

ANNUAL REPORT

CHINA UNIVERSAL INTERNATIONAL SERIES –
CUAM CHINA-HONG KONG STRATEGY FUND

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

31 December 2017

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

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CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY 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
ZHANG Hui

SOLICITORS TO THE MANAGER

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

TRUSTEE AND REGISTRAR

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

AUDITOR

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

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY FUND
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REPORT OF THE MANAGER TO THE UNITHOLDERS

Fund Performance

For the year ended 31 December 2017, the Class I HKD units of CUAM China-Hong Kong Strategy Fund had an accumulated gain of 63.38%. The Class A HKD units of CUAM China-Hong Kong Strategy Fund had an accumulated gain of 62.56%.

Since the inception on 16 November 2012, Class I HKD units achieved an accumulative return of 109.81%. The Class A HKD units of CUAM China-Hong Kong Strategy Fund had an accumulated gain of 28.05% since its inception date on 17 April 2015. The Class A USD units of CUAM China-Hong Kong Strategy Fund had an accumulated gain of 28.90% since its inception date on 18 May 2017.

Market Review

MSCI China Index, Hang Seng Index and Hang Seng China Enterprises Index went up 52.34%, 35.99%, and 24.64% respectively in 2017. Hong Kong stock market performed very well in 2017, mainly driven by valuation recovery led by continuous capital inflow from Hong Kong stock connect channel, and fueled by corporate profit growth backed by relatively strong economy. We believe that China economy will remain relatively stable, and the recovery of world economy would be positive to China's export. We see industry consolidation among various sectors, and high-quality leaders in each industry are expanding their market share through technology and capital advantages. From fund flow perspective, we continue to see both Mainland and overseas capital flowing into Hong Kong market, as Hong Kong stock market valuation is still attractive and there are high-quality stocks with relatively high growth rates and reasonable valuation.

Market Outlook

We are relatively optimistic on Hong Kong stock market due to the above fundamental and capital flow reasons. From mid-to-long run, we favor the following investment theses: internet giants who are enjoying deeper moat in the current user flow monopoly environment; consumption upgrades and domestic product substitution in home appliances and auto industry; pharmaceutical giants with excellent research and development and sales who could take market share in the current chaotic situation; banks with lower non-performing loans rate as China economy is recovering slowing, awaiting valuation recovery; insurers with penetration rate improve, product shift and a higher interest rate environment who could achieve stable profit growth, etc.

For and on behalf of

China Universal Asset Management (Hong Kong) Company Limited, the Manager

26 April 2018

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY 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 China-Hong Kong Strategy Fund for the year ended 31 December 2017 in accordance with the provisions of the trust deed dated 29 December 2011 as amended by four supplemental deeds dated 5 October 2012, 15 July 2013, 25 August 2016 and 12 January 2017 (collectively, the "Trust Deed").

On behalf of
BOCI-Prudential Trustee Limited, the Trustee

26 April 2018

Independent auditor's report

To the Trustee and the Manager of

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY FUND
(A Sub-Fund of China Universal International Series, an umbrella unit trust established under the laws of Hong Kong)

Opinion

We have audited the financial statements of China Universal International Series – CUAM China-Hong Kong Strategy Fund (a sub-fund of China Universal International Series (the "Trust") and referred to as the "Sub-Fund") set out on pages 7 to 32, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Sub-Fund in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Annual Report

The Manager and the Trustee of the Sub-Fund are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report (continued)

To the Trustee and the Manager of

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY FUND
(A Sub-Fund of China Universal International Series, an umbrella unit trust established under the laws of Hong Kong)

Responsibilities of the Manager and the Trustee for the financial statements

The Manager and the Trustee of the Sub-Fund are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee of the Sub-Fund are responsible for assessing the Sub-Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee either intend to liquidate the Sub-Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the trust deed dated 29 December 2011 as amended by four supplemental deeds dated 5 October 2012, 15 July 2013, 25 August 2016 and 12 January 2017 (collectively, the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report (continued)

To the Trustee and the Manager of

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM CHINA-HONG KONG STRATEGY FUND

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

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee.
- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sub-Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code

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

Certified Public Accountants
Hong Kong
26 April 2018

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 HK\$	2016 HK\$
INCOME			
Dividend income		4,785,231	3,865,749
Interest income		1,249	1,690
Net gains on financial assets at fair value through profit or loss	8	<u>129,149,956</u>	<u>5,381,779</u>
		<u>133,936,436</u>	<u>9,249,218</u>
EXPENSES			
Management fee	4	(2,266,480)	(1,150,848)
Trustee fee	4	(478,223)	(420,000)
Custodian fee	4	(54,812)	(27,783)
Broker commission and investment transaction fee		(663,379)	(781,285)
Other expenses		<u>(127,311)</u>	<u>(51,549)</u>
		<u>(3,590,205)</u>	<u>(2,431,465)</u>
PROFIT BEFORE TAX		130,346,231	6,817,753
Income tax	5	<u>(260,321)</u>	<u>(123,195)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u><u>130,085,910</u></u>	<u><u>6,694,558</u></u>

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

STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK\$	2016 HK\$
ASSETS			
Financial assets at fair value through profit or loss	8	407,361,482	166,117,514
Cash and bank balances	9	16,564,235	6,020,477
Due from a broker	6	-	3,505,167
Prepayment and other receivables		19,103	126,932
Subscription proceeds receivable		<u>479,846</u>	<u>-</u>
TOTAL ASSETS		<u><u>424,424,666</u></u>	<u><u>175,770,090</u></u>
LIABILITIES			
Management fee payable	4	285,699	108,813
Trustee fee payable	4	51,752	35,000
Due to a broker	6	-	5,177,320
Other payables and accruals		300	5,453
Redemption proceeds payable		<u>3,714,460</u>	<u>-</u>
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u><u>4,052,211</u></u>	<u><u>5,326,586</u></u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u><u>420,372,455</u></u>	<u><u>170,443,504</u></u>
NUMBER OF UNITS IN ISSUE			
- Class A (HKD) units	10	3,524,805.242	16,733.076
- Class I (HKD) units	10	16,524,142.205	13,262,287.674
- Class A (USD) units	10	2,787,993.459	-
- Class A (RMB) units	10	40,000.000	-
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS PER UNIT			
		HK\$	HK\$
- Class A (HKD) units		12.804	7.876
- Class I (HKD) units		20.980	12.842
		US\$	US\$
- Class A (USD) units		1.289	-
		RMB	RMB
- Class A (RMB) units		9.999	-

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 CHINA-HONG KONG STRATEGY FUND
(A Sub-Fund of China Universal International Series)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2017

	HK\$
At 1 January 2016	159,698,784
Subscription of units	10,099,000
Redemption of units	(6,048,838)
Increase in net assets attributable to unitholders during the year	<u>6,694,558</u>
At 31 December 2016 and 1 January 2017	170,443,504
Subscription of units	167,031,445
Redemption of units	(47,188,404)
Increase in net assets attributable to unitholders during the year	<u>130,085,910</u>
At 31 December 2017	<u><u>420,372,455</u></u>

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

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 HK\$	2016 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		130,346,231	6,817,753
Adjustments for:			
Interest income on bank deposits		(1,249)	(1,690)
Dividend income		(4,785,231)	(3,865,749)
		<u>125,559,751</u>	<u>2,950,314</u>
Increase in financial assets at fair value through profit or loss		(241,243,968)	(6,837,774)
Decrease/(increase) in amount due from a broker		3,505,167	(3,505,167)
Decrease/(increase) in prepayment and other receivables		107,829	(100,054)
Increase in management fee payable		176,886	7,010
Increase in trustee fee payables		16,752	-
(Decrease)/increase in amount due to a broker		(5,177,320)	5,177,320
(Decrease)/increase in other payables and accruals		(5,153)	2,901
		<u>(117,060,056)</u>	<u>(2,305,450)</u>
Net cash used in operations			
Interest received		1,249	1,690
Dividend received, net of tax		4,524,910	3,742,554
Net cash flows (used in)/from operating activities		<u>(112,533,897)</u>	<u>1,438,794</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of units		166,551,599	10,099,000
Payments on redemption of units		(43,473,944)	(6,048,838)
Net cash flows from financing activities		<u>123,077,655</u>	<u>4,050,162</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,543,758	5,488,956
Cash and cash equivalents at beginning of year		<u>6,020,477</u>	<u>531,521</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>16,564,235</u>	<u>6,020,477</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	9	<u>16,564,235</u>	<u>6,020,477</u>

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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 four supplemental deeds dated 5 October 2012, 15 July 2013, 25 August 2016 and 12 January 2017 (collectively, the "Trust Deed"). As at 31 December 2017, the Trust consists of four sub-funds namely CUAM RMB Bondplus Fund, CUAM China-Hong Kong Strategy Fund, CUAM Hong Kong Dollar Bond Fund and CUAM Select US Dollar Bond Fund.

CUAM China-Hong Kong Strategy Fund (the "Sub-Fund") was commenced as a separate sub-fund of the Trust on 16 November 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"). Authorisation by the SFC does not imply official approval or recommendation.

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 fee. For the year ended 31 December 2017, Class A units and Class I units were in issue.

The investment objective of the Sub-Fund is to achieve medium to long-term capital growth through investing primarily in securities of companies which are established in the People's Republic of China ("PRC"), Hong Kong, Macau and Taiwan ("Greater China") or having their income, revenue, assets, economic activities, business or operations associated with Greater China.

At least 70% of the Sub-Fund's net asset value will be invested in a portfolio of (a) equity securities (including but not limited to ordinary shares, preferred shares, American Depositary Receipts, Global Depositary Receipts) of companies which are established in mainland China or Hong Kong or having their income, revenue, assets, economic activities, business or operations associated with mainland China and/or Hong Kong ("China-Hong Kong Companies"); and (b) debt securities instruments (including but not limited to long-term bonds, medium-term notes, bills and convertible bonds) issued by China-Hong Kong Companies and governments, government agencies and supra-national issuers in mainland China or Hong Kong.

The Sub-Fund may invest not more than 20% of its net asset value in onshore mainland China market through various means, including but without limitation, using Renminbi Qualified Foreign Institutional Investors ("RQFII") quota of the Manager (as RQFII holder), or through investment in other collective investment schemes, or through the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect or such other means as may be permitted under applicable laws and regulations from time to time.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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 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; except that the Sub-Fund has adopted the following new revised accounting standard:

Amendments to HKAS 7 *Disclosure Initiative*

The nature and the impact of the amendments are described below:

Amendments to HKAS 7 - *Disclosure Initiative*

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The adoption of these amendments does not have any impact on the Sub-Fund's financial statements.

2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED

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

HKFRS 9 *Financial Instrument*¹

¹ Effective for annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED (continued)

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 will adopt HKFRS 9 from 1 January 2018. The Sub-Fund will not restate comparative information and will recognise any transition adjustments against the opening balance of net assets attributable to unitholders at 1 January 2018. During 2017, the Sub-Fund has performed a detailed assessment of the impact of the adoption of HKFRS 9. The Sub-Fund does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement, and impairment of its financial assets.

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. 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, subscription proceeds receivable, due from a broker and other receivables.

Financial liabilities at amortised cost

The Sub-Fund includes in this category amounts relating to management fee payable, trustee fee payable, redemption proceeds payable, due to a broker and other payables and accruals.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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 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 gains or losses on financial assets at fair value through profit or loss". Dividend revenue elements of such instruments are recorded separately in "Dividend income".

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 2017

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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. 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 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.

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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 as part of the 'net gains on financial assets 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\$.

Due to a broker

Due to a broker is payable for securities purchased (in a regular way transaction) that has been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for financial liabilities, other than those classified as at fair value through profit or loss, for recognition and measurement.

Due from a broker

Due from a broker is receivable for securities sold (in a regular way transaction) that has been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for loans and receivables for recognition and measurement.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets attributable to unitholders (continued)

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.

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 profit or loss for all interest-bearing financial instruments as it accrues, using the effective interest method.

Dividend income

Dividend income is recognised when the Sub-Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in profit or loss.

Net gains 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 and dividend income.

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

Realised gains and losses on disposals of financial assets 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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 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. The Manager does not intend to make any distribution of income in respect of the Sub-Fund.

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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 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 assumptions and 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.

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:

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.

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

Holdings of the Sub-Fund (continued)

The holdings of Class I (HKD) units of the Sub-Fund by the Manager as at 31 December 2017 were as follows:

At 31 December 2017

	Units outstanding at 31 December 2016	Units subscribed during the year	Units redeemed during the year	Units outstanding at 31 December 2017
CUAM China-Hong Kong Strategy Fund – Class I (HKD)	<u>10,005,236.681</u>	<u>513,378.588</u>	<u>-</u>	<u>10,518,615.269</u>

The holdings of Class I (HKD) units of the Sub-Fund by the Manager as at 31 December 2016 were as follows:

At 31 December 2016

	Units outstanding at 31 December 2015	Units subscribed during the year	Units redeemed during the year	Units outstanding at 31 December 2016
CUAM China-Hong Kong Strategy Fund – Class I (HKD)	<u>10,005,236.681</u>	<u>-</u>	<u>-</u>	<u>10,005,236.681</u>

Brokerage commission

BOCI Securities Limited, an affiliate of the Trustee, rendered brokerage services for the Sub-Fund's purchases and sales of securities. During the year ended 31 December 2017, the transaction details were as follows:

2017

	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 %
BOCI Securities Limited	<u>15,856,112</u>	<u>4,757</u>	<u>3.16%</u>	<u>0.03%</u>

The Sub-Fund did not enter into any transactions with any related broker for the year ended 31 December 2016.

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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. Further details of the bank balances held are described in note 8 to the financial statements. During the year, interest income on these bank balances was HK\$1,249 (2016: HK\$1,690).

Management fee

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 1.25% for Class A units and 0.75% 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 holders of redeemable units of each class of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

Trustee fee

The Trustee is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at a rate of 0.15% 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 holders of redeemable units 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.

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.

Certain charges, fees and expenses borne by the Manager

Pursuant to the Explanatory Memorandum dated December 2017 of the Sub-Fund, 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 2017, the Manager borne and paid a total sum of HK\$657,418 (2016: HK\$467,439) for the Sub-Fund.

Investment handling fee

The Sub-Fund pays investment handling fee of HK\$100 per transaction to the Trustee. For the year ended 31 December 2017, no investment handling fee was charged to the Sub-Fund as this was borne by the Manager (2016: Nil).

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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 is levied on dividend and interest derived by foreign investors from PRC companies which would have the obligation to withhold the tax on behalf of the foreign investors. As such, the issuers would have the obligation to withhold the tax on behalf of the Sub-Fund for the 10% withholding tax imposed on dividend and interest income. The Sub-Fund has recognised dividend income of listed equity securities. The withholding tax of listed equity securities for the year ended 31 December 2017 was HK\$260,321 (2016: HK\$123,195).

6. DUE FROM/TO A BROKER

	2017 HK\$	2016 HK\$
Due from a broker		
- receivables for securities sold but not yet settled	<u>-</u>	<u>3,505,167</u>
Due to a broker		
- payables for securities purchased but not yet settled	<u>-</u>	<u>5,177,320</u>

The carrying amounts of amounts due from and to a broker are approximate to their fair value.

7. DISTRIBUTION

According to the distribution policy as stated in the Explanatory Memorandum of the Sub-Fund, the Manager does not intend to make any distribution of income in respect of the Sub-Fund.

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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK\$	2016 HK\$
Held for trading:		
Listed equity securities	<u>407,361,482</u>	<u>166,117,514</u>
Net gains recognised in relation to financial assets at fair value through profit or loss:		
Realised gains/(losses)	21,746,979	(15,297,322)
Net change in unrealised gains or losses	<u>107,402,977</u>	<u>20,679,101</u>
Net gains	<u>129,149,956</u>	<u>5,381,779</u>

The fair value of financial assets traded in active markets is based on quoted market prices at the close of trading on the reporting date. The quoted market price used for financial assets held by the Sub-Fund is the last traded price.

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.

The following table shows an analysis of the Sub-Fund's financial assets measured at fair value at 31 December 2017 and at 31 December 2016.

At 31 December 2017

	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 through profit or loss – held for trading:</u>				
Listed equity securities	<u>407,361,482</u>	<u>-</u>	<u>-</u>	<u>407,361,482</u>

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

At 31 December 2016

	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 through profit or loss – held for trading:</u>				
Listed equity securities	<u>166,117,514</u>	<u>-</u>	<u>-</u>	<u>166,117,514</u>

When fair values of listed equity securities at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

There are no investments classified within Level 2 and Level 3 and no transfers of fair value measurements between Level 1 and Level 2 during the year ended 31 December 2017 and 31 December 2016.

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/(redemption) of units of the Sub-Fund during the year:

	Number of Class A (RMB) units	Number of Class A (USD) units	Number of Class A (HKD) units	Number of Class I (HKD) units
At 1 January 2016	-	-	4,912.180	12,986,339.747
Subscription of units	-	-	11,820.896	745,323.098
Redemption of units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(469,375.171)</u>
At 31 December 2016 and 1 January 2017	-	-	16,733.076	13,262,287.674
Subscription of units	40,000.000	2,794,958.548	4,452,007.190	5,502,800.854
Redemption of units	<u>-</u>	<u>(6,965.089)</u>	<u>(943,935.024)</u>	<u>(2,240,946.323)</u>
At 31 December 2017	<u>40,000.000</u>	<u>2,787,993.459</u>	<u>3,524,805.242</u>	<u>16,524,142.205</u>

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10. NUMBER OF UNITS IN ISSUE (continued)

Unitholders of the Sub-Fund who wish to redeem their redeemable participating units may do so on any dealing day, i.e. every Hong Kong business day of the calendar year, by submitting a realisation request to the Manager or authorised distributors before the dealing deadline, i.e. 4:00 p.m. (Hong Kong time) on the relevant dealing day. Unless otherwise stated in the explanatory memorandum of the Sub-Fund, realisation requests received after the dealing deadline will be carried forward and dealt with on the next dealing day.

The Manager may suspend the redemption or conversions of redeemable participating units or delay the payment of redemption proceeds during any periods in which the determination of the net asset value of the Sub-Fund is suspended under certain conditions as set out in the explanatory memorandum of the Sub-Fund.

With a view to protecting the interests of unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of units of any Sub-Fund redeemed on any dealing day to 10% of the total number of units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all unitholders of the Sub-Fund who have validly requested to redeem units of the Sub-Fund on that dealing day will redeem the same proportion of such units of the Sub-Fund provided that any holdings so requested to be realised being in aggregate of not more than 1% of the total number of units of any Sub-Fund in issue may be realised in full if in the opinion of the Manager with the Trustee's approval the application of such limitation would be unduly onerous or unfair to the unitholder or unitholders concerned. Any units not realized (but which would otherwise have been realised) will be carried forward for realisation, subject to the same limitation, and will have priority on the next succeeding dealing day and all following dealing days (in relation to which the Manager has the same power) until the original request has been satisfied in full.

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 equity price risk, 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.

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

Risk management (continued)

Market risk (continued)

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

- Equity price risk
- Interest rate risk
- Foreign exchange risk

Equity price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, either caused by factors specific to the individual instrument or factors affecting all instruments in the market. The Sub-Fund is exposed to equity price risk as changes in prices of equity instruments of its investments will affect its net asset value. Equity price risk can be mitigated by constructing a diversified portfolio of investment across different issuers, different sectors or traded on different markets by the investment strategies of investment manager.

Management's estimation of the effect on changes in net assets attributable to unitholders for the period due to a reasonably possible change in the applicable equity index, MSCI China Index¹, which is an internally predetermined reference for equity 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 2017

	Change in equity prices	Effect on net assets attributable to unitholders and on changes in net assets attributable to unitholders for the year HK\$/Unit
MSCI China Index ¹	±5%	±1.017

At 31 December 2016

	Change in equity prices	Effect on net assets attributable to unitholders and on changes in net assets attributable to unitholders for the year HK\$/Unit
MSCI China Index ¹	±5%	±0.625

¹ The index is for reference only, not for benchmark

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

Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in market interest rates.

The Manager considers that the Sub-Fund is not subject to significant risk due to fluctuations in the prevailing level of market interest rate. As the Sub-Fund has no investments in fixed income assets, the Manager considers that changes in the fair value of the investment portfolio of the Sub-Fund in the event of a change in market interest rates will not be material. Therefore, no sensitivity analysis of the investment portfolio of the Sub-Fund 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 has no significant foreign currency risk because most of the transactions are conducted in the HK\$, which are the Sub-Fund's own functional currencies. Other transactions are denominated in United States dollars ("US\$") and Renminbi ("RMB"). 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 asset. 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 Sub-Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Sub-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.

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

Risk management (continued)

Liquidity risk (continued)

Financial assets

Analysis of equity 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 2017

	Less than 3 months HK\$	3 to 6 months HK\$	Others* HK\$	Total HK\$
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	407,361,482	-	-	407,361,482
Cash and bank balances	16,564,235	-	-	16,564,235
Subscription proceeds receivable	479,846	-	-	479,846
Financial assets included in prepayment and other receivables	<u>12,709</u>	<u>-</u>	<u>-</u>	<u>12,709</u>
Total financial assets	<u>424,418,272</u>	<u>-</u>	<u>-</u>	<u>424,418,272</u>
<u>Financial liabilities</u>				
Management fee payable	285,699	-	-	285,699
Trustee fee payable	51,752	-	-	51,752
Other payables and accruals	300	-	-	300
Redemption proceeds payable	3,714,460	-	-	3,714,460
Net assets attributable to unitholders*	<u>-</u>	<u>-</u>	<u>420,372,455</u>	<u>420,372,455</u>
Total financial liabilities	<u>4,052,211</u>	<u>-</u>	<u>420,372,455</u>	<u>424,424,666</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)

Financial assets (continued)

At 31 December 2016

	Less than 3 months HK\$	3 to 6 months HK\$	Others*	Total HK\$
<u>Financial assets</u>				
Financial assets at fair value				
through profit or loss	166,117,514	-	-	166,117,514
Cash and bank balances	6,020,477	-	-	6,020,477
Due from a broker	3,505,167	-	-	3,505,167
Financial assets included in prepayment and other receivables	<u>119,932</u>	<u>-</u>	<u>-</u>	<u>119,932</u>
Total financial assets	<u>175,763,090</u>	<u>-</u>	<u>-</u>	<u>175,763,090</u>
<u>Financial liabilities</u>				
Management fee payable	108,813	-	-	108,813
Trustee fee payable	35,000	-	-	35,000
Due to a broker	5,177,320	-	-	5,177,320
Other payables and accruals	5,453	-	-	5,453
Net assets attributable to unitholders*	<u>-</u>	<u>-</u>	<u>170,443,504</u>	<u>170,443,504</u>
Total financial liabilities	<u>5,326,586</u>	<u>-</u>	<u>170,443,504</u>	<u>175,770,090</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 the counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation.

All transactions by the Sub-Fund 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.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

Risk management (continued)

Credit and counterparty risk (continued)

The Sub-Fund's financial assets which are potentially subject to concentrations of counterparty risk consist principally of bank deposits and assets held with the custodian. The table below summarises the Sub-Fund's assets placed with banks and the custodian and their related credit ratings from Standard & Poor's ("S&P"):

At 31 December 2017

	HK\$	Credit rating	Source of credit rating
Bank			
Bank of China (Hong Kong) Limited	16,564,235	A+	S&P
Custodian			
Bank of China (Hong Kong) Limited	407,361,482	A+	S&P

At 31 December 2016

	HK\$	Credit rating	Source of credit rating
Bank			
Bank of China (Hong Kong) Limited	6,020,477	A+	S&P
Custodian			
Bank of China (Hong Kong) Limited	166,117,514	A+	S&P

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 2017 and 31 December 2016.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

12. SOFT COMMISSION ARRANGEMENTS

The Manager and its connected persons may enter into soft commission arrangements with brokers under which certain goods and services used to support investment decision making will be received. The Manager and its connected persons will not make direct payment for these services but will transact an agreed amount of business with the brokers on behalf of the Sub-Fund and commission will be paid on these transactions.

The goods and services must be of demonstrable benefit to the Sub-Fund and may include research and advisory services, computer hardware associated with specialised software or research services and performance insurance.

During the year ended 31 December 2017, no commission rebates was received by the Manager (2016: Nil).

13. 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 US\$3,179,529 and HK\$81,603,962, and redemption of US\$3,396,755 and HK\$54,150,800 respectively.

14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 26 April 2018.

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UNAUDITED INVESTMENT PORTFOLIO

31 December 2017

	Holdings	Fair Value HK\$	% of net assets
<u>LISTED EQUITY SECURITIES</u>			
Mainland China			
Denominated in HK\$			
WUXI LITTLE SWAN CO LTD-B	100	4,434	0.00
Hong Kong			
Denominated in HK\$			
3SBIO INC	1,302,000	19,972,680	4.75
AAC TECHNOLOGIES HLDGS INC	47,000	6,551,800	1.56
BRILLIANCE CHINA AUTOMOTIVE HLDGS LTD	988,000	20,649,200	4.91
BYD ELECTRONIC (INTL) CO LTD	527,000	8,969,540	2.13
CHINA CONSTRUCTION BANK CORP-H	4,166,000	29,995,200	7.14
CHINA MERCHANTS BANK CO LTD-H	677,000	21,054,700	5.01
CHINA PACIFIC INSURANCE (GROUP) CO-H	536,400	20,141,820	4.79
CIFI HLDGS GROUP CO LTD	5,680,000	26,752,800	6.36
CSPC PHARMACEUTICAL GROUP LTD	712,000	11,235,360	2.67
GEELY AUTOMOBILE HLDGS LTD	345,000	9,349,500	2.22
GUANGZHOU AUTOMOBILE GROUP CO LTD-H	370,000	6,852,400	1.63
HISENSE KELON ELECTRICAL HLDGS CO LTD-H	723,000	6,673,290	1.59
HONG KONG EXCHANGES & CLEARING LTD	145,800	34,962,840	8.32
HSBC HLDGS PLC	58,000	4,637,100	1.10
PING AN INSURANCE GROUP CO OF CHINA LTD-H	455,500	37,054,926	8.81
SINO BIOPHARMACEUTICAL LTD	1,000	13,860	0.00
TENCENT HLDGS LTD	100,200	40,681,200	9.68
TONG REN TANG TECHNOLOGIES CO LTD-H	238,000	2,689,400	0.64
ZHOU HEI YA INTL HLDGS CO LTD	885,000	7,257,000	1.73
United States			
Denominated in US\$			
ALIBABA GROUP HLDG LTD-SPONSORED-ADR	27,070	36,481,369	8.68
MOMO INC-ADR	104,610	20,014,957	4.76
NETEASE INC-ADR	6,480	17,476,411	4.16
NEW ORIENTAL EDUCATION & TECHNOLOGY-ADR	8,800	6,465,179	1.54
TAL EDUCATION GROUP-ADR	49,200	11,424,516	2.72
TOTAL LISTED/QUOTED INVESTMENTS		407,361,482	96.90
TOTAL INVESTMENTS, AT COST		293,923,849	

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UNAUDITED INVESTMENT PORTFOLIO (continued)

31 December 2017

	Fair Value HK\$	% of net assets
<u>TOTAL NET ASSETS</u>		
Total investment	407,361,482	96.90
Other net assets	13,010,973	3.10
Total net assets	<u>420,372,455</u>	<u>100.00</u>

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UNAUDITED MOVEMENT IN INVESTMENT PORTFOLIO

31 December 2017

	Movements				
	Holdings At 1 January 2017	Additions	Corporate Action	Disposals	Holdings At 31 December 2017
Listed equities					
Mainland China					
WUXI LITTLE SWAN CO LTD-B	100	-	-	-	100
Hong Kong					
3SBIO INC	518,000	1,302,000	-	(518,000)	1,302,000
AAC TECHNOLOGIES HLDGS INC	-	47,000	-	-	47,000
AGRICULTURAL BANK OF CHINA LTD-H	1,080,000	-	-	(1,080,000)	-
AIA GROUP LTD	78,000	210,200	-	(288,200)	-
BAIC MOTOR CORP LTD-H	-	667,000	-	(667,000)	-
BANK OF CHINA LTD-H	2,080,000	-	-	(2,080,000)	-
BEIJING ENTERPRISES WATER GROUP LTD	780,000	-	-	(780,000)	-
BRILLIANCE CHINA AUTOMOTIVE HLDGS LTD	-	988,000	-	-	988,000
BYD ELECTRONIC (INTL) CO LTD	-	527,000	-	-	527,000
CHINA CONSTRUCTION BANK CORP-H	680,000	4,447,000	-	(961,000)	4,166,000
CHINA DATANG CORP RENEWABLE POWER CO LTD-H	534,000	-	-	(534,000)	-
CHINA EVERBRIGHT INTL LTD	380,000	-	-	(380,000)	-
CHINA MERCHANTS BANK CO LTD-H	338,000	339,000	-	-	677,000
CHINA MOBILE LTD	68,000	-	-	(68,000)	-
CHINA PACIFIC INSURANCE (GROUP) CO-H	-	536,400	-	-	536,400
CHINA RAILWAY SIGNAL & COMMUNICATION CORP LTD-H	849,000	-	-	(849,000)	-
CHINA SUNTIEN GREEN ENERGY CORP LTD-H	5,680,000	-	-	(5,680,000)	-
CHINASOFT INTL LTD	-	1,722,000	-	(1,722,000)	-
CHONGQING RURAL COMMERCIAL BANK CO LTD-H	580,000	-	-	(580,000)	-
CIFI HLDGS GROUP CO LTD	1,680,000	4,000,000	-	-	5,680,000
CSPC PHARMACEUTICAL GROUP LTD	-	712,000	-	-	712,000
DAWN RAYS PHARMACEUTICAL (HLDGS) LTD	4,000	-	-	(4,000)	-
FUFENG GROUP LTD	1,000	-	-	(1,000)	-
GALAXY ENTERTAINMENT GROUP LTD	-	52,000	-	(52,000)	-
GEELY AUTOMOBILE HLDGS LTD	580,000	460,000	-	(695,000)	345,000

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UNAUDITED MOVEMENTS IN INVESTMENT PORTFOLIO (continued)

31 December 2017

	Movements				
	Holdings At 1 January 2017	Additions	Corporate Action	Disposals	Holdings At 31 December 2017
Listed equities (continued)					
Hong Kong (continued)					
GUANGZHOU AUTOMOBILE GROUP CO LTD-H	688,000	804,000	-	(1,122,000)	370,000
GUOTAI JUNAN INTL HLDGS LTD	980,000	-	-	(980,000)	-
HISENSE KELON ELECTRICAL HLDGS CO LTD-H	780,000	400,000	-	(457,000)	723,000
HONG KONG EXCHANGES & CLEARING LTD	21,800	134,000	-	(10,000)	145,800
HSBC HLDGS PLC	108,000	-	-	(50,000)	58,000
IMAX CHINA HLDG INC	-	188,000	-	(188,000)	-
LUYE PHARMA GROUP LTD	-	1,580,000	-	(1,580,000)	-
NEW CHINA LIFE INSURANCE CO LTD-H	-	116,000	-	(116,000)	-
PING AN INSURANCE GROUP CO OF CHINA LTD-H	-	455,500	-	-	455,500
SANDS CHINA LTD	-	60,000	-	(60,000)	-
SHANGHAI INDUSTRIAL URBAN DEVELOPMENT GROUP LTD	950,000	-	-	(950,000)	-
SHENZHEN INTL HLDGS LTD	-	384,000	-	(384,000)	-
SINO BIOPHARMACEUTICAL LTD	598,000	-	-	(597,000)	1,000
SINOPHARM GROUP CO LTD-H	58,000	-	-	(58,000)	-
SUN HUNG KAI PROPERTIES LTD	1,000	86,000	-	(87,000)	-
TENCENT HLDGS LTD	86,800	13,400	-	-	100,200
TENCENT HLDGS LTD-RIGHTS FOR CHINA LITERATURE LTD (EX 18OCT2017)	-	79	-	(79)	-
TIANJIN DEVELOPMENT HLDGS LTD	2,180,000	-	-	(2,180,000)	-
TIMES PROPERTY HLDGS LTD	1,180,000	-	-	(1,180,000)	-
TONG REN TANG TECHNOLOGIES CO LTD-H	238,000	-	-	-	238,000
UNITED LABORATORIES LTD	274,000	-	-	(274,000)	-
YUZHOU PROPERTIES CO LTD	10,000	-	-	(10,000)	-
ZHOU HEI YA INTL HLDGS CO LTD	885,000	-	-	-	885,000
United States					
ALIBABA GROUP HLDG LTD- SPONSORED ADR	18,000	12,070	-	(3,000)	27,070
MOMO INC-ADR	-	104,610	-	-	104,610
NETEASE INC-ADR	2,000	4,480	-	-	6,480
NEW ORIENTAL EDUCATION & TECHNOLOGY-ADR	8,800	-	-	-	8,800

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UNAUDITED MOVEMENTS IN INVESTMENT PORTFOLIO (continued)

31 December 2017

	Movements				Holdings At 31 December 2017
	Holdings At 1 January 2017	Additions	Corporate Action	Disposals	
Listed equities (continued)					
United States (continued)					
TAL EDUCATION GROUP-ADR	8,200	41,000	-	-	49,200
WEIBO CORP-SPONSORED ADR	8,000	-	-	(8,000)	-
YY INC-ADR	20,000	-	-	(20,000)	-

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UNAUDITED PERFORMANCE TABLE

31 December 2017

1. NET ASSET VALUE

	Net assets value per unit			Total net asset value		
	HK\$	US\$	RMB	HK\$	US\$	RMB
As at 31 December 2017						
- Class A (HKD) units	12.804	-	-	45,130,096	-	-
- Class A (RMB) units	-	-	9.999	-	-	399,969
- Class A (USD) units	-	1.289	-	-	3,593,063	-
- Class I (HKD) units	20.980	-	-	346,680,110	-	-
As at 31 December 2016						
- Class A (HKD) units	7.876	-	-	131,793	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	12.842	-	-	170,311,711	-	-
As at 31 December 2015						
- Class A (HKD) units	7.578	-	-	37,225	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	12.295	-	-	159,661,559	-	-

2. HIGHEST ISSUE AND LOWEST REDEMPTION PRICES PER UNIT

	Highest subscription unit price			Lowest redemption unit price		
	HK\$	US\$	RMB	HK\$	US\$	RMB
During the year ended 31 December 2017						
- Class A (HKD) units	13.387	-	-	7.906	-	-
- Class A (RMB) units	-	-	10.000	-	-	10.000
- Class A (USD) units	-	1.349	-	-	1.000	-
- Class I (HKD) units	21.925	-	-	12.892	-	-
During the year ended 31 December 2016						
- Class A (HKD) units	8.544	-	-	5.849	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	13.914	-	-	9.495	-	-

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UNAUDITED PERFORMANCE TABLE (continued)

31 December 2017

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

	Highest subscription unit price			Lowest subscription unit price		
	HK\$	US\$	RMB	HK\$	US\$	RMB
During the year ended 31 December 2015						
- Class A (HKD) units	10.331	-	-	6.670	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	16.712	-	-	10.803	-	-
During the year ended 31 December 2014						
- Class A (HKD) units	-	-	-	-	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	13.323	-	-	11.059	-	-
For the period from 16 November 2012 (date of inception) to 31 December 2013						
- Class A (HKD) units	-	-	-	-	-	-
- Class A (RMB) units	-	-	-	-	-	-
- Class A (USD) units	-	-	-	-	-	-
- Class I (HKD) units	12.268	-	-	9.972	-	-