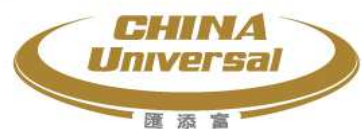


Audited Financial Statements

**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 2015



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

LI Wen
WAN Qing (Appointed on 10 June 2015)
ZHANG Hui
LIN Lijun (Resigned on 10 June 2015)

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

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

REPORT OF THE MANAGER

Market review

In the year 2015, while China's economy underwent restructuring, there was a slight decline in growth rate. This year, the GDP growth rate went from 7.30% in 2014 to 6.90% in 2015. Year over year, the consumer price index has risen slightly below 2%. The producer price index continued to decline, rounding out 46 consecutive negative months, and inflation and manufacturing remained depressed as well. In the loose monetary policy environment, the real estate industry saw minor improvements and year over year, real estate prices in tier 1 and tier 2 cities continued to narrow. Transaction size and turnover remained stable, while new constructions continued to decline. China's monetary policy moved to a more liberal stance; the deposit reserve rate was cut four times, the RMB benchmark deposit interest rates was cut five times, and the one year deposit interest rate fell to a record low of 1.50%. The RMB depreciated against the greenback and the exchange rate depreciated around 4.6% over the year. After the inclusion of the RMB to the Special Drawing Rights, People's Bank of China ("PBOC") moved the RMB off the dollar peg to include a greater basket of currencies for reference.

In regards to the bond market, 2015 continued the bull market trend evident in 2014 driven by loose monetary policy. Traditionally, the first two months of Q1 is a bull market for bonds. In January and February of each year, institutions have a strong demand for bonds, resulting in a rapid rise in the bond market. In April, the supplies of both the stock market and bond market increase and bond yields face downward pressure. Q3 saw the bond market re-entering the new bull market with strong macroeconomic fundamentals and the central bank monetary policy applying additional downward pressure on market yields. At the end of the fiscal year, the 10 year China Development Bank bond yields hit a record low of 3.0% and the Chinabond Composite Index rose 8.15% in 2015.

Portfolio review

Since the Sub-Fund's inception on 17 February 2012, as at 31 December 2015, the cumulative return of Class A reached 19.88%, Class I reached 23.37%, and annualized returns reached 4.80% and 5.57% respectively. Relative to historical annualized return during the same period, Class A and Class I fell 1.67% and 0.90% respectively. The Sub-Fund declared dividend payout each quarter, setting the payout at the average of the past 15 times, totaling a cumulative dividend yield of RMB1.276 each unit.

In reflection of 2015 operations, the Sub-Fund performance is derived from the following two aspects: the first half of the Sub-Fund maintained a shorter duration with a large variety of selected high-yield bonds. The main reason for this asset allocation is the belief that the overall rise in the bond market will be lower and the spreads narrower. In the second half of the year, a combination of high-grade long-term bonds were added to greater improve the credit rating of the bond in the long term. The second half of the year also saw the bond index rise sharply signaling that the strategy was effective.

Market outlook

Looking to 2016, the Chinese economy will see supply-side reforms, structural adjustments, and PBOC has set a GDP growth target between 6.5% to 7%. In 2015, inflation was essentially flat. To stabilize the real estate market, the industry is in the inventory stage and price increases will differentiate between different cities. Loose monetary policy will not play a significant role and the central bank will weigh the importance between the interest rate and exchange rate. In 2016, it is anticipated that the reserve requirement ratio will be adjusted 2-3 times.

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

REPORT OF THE MANAGER (continued)

Market outlook (continued)

Since interest rates are already at historical lows, the Federal Reserve looks to raise interest rates for the coming year. The central bank will likely re-stabilize the RMB, the exchange rate is anticipated to be set at an appropriate level, and the estimated annual depreciation of the RMB against the greenback expects to be determined.

In regards to the 2016 bond market, we remain neutral with a cautious optimistic outlook. We believe that both the credit bonds or government bonds and the overall yields will continue to fall, but the decline will not be as steep and volatile as seen in the previous two years. The spread between long-term bonds and short-term bonds will narrow, and the spreads between different credit ratings of the bond will be reduced. However, bonds of the strong production may be issued to be sold by investors, which will expand and spread to other sectors. International factors such as exchange rates or commodity prices will affect the bond market trend. In regards to investments, as with 2015, we will keep an eye out on the timing of sales and take an active management approach to adjusting the portfolio's duration and asset allocation, keeping the focus on absolute returns. For equities, we maintain a cautious outlook.

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

22 April 2016

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 2015 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

22 April 2016

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 34, which comprise the statement of financial position as at 31 December 2015, 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 Hong Kong Institute of Certified Public Accountants, and are responsible for ensuring 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"), 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.

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 misstatements. We are also required to assess whether the financial statements have been properly prepared, in all material respects, 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 Sub-Fund's preparation of the financial statements that give a true and fair value in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 2015, 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 all material respects, 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 2016

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

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	2015 RMB	2014 RMB
INCOME			
Interest income on financial assets at fair value through profit or loss		10,361,910	14,442,009
Other interest income		50,625	64,653
Net gains on financial assets at fair value through profit or loss	7	<u>4,738,640</u>	<u>10,053,372</u>
		<u>15,151,175</u>	<u>24,560,034</u>
EXPENSES			
Management fee	4	(2,006,704)	(3,126,739)
Trustee fee	4	(480,000)	(489,323)
Custodian fee	4	(147,837)	(209,645)
Legal and professional fee		(263,080)	(294,481)
Auditors' remuneration		(217,587)	(219,005)
Other expenses		(282,040)	(572,253)
Foreign exchange differences, net		<u>(117)</u>	<u>(1,370)</u>
		<u>(3,397,365)</u>	<u>(4,912,816)</u>
OPERATING PROFIT		11,753,810	19,647,218
FINANCE COSTS			
Distributions to unitholders	6	<u>(6,272,914)</u>	<u>(9,278,277)</u>
PROFIT BEFORE TAX		5,480,896	10,368,941
Income tax (expense)/credit	5	<u>(217,843)</u>	<u>1,773,588</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>5,263,053</u>	<u>12,142,529</u>

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

STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB	2014 RMB
ASSETS			
Financial assets at fair value through profit or loss	7	116,449,342	177,579,069
Cash and bank balances	8	2,621,943	13,247,289
Interest receivable		2,964,099	7,024,832
Deposit reserve – China Exchange Clearing		15,176	39,676
Subscription proceeds receivable		-	2,210,515
Prepayments		5,822	5,641
TOTAL ASSETS		<u>122,056,382</u>	<u>200,107,022</u>
LIABILITIES			
Redemption proceeds payable		591,064	392,306
Management fee payable	4	118,926	206,264
Trustee fee payable	4	40,000	42,667
Other payables and accruals		227,414	124,695
Tax payable		1,940,790	1,839,993
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>2,918,194</u>	<u>2,605,925</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	10	<u>119,138,188</u>	<u>197,501,097</u>
NUMBER OF UNITS IN ISSUE			
- Class A units	9	5,662,128.18	10,022,559.46
- Class I units	9	5,425,184.12	8,845,617.65
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT			
- Class A units	10	10.583	10.358
- Class I units	10	10.915	10.592

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

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2015

	RMB
At 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 and 1 January 2015	197,501,097
Subscription of redeemable units	39,875,338
Redemption of redeemable units	(123,501,300)
Increase in net assets attributable to unitholders during the year	<u>5,263,053</u>
At 31 December 2015	<u><u>119,138,188</u></u>

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 RMB	2014 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,480,896	10,368,941
Adjustments for:			
Interest income on financial assets at fair value through profit or loss		(10,361,910)	(14,442,009)
Interest income on bank deposits		(50,625)	(64,653)
Distribution to unitholders		<u>6,272,914</u>	<u>9,278,277</u>
		1,341,275	5,140,556
Decrease in financial assets at fair value through profit or loss		61,129,727	120,187,750
Decrease in deposit reserve-China Exchange Clearing		24,500	268,324
(Increase)/decrease in prepayments		(181)	3,793
Decrease in management fee payable		(87,338)	(233,129)
Decrease in trustee fee payable		(2,667)	(9,813)
Increase/(decrease) in other payables and accruals		<u>102,719</u>	<u>(24,301)</u>
Net cash from operations		62,508,035	125,333,180
Tax paid		(117,046)	(3,600)
Interest received		<u>14,473,268</u>	<u>19,807,996</u>
Net cash flows from operating activities		<u>76,864,257</u>	<u>145,137,576</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of units		42,085,853	67,716,356
Payments for redemption of units		(123,302,542)	(238,562,522)
Distribution to unitholders		(6,272,914)	(9,278,277)
Net cash flows used in financing activities		<u>(87,489,603)</u>	<u>(180,124,443)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,625,346)	(34,986,867)
Cash and cash equivalents at beginning of year		<u>13,247,289</u>	<u>48,234,156</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>2,621,943</u>	<u>13,247,289</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	8	<u>2,621,943</u>	<u>13,247,289</u>

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

STATEMENT OF DISTRIBUTION

Year ended 31 December 2015

	Note	RMB
Undistributed income at 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 on financial assets at fair value through profit or loss, net of income tax		(11,272,351)
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		(870,178)
Undistributed income at 31 December 2014 and 1 January 2015		-
Increase in net assets attributable to unitholders during the year		5,263,053
Add: Finance costs – distribution to unitholders		6,272,914
Add: Net gain on financial assets at fair value through profit or loss, net of income tax		(4,738,640)
Undistributed income before distribution		6,797,327
Interim distribution (RMB0.053 per unit) distributed on 13 March 2015	6	(1,070,366)
Interim distribution (RMB0.100 per unit) distributed on 15 June 2015	6	(1,850,737)
Interim distribution (RMB0.110 per unit) distributed on 15 September 2015	6	(1,757,356)
Final distribution (RMB0.130 per unit) distributed on 15 December 2015	6	(1,594,455)
Transfer to capital		(524,413)
Undistributed income at 31 December 2015		-

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 2015

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 2015, 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. As at 31 December 2015, the approved Renminbi Qualified Foreign Institutional Investor ("RQFII") quota granted to the Manager by the State Administration of Foreign Exchange ("SAFE") was RMB3.1 billion (2014: RMB3.1 billion).

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.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles adopted in the current year are consistent with those of the prior year; expect that the Sub-Fund has adopted the following new revised accounting standard:

Annual Improvements 2010-2012 Cycle

The Sub-Fund has applied the applicable improvement for the first time in these financial statements. This includes:

HKAS 24 Related Party Disclosures: Clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment to HKAS 24 has 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> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² 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 is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Sub-Fund's financial assets.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of comprehensive income. The Sub-Fund expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Sub-Fund's financial statements.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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".

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net gain/(loss) on financial assets at fair value through profit or loss (continued)

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.

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);
 - (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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

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.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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:

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.

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:

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

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 RMB47,044 (2014: RMB60,582).

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. With effective from 13 November 2014, BOC International (China) Limited ceased to be the broker for the Sub-Fund. During the years ended 31 December 2015 and 2014, the transaction details were as follows:

2015	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	172,378,683	35,640	35.37%	0.02%
Bank of China Limited	315,035,890	32,000	64.63%	0.01%
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%

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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 2015 and 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. The withholding tax for the year ended 31 December 2015 was RMB217,843 (2014: tax credit of RMB554,609).

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5. INCOME TAX (continued)

PRC tax (continued)

Capital gains tax

In view of 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") issued by 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"), no capital gains tax provision was made for the year ended 31 December 2015 (2014: credit of RMB1,218,979).

6. DISTRIBUTIONS

	2015 RMB
Interim dividend (RMB0.053 per unit) distributed on 13 March 2015	1,070,366
Interim dividend (RMB0.100 per unit) distributed on 15 June 2015	1,850,737
Interim dividend (RMB0.110 per unit) distributed on 15 September 2015	1,757,356
Final dividend (RMB0.130 per unit) distributed on 15 December 2015	<u>1,594,455</u>
	<u>6,272,914</u>
	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>

The Manager has declared, on behalf of the Sub-Fund, the above interim and final dividend during the years ended 31 December 2015 and 2014. The distributions were paid out on 19 March 2015, 18 June 2015, 21 September 2015 and 21 December 2015, respectively.

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7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 RMB	2014 RMB
Held for trading:		
Quoted debt securities	<u>116,449,342</u>	<u>177,579,069</u>
Total financial assets at fair value through profit or loss	<u>116,449,342</u>	<u>177,579,069</u>
Net gains or losses recognised in relation to financial assets at fair value through profit or loss:		
Realised gain/(loss)	5,676,110	(3,623,920)
Unrealised (loss)/gain	<u>(937,470)</u>	<u>13,677,292</u>
Net gains	<u>4,738,640</u>	<u>10,053,372</u>

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 2015 and at 31 December 2014.

At 31 December 2015	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</u>				
<u>– held for trading:</u>				
Quoted debt securities	<u>-</u>	<u>116,449,342</u>	<u>-</u>	<u>116,449,342</u>

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

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</u>				
<u>– held for trading:</u>				
Quoted debt securities	-	177,579,069	-	177,579,069

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 2015 (2014: 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.

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 2014	29,245,019.98	4,675,210.15
Subscription of units	438,159.16	6,357,587.12
Redemption of units	(19,660,619.68)	(2,187,179.62)
At 31 December 2014 and 1 January 2015	10,022,559.46	8,845,617.65
Subscription of units	201,585.54	3,521,647.35
Redemption of units	(4,562,016.82)	(6,942,080.88)
At 31 December 2015	5,662,128.18	5,425,184.12

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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:

		2015 RMB
Published net assets attributable to unitholders		119,288,746
Adjustment on preliminary expense	(note)	(150,558)
Net assets attributable to unitholders (per financial statements)		<u>119,138,188</u>
		2014 RMB
Published net assets attributable to unitholders		197,887,226
Unrecorded redemption on 31 December 2014		(85,425)
Adjustment on preliminary expense	(note)	(300,704)
Net assets attributable to unitholders (per financial statements)		<u>197,501,097</u>

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 2015	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>10.597</u>	<u>10.583</u>
- Class I units	<u>10.929</u>	<u>10.915</u>

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10. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

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>

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.

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

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

Risk management (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. 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 2015		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	RMB/Unit
Chinabond Composite Index	+/-8.15%	+/-0.480

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	RMB/Unit
Chinabond Composite Index	+/-10.34%	+/-0.905

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.

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

Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

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 4.0 (2014: 2.9).

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.

At 31 December 2015	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	116,449,342	+/-50	-/+2,400,000
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

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 2015 and 31 December 2014 and therefore no sensitivity analysis of interest on bank deposits is presented

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

Risk management (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 other 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 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.

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

Risk management (continued)

Liquidity risk (continued)

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.

At 31 December 2015	Less than 3 months RMB	3 to 6 months RMB	Others* RMB	Total RMB
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	116,449,342	-	-	116,449,342
Cash and bank balances	2,621,943	-	-	2,621,943
Interest receivable	1,654,547	1,309,552	-	2,964,099
Deposit reserve	15,176	-	-	15,176
Total financial assets	<u>120,741,008</u>	<u>1,309,552</u>	<u>-</u>	<u>122,050,560</u>
	Less than 3 months RMB	3 to 6 months RMB	Others* RMB	Total RMB
<u>Financial liabilities</u>				
Redemption proceeds payable	591,064	-	-	591,064
Management fee payable	118,926	-	-	118,926
Trustee fee payable	40,000	-	-	40,000
Other payables and accruals	227,414	-	-	227,414
Net assets attributable to unitholders*	<u>-</u>	<u>-</u>	<u>119,138,188</u>	<u>119,138,188</u>
Total financial liabilities	<u>977,404</u>	<u>-</u>	<u>119,138,188</u>	<u>120,115,592</u>

* As detailed in the explanatory memorandum of the Sub-Fund, the redeemable participating units might be subject to redemption restrictions.

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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	Others* 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	2,210,515	-	-	2,210,515
Total financial assets	<u>196,110,005</u>	<u>3,991,376</u>	<u>-</u>	<u>200,101,381</u>
	Less than 3 months RMB	3 to 6 months RMB	Others* 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>-</u>	<u>-</u>	<u>197,501,097</u>	<u>197,501,097</u>
Total financial liabilities	<u>765,932</u>	<u>-</u>	<u>197,501,097</u>	<u>198,267,029</u>

* As detailed in the explanatory memorandum of the Sub-Fund, the redeemable participating units might be subject to redemption restrictions.

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.

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31 December 2015

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

Risk management (continued)

Credit and counterparty risk (continued)

The Manager considers that none of these assets are impaired nor past due as at 31 December 2015.

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:

At 31 December 2015	Assigned by the Chinese local rating agencies	Percentage of fixed income portfolio (%)
	AA*	73.23%
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>

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

The policy bank bonds and Chinese government bonds held by the Sub-Fund of RMB31,570,109 (2014: RMB21,027,060) as at 31 December 2015 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 2015 and 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.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 2015 and 2014.

13. EVENTS AFTER THE REPORTING PERIOD

- (a) On 7 March 2016, the Manager declared, on behalf of the Sub-Fund, an interim dividend of RMB348,521 (at RMB0.05 per unit). This distribution was paid out on 21 March 2016.
- (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 RMB774,827 and RMB47,220,468 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 2016.

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UNAUDITED INVESTMENT PORTFOLIO

31 December 2015

**LISTED/QUOTED DEBT
SECURITIES**

China Denominated in RMB	Nominal value	Fair value	Accrued Interest	% of net assets
CHINA DEVELOPMENT BANK CORP 3.74% A 10SEP2025	10,000,000	10,502,120	115,470	8.82
CHINA GOVT BOND 3.51% S/A 16JUL2025	10,000,000	10,572,819	161,193	8.87
EXPORT-IMPORT BANK OF CHINA 3.87% A 14SEP2025	10,000,000	10,495,170	115,254	8.81
JIAN CITY CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 7.8% A 20APR2019	10,000,000	8,536,450	436,459	7.17
PUBANG LANDSCAPE ARCHITECTURE CO LTD 5.5% A 10MAY2018	8,850,500	9,018,660	314,738	7.57
SHANGHAI KINGHILL LTD 6.5% A 22JAN2018	10,000,000	10,179,200	612,602	8.54
SHANGHAI LAKE DIANSHAN NEWTOWN DEVELOPMENT CO LTD 5.95% A 30JAN2021	10,000,000	10,000,000	547,726	8.39
SHANGHAI RAAS BLOOD PRODUCTS CO LTD 5.6% A 26MAR2018	5,503,000	5,709,363	237,247	4.79
SHENZHEN O-FILM TECH CO LTD 7.9% A 24FEB2017	89,000	93,183	5,991	0.08
SICHUAN HEBANG CORP LTD 6.4% A 25NOV2019	10,000,000	10,250,000	64,877	8.60
XIAMEN YUZHOU GRAND FUTURE REAL ESTATE DEVELOPMENT CO LTD 5.1% A 07DEC2020	10,000,000	10,000,000	34,932	8.39
ZHEJIANG BAOXINIAO GARMENT CO LTD 7.4% A 24NOV2018	4,000,000	4,240,000	30,816	3.56
ZHEJIANG TRANSFAR CO LTD 5.6% A 15MAR2018	2,000,000	2,044,000	89,600	1.72
ZHEJIANG YASHA DECORATION CO LTD 5.2% A 13JUL2017	6,000,000	6,132,000	147,025	5.15
ZHUCHENG ECONOMIC DEVELOPMENT & INVESTMENT CO LTD 6.8% A 29NOV2019	10,190,000	8,676,377	49,981	7.28
Total debt securities		116,449,342	2,963,911	97.74

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

31 December 2015

TOTAL NET ASSETS

Total debt securities (Cost: RMB 113,984,222)	116,449,342	97.74
Cash and cash equivalents	2,621,943	2.20
Other net assets	<u>66,903</u>	<u>0.06</u>
Total net assets	<u>119,138,188</u>	<u>100.00</u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND
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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2015

	Movement				
	At 1 January 2015	Additions	Corporate Action	Disposals	At 31 December 2015
<u>LISTED/QUOTED DEBT SECURITIES</u>					
China					
Denominated in RMB					
AGRICULTURAL DEVELOPMENT BANK OF CHINA 5.78% A 17JAN2019	10,000,000	-	-	(10,000,000)	-
AGRICULTURAL DEVELOPMENT BANK OF CHINA CO LTD 3.97% A 27FEB2025	-	10,000,000	-	(10,000,000)	-
CHINA DEVELOPMENT BANK CORP 3.74% A 10SEP2025	-	10,000,000	-	-	10,000,000
CHINA DEVELOPMENT BANK CORP 3.81% A 05FEB2025	-	10,000,000	-	(10,000,000)	-
CHINA DEVELOPMENT BANK CORP 4.13% A 13APR2020	-	10,000,000	-	(10,000,000)	-
CHINA DEVELOPMENT BANK CORP 4.21% A 13APR2025	-	10,000,000	-	(10,000,000)	-
CHINA DEVELOPMENT BANK CORP 5.02% A 21AUG2024	-	10,000,000	-	(10,000,000)	-
CHINA GOVT BOND 3.51% S/A 16JUL2025	-	10,000,000	-	-	10,000,000
EXPORT-IMPORT BANK OF CHINA 3.87% A 14SEP2025	-	10,000,000	-	-	10,000,000
EXPORT-IMPORT BANK OF CHINA 5.1% A 05MAR2019	10,000,000	-	-	(10,000,000)	-
HUAIAN CITY WATER ASSET MANAGEMENT CO LTD 5.83% A 24APR2020	-	10,000,000	-	(10,000,000)	-
JIAN CITY CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 7.8% A 20APR2019	10,000,000	2,000,000	-	(2,000,000)	10,000,000
LIANHE CHEMICAL TECHNOLOGY CO LTD 7.3% A 21FEB2019	8,973,200	8,973,200	-	(17,946,400)	-
NANAN CITY TRADE INDUSTRY & AGRICULTURE INVESTMENT MANAGEMENT CO LTD 8.5% A 25APR2019	20,000,000	20,000,000	-	(40,000,000)	

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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (continued)

31 December 2015

	Movement				
	At 1 January 2015	Additions	Corporate Action	Disposals	At 31 December 2015
<u>LISTED/QUOTED DEBT SECURITIES (continued)</u>					
China (continued)					
Denominated in RMB					
PUBANG LANDSCAPE ARCHITECTURE CO LTD 5.5% A 10MAY2018	16,002,000	14,500,000	-	(21,651,500)	8,850,500
QUANZHOU URBAN CONSTRUCTION STATE OWNED ASSET INVESTMENT CO LTD 6.48% A 11JAN2020	-	10,000,000	-	(10,000,000)	-
SHANGHAI KINGHILL LTD 6.5% A 22JAN2018	-	10,000,000	-	-	10,000,000
SHANGHAI LAKE DIANSHAN NEWTOWN DEVELOPMENT CO LTD 5.95% A 30JAN2021	-	10,000,000	-	-	10,000,000
SHANGHAI RAAS BLOOD PRODUCTS CO LTD 5.6% A 26MAR2018	14,503,000	-	-	(9,000,000)	5,503,000
SHANGHAI REAL ESTATE GROUP CO LTD 6.12% A 17MAY2017	20,000,000	10,000,000	-	(30,000,000)	-
SHENZHEN O-FILM TECH CO LTD 7.9% A 24FEB2017	11,149,000	11,149,000	-	(22,209,000)	89,000
SICHUAN HEBANG CORP LTD 6.4% A 25NOV2019	10,000,000	10,000,000	-	(10,000,000)	10,000,000
XIAMEN YUZHOU GRAND FUTURE REAL ESTATE DEVELOPMENT CO LTD 5.1% A 07DEC2020	-	10,000,000	-	-	10,000,000
YUNTIANHUA GROUP 5.81% A 15JUL2016	20,000,000	-	-	(20,000,000)	-
ZHEJIANG BAOXINIAO GARMENT CO LTD 7.4% A 24NOV2018	-	8,000,000	-	(4,000,000)	4,000,000

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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (continued)

31 December 2015

	Movement				
	At 1		Corporate		At 31
	January	Additions	Action	Disposals	December
	2015				2015
<u>LISTED/QUOTED DEBT</u>					
<u>SECURITIES</u> (continued)					
China (continued)					
Denominated in RMB					
ZHEJIANG TRANSFAR CO LTD					
5.6% A 15MAR2018	2,640,300	2,000,000	-	(2,640,300)	2,000,000
ZHEJIANG YASHA					
DECORATION CO LTD 5.2%					
A 13JUL2017	11,000,000	-	-	(5,000,000)	6,000,000
ZHUCHENG ECONOMIC					
DEVELOPMENT &					
INVESTMENT CO LTD 6.8%					
A 29NOV2019	10,190,000	10,038,000	-	(10,038,000)	10,190,000
Total debt securities	174,457,500	226,660,200	-	(284,485,200)	116,632,500

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UNAUDITED PERFORMANCE TABLE

31 December 2015

1. NET ASSET VALUE

	Net asset value per unit RMB	Total net asset value RMB
<u>As at 31 December 2015</u>		
- Class A units	10.583	59,924,268
- Class I units	10.915	59,213,920
<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

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 2015</u>		
- Class A units	10.661	10.370
- Class I units	10.986	10.605
<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

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UNAUDITED PERFORMANCE TABLE (continued)

31 December 2015

2. HIGHEST ISSUE AND LOWEST REDEMPTION PRICES PER UNIT (continued)

	Highest subscription unit price RMB	Lowest redemption unit price RMB
<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