

Audited Financial Statements

**CHINA UNIVERSAL INTERNATIONAL SERIES -
CUAM HONG KONG DOLLAR BOND 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 HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

CONTENTS

	Pages
ADMINISTRATION AND MANAGEMENT	1
REPORT OF THE MANAGER	2
REPORT OF THE TRUSTEE TO THE UNITHOLDERS	3
INDEPENDENT AUDITORS' REPORT	4 - 5
AUDITED FINANCIAL STATEMENTS	
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of changes in net assets attributable to unitholders	9
Statement of cash flows	10
Statement of distribution	11
Notes to the financial statements	12 - 33
UNAUDITED INVESTMENT PORTFOLIO	34 - 36
UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS	37 - 39
UNAUDITED PERFORMANCE TABLE	40

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND 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

TRUSTEE AND REGISTRAR

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

DIRECTORS OF THE MANAGER

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

AUDITORS

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

SOLICITORS TO THE MANAGER

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

CUSTODIAN

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

REPORT OF THE MANAGER

Overall, monetary conditions have remained loose during the year. The United States Dollar/Hong Kong Dollar (US\$/HK\$) exchange rate stayed near the lower end of the peg band, closing at 7.7507. The Hong Kong monetary base edged up by HK\$247 billion to HK\$1,593 billion. The aggregate balance increased to HK\$391 billion. Bond yields remain low due to the loose monetary policy of the United States Federal Reserve. 5-year Hong Kong Exchange Fund Note yield decreased to 1.06%.

Assuming dividends were reinvested, the Class I of the Sub-Fund achieved a 4.53% return during the year and the Class A of the Sub-Fund achieved a 1.59% return since its inception date of 18 June 2015.

Currently the Sub-Fund is of short duration as interest rates are on a path to a more normal level given Federal Reserve's rate hike at the end of 2015. We currently underweight rates and overweight credits as we expect stronger economic data to create an environment where spread products will outperform rate products.

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

22 April 2016

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
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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 Hong Kong Dollar Bond 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 HONG KONG DOLLAR BOND 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 Hong Kong Dollar Bond Fund (A Sub-Fund of China Universal International Series (the "Trust") and referred to as the "Sub-Fund") set out on pages 6 to 33, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, the statement of changes in equity, the statement of changes in net assets attributable to unitholders, the statement of cash flows and the statement of distribution for the year ended 31 December 2015, 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 HONG KONG DOLLAR BOND 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 HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

		Year ended 31 December 2015 HK\$	For the period from 2 September 2013 (date of inception) to 31 December 2014 HK\$
	Notes		
INCOME			
Interest income on financial assets at fair value through profit or loss		2,395,965	2,912,153
Other interest income		870	5,152
Net gains/(losses) on financial assets at fair value through profit or loss	7	901,065	(84,877)
Foreign exchange differences		(7,767)	428
Other income		<u>19,374</u>	<u>-</u>
		<u>3,309,507</u>	<u>2,832,856</u>
EXPENSES			
Management fee	4	(338,895)	(339,603)
Trustee fee	4	(98,858)	(101,881)
Custodian fee	4	(11,407)	(88,600)
License fee		-	(7,000)
Other expenses		<u>(5,403)</u>	<u>(6,600)</u>
		<u>(454,563)</u>	<u>(543,684)</u>
OPERATING PROFIT		2,854,944	2,289,172
FINANCE COSTS			
Distributions to unitholders	6	(1,777,707)	-
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>(1,077,237)</u>	<u>-</u>
		<u>(2,854,944)</u>	<u>-</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>-</u>	<u>2,289,172</u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK\$	2014 HK\$
ASSETS			
Financial assets at fair value through profit or loss	7	107,175,481	50,067,740
Cash and bank balances	9	17,186,348	1,574,852
Interest receivable		1,032,835	659,797
Other receivables		<u>16,520</u>	<u>17,690</u>
TOTAL ASSETS		<u><u>125,411,184</u></u>	<u><u>52,320,079</u></u>
LIABILITIES			
Management fee payable	4	54,912	23,582
Trustee fee payable	4	14,128	7,075
Other payables and accruals		<u>1,450</u>	<u>250</u>
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>70,490</u>	<u>30,907</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>125,340,694</u>	<u>-</u>
TOTAL LIABILITIES		<u>125,411,184</u>	<u>30,907</u>
TOTAL EQUITY	11	<u>-</u>	<u>52,289,172</u>
TOTAL LIABILITIES AND EQUITY		<u><u>125,411,184</u></u>	<u><u>52,320,079</u></u>
NUMBER OF UNITS IN ISSUE			
- Class A units	10	5,066,879.56	-
- Class I units	10	7,231,556.76	5,205,218.67
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT			
- Class A units		10.069	N/A
- Class I units		10.278	10.046

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 HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Total equity HK\$
At 2 September 2013 (date of inception)	-
Subscription of units	52,063,525
Profit and total comprehensive income for the period	2,289,172
Distribution to unitholders	(2,063,525)
At 31 December 2014 and 1 January 2015	52,289,172
Reclassification of the redeemable units as financial liabilities	(52,289,172)
At 31 December 2015	<u><u>-</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2015

	HK\$
At 1 January 2015	-
Reclassification of the redeemable units as financial liabilities	52,289,172
Subscription of units	71,974,285
Increase in net assets attributable to unitholders during the year	<u>1,077,237</u>
At 31 December 2015	<u><u>125,340,694</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF CASH FLOWS

Year ended 31 December 2015

		Year ended 31 December 2015 HK\$	For the period from 2 September 2013 (date of inception) to 31 December 2014 HK\$
	Note		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year/period		2,854,944	2,289,172
Adjustments for:			
Interest income on financial assets at fair value through profit or loss		(2,395,965)	(2,912,153)
Other interest income		(870)	(5,152)
		<u>458,109</u>	<u>(628,133)</u>
Increase in financial assets at fair value through profit or loss		(57,107,741)	(50,067,740)
Decrease/(increase) in other receivable		1,170	(17,690)
Increase in management fee payable		31,330	23,582
Increase in trustee fee payable		7,053	7,075
Increase in other payables and accruals		<u>1,200</u>	<u>250</u>
Net cash used in operations		(56,608,879)	(50,682,656)
Interest received		<u>2,023,797</u>	<u>2,257,508</u>
Net cash flows used in operating activities		<u>(54,585,082)</u>	<u>(48,425,148)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of units		71,974,285	52,063,525
Distribution to unitholders		<u>(1,777,707)</u>	<u>(2,063,525)</u>
Net cash flows from financing activities		<u>70,196,578</u>	<u>50,000,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,611,496	1,574,852
Cash and cash equivalents at beginning of year/period		<u>1,574,852</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	9	<u><u>17,186,348</u></u>	<u><u>1,574,852</u></u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	9	<u><u>17,186,348</u></u>	<u><u>1,574,852</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF DISTRIBUTION

Year ended 31 December 2015

	Note	HK\$
Undistributed income at 2 September 2013 (date of inception)		-
Profit and total comprehensive income for the period		2,289,172
Add: Net loss on financial assets at fair value through profit or loss		<u>84,877</u>
Undistributed income before distribution		2,374,049
2013 final distribution (HK\$0.069 per unit) distributed on 23 December 2013	6	(345,000)
2014 interim distribution (HK\$0.099 per unit) distributed on 13 June 2014	6	(498,404)
2014 final distribution (HK\$0.240 per unit) distributed on 15 December 2014	6	(1,220,121)
Transfer to capital		<u>(310,524)</u>
Undistributed income at 31 December 2014 and 1 January 2015		-
Increase in net assets attributable to unitholders during the year		1,077,237
Add: Finance costs – distribution to unitholders		1,777,707
Add: Net gain on financial assets at fair value through profit or loss		<u>(901,065)</u>
Undistributed income before distribution		1,953,879
2015 interim distribution (HK\$0.130 per unit) distributed on 15 June 2015	6	(676,679)
2015 final distribution (HK\$0.090 per unit) distributed on 15 December 2015	6	(1,101,028)
Transfer to capital		<u>(176,172)</u>
Undistributed income at 31 December 2015		<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 HONG KONG DOLLAR BOND 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 Hong Kong Dollar Bond Fund (the "Sub-Fund") was commenced as a separate sub-fund of the Trust on 2 September 2013. 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 Bank of China (Hong Kong) Limited (the "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 primarily invests in debt securities issued or fully guaranteed by governments, government agencies, supranational and corporate. The debt securities instruments in which the Sub-Fund may invest include (but not limited to) long-term bonds, medium-term notes, bills, convertible bonds, subordinated debt, asset-backed debt securities, certificate of deposits and commercial papers. The target asset allocation is that more than 70% of the Sub-Fund's assets will be invested in Hong Kong Dollar denominated debt securities and certificates of deposits, and not more than 30% will be invested in other currency denominated debt securities.

The investment objective of the Sub-Fund is to provide investors with a stable and consistent investment return over medium to long term by investing primarily in Hong Kong Dollar denominated debt securities instruments.

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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.1 BASIS OF PREPARATION (continued)

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 Hong Kong Dollar ("HK\$") and all values are rounded to the nearest HK\$ except where otherwise indicated.

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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND 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)

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.

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 debt securities 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 and/or repurchasing in the near term. 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 cash equivalent, interest receivable on debt securities and other receivables.

Financial liabilities at amortised cost

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Recognition

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

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

(iii) Initial measurement

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

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

(iv) Subsequent measurement

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) ***Derecognition***

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

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

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

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

- 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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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 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.

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 banks, 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 bank balances as defined above, net of outstanding bank overdrafts when applicable.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

These financial statements are presented in HK\$, 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 HK\$, 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 HK\$. Therefore, the HK\$ 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 HK\$.

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 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.

Prior to the issuance of Class A units in 2015, only Class I units were in issue. The Sub-Fund's redeemable units met the definition of puttable instruments classified as equity instruments under the revised HKAS 32 and were then classified as equity.

Interest income

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

This item includes changes in the fair value of financial assets held for trading and excludes interest income and expenses.

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

Realised gains and losses on disposals of financial instruments classified as at "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 exempted from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdiction, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Sub-Fund's financial statements requires management to make judgements, 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:

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 assumptions

The key assumptions concerning the future and other 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 described 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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value of financial instruments (continued)

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 period 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:

Holdings of the Sub-Fund

The Sub-Fund allows the Manager, its connected persons and other funds managed by the Manager to subscribe for, and redeem, units in the Sub-Fund.

The holdings of Class I and Class A in the Sub-Fund by the Manager as at 31 December 2015 and 2014 were as follows:

At 31 December 2015	Units outstanding at 31 December 2014	Units subscribed during the year	Units redeemed during the year	Units outstanding at 31 December 2015
CUAM Hong Kong Dollar Bond Fund – Class I	<u>5,205,218.67</u>	<u>45,642.02</u>	<u>-</u>	<u>5,250,860.69</u>
CUAM Hong Kong Dollar Bond Fund – Class A	<u>-</u>	<u>68,273.46</u>	<u>-</u>	<u>68,273.46</u>
At 31 December 2014	Units at the inception of the Sub-Fund	Units subscribed during the period	Units redeemed during the period	Units outstanding at 31 December 2014
CUAM Hong Kong Dollar Bond Fund – Class I	<u>-</u>	<u>5,205,218.67</u>	<u>-</u>	<u>5,205,218.67</u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Brokerage commission

Bank of China (Hong Kong) Limited and BOCI Securities Limited, an affiliate of the Trustee, rendered brokerage services for the Sub-Fund's purchases and sales of securities. The transaction details were as follows:

For the year ended 31 December 2015

	Aggregate value of purchases and sales of securities HK\$	Total commission paid HK\$	% of Sub- Fund's total transactions during the year	Average commission rate (%)
Bank of China (Hong Kong) Limited	26,473,312	-	22.99%	-
BOCI Securities Limited	3,765,250	-	3.27%	-

For the period ended 31 December 2014

	Aggregate value of purchases and sales of securities HK\$	Total commission paid HK\$	% of Sub- Fund's total transactions during the period	Average commission rate (%)
Bank of China (Hong Kong) Limited	2,998,551	-	2.4%	-

Bank deposits and investments held by the Trustee's affiliates

The Sub-Fund's bank deposits and investments were held by the Trustee's affiliate, Bank of China (Hong Kong) Limited. Further details of the bank balances held are described in note 9 to the financial statements. During the year, interest income on these bank balances was HK\$870 (for the period ended 31 December 2014: HK\$5,152).

Management fee

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 0.75% for Class A units and 0.5% for Class I units per annum (up to maximum of 3% per annum in total by giving not less than one month's prior notice to the unitholders) 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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Trustee fee

The Trustee is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at the current rate of 0.15% per annum (up to maximum of 0.5% per annum by giving not less than one month's prior notice to the unitholders) of the net assets attributable to unitholders of the Sub-Fund calculated, subject to a minimum monthly fee of HK\$35,000, and accrued on each dealing day and is paid monthly in arrears. The minimum fee was waived until 31 December 2015 and 50% discount will be applied after 31 December 2015 until 30 June 2016.

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. As at 31 December 2015, no fees were payable to the Custodian (2014: nil).

Certain charges, fees and expenses borne by the Manager

Pursuant to the Explanatory Memorandum of the Sub-Fund dated October 2015, certain charges, fees and expenses which are attributable to the Sub-Fund are borne by the Manager at its discretion starting from 1 January 2014 until a future date as notified by the Manager. For the year ended 31 December 2015, the Manager borne and paid a total sum of HK\$179,027 for the Sub-Fund (For the period ended 31 December 2014: HK\$520,648).

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 SFC to 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.

6. DISTRIBUTIONS

	2015 HK\$
2015 interim distribution (HK\$0.130 per unit) distributed on 15 June 2015	676,679
2015 final distribution (HK\$0.090 per unit) distributed on 15 December 2015	<u>1,101,028</u>
Total distributions during the year	<u><u>1,777,707</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

6. DISTRIBUTIONS (continued)

	2014 HK\$
2013 final distribution (HK\$0.069 per unit) distributed on 23 December 2013	345,000
2014 interim distribution (HK\$0.099 per unit) distributed on 13 June 2014	498,404
2014 final distribution (HK\$0.240 per unit) distributed on 15 December 2014	<u>1,220,121</u>
Total distributions during the period	<u>2,063,525</u>

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK\$	2014 HK\$
Held for trading:		
Quoted debt securities	106,172,981	49,065,240
Unquoted debt securities	<u>1,002,500</u>	<u>1,002,500</u>
Total financial assets at fair value through profit or loss	<u>107,175,481</u>	<u>50,067,740</u>
Net gains or losses recognised in relation to financial assets at fair value through profit or loss:		
Realised (loss)/gain	(220,748)	89,140
Unrealised gain/(loss)	<u>1,121,813</u>	<u>(174,017)</u>
Net gain/(loss)	<u>901,065</u>	<u>(84,877)</u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of the Sub-Fund's financial assets measured at fair value at 31 December 2015 and 31 December 2014.

At 31 December 2015	Quoted prices in active markets (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
<u>Financial assets at fair value</u>				
<u>through profit or loss</u>				
<u>– held for trading:</u>				
Quoted debt securities	-	106,172,981	-	106,172,981
Unquoted debt securities	-	-	1,002,500	1,002,500
	-	106,172,981	1,002,500	107,175,481

At 31 December 2014	Quoted prices in active markets (Level 1) HK\$	Significant observable inputs (Level 2) HK\$	Significant unobservable inputs (Level 3) HK\$	Total HK\$
<u>Financial assets at fair value</u>				
<u>through profit or loss</u>				
<u>– held for trading:</u>				
Quoted debt securities	-	49,065,240	-	49,065,240
Unquoted debt securities	-	-	1,002,500	1,002,500
	-	49,065,240	1,002,500	50,067,740

There are no transfers of fair value measurements between Level 1 and Level 2 during the year ended 31 December 2015 (For the period ended 31 December 2014: nil).

Valuation techniques

Quoted debt securities

The Sub-Fund invests in corporate bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. In the absence of a quoted price in an active market, they 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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques (continued)

Unquoted debt securities

The Sub-Fund invests in illiquid unquoted corporate debt securities. In the absence of a quoted price in an active market, they are valued using discounted cash flow with unobservable inputs such as yield curves of securities issued by comparable issuers. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are unobservable, the Sub-Fund categorises these investments as Level 3.

Valuation process for Level 3 valuations

The valuation of unquoted debt securities is performed on a daily basis by the portfolio manager and reviewed by the senior management of the Manager. The latest valuation is compared with the valuations in the preceding quarters. If fair value changes are more than certain thresholds set, the changes are further considered by the senior management of the Manager. The Manager considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods be applied to support the valuation arising from the chosen method. There were no changes in valuation techniques during the year.

Quantitative information of significant unobservable inputs – Level 3

At 31 December 2015

Description	HK\$	Valuation technique	Unobservable input	Sensitivity used*	Effect on net assets attributable to unitholders HK\$
Unquoted debt securities - <i>Melco Finance Ltd.</i> 4.15% Q 05 Mar 2018 ("Melco Finance")	1,002,500	Discounted cash flow	Yield (4.09%)	+/-5	-/+1,000

At 31 December 2014

Unquoted debt securities - <i>Melco Finance Ltd.</i> 4.15% Q 05 Mar 2018 ("Melco Finance")	1,002,500	Discounted cash flow	Yield (4.13%)	+/-5	-/+1,000
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* The sensitivity analysis refers to a basis point added or deducted from the input and the effect this has on the fair value

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 for the year ended 31 December 2015 and period from 2 September 2013 (date of inception) to 31 December 2014.

	Financial assets at fair value through profit or loss debt securities 2015 HK\$	Financial assets at fair value through profit or loss debt securities 2014 HK\$
At 1 January	1,002,500	-
Purchases	<u>-</u>	<u>1,002,500</u>
At 31 December	<u><u>1,002,500</u></u>	<u><u>1,002,500</u></u>
Total gains and losses for the year/period included in profit or loss for assets held at the end of reporting period	<u><u>-</u></u>	<u><u>-</u></u>

9. CASH AND BANK BALANCES

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

10. NUMBER OF UNITS IN ISSUE

The following is the subscription of units of the Sub-Fund during the year/period:

	Number of Class A units	Number of Class I units
At 2 September 2013 (date of inception)	-	-
Subscription of units	<u>-</u>	<u>5,205,218.67</u>
At 31 December 2014 and 1 January 2015	-	5,205,218.67
Subscription of units	<u>5,066,879.56</u>	<u>2,026,338.09</u>
At 31 December 2015	<u><u>5,066,879.56</u></u>	<u><u>7,231,556.76</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

11. SHARE CAPITAL

During the year ended 31 December 2014, there were only Class I units in issue and the Sub-Fund concluded that these units had all features and met all the conditions for classification as equity instruments.

During the year ended 31 December 2015, following the issuance of Class A units which are subject to different fee structures, the Sub-Fund concluded that the condition that the financial instruments have identical features was no longer met under HKAS32. Therefore, the Sub-Fund has prospectively reclassified the redeemable units as financial liabilities. The amount reclassified was the entire equity balance which was determined to be the fair value of the liability to unitholders at the date of the reclassification.

12. 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 interest rate risk and foreign exchange risk), credit and counterparty risk and liquidity 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:

- Interest rate risk
- Foreign exchange risk

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial instruments 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 2.7 (2014: 2.5 to 3.0).

The following table demonstrates the sensitivity of the Sub-Fund's profit or loss for the period 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 period, 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.

As at 31 December 2015	Financial assets at fair value through profit or loss HK\$	Change in basis points	Sensitivity of changes in fair value of investments increase/(decrease) HK\$
Quoted debt securities	106,172,981	+/-50	-/+ 1,660,000
Unquoted debt securities	1,002,500	+/-50	-/+ 10,000
As at 31 December 2014	Financial assets at fair value through profit or loss HK\$	Change in basis points	Sensitivity of changes in fair value of investments increase/(decrease) HK\$
Quoted debt securities	49,065,240	+/-50	-/+770,000
Unquoted debt securities	1,002,500	+/-50	-/+14,000

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

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 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 HK\$, the functional currency of the Sub-Fund. The Manager considers the Sub-Fund is not exposed to significant currency risk and therefore no sensitivity analysis is presented.

Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. Exposure to liquidity risk arises because of the possibility that the Sub-Fund could be required to pay its liabilities or redeem its units earlier than expected. The Sub-Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the holder's option based on the Sub-Fund's net asset value per unit at the time of redemption, calculated in accordance with the Sub-Fund's Trust Deed. It is the Sub-Fund's policy that the Manager monitors the Sub-Fund's liquidity position on a daily basis.

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 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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Risk management (continued)

Liquidity risk (continued)

At 31 December 2015

	Less than 3 months HK\$	3 to 12 months HK\$	Others* HK\$	Total HK\$
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	107,175,481	-	-	107,175,481
Cash and bank balances	17,186,348	-	-	17,186,348
Interest receivable	719,980	312,855	-	1,032,835
Financial assets included in other receivables	16,520	-	-	16,520
Total financial assets	<u>125,098,329</u>	<u>312,855</u>	<u>-</u>	<u>125,411,184</u>

	Less than 3 months HK\$	3 to 12 months HK\$	Others* HK\$	Total HK\$
<u>Financial liabilities</u>				
Management fee payable	54,912	-	-	54,912
Trustee fee payable	14,128	-	-	14,128
Other payables and accruals	1,450	-	-	1,450
Net assets attributable to unitholders*	-	-	125,340,694	125,340,694
Total financial liabilities	<u>70,490</u>	<u>-</u>	<u>125,340,694</u>	<u>125,411,184</u>

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

At 31 December 2014

	Less than 3 months HK\$	3 to 12 months HK\$	Total HK\$
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	50,067,740	-	50,067,740
Cash and bank balances	1,574,852	-	1,574,852
Interest receivable	551,559	108,238	659,797
Financial assets included in other receivables	17,690	-	17,690
Total financial assets	<u>52,211,841</u>	<u>108,238</u>	<u>52,320,079</u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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

Risk management (continued)

Liquidity risk (continued)

At 31 December 2014 (continued)

	Less than 3 months HK\$	3 to 12 months HK\$	Total HK\$
<u>Financial liabilities</u>			
Management fee payable	23,582	-	23,582
Trustee fee payable	7,075	-	7,075
Other payables and accruals	250	-	250
Total financial liabilities	30,907	-	30,907

Credit and counterparty risk

The Sub-Fund is exposed to credit risk, which is the risk that the counterparty 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 invests in a diversified portfolio of fixed income securities, the selection of which is based upon fundamental research analysis, to mitigate this risk. The Sub-Fund limits its exposure to credit risk by transacting the majority of its securities issued by issuers with a suitable credit rating, and contractual commitment activity with broker-dealers and financial institutions with high credit ratings that the Sub-Fund considers to be well established.

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 2015 and 31 December 2014.

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.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A Sub-Fund of China Universal International Series)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

13. 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 year ended 31 December 2015 (for the period ended 31 December 2014: nil).

14. EVENTS AFTER THE REPORTING PERIOD

During the period between the reporting date and the date of authorisation of these financial statements, the Sub-Fund has a total subsequent subscription of HK\$6,846,800.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 22 April 2016.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED INVESTMENT PORTFOLIO

31 December 2015

	Holding/ Nominal value	Fair value HK\$	% of net assets
Listed/quoted debt securities			
<i>British Virgin Islands</i>			
Denominated in HK\$			
HLP FINANCE LTD 4.35% S/A 20JAN2021	1,000,000	1,058,596	0.84%
K WAH INTL FINANCIAL SERVICES LTD 4.35% Q 22JUL2021	1,000,000	1,028,846	0.82%
MELCO FINANCE LTD 4.15% Q 05MAR2018	1,000,000	1,002,500	0.80%
NWD MTN LTD 5.9% S/A 18SEP2023	4,000,000	4,492,472	3.58%
TONG JIE LTD CB 0% A 18FEB2018	6,000,000	6,153,720	4.92%
<i>Cayman Islands</i>			
Denominated in HK\$			
CHEUNG KONG BOND FINANCE LTD 5.1% Q 07APR2016	1,000,000	1,010,329	0.81%
CHEUNG KONG FINANCE MTN LTD 4.35% Q 20JAN2020	1,000,000	1,066,227	0.85%
KINGSOFT CORP LTD CB 1.25% S/A 11APR2019	6,000,000	5,785,320	4.62%
MTR CORP (CI) 4.95% Q 21OCT2019	1,000,000	1,118,750	0.89%
MTR CORP (CI) LTD 2.25% Q 04DEC2025	2,000,000	2,005,100	1.60%
SUN HUNG KAI PRO (CAP) 4.67% Q 09FEB2016	1,500,000	1,505,355	1.20%
SWIRE PACIFIC MTN FINANCING LTD 2.85% Q 18JUL2022	4,000,000	3,977,000	3.17%
Denominated in US\$			
CENTRAL CHINA REAL ESTATE LTD 8.75% S/A 23JAN2021	400,000	3,050,675	2.43%
COUNTRY GARDEN HLDGS CO LTD 7.875% S/A 27MAY2019 REGS	500,000	4,170,647	3.33%
EVERGRANDE REAL ESTATE GROUP LTD 8.75% S/A 30OCT2018 REGS	500,000	3,945,298	3.15%
KWG PROPERTY HLDG LTD 13.25% S/A 22MAR2017	500,000	4,240,093	3.38%
YUZHOU PROPERTIES CO LTD 8.75% S/A 04OCT2018	445,000	3,605,128	2.88%

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED INVESTMENT PORTFOLIO (continued)

31 December 2015

	Holding/ Nominal value	Fair value HK\$	% of net assets
Listed/quoted debt securities (continued)			
<i>Hong Kong</i>			
Denominated in HK\$			
DAH SING BANK LTD 2.28% Q 07NOV2018 FXCD	1,000,000	1,005,875	0.80%
DBS BANK HONG KONG LTD 3.86% Q 20JAN2020 FXCD	1,000,000	1,056,962	0.84%
FAR EAST HORIZON LTD 4.35% Q 14MAR2020	2,000,000	1,999,398	1.60%
HANG SENG BANK LTD 2.25% Q 11MAY2020 FXCD	5,000,000	5,035,495	4.02%
HK GOVT 1.52% S/A 25SEP2018	1,000,000	1,022,370	0.82%
HK GOVT 3.78% S/A 06DEC2016	4,000,000	4,133,640	3.30%
HK MTG CO 0% A 19SEP2016	1,000,000	992,610	0.79%
HK MTG CO 2% Q 11JAN2016	1,000,000	1,000,140	0.80%
HONG KONG AIRPORT AUTHORITY 3.85% A 03JUL2019	5,000,000	5,406,150	4.31%
HONG KONG GOVERNMENT BOND PROGRAMME 0.34% S/A 09MAY2016	4,000,000	4,002,280	3.19%
HONG KONG GOVERNMENT BOND PROGRAMME 0.61% S/A 05FEB2018	5,000,000	5,006,250	3.99%
HONG KONG GOVERNMENT BOND PROGRAMME 1.06% S/A 05FEB2020	2,000,000	2,004,740	1.60%
HONG KONG GOVERNMENT BOND PROGRAMME 1.1% S/A 17JAN2023	3,000,000	2,937,780	2.34%
HONG KONG GOVERNMENT BOND PROGRAMME 2.22% S/A 07AUG2024	3,000,000	3,138,120	2.50%
HONG KONG GOVERNMENT BOND PROGRAMME 2.46% S/A 04AUG2021	2,000,000	2,127,920	1.70%
HONG KONG SAR GOVERNMENT BOND 5.125% S/A 23JUL2019	2,000,000	2,262,500	1.81%
KOWLOON-CANTON 3.88% S/A 15JUN2021	1,000,000	1,088,710	0.87%
OCBC WING HANG BANK LTD 2.6% Q 16JUL2018 FXCD	1,000,000	1,020,938	0.81%
SWIRE PROPERTIES MTN FINANCING LTD 2.8% Q 26MAR2025	3,000,000	2,924,862	2.33%
WHARF FINANCE LTD 2.65% Q 11JAN2018	2,000,000	2,013,200	1.61%
WHARF FINANCE LTD 3% Q 23OCT2018	1,500,000	1,518,630	1.21%
WHARF FINANCE NO 1 LTD 2.9% Q 27NOV2018	1,000,000	1,012,430	0.81%

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED INVESTMENT PORTFOLIO (continued)

31 December 2015

	Holding/ Nominal value	Fair value HK\$	% of net assets
Listed/quoted debt securities (continued)			
<i>Hong Kong (continued)</i>			
Denominated in HK\$			
WHEELOCK FINANCE LTD 2.7% Q 18JAN2018	2,000,000	2,013,116	1.61%
WHEELOCK FINANCE LTD 4.05% A 04MAY2017	1,000,000	1,024,429	0.82%
<i>United Arab Emirates</i>			
Denominated in HK\$			
NATIONAL BANK OF ABU DHABI 4.6% Q 29JAN2021 FXCD	2,000,000	2,210,880	1.76%
TOTAL INVESTMENTS, AT FAIR VALUE		107,175,481	85.51%
TOTAL INVESTMENTS, AT COST		106,227,684	

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED MOVEMENT IN INVESTMENT PORTFOLIO

31 December 2015

	Movement			
	At 1 January 2015	Additions	Disposals	At 31 December 2015
LISTED/QUOTED DEBT SECURITIES				
British Virgin Islands				
Denominated in HK\$				
HLP FINANCE LTD 4.35% S/A 20JAN2021	1,000,000	-	-	1,000,000
K WAH INTL FINANCIAL SERVICES LTD 4.35% Q 22JUL2021	-	1,000,000	-	1,000,000
MELCO FINANCE LTD 4.15% Q 05MAR2018	1,000,000	-	-	1,000,000
NWD MTN LTD 5.9% S/A 18SEP2023	4,000,000	-	-	4,000,000
TONG JIE LTD CB 0% A 18FEB2018	2,000,000	6,000,000	(2,000,000)	6,000,000
Cayman Islands				
Denominated in HK\$				
CHEUNG KONG BOND FINANCE LTD 5.1% Q 07APR2016	1,000,000	-	-	1,000,000
CHEUNG KONG FINANCE MTN LTD 4.35% Q 20JAN2020	1,000,000	-	-	1,000,000
KINGSOFT CORP LTD CB 1.25% S/A 11APR2019	-	6,000,000	-	6,000,000
MTR CORP (CI) 4.95% Q 21OCT2019	1,000,000	-	-	1,000,000
MTR CORP (CI) LTD 2.25% Q 04DEC2025	-	2,000,000	-	2,000,000
MTR CORP (CI) LTD 4.5 % Q 11MAY2015	1,000,000	-	(1,000,000)	-
SHENZHOU INTL GROUP HLDGS LTD 0.5% S/A 18JUN2019	2,000,000	-	(2,000,000)	-
SUN HUNG KAI PRO (CAP)4.67% Q 09FEB2016	1,500,000	-	-	1,500,000
SWIRE PACIFIC MTN FINANCING LTD 2.85% Q 18JUL2022	-	4,000,000	-	4,000,000
Denominated in US\$				
CENTRAL CHINA REAL ESTATE LTD 8.75% S/A 23JAN2021	-	400,000	-	400,000
CIFI HLDGS GROUP CO LTD 12.25% S/A 15APR2018	500,000	-	(500,000)	-
COUNTRY GARDEN HLDGS CO LTD 7.875% S/A 27MAY2019 REGS	-	500,000	-	500,000
EVERGRANDE REAL ESTATE GROUP LTD 8.75% S/A 30OCT2018 REGS	-	500,000	-	500,000

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED MOVEMENT IN INVESTMENT PORTFOLIO

31 December 2015

	Movement			
	At 1 January 2015	Additions	Disposals	At 31 December 2015
LISTED/QUOTED DEBT SECURITIES				
(continued)				
<i>Cayman Islands (continued)</i>				
Denominated in US\$				
KWG PROPERTY HLDG LTD 13.25% S/A 22MAR2017	-	500,000	-	500,000
SHUI ON DEVELOPMENT HLDG LTD 9.75% S/A 16FEB2015	500,000	-	(500,000)	-
SUNAC CHINA HLDGS LTD 12.5% S/A 16OCT2017 REGS	-	500,000	(500,000)	-
SUNAC CHINA HLDGS LTD 8.75% S/A 05DEC2019	-	500,000	(500,000)	-
YUZHOU PROPERTIES CO LTD 8.625% S/A 24JAN2019	500,000	-	(500,000)	-
YUZHOU PROPERTIES CO LTD 8.75% S/A 04OCT2018	-	945,000	(500,000)	445,000
<i>Hong Kong</i>				
Denominated in HK\$				
DAH SING BANK LTD 2.28% Q 07NOV2018 FXCD	1,000,000	-	-	1,000,000
DBS BANK HONG KONG LTD 3.86% Q 20JAN2020 FXCD	1,000,000	-	-	1,000,000
FAR EAST HORIZON LTD 4.35% Q 14MAR2020	2,000,000	-	-	2,000,000
HANG SENG BANK LTD 2.25% Q 11MAY2020 FXCD	-	5,000,000	-	5,000,000
HK GOVT 1.52% S/A 25SEP2018	1,000,000	-	-	1,000,000
HK GOVT 3.78% S/A 06DEC2016	-	4,000,000	-	4,000,000
HK MTG CO 0% A 19SEP2016	1,000,000	-	-	1,000,000
HK MTG CO 2% Q 11JAN2016	1,000,000	-	-	1,000,000
HONG KONG AIRPORT AUTHORITY 3.85% A 03JUL2019	-	5,000,000	-	5,000,000
HONG KONG GOVERNMENT BOND PROGRAMME 0.34% S/A 09MAY2016	-	4,000,000	-	4,000,000
HONG KONG GOVERNMENT BOND PROGRAMME 0.61% S/A 05FEB2018	1,000,000	4,000,000	-	5,000,000

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED MOVEMENTS IN INVESTMENT PORTFOLIO (continued)

31 December 2015

	Movement			
	At 1 January 2015	Additions	Disposals	At 31 December 2015
LISTED/QUOTED DEBT SECURITIES (continued)				
Hong Kong (continued)				
Denominated in HK\$				
HONG KONG GOVERNMENT BOND PROGRAMME 1.06% S/A 05FEB2020	-	2,000,000	-	2,000,000
HONG KONG GOVERNMENT BOND PROGRAMME 1.1% S/A 17JAN2023	-	3,000,000	-	3,000,000
HONG KONG GOVERNMENT BOND PROGRAMME 1.43% S/A 02DEC2015	-	4,000,000	(4,000,000)	-
HONG KONG GOVERNMENT BOND PROGRAMME 2.22% S/A 07AUG2024	-	3,000,000	-	3,000,000
HONG KONG GOVERNMENT BOND PROGRAMME 2.46% S/A 04AUG2021	-	2,000,000	-	2,000,000
HONG KONG SAR GOVERNMENT BOND 5.125% S/A 23JUL2019	2,000,000	-	-	2,000,000
KOWLOON-CANTON 3.88% S/A 15JUN2021	1,000,000	-	-	1,000,000
OCBC WING HANG BANK LTD 2.6% Q 16JUL2018 FXCD	1,000,000	-	-	1,000,000
SWIRE PROPERTIES MTN FINANCING LTD 2.8% Q 26MAR2025	-	3,000,000	-	3,000,000
WHARF FINANCE LTD 2.65% Q 11JAN2018	2,000,000	-	-	2,000,000
WHARF FINANCE LTD 3% Q 23OCT2018	1,500,000	-	-	1,500,000
WHARF FINANCE NO 1 LTD 2.9% Q 27NOV2018	1,000,000	-	-	1,000,000
WHEELOCK FINANCE LTD 2.7% Q 18JAN2018	2,000,000	-	-	2,000,000
WHEELOCK FINANCE LTD 4.05% A 04MAY2017	-	1,000,000	-	1,000,000
WING HANG BANK LTD 1.3% A 22JUL2015 FXCD	1,000,000	-	(1,000,000)	-
United Arab Emirates				
Denominated in HK\$				
NATIONAL BANK OF ABU DHABI 4.6% Q 29JAN2021 FXCD	2,000,000	-	-	2,000,000

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM HONG KONG DOLLAR BOND FUND
(A sub-fund of China Universal International Series)

UNAUDITED PERFORMANCE TABLE

31 December 2015

1. NET ASSET VALUE

	Net asset value per unit HK\$	Total net asset value HK\$
As at 31 December 2015		
- Class A units	10.069	51,018,279
- Class I units	10.278	74,322,415
As at 31 December 2014 ¹		
- Class A units	N/A	N/A
- Class I units	10.046	52,289,172

¹ Inception on 2 September 2013

2. HIGHEST ISSUE AND LOWEST REDEMPTION PRICES PER UNIT

	Highest subscription unit price HK\$	Lowest redemption unit price HK\$
For the year ended 31 December 2015		
- Class A units	10.161	9.943
- Class I units	10.365	9.988
For the period from 2 September 2013 (date of inception) to 31 December 2014		
- Class A units	N/A	N/A
- Class I units	10.348	9.941