

Audited Financial Statements

**CHINA UNIVERSAL INTERNATIONAL SERIES -  
CUAM RMB BONDPLUS FUND**

(A Sub-Fund of China Universal International Series, an  
umbrella unit trust established under the laws of Hong Kong)

31 December 2014

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  
3710-11, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**DIRECTORS OF THE MANAGER**

LIN Lijun  
LI Wen  
ZHANG Hui

**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

2014 was a year of restructuring for China's domestic economy. Year-on-year CPI growth held steady below 2.5% throughout the year, even dipping below 2% in Q4, while PPI saw continued declines, pointing to relatively low levels of inflation and production activity. And real estate, the biggest engine room of the Chinese economy, logged a notable slowdown in sales area amid a stalling market. Domestic monetary policy saw some positive changes with an overall accommodative bias. In the first half, the central bank rolled out targeted RRR cuts and injected liquidity into the open market in a bid to promote structural adjustment and provide targeted funds to banks with businesses mainly relating to infrastructure, agriculture, rural areas, farmers, small/micro enterprises, and modern services. In the second half, the central bank also slashed its benchmark interest rate once.

The bond market remained in bull mode throughout most of 2014. In the first two months, the market rose rapidly on low supply of bonds and extremely loose monetary conditions, and May and June witnessed a shock and a correction. The market then rose for most of Q3, with credit bonds jumping more than government bonds of the same maturity. In Q4, the market staged an inverted V-shape trend. The PBOC's mid-November rate cut served to lift the market slightly. Then, impacted by the primary and second stock markets coupled with changes to pledging rules enacted by CCDC, a major correction began, with the yield curve essentially retreating to the level of end-Q3. The China Bond Total Return Index finished the year with a full year gain of 10.34%, while the yield on 10-year CDB financial bonds slipped more than 170 bps in full year 2014.

### Portfolio review

The fund was established on 17 February 2012. From inception to 31 December 2014, the fund has recorded a cumulative gain of 13.07% for Class A units and 15.49% for Class I units. These figures imply annualised yields of 4.37% and 5.14% for Class A and Class I units, respectively, lagging 5.45ppts and 3.03ppts behind their benchmark, which yielded 18.52% during the same period. The fund has issued dividends each quarter since inception, paying out a cumulative total of RMB 0.883 in 11 distributions. Dividends account for over 67% of the total returns of Class A units.

Looking back at the fund's operations during 2014, we attribute these returns to three major reasons:

The first was proper allocation. This year, we allocated heavily to long-term policy financial bonds, which outperformed other types of bonds in terms of price increase. The second was accurate timing. We bought long-term bonds just ahead of the rise in the market in February and held our positions till the mid-November correction. During these nine months, returns on long-term bonds exceeded 15%. The third was active use of credit spreads. Spreads for high-grade credit bonds remained relatively tight throughout the whole year, while those for low-grade credit bonds varied greatly. We bought low-grade credit bonds when credit spreads expanded and sold when the spread narrowed to obtain extra yield.

### Market outlook

Looking ahead to 2015, China's economy is set to maintain growth of over 7% even as inflation declines from 2014 levels. Given the high share of property financing in total social financing (TSF), property financing is unlikely to see any rapid recovery before TSF has stabilised and started trending upward. As such, property financing is expected to continue declining in 2015. The government may step up its efforts to stabilise growth. In terms of monetary policy, the central bank will maintain its relatively accommodative stance, with both interest rate and RRR cuts highly likely. The renminbi is expected to remain in the 6.0-6.3 range against the greenback, and it may appreciate slightly against the euro and the yen.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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REPORT OF THE MANAGER (continued)

**Market outlook** (continued)

In our view, there are several main factors poised to impact the bond market in 2015. First among these is the timing of the Fed's rate hike. At present, the sluggishness in Europe and Japan is also creating more uncertainty for the US recovery. The pace of the Fed's rate hikes will also have an impact on the space and timing of Chinese rate cuts. Second, it is difficult to forecast the timing of the Chinese central bank's interest rate and RRR cuts given its lack of policy independence. The PBOC may adopt open market operations or other tools to adjust liquidity rather than RRR cuts. Third, the stock market has an influence on the funds in the bond market. A continued bull run for A-shares would divert funds from the bond market. Fourth, a further slowdown in the Chinese economy or failure to improve financing bottlenecks may result in defaults for low-grade bonds in 2015.

We expect the bond market will continue to rise in 2015, albeit with lower growth and more volatility compared to 2014. The big driver here will be monetary policy measures aimed at stimulating economic growth, which are expected to pull yields down further, with government bond yields likely to sink by some 50bps. Meanwhile, yields on credit bonds will also decline while the spread between government bonds and various credit bonds widens. In particular, urban construction investment bonds will show mixed performance.

For and on behalf of  
China Universal Asset Management (Hong Kong) Company Limited, the Manager

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22 April 2015

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 year ended 31 December 2014 in accordance with the provisions of the trust deed dated 29 December 2011 as amended by two supplemental deeds dated 5 October 2012 and 15 July 2013 (collectively, the "Trust Deed").

On behalf of  
BOCI-Prudential Trustee Limited, the Trustee

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22 April 2015

## **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 umbrella unit trust established 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 7 to 35, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, the statement of changes in net assets attributable to unitholders, the statement of cash flows and the statement of distribution for the year then ended, 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 (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 umbrella unit trust established 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 2014, and of its financial performance and cash flows for the year then ended 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

22 April 2015

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

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	2014 RMB	2013 RMB
<b>INCOME</b>			
Dividend income		-	256,159
Interest income on financial assets at fair value through profit or loss		14,442,009	22,896,468
Other interest income		64,653	101,440
Net gains/(losses) on financial assets at fair value through profit or loss	7	<u>10,053,372</u>	<u>( 7,435,923)</u>
		<u>24,560,034</u>	<u>15,818,144</u>
<b>EXPENSES</b>			
Management fee	4	( 3,126,739)	( 6,019,649)
Trustee fee	4	( 489,323)	( 697,410)
Custodian fee	4	( 209,645)	( 348,800)
Legal and professional fee		( 294,481)	( 50,000)
Auditors' remuneration		( 219,005)	( 195,156)
Other expenses		( 572,253)	( 581,284)
Foreign exchange differences, net		<u>( 1,370)</u>	<u>938</u>
		<u>( 4,912,816)</u>	<u>( 7,891,361)</u>
<b>OPERATING PROFIT</b>		19,647,218	7,926,783
<b>FINANCE COSTS</b>			
Distributions to unitholders	6	<u>( 9,278,277)</u>	<u>( 9,015,089)</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		10,368,941	( 1,088,306)
Income tax credit/(provision)	5	<u>1,773,588</u>	<u>( 1,361,696)</u>
<b>INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u><u>12,142,529</u></u>	<u><u>( 2,450,002)</u></u>

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

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB	2013 RMB
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	7	177,579,069	297,766,819
Cash and bank balances	8	13,247,289	48,234,156
Interest receivable		7,024,832	12,326,166
Deposit reserve – China Exchange Clearing		39,676	308,000
Subscription proceeds receivable		2,210,515	-
Prepayments		<u>5,641</u>	<u>9,434</u>
<b>TOTAL ASSETS</b>		<u><u>200,107,022</u></u>	<u><u>358,644,575</u></u>
<b>LIABILITIES</b>			
Redemption proceeds payable		392,306	15,903,331
Management fee payable	4	206,264	439,393
Trustee fee payable	4	42,667	52,480
Other payables and accruals		124,695	148,996
Tax payable		<u>1,839,993</u>	<u>3,617,181</u>
<b>TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u><u>2,605,925</u></u>	<u><u>20,161,381</u></u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	10	<u><u>197,501,097</u></u>	<u><u>338,483,194</u></u>
<b>NUMBER OF UNITS IN ISSUE</b>			
- Class A units	9	10,022,559.46	29,245,019.98
- Class I units	9	8,845,617.65	4,675,210.14
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT</b>			
- Class A units	10	10.358	9.959
- Class I units	10	10.592	10.100

For and on behalf of  
China Universal Asset Management (Hong Kong)  
Company Limited, as the Manager

For and on behalf of  
BOCI-Prudential Trustee Limited,  
as the Trustee

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CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2014

RMB

At 1 January 2013	458,098,544
Subscription of redeemable units	104,125,500
Redemption of redeemable units	(221,290,848)
Decrease in net assets attributable to unitholders during the year	<u>( 2,450,002)</u>
At 31 December 2013 and 1 January 2014	338,483,194
Subscription of redeemable units	69,926,871
Redemption of redeemable units	(223,051,497)
Increase in net assets attributable to unitholders during the year	<u>12,142,529</u>
At 31 December 2014	<u><u>197,501,097</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Note	2014 RMB	2013 RMB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		10,368,941	( 1,088,306)
Adjustments for:			
Interest income on financial assets at fair value through profit or loss		( 14,442,009)	( 22,896,468)
Interest income on bank deposits		( 64,653)	( 101,440)
Distribution to unitholders		<u>9,278,277</u>	<u>9,015,089</u>
		5,140,556	( 15,071,125)
Decrease in financial assets at fair value through profit or loss		120,187,750	115,564,846
Decrease in deposit reserve-China Exchange Clearing		268,324	-
Decrease in prepayments		3,793	228
Decrease in management fee payable		( 233,129)	( 95,453)
Decrease in trustee fee payable		( 9,813)	( 13,260)
Decrease in other payables and accruals		<u>( 24,301)</u>	<u>( 37,227)</u>
Net cash from operations		125,333,180	100,348,009
Tax paid		( 3,600)	( 130,875)
Interest received		<u>19,807,996</u>	<u>25,994,368</u>
Net cash flows from operating activities		<u>145,137,576</u>	<u>126,211,502</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of units		67,716,356	104,224,510
Payments for redemption of units		( 238,562,522)	( 206,039,818)
Distribution to unitholders		<u>( 9,278,277)</u>	<u>( 9,015,089)</u>
Net cash flows used in financing activities		<u>( 180,124,443)</u>	<u>( 110,830,397)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		( 34,986,867)	15,381,105
Cash and cash equivalents at beginning of year		<u>48,234,156</u>	<u>32,853,051</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>13,247,289</u>	<u>48,234,156</u>
<b>ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	8	<u>13,247,289</u>	<u>48,234,156</u>

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

STATEMENT OF DISTRIBUTION

Year ended 31 December 2014

	Note	RMB
Undistributed income at 1 January 2013		-
Decrease in net assets attributable to unitholders during the year		( 2,450,002)
Add: Finance costs – distribution to unitholders		9,015,089
Add: Net (gain)/loss on financial assets at fair value through profit or loss, net of income tax		<u>8,250,967</u>
Undistributed income before distribution		14,816,054
Interim distribution (RMB0.058 per unit) distributed on 13 March 2013	6	( 2,465,973)
Interim distribution (RMB0.066 per unit) distributed on 18 June 2013	6	( 2,853,646)
Interim distribution (RMB0.070 per unit) distributed on 13 September 2013	6	( 2,974,605)
Final distribution (RMB0.020 per unit) distributed on 13 December 2013	6	( 720,865)
Transfer to capital		<u>( 5,800,965)</u>
Undistributed income at 31 December 2013 and 1 January 2014		-
Increase in net assets attributable to unitholders during the year		12,142,529
Add: Finance costs – distribution to unitholders		9,278,277
Add: Net (gain)/loss on financial assets at fair value through profit or loss, net of income tax		<u>( 11,272,351)</u>
Undistributed income before distribution		10,148,455
Interim distribution (RMB0.045 per unit) distributed on 13 March 2014	6	( 1,218,806)
Interim distribution (RMB0.100 per unit) distributed on 13 June 2014	6	( 2,600,191)
Interim distribution (RMB0.118 per unit) distributed on 15 September 2014	6	( 2,454,599)
Final distribution (RMB0.160 per unit) distributed on 15 December 2014	6	( 3,004,681)
Transfer to capital		<u>( 870,178)</u>
Undistributed income at 31 December 2014		<u><u>-</u></u>

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. Capital gains or losses, whether realised or unrealised, do not form part of Total Income and therefore would not impact on the amount available for distribution.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

1. THE SUB-FUND

China Universal International Series (the "Trust") was constituted as an open-ended unit trust established under the laws of Hong Kong pursuant to the trust deed dated 29 December 2011 as amended by two supplemental deeds dated 5 October 2012 and 15 July 2013 (collectively, the "Trust Deed"). The Trust currently consists of three sub-funds namely CUAM RMB Bondplus Fund, CUAM China-Hong Kong Strategy Fund and CUAM Hong Kong Dollar Bond Fund.

CUAM RMB Bondplus Fund (the "Sub-Fund") was commenced as a separate sub-fund of the Trust on 17 February 2012. The Sub-Fund is an open-ended unit trust authorised by the Securities and Futures Commission of Hong Kong (the "SFC") under Section 104(1) of the Securities and Futures Ordinance (the "SFO") and is required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC (the "SFC Code").

The Manager of the Sub-Fund 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") Custodian is Bank of China Limited (the "RQFII Custodian").

Two classes of units, namely Class A units and Class I units, are available for subscription for the Sub-Fund. Class A units and Class I units are subject to different management fees. For the year ended 31 December 2014, 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 ("PRC") and the PRC equity securities by using RQFII quota of the Manager. The RQFII quota of the Manager is RMB300 million with a remaining quota of RMB173 million as at 31 December 2014 (2013: RMB787 million).

The investment objective of the Sub-Fund is to achieve consistent investment 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

These financial statements 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 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 2014

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Sub-Fund has adopted the following revised standard for the first time for the current year's financial statements.

Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKFRS 13	<i>Short-term Receivables and Payables</i>
included in <i>Annual Improvements 2010-2012 Cycle</i>	

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Sub-Fund as the Sub-Fund does not have any offsetting arrangement.

The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Sub-Fund.

### 2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED

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

HKFRS 9	<i>Financial Instruments</i> <sup>1</sup>
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<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Sub-Fund expects to adopt HKFRS 9 from 1 January 2018. The Sub-Fund expects that the adoption of HKFRS 9 will have an impact on the classification of the Sub-Fund's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

### 2.4 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments (continued)

(i) **Classification** (continued)

**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 cash and bank balances, interest receivable on debt securities, subscription proceeds receivable, and other short-term receivables.

**Financial liabilities at amortised cost**

The Sub-Fund includes in this category net assets attributable to unitholders, amounts relating to redemption proceeds payable and other short-term payables.

(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 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 of 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) ***Subsequent measurement*** (continued)

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 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.

(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 expired.

Fair value measurement

The Sub-Fund measures financial instruments, such as, equities investments at fair value at each reporting date.

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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Sub-Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price, without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other financial instruments not traded in an active market, the fair value is determined by using the last traded price or valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach and income approach.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Based on quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Based on valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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. An impairment exists if one or more events that have occurred after the initial recognition of the asset and have 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The amount of any impairment loss identified 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.

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 income 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.

Foreign currency

These financial statements are presented in RMB, which is the Sub-Fund's functional and presentation currency. Foreign currency transactions recorded by the Sub-Fund are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. Differences arising on settlement or transaction of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 or loss on financial assets and liabilities at fair value through profit or loss'.

Functional 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, the 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets attributable to unitholders

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 unitholders 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 unitholders of the relevant classes.

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

Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand, demand deposits, and short-term deposits in bank, 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 balances 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 as it accrues, using the effective interest method.

Net gain/(loss) 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 year 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 average cost and disposal amount.

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2.4 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

The Sub-Fund is exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, 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.

Judgements

In the process of applying the Sub-Fund's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

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3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

*Going concern*

The Sub-Fund's management has made an assessment of the Sub-Fund's ability to continue as a going concern and is satisfied that the Sub-Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Sub-Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates and assumption

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.

*Fair value of financial instruments*

When the fair values of financial assets recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as yield curve, credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, the Sub-Fund performs sensitivity analysis or stress testing techniques.

*Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded. The Sub-Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the investments.

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4. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS AND RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into during the year between the Sub-Fund and the Manager and their connected persons. Connected persons of the Manager are those as defined in the SFC Code. All transactions entered into during the year between the Sub-Fund, the Manager and their connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except for those disclosed below:

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, the Custodian and RQFII Custodian of the Sub-Fund, respectively. Further details of the balances held are described in note 8 to the financial statements. During the year, interest income on these bank balances was RMB60,582 (2013: RMB90,733).

Brokerage commission

Orient Securities Company Limited, a major shareholder of the Manager, BOC International (China) Limited, an affiliate of the Trustee, and Bank of China Limited, the RQFII Custodian of the Sub-Fund, rendered brokerage services for the Sub-Fund's purchases and sales of securities. During the years ended 31 December 2014 and 2013, the transaction details were as follows:

2014	Aggregate value of purchases and sales of securities RMB	Total commission paid RMB	% of Sub- Fund's total transactions during the year %	Average commission rate %
Orient Securities Company Limited	226,741,687	45,348	29.10%	0.02%
BOC International (China) Limited	90,184,758	16,037	11.58%	0.02%
Bank of China Limited	462,124,022	44,000	59.32%	0.01%
2013	Aggregate value of purchases and sales of securities RMB	Total commission paid RMB	% of Sub- Fund's total transactions during the year %	Average commission rate %
Orient Securities Company Limited	227,696,767	113,304	19.27%	0.05%
BOC International (China) Limited	346,544,487	148,367	29.33%	0.04%
Bank of China Limited	607,175,471	58,000	51.40%	0.01%

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4. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS AND RELATED PARTY TRANSACTIONS (continued)

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 unitholders 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 the current rate of 0.175% (up to maximum of 0.5% per annum in total by giving not less than one month's prior notice to the unitholders) per annum of the net assets attributable to unitholders 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 unitholders of the Sub-Fund calculated and is paid monthly in arrears. The fees and charges payable to the RQFII Custodian are borne by the Custodian. As at 31 December 2014, no fees were 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 offering 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.

*Withholding tax*

A 10% PRC withholding tax will be levied on dividend and interest derived by foreign investors. The PRC payers (i.e. the issuers) would have the obligation to withhold the 10% withholding tax on the dividend and interest income behalf of the Sub-Fund. The Sub-Fund has recognised interest income of debt securities before the coupon dates and has made a 10% tax provision on interest receivable from the PRC companies in prior year.

During the year ended 31 December 2014, upon the sale of the debt securities of PRC companies before the coupon dates, it resulted in a reversal of prior year provision of PRC withholding tax amounted to RMB554,609 (2013: RMB546,651 withholding tax charge).

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5. INCOME TAX (continued)

PRC tax (continued)

*Capital gains tax*

The PRC income tax treatment is 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 securities by non-PRC residents such as the Sub-Fund. Prior to 30 May 2014, the Sub-Fund has elected to make a 10% tax provision on both capital gain realised and unrealised on the PRC securities, including debt securities and A-Shares.

The Manager having taken and considered independent professional tax advice and acting in accordance with such advice, considers that certain tax relief under the "Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" (the "Arrangement") could be applied to Hong Kong tax residents, including the Sub-Fund. After careful assessment by the Manager and having taken and considered independent professional tax advice, the Manager considers that the Sub-Fund qualify as Hong Kong tax residents for the purpose of the Arrangement and are able to enjoy the exemption on capital gains derived from the disposal of the PRC securities, including debt securities and A-Shares.

In view of the Arrangement and pursuant to its notice dated 30 May 2014, the Sub-Fund has reversed all prior year provision for gross realised capital gains derived on disposal of debt securities and A-Shares, except for those A-Shares issued by PRC tax resident companies which are land rich companies.

On 14 November 2014, the Ministry of Finance of the PRC (the "MoF"), the State Administration of Taxation of the PRC ("SAT") and the China Securities Regulatory Commission (the "CSRC") issued the "Notice on the issues of temporary exemption from the imposition of corporate income tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by Qualified Foreign Institutional Investor ("QFII") and RQFII" ("關於QFII和RQFII取得中國境內的股票等權益性投資資產轉讓所得暫免徵收企業所得稅問題的通知") Caishui [2014] No.79 (the "Notice"). The Notice states that PRC corporate income tax will be imposed on capital gains derived by QFII and RQFII from equity investment assets (including PRC domestic stocks) prior to 17 November 2014 ("capital gains tax") in accordance with laws. The Notice also states that RQFIIs without an establishment or a place of business in the PRC will be temporarily exempt from corporate income tax on gains derived from the trading of A-Shares effective from 17 November 2014.

In view of the Notice and pursuant to its announcement dated 17 November 2014, the Sub-Fund has reversed all prior year provision for gross unrealised capital gains derived from trading of A-Shares issued by land rich companies. With effect from 17 November 2014, no withholding tax is made by the Sub-Fund for capital gains derived on disposal of all A-Shares.

A credit of PRC withholding tax on capital gains, including unrealised gains and realised gains, amounting to RMB1,218,979 was made by the Sub-Fund for the year ended 31 December 2014 (2013: provision of RMB851,045).

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6. DISTRIBUTIONS

	2014 RMB
Interim dividend (RMB0.045 per unit) distributed on 13 March 2014	1,218,806
Interim dividend (RMB0.100 per unit) distributed on 13 June 2014	2,600,191
Interim dividend (RMB0.118 per unit) distributed on 15 September 2014	2,454,599
Final dividend (RMB0.160 per unit) distributed on 15 December 2014	<u>3,004,681</u>
	<u>9,278,277</u>
	2013 RMB
Interim dividend (RMB0.058 per unit) distributed on 13 March 2013	2,465,973
Interim dividend (RMB0.066 per unit) distributed on 18 June 2013	2,853,646
Interim dividend (RMB0.070 per unit) distributed on 13 September 2013	2,974,605
Final dividend (RMB0.020 per unit) distributed on 13 December 2013	<u>720,865</u>
	<u>9,015,089</u>

The Manager has declared, on behalf of the Sub-Fund, the above interim and final dividend during the years ended 31 December 2014 and 2013. The distributions were paid out on 19 March 2014, 19 June 2014, 19 September 2014 and 18 December 2014, respectively.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 RMB	2013 RMB
Held for trading:		
Quoted debt securities	<u>177,579,069</u>	<u>297,766,819</u>
Total financial assets at fair value through profit or loss	<u>177,579,069</u>	<u>297,766,819</u>
Net gains or losses recognised in relation to financial assets at fair value through profit or loss:		
Realised (loss)/gain	( 3,623,920)	4,248,623
Unrealised gain/(loss)	<u>13,677,292</u>	<u>( 11,684,546)</u>
Net gain/(loss)	<u>10,053,372</u>	<u>( 7,435,923)</u>

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7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

In the absence of a quoted price in an active market, debt securities are valued using observable inputs such as recently executed transaction prices in securities of the issuers or comparable issuers and yield curves. Adjustments are made to valuation when necessary to recognise differences in the instrument terms. To the extent that the significant inputs are observable, the Sub-Fund categorises these investments as Level 2.

The following table shows an analysis of the Sub-Fund's financial assets measured at fair value at 31 December 2014 and at 31 December 2013.

At 31 December 2014	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss – held for trading:</u>				
Quoted debt securities	-	177,579,069	-	177,579,069
At 31 December 2013	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss – held for trading:</u>				
Quoted debt securities	-	297,766,819	-	297,766,819

There are no investments classified within Level 3 and no transfers of fair value measurements between Level 1 and Level 2 for the year ended 31 December 2014 (2013: Nil).

8. CASH AND BANK BALANCES

The cash at banks held with the Custodian and the RQFII Custodian of the Sub-Fund, was placed into accounts bearing floating interest.

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9. NUMBER OF UNITS IN ISSUE

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

	Number of Class A units	Number of Class I units
At 1 January 2013	36,248,935.84	9,313,713.06
Subscription of units	8,224,130.77	1,929,012.35
Redemption of units	<u>(15,228,046.63)</u>	<u>(6,567,515.26)</u>
At 31 December 2013 and 1 January 2014	29,245,019.98	4,675,210.15
Subscription of units	438,159.16	6,357,587.12
Redemption of units	<u>(19,660,619.68)</u>	<u>(2,187,179.62)</u>
At 31 December 2014	<u>10,022,559.46</u>	<u>8,845,617.65</u>

10. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	2014 RMB
Published net assets attributable to unitholders	197,887,226
Unrecorded redemption on 31 December 2014	( 85,425)
Adjustment on preliminary expense (note)	<u>( 300,704)</u>
Net assets attributable to unitholders (per financial statements)	<u>197,501,097</u>
	2013 RMB
Published net assets attributable to unitholders	340,949,287
Unrecorded redemption on 31 December 2013	( 2,015,242)
Adjustment on preliminary expense (note)	<u>( 450,851)</u>
Net assets attributable to unitholders (per financial statements)	<u>338,483,194</u>

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10. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

Note:

The published net assets are calculated in accordance with the Explanatory Memorandum where preliminary expenses are capitalised and to be amortised over the first five years of the operation of the Sub-Fund, while for the net assets as reported in the audited financial statements, preliminary expenses are expensed as incurred, as required under HKFRS, in profit or loss.

At 31 December 2014	Published net assets per unit RMB	Net assets per unit (per financial statements) RMB
Net assets attributable to unitholders per unit		
- Class A units	<u>10.374</u>	<u>10.358</u>
- Class I units	<u>10.608</u>	<u>10.592</u>
At 31 December 2013	Published net assets per unit RMB	Net assets per unit (per financial statements) RMB
Net assets attributable to unitholders per unit		
- Class A units	<u>9.973</u>	<u>9.959</u>
- Class I units	<u>10.114</u>	<u>10.100</u>

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

Risk management

Risk is inherent in the Sub-Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Manager is responsible for identifying and controlling risks. In perspective of risk management, the Sub-Fund's objective is to create and protect value for unitholders.

The Sub-Fund is exposed to market risk (which includes fixed income securities price risk, interest rate risk and foreign exchange risk), liquidity risk, and credit and counterparty risk arising from the financial instruments it holds.

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

Risk management (continued)

***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 unitholders per unit of the Sub-Fund.

The maximum credit risk resulting from financial instruments approximate their carrying amounts.

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

*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. As at the end of the reporting period, 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 unitholders for the year 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.

At 31 December 2014		Effect on net assets attributable to unitholders and on changes in net assets attributable to unitholders for the year
Market index	Change in index price	
Chinabond Composite Index	+/-10.34%	RMB/Unit +/-0.905

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

Risk management (continued)

*Market risk* (continued)

Fixed income securities price risk (continued)

At 31 December 2013		Effect on net assets attributable to unitholders and on changes in net assets attributable to unitholders for the year
	Change in index price	
Market index		RMB/Unit
Chinabond Composite Index	+/-0.47%	+/-0.05

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 2.9 years (2013: 2.4 years).

The following table demonstrates the sensitivity of the Sub-Fund's profit or loss for the year to a reasonable possible change in interest rates, with all other variables held constant.

The sensitivity of both the net assets attributable to unitholders and the change in net assets attributable to unitholders from operations is the effect of the assumed changes in interest rates on changes in fair value of investments for the year, based on revaluing fixed rate financial assets at the end of the reporting period. In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be significant.

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31 December 2014

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

Risk management (continued)

**Market risk** (continued)

Interest rate risk (continued)

At 31 December 2014	Financial assets at fair value through profit or loss RMB	Change in basis points	Sensitivity of changes in fair value of investments increase/(decrease) RMB
Quoted debt securities	177,579,069	+/-50	-/+2,600,000
At 31 December 2013	Financial assets at fair value through profit or loss RMB	Change in basis points	Sensitivity of changes in fair value of investments increase/(decrease) RMB
Quoted debt securities	297,766,819	+/-50	-/+3,600,000

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 unitholders as at 31 December 2014 and therefore no sensitivity analysis of interest on bank deposits is presented.

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 other financial assets. The Sub-Fund is exposed to cash redemptions of its redeemable units on every business day during the calendar year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

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

Risk management (continued)

*Liquidity risk* (continued)

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 could 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.

The table below summarises the maturity profile of Sub-Fund's financial liabilities at the end of the reporting period based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Fund's contractual commitments and liquidity.

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 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 OBJECTIVES AND POLICIES (continued)

Risk management (continued)

***Liquidity risk*** (continued)

At 31 December 2014	Less than 3 months RMB	3 to 6 months RMB	Total RMB
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	177,579,069	-	177,579,069
Cash and bank balances	13,247,289	-	13,247,289
Interest receivable	3,033,456	3,991,376	7,024,832
Deposit reserve	39,676	-	39,676
Subscription proceeds receivable	<u>2,210,515</u>	<u>-</u>	<u>2,210,515</u>
Total financial assets	<u>196,110,005</u>	<u>3,991,376</u>	<u>200,101,381</u>
	Less than 3 months RMB	3 to 6 months RMB	Total RMB
<u>Financial liabilities</u>			
Redemption proceeds payable	392,306	-	392,306
Management fee payable	206,264	-	206,264
Trustee fee payable	42,667	-	42,667
Other payables and accruals	124,695	-	124,695
Net assets attributable to unitholders*	<u>197,501,097</u>	<u>-</u>	<u>197,501,097</u>
Total financial liabilities	<u>198,267,029</u>	<u>-</u>	<u>198,267,029</u>

\* Subject to redemption policy.

At 31 December 2013	Less than 3 months RMB	3 to 6 months RMB	Total RMB
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	297,766,819	-	297,766,819
Cash and bank balances	48,234,156	-	48,234,156
Interest receivable	5,266,497	7,059,669	12,326,166
Deposit reserve	<u>308,000</u>	<u>-</u>	<u>308,000</u>
Total financial assets	<u>351,575,472</u>	<u>7,059,669</u>	<u>358,635,141</u>

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31 December 2014

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

Risk management (continued)

***Liquidity risk*** (continued)

	Less than 3 months RMB	3 to 6 months RMB	Total RMB
<u>Financial liabilities</u>			
Redemption proceeds payable	15,903,331	-	15,903,331
Management fee payable	439,393	-	439,393
Trustee fee payable	52,480	-	52,480
Other payables and accruals	8,427	140,569	148,996
Net assets attributable to unitholders	<u>338,483,194</u>	<u>-</u>	<u>338,483,194</u>
 Total financial liabilities	 <u>354,886,825</u>	 <u>140,569</u>	 <u>355,027,394</u>

\* Subject to redemption policy.

***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 in defaults, the performance of the Sub-Fund will be adversely affected.

The Sub-Fund's maximum exposure to credit risk at the end of the reporting period is the carrying amount of total assets as shown on the statement of financial position.

The Manager considers that none of these assets are impaired nor past due as at 31 December 2014.

The Sub-Fund has the majority of its fixed income securities invested in credit rating of AA bonds. The default risk of the issuer is expected to be lowered by investing in a high credit rating instruments. However, it is worthwhile 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 recognised credit ratings agency like Moody's, Standard & Poor's and Fitch Ratings. Below is a table showing the allocation of fixed income securities in the bond portfolio in terms of credit ratings:

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

Risk management (continued)

*Credit and counterparty risk* (continued)

At 31 December 2014	Assigned by the Chinese local rating agencies	Percentage of fixed income portfolio (%)
	AAA	11.35%
	AA*	76.73%
		<u>88.08%</u>
At 31 December 2013	Assigned by the Chinese local rating agencies	Percentage of fixed income portfolio (%)
	AAA	1.00%
	AA*	99.00%
		<u>100.00%</u>

\*AA credit ratings including AA+, AA and AA- ratings.

The policy bank bonds held by the Sub-Fund of RMB21,027,060 (2013: Nil) as at 31 December 2014 do not have credit rating issued by local credit rating agencies. There is no indication to the Manager that these financial assets are impaired as at 31 December 2014.

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.

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.

12. SOFT COMMISSION ARRANGEMENTS

The Manager and its connected persons have not received any soft dollar commissions or entered into any soft dollar arrangements in respect of the management of the Sub-Fund for the years ended 31 December 2014 and 2013.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

13. EVENTS AFTER THE REPORTING PERIOD

- (a) On 5 March 2015, the Manager declared, on behalf of the Sub-Fund, an interim dividend of RMB1,070,366 (at RMB0.053 per unit). This distribution was paid out on 19 March 2015.
- (b) During the period between the reporting date and the date of authorisation of these financial statements, the Sub-Fund has a total subsequent subscription and redemption of RMB29,453,977 and RMB21,830,508, respectively.

14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 22 April 2015.

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UNAUDITED INVESTMENT PORTFOLIO

31 December 2014

<b>China</b>	<b>Nominal value</b>	<b>Fair value</b>	<b>Accrued Interest</b>	<b>% of net assets</b>
<b>Denominated in RMB</b>				
Agricultural Bank of China 5.78% A 17JAN2019	10,000,000	10,634,040	552,663	5.38
Export-Import Bank of China 5.1% A 05MAR2019	10,000,000	10,393,020	421,973	5.26
Jian City Construction Investment & Development Co Ltd 7.8% A 20APR2019	10,000,000	10,343,270	547,068	5.24
Lianhe Chemical Technology Co Ltd 7.3% A 21FEB2019	8,973,200	9,242,396	563,517	4.68
Nanan City Trade Industry & Agriculture Investment Management Co Ltd 8.5% A 25APR2019	20,000,000	20,976,479	1,169,042	10.62
Pubang Landscape Architecture Co Ltd 5.5% A 10MAY2018	16,002,000	15,761,970	569,057	7.98
Shanghai RAAS Blood Products Co Ltd 5.6% A 26MAR2018	14,503,000	14,357,970	625,258	7.27
Shanghai Real Estate Group Co Ltd 6.12% A 17MAY2017	20,000,000	20,177,040	767,934	10.22
Shenzhen O-Film Tech Co Ltd 7.9% A 24FEB2017	11,149,000	11,650,594	750,465	5.90
Sichuan Hebang Corp Ltd 6.4% A 25NOV2019	10,000,000	10,000,000	64,877	5.06
Yuntianhua Group 5.81% A 15JUL2016	20,000,000	20,112,360	541,205	10.18
Zhejiang Transfer Co Ltd 5.6% A 15MAR2018	2,640,300	2,627,627	118,285	1.33
Zhejiang Yasha Decoration Co Ltd 5.2% A 13JUL2017	11,000,000	10,971,620	269,545	5.56
Zhucheng Economic Development & Investment Co Ltd 6.8% A 29NOV2019	10,190,000	10,330,683	62,648	5.23
<b>Total debt securities</b>		<b>177,579,069</b>	<b>7,023,537</b>	<b>89.91</b>
<b><u>TOTAL NET ASSETS</u></b>				
Total debt securities (Cost: RMB174,176,479)		177,579,069		89.91
Cash and cash equivalents		13,247,289		6.71
Other net assets		6,674,739		3.38
Total net assets		<b>197,501,097</b>		<b>100.00</b>

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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2014

	Movement				
	At 1 January 2014	Additions	Corporate Action	Disposals	At 31 December 2014
<b><u>QUOTED DEBT SECURITIES</u></b>					
<b>China</b>					
<b>Denominated in RMB</b>					
Agricultural Development Bank of China 5.78% A 17JAN2019	-	20,000,000	-	(10,000,000)	10,000,000
China Datang Corp Renewable Power Co Ltd 5.4% A 08NOV2016	-	2,500,000	-	(2,500,000)	-
China Development Bank Corp 5.67% A 08APR2024	-	10,000,000	-	(10,000,000)	-
China Development Bank Corp 5.9% A 20JAN2024	-	20,000,000	-	(20,000,000)	-
China Government Bond 4.08% S/A 22AUG2023	-	20,000,000	-	(20,000,000)	-
Daqin Railway Co Ltd 4.88% A 10DEC2015	-	4,000,000	-	(4,000,000)	-
Export-Import Bank of China 5.1% A 05MAR2019	-	20,000,000	-	(10,000,000)	10,000,000
Hanzhong City Construction Investment & Development Co Ltd 7.48% A 14MAR2018	8,070,000	8,070,000	-	(16,140,000)	-
Jian City Construction & Development Co Ltd 7.8% A 20APR2019	30,000,000	20,000,000	-	(40,000,000)	10,000,000
Jiangsu Lianyun Development Group Co Ltd 6.1% A 19JUN2019	10,000,000	-	-	(10,000,000)	-
Lianhe Chemical Technology Co Ltd 7.3% A 21FEB2019	12,887,200	12,887,200	-	(16,801,200)	8,973,200
Mesnac Co Ltd 5.48% A 02JUN2016	7,407,000	-	-	(7,407,000)	-
Mianyang Investment Holding Group Co Ltd 7.7% A 26MAR2019	20,000,000	-	-	(20,000,000)	-
Nana City Trade Industry & Agriculture Investment Management Co Ltd 8.5% A 25APR2019	20,000,000	20,000,000	-	(20,000,000)	20,000,000
Nanjing High Speed Gear Manufacturing Co Ltd 5.3% A 20FEB2014	30,000,000	-	-	(30,000,000)	

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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (continued)

31 December 2014

	Movement				
	At 1 January 2014	Additions	Corporate Action	Disposals	At 31 December 2014
<b><u>QUOTED DEBT SECURITIES</u></b> <b>(continued)</b>					
<b>China (continued)</b>					
<b>Denominated in RMB</b>					
Pubang Landscape Architecture Co Ltd 5.5% A 10MAY2018	22,000,000	23,949,000	-	(29,947,000)	16,002,000
Shanghai Electric Group Corp 5% A 09SEP2014	-	10,000,000	-	(10,000,000)	-
Shanghai International Port Group Ltd 4.69% A 30MAR2016	3,000,000	2,000,000	-	(5,000,000)	-
Shanghai International Port Group Ltd 5.05% A 06JUL2016	-	5,000,000	-	(5,000,000)	-
Shanghai Raas Blood Products Co Ltd 5.6% A 26MAR2018	27,500,000	27,503,000	-	(40,500,000)	14,503,000
Shanghai Real Estate Group Co Ltd 6.12% A 17MAY2017	30,000,000	20,000,000	-	(30,000,000)	20,000,000
Shenzhen O-Film Tech Co Ltd 7.9% A 24FEB2017	-	11,149,000	-	-	11,149,000
Sichuan Hebang Corp Ltd 6.4% A 25NOV2019	-	10,000,000	-	-	10,000,000
Sinopharm Group Co Ltd 4.54% A 13MAR2018	-	5,000,000	-	(5,000,000)	-
Weiqiao Textile Co Ltd 7%& A 23OCT2018	10,000,000	-	-	(10,000,000)	-
Yuntianhua Group 5.81% A 15JUL2016	30,000,000	20,000,000	-	(30,000,000)	20,000,000
Zhejiang Transfer Co Ltd 5.6% A 15MAR2018	2,640,000	4,640,300	-	(4,640,000)	2,640,300
Zhejiang Yasha Decoration Co Ltd 5.2% A 13JUL2017	20,000,000	16,000,000	-	(25,000,000)	11,000,000
Zhucheng Economic Development & Investment Co Ltd 6.8% A 29NOV2019	-	10,190,000	-	-	10,190,000
Zhucheng Economic Development & Investment Co Ltd 6.8% A 29NOV2019	15,000,000	-	-	(15,000,000)	-
Zoomlion Heavy Industry Science And Technology Co 6.5% A 21APR2016	4,897,000	-	-	(4,897,000)	-
Total debt securities	303,401,200	322,888,500	-	(451,832,200)	174,457,500

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UNAUDITED PERFORMANCE TABLE

31 December 2014

**1. NET ASSET VALUE**

	Net asset value per unit RMB	Total net asset value RMB
<u>As at 31 December 2014</u>		
- Class A units	10.358	103,812,568
- Class I units	10.592	93,688,529
<u>As at 31 December 2013</u>		
- Class A units	9.959	291,263,077
- Class I units	10.100	47,220,117
<u>As at 31 December 2012<sup>1</sup></u>		
- Class A units	10.041	363,979,140
- Class I units	10.105	94,119,404

<sup>1</sup> Year of inception

**2. HIGHEST ISSUE AND LOWEST REDEMPTION PRICES PER UNIT**

	Highest subscription unit price RMB	Lowest redemption unit price RMB
<u>During the year ended 31 December 2014</u>		
- Class A units	10.632	9.962
- Class I units	10.860	10.106
<u>During the year ended 31 December 2013</u>		
- Class A units	10.382	9.957
- Class I units	10.482	10.097
<u>During the period from 17 February 2012 (date of inception) to 31 December 2012</u>		
- Class A units	10.233	9.987
- Class I units	10.269	9.996