GROUP CO LTD 7.7% A 26MAR2019	-	20,000,000	(20,000,000)	-
MIDEA GROUP CO LTD 4.84% A 11APR2013	-	40,000,000	(40,000,000)	-
MUDANJIANG HENGFENG PAPER CO LTD CB 0.9% A 23MAR2017	-	938,000	(938,000)	-
NANAN CITY TRADE INDUSTRY & AGRICULTURE INVESTMENT MANAGEMENT CO LTD 8.5% A 25APR2019	-	20,000,000	-	20,000,000
NINGBO SHANSHAN GROUP CO LTD 6.24% A 20JUN2016	-	40,000,000	(20,000,000)	20,000,000
QINHE ENERGY GROUP CO LTD 7.09% A 08MAR2013	-	30,000,000	(30,000,000)	-
QITAIHE BAOTAILONG COAL & COAL CHEMICALS PCL 7.3% A 11APR2017	-	20,000,000	(5,045,000)	14,955,000
SHANDONG LINGONG CONSTRUCTION MACHINERY CO LTD 5.93% A 28MAR2015	-	60,000,000	(30,000,000)	30,000,000
SHANGHAI REAL ESTATE GROUP CO LTD 6.12% A 17MAY2017	-	30,000,000	-	30,000,000
SHIHEZI STATE-OWNED ASSETS MANAGEMENT GROUP CO LTD 8.05% A 10NOV2012	-	10,000,000	(10,000,000)	-
SICHUAN KELUN PHARMACEUTICAL CO LTD 7.7% A 30SEP2012	-	20,000,000	(20,000,000)	-
TAIYUAN HEAVY INDUSTRY CO 6.1% A 28MAR2017	-	20,000,000	(20,000,000)	-
TIANCHEN CHEMICAL CO LTD 5.8% A 29MAR2013	-	30,000,000	-	30,000,000
XINJIANG GUANGHUI INDUSTRY CO LTD 6.95% A 26AUG2016	-	20,000,000	(11,502,000)	8,498,000
XINWEN MINING GROUP CO LTD 5.36% A 13MAR2017	-	30,000,000	(30,000,000)	-
YUNTIANHUA GROUP 5.81% A 15JUL2016	-	90,000,000	(60,000,000)	30,000,000
ZHANGZHOU JIULONGJIANG CONSTRUCTION CO LTD 5.74% A 23MAY2017	-	20,000,000	(20,000,000)	-

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2012

	Movement			At 31 December 2012
	At 17 February 2012 (date of inception)	Additions	Disposals	
<u>QUOTED DEBT SECURITIES</u> (Continued)				
Denominated in RMB (Continued)				
<i>China</i> (Continued)				
ZHEJIANG YASHA DECORATION CO LTD 5.2% A 13JUL2017	-	20,000,000	-	20,000,000
ZHUCHENG ECONOMIC DEVELOPMENT & INVESTMENT CO LTD 6.8% A 29NOV2019	-	20,000,000	-	20,000,000
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO 6.5% A 21APR2016	-	25,556,000	(5,000,000)	20,556,000
Total debt securities	-	1,019,830,800	(612,909,600)	406,921,200

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
(A sub-fund of China Universal International Series)

PERFORMANCE TABLE

31 December 2012

	Net assets attributable to holders of redeemable units per unit RMB	Net assets attributable to holders of redeemable units RMB
- Class A units	10.041	363,979,140
- Class I units	10.105	94,119,404

PERFORMANCE RECORD

	Highest issue price per unit RMB	Lowest redemption price per unit RMB
- Class A units	10.233	9.987
- Class I units	10.269	9.996

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
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INVESTMENT PORTFOLIO

31 December 2012

	Holding/ Nominal value	Fair value	Accrued Interest	% of net assets
<u>QUOTED DEBT SECURITIES</u>				
<i>China</i>				
Denominated in RMB				
CHANGZHOU WUJIN CITY CONSTRUCTION INVESTMENT 6.22% A 08JUN2018	10,000,000	9,900,000	352,751	2.16
DALIAN CONTAINER TERMINAL CO LTD 4.85% A 20MAY2013	10,000,000	9,981,960	174,068	2.18
DAQIN RAILWAY CO LTD 4.88% A 10DEC2015	20,000,000	20,018,000	58,827	4.37
E-LAND INTL FASHION SHANGHAI CO 5.65% A 07MAY2015	20,000,000	20,058,140	739,918	4.38
HANZHONG CITY CONSTRUCTION INVESTMENT & DEVELOPMEN CO LTD 7.48% A 14MAR2018	3,971,000	4,010,710	238,438	0.88
JIAN CITY CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 7.8% A 20APR2019	30,000,000	30,844,920	1,641,205	6.73
JIANGSU LIANYUN DEVELOPMENT GROUP CO LTD 6.1% A 19JUN2019	10,000,000	10,000,000	327,562	2.18
KANGMEI PHARMACEUTICAL CO LTD 6% A 17JUN2018	19,995,000	20,076,980	637,649	4.38
KINGFA SCI & TECH CO LTD 8.2% A 24JUL2013	3,607,000	3,672,647	130,465	0.80
LIANHE CHEMICAL TECHNOLOGY CO LTD 7.3% A 21FEB2019	10,102,200	10,597,208	634,418	2.31
MIANYANG INVESTMENT HLDG GROUP CO LTD 7.7% A 26MAR2019	20,000,000	20,620,760	1,185,589	4.50
MESNAC CO LTD 5.48% A 02JUN2016YUNNAN YUNTIANHUA CO LTD 1.2% A 29JAN2013	5,237,000	5,237,000	167,475	1.14
NANAN CITY TRADE INDUSTRY & AGRICULTURE INVESTMENT MANAGEMENT CO LTD 8.5% A 25APR2019	20,000,000	21,061,620	1,169,041	4.60
NINGBO SHANSHAN GROUP CO LTD 6.24% A 20JUN2016	20,000,000	20,320,200	666,740	4.44
QITAIHE BAOTAILONG COAL & COAL CHEMICALS PCL 7.3% A 11APR2017	14,955,000	15,627,975	792,615	3.41
SHANDONG LINGONG CONSTRUCTION MACHINERY CO LTD 5.93% A 28MAR2015	30,000,000	30,312,270	1,359,838	6.62
SHANGHAI REAL ESTATE GROUP CO LTD 6.12% A 17MAY2017	30,000,000	30,408,300	1,151,901	6.64
TIANCHEN CHEMICAL CO LTD 5.8% A 29MAR2013	30,000,000	30,063,960	1,325,260	6.56
XINJIANG GUANGHUI INDUSTRY CO LTD 6.95% A 26AUG2016	8,498,000	8,829,422	207,118	1.93
YUNTIANHUA GROUP 5.81% A 15JUL2016	30,000,000	30,641,580	811,808	6.69
ZHEJIANG YASHA DECORATION CO LTD 5.2% A 13JUL2017	20,000,000	19,900,000	490,082	4.34

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
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INVESTMENT PORTFOLIO (CONTINUED)

31 December 2012

	Holding/ Nominal value	Fair value	Accrued Interest	% of net assets
<u>QUOTED DEBT SECURITIES</u> (continued)				
<i>China</i> (continued)				
Denominated in RMB (continued)				
ZHUCHENG ECONOMIC DEVELOPMENT & INVESTMENT CO LTD 6.8% A 29NOV2019	20,000,000	20,000,000	122,959	4.37
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO 6.5% A 21APR2016	20,556,000	21,148,013	933,468	4.62
Total debt securities		<u>413,331,665</u>	<u>15,319,195</u>	<u>90.23</u>
<u>TOTAL NET ASSETS</u>				
Total debt securities (Cost: RMB411,921,820)		413,331,665		90.23%
Cash and cash equivalents		32,853,051		7.17%
		<u>446,184,716</u>		<u>97.40%</u>
Other net assets		11,913,828		2.60%
Total net assets		<u>458,098,544</u>		<u>100.00%</u>

