

ANNUAL REPORT

CHINA UNIVERSAL INTERNATIONAL SERIES -  
CUAM RMB BONDPLUS FUND

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

31 December 2020

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

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

ADMINISTRATION AND MANAGEMENT

**MANAGER**

China Universal Asset Management (Hong Kong) Company  
Limited  
3710-11, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**DIRECTORS OF THE MANAGER**

LI Wen  
WAN Qing  
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

**RQFII CUSTODIAN**

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

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

**Market review**

**Review**

Looking back at the China's bond market in 2020, under the influence of the epidemic, the monetary policy was extremely loose, with huge downward pressure on economy in 1H 2020. While as the monetary policy shifted in the second half, bond yield rose sharply. As a result, China Bond New Wealth Index increased by 2.98% for the whole year. In 2020, with the recovery of epidemic, the economy production were resumed. Domestic epidemic had been controlled comprehensively, while overseas epidemic were continued to spread faster. Therefore, domestic economic growth in the whole year exceeded expectation with various degrees of recovery in each sectors, as high volume of export, recovery of consumption and constant malleability of real estate sale. And the bond market went down after initially rose up, with a slight rebound at the end of the year driven by the liquidity factor.

**Prospect**

Looking forward to 2021, liquidity is likely to remain balanced. It has been mentioned a lot recently that no sharp turns from the policy perspective is necessary. This has not only been proposed at both the Central Economic Work Conference and the regular monetary policy meeting of Q4 2020, but also been explicitly mentioned in the recent interview of Mr. YI Gang, the governor of the People's Bank of China, who pointed that we should focus on the stability of monetary policy and in the meanwhile, emphasize on controlling the growth rate of macro leverage ratio rather than lowering its absolute level. It is anticipated that the bond market will resume fundamentals driven in the absence of liquidity constraints. The economy recovery might be very strong, while the bond market might be under pressure consequently.

For and on behalf of

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

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28 April 2021

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS 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 RMB Bondplus Fund for the year ended 31 December 2020 in accordance with the provisions of the trust deed dated 29 December 2011 as amended by five supplemental deeds dated 5 October 2012, 15 July 2013, 25 August 2016, 12 January 2017 and 10 December 2019 (collectively, the "Trust Deed").

On behalf of  
BOCI-Prudential Trustee Limited, the Trustee

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28 April 2021

**Independent auditor's report**

To the Trustee and the Manager of

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND

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

**Opinion**

We have audited the financial statements of China Universal International Series – CUAM RMB Bondplus Fund (a sub-fund of China Universal International Series (the "Trust") and referred to as the "Sub-Fund") set out on pages 7 to 39, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the 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 2020, 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

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**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, as amended by supplemental deeds (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, in accordance with our agreed terms of engagement, 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 disclosure 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 scepticism 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

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**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 disclosure 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 disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

Certified Public Accountants  
Hong Kong  
28 April 2021



CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB	2019 RMB
<b>INCOME</b>			
Interest income on financial assets at fair value through profit or loss		683,097	720,187
Other interest income		4,409	5,088
Net (losses)/gain on financial assets at fair value through profit or loss	8	( 108,426)	105,657
Other income	4	<u>60,000</u>	<u>46</u>
		<u>639,080</u>	<u>830,978</u>
<b>EXPENSES</b>			
Management fee	4	( 236,888)	( 252,132)
Trustee fee	4	( 240,000)	( 240,000)
Transaction costs	7	<u>( 629)</u>	<u>( 1,452)</u>
		<u>( 477,517)</u>	<u>( 493,584)</u>
<b>PROFIT BEFORE TAX</b>		161,563	337,394
Income tax expense	5	<u>( 422)</u>	<u>( 289)</u>
<b>PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><u>161,141</u></u>	<u><u>337,105</u></u>

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB	2019 RMB
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	8	14,247,235	15,091,177
Prepayments and other receivables		11,690	11,966
Interest receivables		385,363	393,491
Due from the Manager	4	21,676	29,236
Cash and cash equivalents	9	<u>1,473,176</u>	<u>1,655,974</u>
<b>TOTAL ASSETS</b>		<u><u>16,139,140</u></u>	<u><u>17,181,844</u></u>
<b>LIABILITIES</b>			
Management fee payable	4	19,551	21,683
Trustee fee payable	4	20,000	20,667
Other payables and accruals		4,556	3,945
Tax payable		<u>695,248</u>	<u>695,248</u>
<b>TOTAL LIABILITIES</b>		<u><u>739,355</u></u>	<u><u>741,543</u></u>
<b>EQUITY</b>			
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	10	<u><u>15,399,785</u></u>	<u><u>16,440,301</u></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>16,139,140</u></u>	<u><u>17,181,844</u></u>

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

Year ended 31 December 2020

	Notes	Number of units	RMB
At 1 January 2019		1,786,657.207	18,297,673
Subscription of units			
- Class A units		4,072.712	42,106
Redemption of units			
- Class A units		( 203,179.198)	( 2,091,831)
Profit for the year and total comprehensive income for the year		-	337,105
Distribution to unitholders		-	( 144,752)
At 31 December 2019 and 1 January 2020		1,587,550.721	16,440,301
Subscription of units			
- Class A units		4,031.996	41,878
		4,031.996	41,878
Redemption of units			
- Class A units		( 106,372.287)	( 1,108,567)
		( 106,372.287)	( 1,108,567)
Profit for the year and total comprehensive income for the year		-	161,141
Distribution to unitholders	6	-	( 134,968)
At 31 December 2020	10	1,485,210.430	15,399,785

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

Year ended 31 December 2020

	Note	2020 RMB	2019 RMB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		161,563	337,394
Adjustments for:			
Interest income on financial assets at fair value through profit or loss	(	683,097)	( 720,187)
Interest income on bank deposits	(	4,409)	( 5,088)
	(	525,943)	( 387,881)
Decrease in financial assets at fair value through profit or loss		843,942	2,375,793
Decrease in prepayments and other receivables		276	319
Decrease in due from the Manager		7,560	7,196
Decrease in management fee payable	(	2,132)	( 1,554)
(Decrease)/increase in trustee fee payable	(	667)	667
Increase in other payables and accruals		611	1,395
Cash generated from operations		323,647	1,995,935
Tax paid	(	422)	( 2,504)
Interest received		695,634	745,413
Net cash flows from operating activities		1,018,859	2,738,844
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of units		41,878	42,106
Payments for redemption of units	(	1,108,567)	( 2,091,831)
Distribution to unitholders	(	134,968)	( 144,752)
Net cash flows used in financing activities	(	1,201,657)	( 2,194,477)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(	182,798)	544,367
Cash and cash equivalents at beginning of year		1,655,974	1,111,607
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		1,473,176	1,655,974
<b>ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	9	1,473,176	1,655,974

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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 five supplemental deeds dated 5 October 2012, 15 July 2013, 25 August 2016, 12 January 2017 and 10 December 2019 (collectively, the "Trust Deed"). As at 31 December 2020, 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 RMB Bondplus Fund (the "Sub-Fund") was commenced as a separate sub-fund of the Trust on 17 February 2012. The Sub-Fund is an open-ended unit trust authorised by the Securities and Futures Commission of Hong Kong (the "SFC") under Section 104(1) of the Securities and Futures Ordinance (the "SFO") and is required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC (the "SFC Code"). 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 the Bank of China (Hong Kong) Limited (the "Custodian") and the Renminbi Qualified Foreign Institutional Investors ("RQFII") Custodian is Bank of China Limited (the "RQFII Custodian").

Two classes of units, namely Class A units and Class I units, are available for subscription for the Sub-Fund. Class A units and Class I units are subject to different management fees. For the year ended 31 December 2020, only Class A units were in issue.

The Sub-Fund may invest in debt securities issued within the People's Republic of China ("PRC") and the PRC equity securities by using RQFII status of the Manager.

The investment objective of the Sub-Fund is to seek consistent investment return as well as long term capital growth in RMB terms by investing in a portfolio consisting of RMB-denominated and RMB settled fixed income instruments (fixed rate or floating rate), cash (including money market funds authorised by the CSRC for offering to the public in the PRC) and equity instruments within Mainland China. Exposures to RMB-denominated fixed income and equity instruments are expected to be at least 80% and up to 20% of the Sub-Fund's assets, respectively.

CHINA UNIVERSAL INTERNATIONAL SERIES – CUAM RMB BONDPLUS FUND  
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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 ("FVPL") that have been measured at fair value. The financial statements are presented in RMB and all values are rounded to the nearest RMB except where otherwise indicated.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The Sub-Fund has adopted the following new and revised HKFRSs for the first time in the current year's financial statements, which are applicable to the Sub-Fund.

Amendments to HKAS 1 and HKAS 8

*Definition of Material*

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the financial position and performance of the Sub-Fund.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

There are no standards and interpretations that are issued, but not yet effect, up to date of issuance of the Sub-Fund's financial statements which, in the opinion of the Manager will clearly impact the Sub-Fund.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) **Classification**

In accordance with HKFRS 9, the Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- (b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

**Financial assets**

The Sub-Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

*Financial assets measured at amortised cost*

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Sub-Fund includes in this short-term non-financing receivables including other receivables, interest receivables, due from the Manager and cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) **Classification** (continued)

**Financial assets** (continued)

*Financial assets measured at fair value through profit or loss (FVPL)*

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Fund includes in this category:

- Instruments held for trading. This category includes debt securities which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

**Financial liabilities**

*Financial liabilities measured at amortised cost*

This category includes all financial liabilities. The Sub-Fund includes in this category management fee payable, trustee fee payable and other payables and accruals.

(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.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.



NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) ***Subsequent measurement***

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

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

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

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

(v) ***Derecognition***

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

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

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) ***Derecognition*** (continued)

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, debt securities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

- 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 recognises an allowance for expected credit losses (“ECLs”) all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Sub-Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Foreign currency

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

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 gain/loss on financial assets at fair value through profit or loss'.

Functional currency

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

Redeemable units

Redeemable units are classified as an equity instrument when:

- (a) The redeemable units entitle the holder to a pro-rata share of the Sub-Fund's net assets in the event of the Sub-Fund's liquidation;
- (b) The redeemable units are in the class of instruments that is subordinate to all other classes of instrument;
- (c) All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical feature;
- (d) The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a *pro-rata* share of the Sub-Fund's net assets; and
- (e) The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

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2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units (continued)

In addition to the redeemable units having all the above features, the Sub-Fund must have no other financial instrument or contract that has:

- (a) Total cash flows based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund; and
- (b) The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Sub-Fund's redeemable units meet the definition of puttable instruments classified as equity instruments under the revised HKAS 32 and are classified as equity.

The Sub-Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Sub-Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Sub-Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as financial liabilities transactions. Upon issuance of redeemable units, the consideration received is included in equity.

Transaction costs incurred by the Sub-Fund in issuing or its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Own equity instruments which are reacquired are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs.

No gain or loss is recognised in profit or loss on the purchase, sale, issuance or cancellation of the Sub-Fund's own equity instruments.

Distributions to unitholders

Distributions are at the discretion of the Manager. A distribution to the Sub-Fund's unitholders is accounted for as a deduction from retained earnings and a proposed distribution is recognised as a liability in the year in which it is approved by the Manager of the Sub-Fund.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 bank 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.

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

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

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

Realised gains and losses on disposals of financial instruments classified as "fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's average cost and disposal amount.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 assumption

No significant estimation uncertainty that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year exists at the end of the reporting period.

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

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

Bank deposits and investments held by the Trustee's affiliates

The Sub-Fund's bank deposits and investments were held by the Trustee's affiliates, Bank of China (Hong Kong) Limited and Bank of China Limited, the Custodian and RQFII Custodian of the Sub-Fund, respectively. Further details of the balances held are described in note 9 to the financial statements. During the year, interest income on these bank balances was RMB4,409 (2019: RMB5,088).

Brokerage commission

Bank of China Limited, the RQFII Custodian of the Sub-Fund, rendered brokerage services for the Sub-Fund's purchases and sales of securities. During the years ended 31 December 2020 and 2019, there was no purchases and sales of securities traded through Bank of China Limited.



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

Management fee

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 1.5% for Class A units and 0.75% for Class I units (up to maximum of 3% per annum in total by giving not less than one month's prior notice to the unitholders) per annum with respect to the net assets attributable to unitholders of each class of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears. For the year ended 31 December 2020, the management fee was RMB236,888 (2019: RMB252,132).

Trustee fee

The Trustee is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at the current rate of 0.175% (up to maximum of 0.5% per annum in total by giving not less than one month's prior notice to the unitholders) per annum of the net assets attributable to unitholders of the Sub-Fund calculated, subject to a minimum monthly fee of RMB40,000, and accrued on each dealing day and is paid monthly in arrears. 50% discount on monthly minimum trustee fee was applied from 1 January 2018 to 31 December 2020. For the year ended 31 December 2020, the trustee fee was RMB240,000 (2019: RMB240,000).

Custodian and RQFII Custodian fee

The Custodian is entitled to receive, on an annual basis, custodian fees from the Sub-Fund, at a rate up to 0.1% per annum of the net assets attributable to unitholders of the Sub-Fund calculated and is paid monthly in arrears. The fees and charges payable to the RQFII Custodian are borne by the Custodian. For the year ended 31 December 2020, the custodian fee was RMB11,942 (2019: RMB14,674) and it was borne by the Manager.

Investment and other handling fees

The Sub-Fund pays investment handling fee of RMB100 per transaction and other handling fees to the Trustee. For the year ended 31 December 2020, the total amount of investment and other handling fees was RMB2,900 (2019: RMB3,500) and it was borne by the Manager.

Bank charges with a connected person of the Trustee

For the year ended 31 December 2020, the bank charges paid to Bank of China (Hong Kong) Limited and Bank of China Limited, affiliate companies of the Trustee of the Sub-Fund was RMB4,882 (2019: RMB4,958).

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

Certain charges, fees and expenses borne by the Manager

Pursuant to the announcement of the Sub-Fund dated 11 December 2017, certain ongoing charges of the Sub-Fund are borne by the Manager at its discretion with effect from 8 December 2017 until a future date as notified by the Manager, and the ongoing charges in respect of the Sub-Fund are capped at 3% per annum of the average net asset value of the relevant class of units of the Sub-Fund. For the year ended 31 December 2020, the Manager bore a total sum of RMB444,900 for the Sub-Fund (2019: RMB281,576).

Included in the above total sum is the trustee fee amounted to RMB60,000 (2019: license fee amounted to RMB46) during the year ended 31 December 2020, which has been recharged to the Manager, was recognised as other income in profit or loss.

As at 31 December 2020, the Sub-Fund has an amount due from the Manager of RMB21,676 (2019: RMB29,236) related to certain charges, fees and expenses borne by the Manager. The balance with the Manager is unsecured, interest-free and repayable on demand.

5. INCOME TAX

Hong Kong

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

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.

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5. INCOME TAX (continued)

PRC (continued)

*Withholding tax ("WIT")*

A 10% PRC WIT was levied on dividend and interest derived by foreign investors. The PRC payers (i.e. the issuers) would have the obligation to withhold the 10% WIT on the dividend and interest income on behalf of the Sub-Fund.

On 22 November 2018, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued "Circular on the Corporate Income Tax and Value-Added Tax ("VAT") Policy for Foreign Institutions to Invest in the Onshore Bond Market" (Caishui [2018] No.108) ("Circular 108"). Pursuant to Circular 108, bond interest income derived by foreign institutions from investing in the onshore bond market is temporarily exempted from WIT for the period from 7 November 2018 to 6 November 2021.

In light of Circular 108 and having taken and considered independent professional tax advice and acting in accordance with such advice, no WIT provision was to be made on interest income derived from debt instruments issued or distributed in the PRC received/receivable by the Sub-Fund for the period from 7 November 2018 to 6 November 2021 until Circular 108 ceases to apply. The WIT expense for the year ended 31 December 2020 was RMB422 (2019: RMB289).

*Capital gains tax*

In view of the "Notice on the issues of temporary exemption from the imposition of corporate income tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by Qualified Foreign Institutional Investor ("QFII") and RQFII" ("關於QFII和RQFII取得中國境內的股票等權益性投資資產轉讓所得暫免徵收企業所得稅問題的通知") Caishui [2014] No.79 (the "Notice") issued by the Ministry of Finance of the PRC (the "MOF"), the State Administration of Taxation of the PRC ("SAT") and the China Securities Regulatory Commission (the "CSRC"), no capital gains tax provision was made for the year ended 31 December 2020 (2019: Nil).

*VAT*

In preparing these financial statements, the management has made certain assumptions and used various estimates concerning the potential tax exposure which is dependent on what might happen in the future. The resulting accounting estimates may not equal the related actual tax liabilities.

On 23 March 2016, the MOF and the SAT jointly issued Caishui [2016] No.36 (the "Notice 36") announcing that the VAT reform coming into effect on 1 May 2016. The Notice 36 provides that from 1 May 2016 VAT has replaced PRC Business Tax ("BT") to cover all sectors that used to fall under the PRC BT.

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5. INCOME TAX (continued)

PRC (continued)

VAT (continued)

Pursuant to Notice 36, interest income received from investment in PRC debt securities shall be subject to 6% VAT unless special exemption applies, for example, deposit interest income is not subject to VAT, and interest income earned on PRC government bonds issued by the MOF, or bonds issued by local government of a province, autonomous regions, and municipalities directly under the Central Government or municipalities separately listed on the state plan, as approved by the State Council ("PRC Government Bonds") is exempted from VAT. The prevailing VAT regulations do not specifically exempt VAT on interest income from investment in PRC debt securities received by QFIIs, RQFIIs and qualified foreign financial institutions for directly investing in China Inter-bank Bond Market or via Bond Connect ("CIBM investor").

After seeking independent professional tax advice, the VAT reform is subject to further clarification by the SAT and/or the MOF, and there is uncertainty on the implementation of the VAT regime on the Sub-Fund. In the absence of any specific VAT exemption on the interest income granted to QFIIs, RQFIIs, and CIBM investor under the prevailing tax regulations, interest income received by QFIIs, RQFIIs and CIBM investors from investments in PRC debt securities shall be subject to 6% VAT unless special exemption applies.

Where VAT is applicable, there are also other local surtaxes imposed based on the VAT liabilities, including urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), education surcharge (currently at the rate of 3%) and local education surcharge (currently at the rate of 2%) .

On 22 November 2018, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued "Circular on the Corporate Income Tax and Value-Added Tax Policy for Foreign Institutions to Invest in the Onshore Bond Market" (Caishui [2018] No.108). Pursuant to Circular 108, bond interest income derived by foreign institutions from investing in the onshore bond market is temporarily exempted from VAT for the period from 7 November 2018 to 6 November 2021.

In light of Circular 108 and having taken and considered independent professional tax advice and acting in accordance with such advice, no VAT provision was to be made on interest income derived from debt instruments issued or distributed in the PRC received/receivable by the Sub-Fund for the period from 7 November 2018 to 6 November 2021 until Circular 108 ceases to apply. There was no VAT provision of the Sub-Fund for the year ended 31 December 2020 (2019: Nil).

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6. DISTRIBUTIONS

Year ended 31 December 2020

	RMB
Undistributed income at 1 January 2019	-
Profit for the year and total comprehensive income for the year	337,105
Less: Net gains on financial assets at fair value through profit or loss, net of income tax	( 105,657)
Undistributed income before distribution	231,448
Interim distribution (RMB0.01 per unit) distributed on 15 March 2019	( 16,629)
Interim distribution (RMB0.02 per unit) distributed on 18 June 2019	( 32,637)
Interim distribution (RMB0.03 per unit) distributed on 17 September 2019	( 47,841)
Final distribution (RMB0.03 per unit) distributed on 17 December 2019	( 47,645)
Total distribution during the year	( 144,752)
Transfer to capital	( 86,696)
Undistributed income at 31 December 2019 and 1 January 2020	-
Profit for the year and total comprehensive income for the year	161,141
Add: Net loss on financial assets at fair value through profit or loss, net of income tax	108,426
Undistributed income before distribution	269,567
Interim distribution (RMB0.01 per unit) distributed on 17 March 2020	( 15,485)
Interim distribution (RMB0.02 per unit) distributed on 16 June 2020	( 30,374)
Interim distribution (RMB0.03 per unit) distributed on 15 September 2020	( 44,593)
Final distribution (RMB0.03 per unit) distributed on 15 December 2020	( 44,516)
Total distribution during the year	( 134,968)
Transfer to capital	( 134,599)
Undistributed income at 31 December 2020	-

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.

The Manager has declared, on behalf of the Sub-Fund, the above interim and final distributions during the year ended 31 December 2020. The distributions were paid out on 23 March 2020, 22 June 2020, 21 September 2020 and 21 December 2020, respectively.

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7. BROKERAGE COMMISSION AND TRANSACTION FEE

Broker commission pertain to the broker commission for every transaction made through the broker at the average market rate of 0.02% (2019: 0.02%) based on the transaction value. Transaction fee pertain to fees such as transaction levy and settlement fee for transaction made on the exchange.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB	2019 RMB
Quoted debt securities	<u>14,247,235</u>	<u>15,091,177</u>
Total financial assets at fair value through profit or loss	<u><u>14,247,235</u></u>	<u><u>15,091,177</u></u>
Net (losses)/gains recognised in relation to financial assets at fair value through profit or loss:		
Realised gains	19,500	84,180
Net change in unrealised gains or losses	<u>( 127,926)</u>	<u>21,477</u>
Net (losses)/gains	<u><u>( 108,426)</u></u>	<u><u>105,657</u></u>

As at 31 December 2020 and 2019, all the quoted debt securities were classified as financial assets at fair value through profit or loss as they were held for trading.

In the absence of a quoted price in an active market, debt securities are valued using observable inputs such as recently executed transaction prices in securities of the issuers or comparable issuers and yield curves. Adjustments are made to valuation when necessary to recognise differences in the instrument terms.

The following table shows an analysis of the Sub-Fund's financial assets measured at fair value at 31 December 2020 and at 31 December 2019.

At 31 December 2020

	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss:</u>				
Quoted debt securities	<u>-</u>	<u>14,247,235</u>	<u>-</u>	<u>14,247,235</u>

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

At 31 December 2019

	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss:</u>				
Quoted debt securities	-	15,091,177	-	15,091,177

There are no investments classified within Level 3 and no transfers of fair value measurements between Level 1 and Level 2 for the year ended 31 December 2020 (2019: Nil).

9. CASH AND CASH EQUIVALENTS

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

10. DETAILS ON UNITS

The following is the number of units in issue and net assets attributable to unitholders per unit of the Sub-Fund as at 31 December 2020 and 2019:

	Number of Class A units
Number of units in issue	
At 31 December 2020	1,485,210.430
At 31 December 2019	1,587,550.721
Net assets attributable to unitholders per unit	
	RMB
At 31 December 2020	10.369
At 31 December 2019	10.356

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10. DETAILS ON UNITS (continued)

Unitholders of the Sub-Fund who wish to redeem their redeemable participating units may do so on any dealing day, i.e. every business day of the calendar year in both Hong Kong and the PRC, by submitting a realisation request to the Manager or authorised distributors before the dealing deadline, i.e. 5:00 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, after consultation with 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 after consultation with the Trustee, the application of such limitation would be unduly onerous or unfair to the unitholder or unitholders concerned. Any units not realised (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 interest rate risk and foreign exchange risk), liquidity risk, and credit and counterparty risk arising from the financial instruments it holds.



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

Risk management (continued)

***Market risk***

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

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

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

- Interest rate risk
- Foreign exchange risk

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of interest-bearing assets and future cash flow.

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

The majority of interest rate exposure arises on investments in debt securities. All of the Sub-Fund's investments in debt securities carry fixed interest rates and the average duration of the fixed income portion is around 0.95 (2019: 1.66). The Manager considers the movement in interest rates will have insignificant impact on the interest income.

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

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

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

Risk management (continued)

***Market risk*** (continued)

Interest rate risk (continued)

	Financial assets at fair value through profit or loss RMB	Change in basis points	Sensitivity of changes in fair value of investments increase/ (decrease) RMB
At 31 December 2020			
Quoted debt securities	14,247,235	+/-50	-/+67,000
At 31 December 2019			
Quoted debt securities	15,091,177	+/-50	-/+120,000

The Sub-Fund also has interest-bearing bank deposits. As the bank deposits are on demand, the Manager considers the movement in interest rates will have insignificant cash flow impact on the daily net assets attributable to unitholders as at 31 December 2020 and 31 December 2019 and therefore no sensitivity analysis of interest on bank deposits is presented.

Foreign exchange risk

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

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

***Liquidity risk***

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

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

Risk management (continued)

***Liquidity risk*** (continued)

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

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

The table below summarises the maturity profile of Sub-Fund's financial liabilities at the end of the reporting period based on contractual undiscounted cash flows. The table also analyses the maturity profile of the 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 a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Sub-Fund can be required to pay.

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

Risk management (continued)

**Liquidity risk** (continued)

Financial assets

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

At 31 December 2020

	On demand RMB	Less than 3 months RMB	3 to 12 months RMB	Total RMB
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	-	14,247,235	-	14,247,235
Financial assets included in prepayment and other receivables	-	-	6,225	6,225
Interest receivables	-	156,377	228,986	385,363
Due from the Manager	-	21,676	-	21,676
Cash and cash equivalents	<u>1,473,176</u>	<u>-</u>	<u>-</u>	<u>1,473,176</u>
Total financial assets	<u>1,473,176</u>	<u>14,425,288</u>	<u>235,211</u>	<u>16,133,675</u>
<u>Financial liabilities</u>				
Management fee payable	-	19,551	-	19,551
Trustee fee payable	-	20,000	-	20,000
Other payables and accruals	<u>-</u>	<u>4,556</u>	<u>-</u>	<u>4,556</u>
Total financial liabilities	<u>-</u>	<u>44,107</u>	<u>-</u>	<u>44,107</u>

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31 December 2020

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

Risk management (continued)

***Liquidity risk*** (continued)

At 31 December 2019

	On demand RMB	Less than 3 months RMB	3 to 12 months RMB	Total RMB
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	-	15,091,177	-	15,091,177
Financial assets included in prepayment and other receivables	-	-	6,225	6,225
Interest receivables	-	148,065	245,426	393,491
Due from the Manager	-	29,236	-	29,236
Cash and cash equivalents	<u>1,655,974</u>	<u>-</u>	<u>-</u>	<u>1,655,974</u>
Total financial assets	<u>1,655,974</u>	<u>15,268,478</u>	<u>251,651</u>	<u>17,176,103</u>
<u>Financial liabilities</u>				
Management fee payable	-	21,683	-	21,683
Trustee fee payable	-	20,667	-	20,667
Other payables and accruals	<u>-</u>	<u>3,945</u>	<u>-</u>	<u>3,945</u>
Total financial liabilities	<u>-</u>	<u>46,295</u>	<u>-</u>	<u>46,295</u>

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

Risk management (continued)

***Credit and counterparty risk*** (continued)

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

	Assigned by the Chinese local rating agencies	Percentage of fixed income portfolio (%)
At 31 December 2020	AAA	84.24%
	AA*	1.80%
		<u>86.04%</u>
At 31 December 2019	AAA	86.49%
	AA*	13.51%
		<u>100.00%</u>

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

The Chinese government and policy bank bonds held by the Sub-Fund of RMB2,042,603 (2019: Nil) as at 31 December 2020 do not have credit rating issued by local credit rating agencies. 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 2020 and 31 December 2019.

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to HKFRS 9's impairment disclosure or not.

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31 December 2020

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

Risk management (continued)

***Credit and counterparty risk*** (continued)

**Financial assets subject to expected credit loss**

The Sub-Fund's financial assets subject to the expected credit loss model within HKFRS 9 are only other receivables, interest receivables, amount due from the Manager and cash and cash equivalents. As at 31 December 2020, the total of other receivables, interest receivables, amount due from the Manager and cash and cash equivalents was RMB1,886,440 (2019: RMB2,084,926) on which no loss allowance had been provided. No amount (2019: Nil) was considered credit impaired at the end of the reporting period.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature into the following categories: other receivables, interest receivables, amount due from the Manager and cash and cash equivalents. All the Sub-Fund's cash and cash equivalents are held in major financial institutions located in Hong Kong and Mainland China, which the Manager believes are of high credit quality. The Manager considers the Sub-Fund is not exposed to significant credit risk and no loss allowance (2019: Nil) has been made.

*Maximum exposure and year-end staging as at 31 December 2020*

The table below shows the credit quality and the maximum exposure to credit risk based on the Sub-Fund's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020.

	<u>12-month expected credit losses</u>	<u>Lifetime expected credit losses</u>		<u>Simplified approach</u>	<u>Total</u>
	Stage 1 RMB	Stage 2 RMB	Stage 3 RMB	RMB	RMB
Financial assets					
Financial assets included in					
prepayments and other					
receivables					
- Not yet past due	6,225	-	-	-	6,225
Interest receivables					
- Not yet past due	385,363	-	-	-	385,363
Due from the Manager					
- Not yet past due	21,676	-	-	-	21,676
Cash and cash equivalents					
- Not yet past due	<u>1,473,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,473,176</u>
Total	<u>1,886,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,886,440</u>

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

Risk management (continued)

***Credit and counterparty risk*** (continued)

*Maximum exposure and year-end staging as at 31 December 2019*

The table below shows the credit quality and the maximum exposure to credit risk based on the Sub-Fund's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019.

	12-month expected credit losses	Lifetime expected credit losses		Simplified approach	Total
	Stage 1 RMB	Stage 2 RMB	Stage 3 RMB	RMB	RMB
Financial assets					
Financial assets included in prepayments and other receivables					
- Not yet past due	6,225	-	-	-	6,225
Interest receivables					
- Not yet past due	393,491	-	-	-	393,491
Due from the Manager					
- Not yet past due	29,236	-	-	-	29,236
Cash and cash equivalents					
- Not yet past due	<u>1,655,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,655,974</u>
Total	<u>2,084,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,084,926</u>

**Financial assets not subject to expected credit loss**

The Sub-Fund is exposed to credit risk on debt instruments. This class of financial assets are not subject to HKFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under HKFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

Capital management

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

12. SOFT COMMISSION ARRANGEMENTS

The Manager and its connected persons have not received any soft dollar commissions or entered into any soft dollar arrangements in respect of the management of the Sub-Fund for the years ended 31 December 2020 and 2019.



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NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

13. EVENTS AFTER THE REPORTING PERIOD

During the period from 1 January 2021 to 27 April 2021, the Sub-Fund has received a subsequent subscription of RMB4,679 and redemption of RMB775,440.

14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 28 April 2021.

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UNAUDITED INVESTMENT PORTFOLIO

31 December 2020

<b>LISTED/QUOTED DEBT SECURITIES</b> <b>China</b> <b>Denominated in RMB</b>	<b>Holding/ Nominal value</b>	<b>Fair value</b>	<b>% of net assets</b>
BBMG CORP 3.5% A 14MAR2023	1,200,000	1,200,590	7.80
BYD CO LTD 5.17% A 12APR2023	1,500,000	1,504,935	9.77
CHINA DEVELOPMENT BANK CORP 3.6% A 29AUG2021	1,000,000	1,008,328	6.55
CHINA GOVT BOND 2.25% A 09JAN2021	1,000,000	999,939	6.49
CHINA SOUTHERN POWER GRID CO LTD 3.95% A 25APR2022	1,000,000	1,009,842	6.56
DALIAN WANDA COMMERCIAL PROPERTIES CO LTD 4.75% A 13JUN2021	500,000	500,195	3.25
GEMDALE CORP 4.85% A 13JUL2022	1,500,000	1,527,587	9.92
METALLURGICAL CORP OF CHINA LTD 4.78% A 08MAY2021	1,500,000	1,508,408	9.79
SHANGHAI FOSUN PHARMACEUTICAL GROUP CO LTD L 4.5% A 04MAR2021	1,000,000	1,001,454	6.50
SHANGHAI LAKE DIANSHAN NEWTOWN DEVELOPMENT CO LTD 5.95% A 30JAN2021	1,000,000	250,390	1.63
SHENWAN HONGYUAN GROUP CO LTD 4.8% A 17JUL2023	700,000	721,869	4.69
STATE POWER INVESTMENT CORP LTD 4.38% A 22AUG2021	1,500,000	1,512,317	9.82
ZHEJIANG LONGSHENG GROUP CO LTD 4.15% A 17MAR2021	1,500,000	1,501,381	9.75
<b>Total listed/quoted debt securities</b>		<b>14,247,235</b>	<b>92.52</b>
<b><u>TOTAL NET ASSETS</u></b>			
Total debt securities (Cost: RMB14,221,684)		14,247,235	92.52
Other net assets		1,152,550	7.48
Total net assets		<b>15,399,785</b>	<b>100.00</b>

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

31 December 2020

	Movements			
	At 1 January 2020	Additions	Disposals	At 31 December 2020
<b><u>LISTED/QUOTED DEBT</u></b>				
<b><u>SECURITIES</u></b>				
<b>China</b>				
<b>Denominated in RMB</b>				
BBMG CORP 3.5% A 14MAR2023	1,200,000	-	-	1,200,000
BYD CO LTD 5.17% A 12APR2023	1,500,000	-	-	1,500,000
CHINA DEVELOPMENT BANK CORP 3.6% A 29AUG2021	-	1,000,000	-	1,000,000
CHINA GOVT BOND 2.25% A 09JAN2021	-	1,000,000	-	1,000,000
CHINA SOUTHERN POWER GRID CO LTD 3.95% A 25APR2022	-	1,000,000	-	1,000,000
CHONGQING LONGHU DEVELOPMENT CO LTD 4.6% A 07JUL2020	1,500,000	-	(1,500,000)	-
DALIAN WANDA COMMERCIAL MANAGEMENT GROUP CO LTD 6.6% A 14OCT2020	1,000,000	-	(1,000,000)	-
DALIAN WANDA COMMERCIAL PROPERTIES CO LTD 4.75% A 13JUN2021	500,000	-	-	500,000
GEMDALE CORP 4.85% A 13JUL2022	1,500,000	-	-	1,500,000
METALLURGICAL CORP OF CHINA LTD 4.78% A 08MAY2021	1,500,000	-	-	1,500,000
SHANGHAI FORTE LAND CO LTD 6.95% A 20NOV2020	1,000,000	-	(1,000,000)	-
SHANGHAI FOSUN PHARMACEUTICAL GROUP CO LTD L 4.5% A 04MAR2021	1,000,000	-	-	1,000,000
SHANGHAI LAKE DIANSHAN NEWTOWN DEVELOPMENT CO LTD 5.95% A 30JAN2021	1,000,000	250,000	(250,000)	1,000,000
SHENWAN HONGYUAN GROUP CO LTD 4.8% A 17JUL2023	700,000	-	-	700,000
STATE POWER INVESTMENT CORP LTD 4.38% A 22AUG2021	1,500,000	-	-	1,500,000
ZHEJIANG LONGSHENG GROUP CO LTD 4.15% A 17MAR2021	1,500,000	-	-	1,500,000

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UNAUDITED PERFORMANCE TABLE

31 December 2020

**1. NET ASSET VALUE**

	Net asset value per unit RMB	Total net asset value RMB
<u>As at 31 December 2020</u>		
- Class A units	10.369	15,399,785
- Class I units <sup>1</sup>	-	-
<u>As at 31 December 2019</u>		
- Class A units	10.356	16,440,301
- Class I units <sup>1</sup>	-	-
<u>As at 31 December 2018</u>		
- Class A units	10.241	18,297,673
- Class I units <sup>1</sup>	-	-

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

	Highest subscription unit price RMB	Lowest redemption unit price RMB
<u>During the year ended 31 December 2020</u>		
- Class A units	10.482	10.349
- Class I units <sup>1</sup>	-	-
<u>During the year ended 31 December 2019</u>		
- Class A units	10.386	10.242
- Class I units <sup>1</sup>	-	-
<u>During the year ended 31 December 2018</u>		
- Class A units	10.249	10.054
- Class I units <sup>1</sup>	-	-

<sup>1</sup> There was no class I unit in issue for the years ended 31 December 2018, 31 December 2019 and 31 December 2020.

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UNAUDITED PERFORMANCE TABLE (continued)

31 December 2020

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

	Highest subscription unit price RMB	Lowest redemption unit price RMB
<u>During the year ended 31 December 2017</u>		
- Class A units	10.440	10.032
- Class I units	10.858	10.627
<u>During the year ended 31 December 2016</u>		
- Class A units	10.750	10.417
- Class I units	11.106	10.833
<u>During the year ended 31 December 2015</u>		
- Class A units	10.661	10.370
- Class I units	10.986	10.605
<u>During the year ended 31 December 2014</u>		
- Class A units	10.632	9.962
- Class I units	10.860	10.106
<u>During the year ended 31 December 2013</u>		
- Class A units	10.382	9.957
- Class I units	10.482	10.097
<u>During the period from 17 February 2012 (date of inception) to 31 December 2012</u>		
- Class A units	10.233	9.987
- Class I units	10.269	9.996