

HUAAN AGGREGATE CHINA BOND FUND
(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

HUAAN AGGREGATE CHINA BOND FUND
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REPORT AND FINANCIAL STATEMENTS

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MANAGEMENT AND ADMINISTRATION

Directors of the Manager

He Yizhi
Zhu Xuehua
Tong Wei
Xu Nuo

Trustee and Registrar

BOCI-Prudential Trustee Limited
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Manager

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PRC Investment Adviser

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PRC Sub-Custodian

Bank of China Limited
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HUAAN AGGREGATE CHINA BOND FUND
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REPORT OF THE MANAGER

Introduction and Investment Objective

HuaAn Aggregate China Bond Fund (the “Fund”) is a sub-fund of HuaAn Aggregate Fund Series, a unit trust established as an umbrella fund under the laws of Hong Kong. The Fund is registered and offered in Hong Kong as well as denominated in RMB. The Fund primarily invests in RMB-denominated and settled fixed income and debt instruments issued by entities that are based or established within the People’s Republic of China (“PRC”) through the quota (“RQFII Quota”) allocated to the Manager as a Renminbi Qualified Foreign Institutional Investor (“RQFII”).

The investment objective of the Fund is to achieve long term capital growth and provide a steady flow of income through investment in a portfolio consisting of RMB denominated and settled debt instruments and RMB denominated and settled equities or equity related securities, subject to the investment restrictions applicable to the Fund and as set out in the Offering Memorandum and the Supplement.

Strategy and Portfolio Management

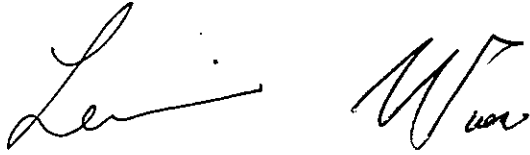
With the possibility of economic slowdown in China, we believe People’s Bank of China (PBOC) will continue to maintain a loose monetary policy. Multiple reductions in interest rate on February 28, 2015, May 10, 2015, June 27, 2015, August 25, 2015 and October 23, 2015, with lowering of banks’ reserve requirement ratio (RRR) on February 4, 2015, April 19, 2015, June 27, 2015, August 25, 2015, October 23, 2015 and February 29, 2016 reconfirmed our belief in loosening of monetary policy in China. We incline to believe China will continue its policy of lowering both interest rate and RRR, thus liquidity in financial markets hopefully will be improved. As a result, we believe short-term interest rate will remain low in the near future. Therefore, we will allocate slowly away from short-term investment instruments such as money market funds to slightly longer maturity short-term bonds to lock in higher longer term investment yield.

On bond allocation, we think the relative value of highly-rated bonds is higher than the lower-rated bonds. Moreover, we believe recent default incidents of lower-rated bonds of privately-owned companies and the potential risk of default of trust products will potentially cause widening of credit spread between highly-rated bonds versus lower-rated bonds. Therefore, we continue to prefer bonds with higher credit quality such as policy bank bonds, bonds issued by central state-owned enterprises and AAA-rated corporate bonds. Furthermore, with a relatively flat yield curve, we are more positive toward 3 to 5 years highly-rated bonds.

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REPORT OF THE TRUSTEE

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 12 January 2012 for the year ended 31 December 2016.



For and on behalf of
BOCI-Prudential Trustee Limited

26 April 2017

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF HUAAN AGGREGATE CHINA BOND FUND**
(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

Opinion

What we have audited

The financial statements of HuaAn Aggregate China Bond Fund (the "Fund") set out on pages 7 to 27, which comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Emphasis of Matter

We draw attention to Note 3 to the financial statements which indicates the Manager and the Trustee (the "Management") considers that the amount of the People's Republic of China tax on gains from debt securities is uncertain as at the date of approval of these financial statements and the Management has exercised significant judgment in their assessment of the potential tax charge and the related provision included in the financial statements of the Fund as at 31 December 2016. Our opinion is not qualified in respect of this matter.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF HUAAN AGGREGATE CHINA BOND FUND
(CONTINUED)**

(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

Other Information

The Management 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.

Responsibilities of the Management for the Financial Statements

The Management of the Fund are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the Management determines 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 Management are responsible for assessing the 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 Management either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Management of the Fund is required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 12 January 2012 (the "Trust Deed") and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (the "SFC Code").

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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion 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 ISAs 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 Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF HUAAN AGGREGATE CHINA BOND FUND
(CONTINUED)**

(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgment 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.
- 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management'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 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 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 Management 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 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 SFC Code.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 April 2017


HUAAN AGGREGATE CHINA BOND FUND
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STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016


	Note	2016 RMB	2015 RMB
Assets			
Current Assets			
Interest receivable		432	754
Prepayments and other receivables	12	148,500	4,301
Cash and cash equivalents	8(e)	4,766,757	8,433,080
Total assets		<u>4,915,689</u>	<u>8,438,135</u>
Liabilities			
Current Liabilities			
Management fee payable	8(a)	438	29,244
Accounts payable and accrued expenses	11	125,105	203,567
Provision for tax	9	1,980,799	7,993,090
Payable to a former unitholder	13	2,589,231	-
Total liabilities		<u>4,695,573</u>	<u>8,225,901</u>
Equity			
Net assets attributable to unitholders	7	<u>220,116</u>	<u>212,234</u>

The financial statements on pages 7 to 27 were approved by the Trustee and the Manager on 26 April 2017 and were signed on their behalf.

On behalf of
BOCI-Prudential Trustee Limited




Authorised Signatory



Authorised Signatory

On behalf of
HuaAn Asset Management (Hong Kong)
Limited



Authorised Signatory

The notes on pages 11 to 27 form an integral part of these financial statements.

HUAAN AGGREGATE CHINA BOND FUND
(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB	2015 RMB
Income			
Interest income		17,504	11,384,114
Net loss on financial assets at fair value through profit or loss	6	-	(982,609)
Expenses reimbursement from the Manager	8(d)	144,798	-
Total income		<u>162,302</u>	<u>10,401,505</u>
Expenses			
Management fee	8(a)	2,586	1,296,412
Trustee fee	8(b)	323	299,878
Custodian fee	8(c)	-	185,163
Auditor's remuneration		125,076	100,031
Transaction costs		-	44,488
Legal and professional fees		-	219,497
Other operating expenses	10	25,228	47,105
Refund to a formal unitholder for over-provision of withholding tax	13	2,589,231	-
Total expenses		<u>2,742,444</u>	<u>2,192,574</u>
(Loss)/profit before tax		<u>(2,580,142)</u>	<u>8,208,931</u>
Tax credit/(expense)	9	2,588,024	(197,088)
Increase in net assets attributable to unitholders from operations		<u><u>7,882</u></u>	<u><u>8,011,843</u></u>

The notes on pages 11 to 27 form an integral part of these financial statements.

HUAAN AGGREGATE CHINA BOND FUND
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**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 RMB	2015 RMB
Net assets attributable to unitholders at the beginning of the year		212,234	437,324,378
Proceeds on issue of units	7	-	212,078
Payments on redemption of units	7	-	(445,336,065)
Net decrease in net assets attributable to unitholders from unit transactions		-	(445,123,987)
Increase in net assets attributable to unitholders from operations		7,882	8,011,843
Net assets attributable to unitholders at the end of the year	7	220,116	212,234

The notes on pages 11 to 27 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RMB	2015 RMB
Cash flows from operating activities		
Increase in net assets attributable to unitholders	7,882	8,011,843
Adjustments for:		
Interest income	(17,504)	(11,384,114)
Tax (credit)/expense	(2,588,024)	197,088
Operating loss before working capital changes	(2,597,646)	(3,175,183)
Net decrease in financial assets at fair value through profit or loss	-	435,385,825
Net decrease in interest receivable purchased	-	1,950,899
Net (increase)/decrease in prepayments and other receivables	(144,199)	103,900
Net increase in payable to the previous unitholders	2,589,231	-
Net decrease in management fee payable	(28,806)	(207,661)
Net decrease in accounts payable and accrued expenses	(78,462)	(45,281)
Cash (used in)/generated from operations	(259,882)	434,012,499
Interest income received	17,826	17,752,344
Withholding tax and capital gains tax paid	(3,424,267)	(2,381)
Net cash (used in)/generated from operating activities	(3,666,323)	451,762,462
Cash flows from financing activities		
Proceeds from units issued	-	212,078
Payments on redemption of units	-	(445,336,065)
Net cash used in financing activities	-	(445,123,987)
Net (decrease)/increase in cash and cash equivalents	(3,666,323)	6,638,475
Cash and cash equivalents at the beginning of the year	8,433,080	1,794,605
Cash and cash equivalents at the end of the year	4,766,757	8,433,080
Analysis of balances of cash and cash equivalents		
Cash at banks	4,766,757	8,433,080

The notes on pages 11 to 27 form an integral part of these financial statements.

HUAAN AGGREGATE CHINA BOND FUND

(A Sub-fund of HuaAn Aggregate Fund Series established in Hong Kong)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General

HuaAn Aggregate Fund Series (the "Trust") is an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a Trust Deed dated 12 January 2012 (the "Trust Deed") between HuaAn Asset Management (Hong Kong) Limited as Manager (the "Manager") and BOCI-Prudential Trustee Limited as Trustee (the "Trustee"). As at 31 December 2016, the Trust has only one Fund launched in Hong Kong, HuaAn Aggregate China Bond Fund (the "Fund"), in respect of which only one class of units was issued. The Fund was established on 13 January 2012 and its units were first issued on 2 March 2012.

The Fund is authorised by the Securities and Futures Commission of Hong Kong (the "SFC") under Section 104(1) of the Hong Kong Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC.

The investment objective of the Fund is to achieve long term capital growth through investment in a portfolio consisting primarily (not less than 80% of its Net Asset Value) of Renminbi ("RMB") denominated and settled fixed rate or floating rate debt instruments (RMB-Denominated Debt Instruments) by actively managing the risks of such portfolio. The Fund may invest (not more than 20% of its Net Asset Value) in RMB denominated and settled equities or equity related securities (mainly China A-shares) in the People's Republic of China ("PRC") through the RQFII Quota allocated to the Manager with any remainder held in RMB denominated cash or cash equivalents in the PRC.

Under current regulations in the PRC, generally foreign investors can invest only in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a Qualified Foreign Institutional Investor ("QFII") or a Renminbi Qualified Foreign Institutional Investor ("RQFII") from the China Securities Regulatory Commission ("CSRC") and have been granted quota by the State Administration of Foreign Exchange ("SAFE") of the PRC to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC's domestic securities markets.

The Manager has obtained RQFII status in the PRC and the RQFII quotas have been granted to the Manager. The Fund invests in securities issued within the PRC through the RQFII program. To the extent that the Manager has, on behalf of the Fund, utilised its entire RQFII quota, the Manager may, subject to any applicable regulations, apply for an increase of the RQFII quota.

During the year ended 31 December 2015, 4,284,125 Class I units of the Fund were redeemed. As at 31 December 2016 and 2015, all of the Fund's remaining units were held by the Manager. The Manager confirms that it will not redeem the units from the Fund within twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

2 Summary of significant accounting policies

(a) Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss.

HUAAN AGGREGATE CHINA BOND FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the Manager and the Trustee (the "Management") to exercise their judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Standards and amendments to existing standards effective 1 January 2016

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2016 that have had a material impact on the Fund.

New standards, amendments and interpretations effective after 1 January 2016 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(b) Income and expenses

Interest income is recognised on a time-proportionate basis using the effective interest method in the statement of comprehensive income for all interest bearing instruments. Other income is accounted on an accrual basis.

The effective interest method is a method of calculating the amortised cost of an interest bearing asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Expenses are accounted for on an accrual basis.

HUAAN AGGREGATE CHINA BOND FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Summary of significant accounting policies (Continued)

(c) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). The performance of the Fund is measured and reported to the unitholders in Chinese Yuan Renminbi ("RMB"). The Management consider RMB as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in RMB, which is the Fund's functional and presentation currency.

(ii) Transactions and balances

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the reporting date.

(d) Cash and cash equivalents

Cash and cash equivalents include cash at banks, deposits held with banks with original maturities of three months or less.

(e) Accounts payable and accrued expenses

Accounts payable and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

(f) Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs are expensed as incurred in the statement of comprehensive income.

(g) Taxation

The Fund currently incurs withholding taxes imposed by the People's Republic of China on investment income. Such income is recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes and capital gains tax are included as taxation in the statement of comprehensive income.

The Fund considers interest and penalties on related tax liabilities to be an inseparable element of the tax liability and accounts for interest and penalties as if they are within the scope of IAS 12. These amounts are included within the tax line in the statement of comprehensive income, and the liability would be included within the provision for tax on the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2 Summary of significant accounting policies (Continued)

(g) Taxation (Continued)

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

(h) Proceeds and payments on issue and redemption of units

All proceeds and payments for units issued and redeemed are shown as movements in the statement of changes in net assets attributable to unitholders. The net asset value of the Fund is computed daily. Prices for issues and redemptions are based on the latest available preceding valuation.

The Fund's units, which are redeemable at the holder's option, represents puttable financial instruments of the Fund. Units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. Puttable financial instruments are classified as equity in accordance with IAS 32 (Amendment), "Financial instruments: Presentation" if they meet all the following criteria:

- the puttable financial instruments entitle the holder to a pro-rata share of net asset value;
- the puttable financial instruments are the most subordinated units in issue and unit features are identical;
- there are no contractual obligations to deliver cash or another financial asset; and
- the total expected cash flows from the puttable financial instrument over its life are based substantially on the profit or loss of a fund.

Otherwise, puttable financial instruments are classified as financial liability.

For the period from 1 January 2015 to 10 July 2015, the Fund issued Class A and Class I units and the redeemable units which do not have identical rights as disclosed herein. Therefore, the net assets attributable to unitholders were classified as financial liability during this period in accordance with IAS 32 (Amendment). Subsequent to 10 July 2015, Class I of the Fund was fully redeemed and the Fund only issued Class A units. As a result of the change, the net assets attributable to the unitholders of redeemable units meet the above criteria and were classified as equity with effect from 11 July 2015 with IAS 32 (Amendment).

Units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units. In accordance with the provisions of the Fund's explanatory memorandum, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

HUAAN AGGREGATE CHINA BOND FUND

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 Critical accounting estimates and judgments

The Management make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

People's Republic of China ("PRC") tax provision

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

Withholding Income Tax ("WIT")

There are currently no specific tax rules or regulations on the WIT treatment for capital gains derived by foreign investors (including QFII / RQFII) from the disposal of debt securities and investment funds ("PRC Investments"). Under the general tax provision of PRC Corporate Income Tax Law ("PRC CIT Law"), the non-PRC residents with no place of effective management, establishment or place of business in the PRC may be subject to 10% PRC WIT on the PRC-sourced income, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

In addition, interest income derived by non-PRC tax resident enterprises from the debt securities issued by PRC tax resident enterprises will be subject to 10% WIT unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties. Pursuant to the PRC tax regulations, debt securities issuers in PRC are obligated to withhold the 10% WIT for those foreign debt securities holders who receive the interest payment and thus subject to the 10% WIT. Interest income derived from government bonds issued by the Finance Bureau of the State Council and/or local government bonds approved by the State Council is exempt from PRC income tax under the PRC CIT Law and regulations.

Capital gains on PRC Investments

During the year ended 31 December 2015, the Fund invested in PRC Investments in PRC through the RQFII program. The Management consider that the enforcement of PRC WIT on gains derived from the PRC Investments is uncertain as at the date of approval of these financial statements and has exercised its judgment when assessing whether the Fund may be liable for PRC taxation on its gains, the amount of potential liability and the probability of such tax being levied up to the reporting date. However, significant uncertainties exist and estimation of the Management may substantially differ from the actual events. The Management consider that its estimation may be impacted by any future clarification by the PRC State Administration of Taxation ("SAT") and the applicability of the the arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Arrangement"), which may be materially different from what the Management envisioned.

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NOTES TO THE FINANCIAL STATEMENTS
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3 Critical accounting estimates and judgments (Continued)

Capital gains on PRC Investments (Continued)

The Management considered that the WIT policy for QFIIs / RQFIIs' investment in debt securities has not been clarified in the the "Notice on temporary exemption of Corporate Income Tax on capital gains derived from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII" (the "Notice"). The Management have reassessed the WIT provisioning approach and considered the assessment on the Fund's PRC taxation position for investment in PRC Investments remains unchanged as the Notice has not addressed the WIT policy for other investments except for equity investment. Based on the current verbal interpretation of the SAT and the local PRC tax authorities, the authorities are of the view that capital gains derived by foreign investors from investment in PRC debt securities would not be treated as PRC sourced income and thus would not be subject to PRC WIT. As a matter of practice, such 10% PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of these securities has not been enforced by the PRC tax authorities. However, there are no written tax regulations issued by the PRC tax authorities to confirm this interpretation.

In February 2015, the Beijing Municipal State Tax Bureau and the SAT (the "Authority") provided further verbal clarifications on the Notice and set a tax filing deadline of 31 July 2015 for all QFII/RQFII's and their funds using QFII/RQFII quota, covering all types of investment income including PRC sourced dividend, interest and capital gains realised from the disposal of PRC equity investments, including A-Shares, realised prior to 17 November 2014 to the Authority before 31 July 2015 in accordance with the relevant PRC tax law and the Notice (the "Tax Reporting"). Those QFII/RQFII's eligible for treaty relief under an applicable tax treaty should follow the requirement of Circular 124 for tax treaty application (the "Tax Treaty Application").

The Manager, on behalf of the Fund, had made the Tax Reporting for the period from 2 March 2012 (date of commencement of operations) to 31 December 2014. The documents submitted include a "nil" basis tax return for gross realised capital gains derived from trading of PRC debt securities.

With respect to the imposition of 10% WIT on gains from the China A-shares, the PRC debt securities disposed of and the interest income derived from the PRC debt securities, the Management previously maintained provisions of RMB7,993,090 as at 31 December 2015 based on its best estimate of the potential tax liability as the issuance of assessment by the Beijing Tax Bureau on the final tax liability was pending as at 31 December 2015.

On 7 April 2016, the Beijing Tax Bureau completed the review of the Fund's Tax Reporting and issued a PRC tax demand note to the Fund for the settlement of WIT payable of RMB3,423,038 on PRC WIT arising from bonds interest income, bonds and A-shares capital gains realised from 2 March 2012 (date of commencement of operations) to 31 December 2014 (the "Settlement"). The Fund settled same amount on the same date.

The Beijing Tax Bureau endorsed the "nil" basis return for gross realised capital gains derived by the Fund from PRC debt securities for the period from 2 March 2012 (date of commencement of operations) to 31 December 2014 on the basis that the Fund is eligible for the Arrangement and bond capital gains are not taxable.

As a result of the Settlement, the Fund reversed a tax provision of RMB2,589,231 and maintained a provision of RMB1,980,799 for the year ended 31 December 2015 as at 31 December 2016.

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**NOTES TO THE FINANCIAL STATEMENTS
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3 Critical accounting estimates and judgments (Continued)

Capital gains on PRC Investments (Continued)

On the other hand, the Manager considered that the WIT policy for investment in debt securities has not been clarified in the Notice for the year ended 31 December 2015. In view of the above, the Fund has continued to provide WIT provision on the gross realised gains for the year ended 31 December 2015 derived from the PRC debt securities of the Fund. During the year ended 31 December 2016, no financial assets at fair value through profit or loss were held by the Fund.

The Management estimate the gross realised gains for the year ended 31 December 2015 which could be exposed to PRC taxation at the rate of 10% to be RMB956,415.

The Management consider that the WIT provision amount for gross realised capital gains derived by the Fund from trading of PRC Investments may differ significantly from the amounts that may have to be ultimately borne by the Fund. In the event a WIT is levied on gross capital gains derived from the disposal of PRC Investments at an amount that is different from what was provided by the Fund, the Fund may incur a liability that is different from the existing tax provision, which could be significantly impact the net assets attributable to unitholders of redeemable units and consequently, the price per unit of the Fund based on the calculation of the net assets attributable to unitholders of redeemable units when distributing to the unitholders of redeemable units at such relevant time.

4 Financial risk management

The Fund is exposed to a variety of risks including but not limited to market price risk, cash flow and fair value interest rate risk, credit and custody risk, liquidity risk and currency risk which are associated with the markets in which the Fund invests.

The following is a summary of the main risks and risk management policies.

(a) Market 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, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

As at 31 December 2016 and 2015, no financial assets at fair value through profit or loss were held by the Fund.

(b) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow.

The Management monitor the interest rate risks by quantifying (a) market exposure in percentage terms; and (b) exposure in duration terms by different countries. As at 31 December 2016 and 2015, the Fund did not hold investment in interest-bearing securities.

At 31 December 2016, the Fund held cash and cash equivalents amounted to RMB4,766,757 (2015: RMB8,443,080). If interest rates had been 10 basis points higher or lower with all other variables held constant, net assets attributable to unitholders would have been RMB4,767 (2015: RMB8,443) higher or lower at 31 December 2016.

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4 Financial risk management (Continued)

(c) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund is not exposed to currency risk arising from balances and transactions in foreign currencies as its assets and liabilities are mainly denominated in RMB, the Fund's functional and presentation currency. Accordingly, the Management considers that it is not necessary to present a sensitivity analysis of currency risk.

(d) Credit and counterparty risk

Credit and counterparty risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund.

As at 31 December 2016 and 2015, the Fund did not have investments, thus it was not exposed to credit risk and counterparty risk arising from investments.

The Fund is exposed to counterparty risk on cash and cash equivalents.

The table below summarises the net exposure to the Fund's counterparty as at 31 December 2016 and 2015 together with its credit rating.

At 31 December 2016	RMB	Credit rating	Source of credit rating
Bank balances			
Bank of China (Hong Kong) Limited	51,371	Aa3	Moody
Bank of China Limited	4,715,386	A1	Moody
At 31 December 2015	RMB	Credit rating	Source of credit rating
Bank balances			
Bank of China (Hong Kong) Limited	209,875	Aa3	Moody
Bank of China Limited	8,223,205	A1	Moody

The Management consider that none of the assets is impaired nor past due.

(e) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily redemptions of units in the Fund.

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4 Financial risk management (Continued)

(e) Liquidity risk (Continued)

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Materiality less than 1 month RMB	Materiality 1 month to less than 3 months RMB	No stated maturity RMB	Total RMB
At 31 December 2016				
Management fee payable	438	-	-	438
Accounts payable and accrued expenses	29	125,076	-	125,105
Payable to a former unitholder	-	-	2,589,231	2,589,231
	<u>467</u>	<u>125,076</u>	<u>2,589,231</u>	<u>2,714,774</u>
	Materiality less than 1 month RMB	Materiality 1 month to less than 3 months RMB	No stated maturity RMB	Total RMB
At 31 December 2015				
Management fee payable	29,244	-	-	29,244
Accounts payable and accrued expenses	203,567	-	-	203,567
	<u>232,811</u>	<u>-</u>	<u>-</u>	<u>232,811</u>

Units are redeemed on demand at the unitholder's option. As at 31 December 2016 and 2015, there was one unitholder holding 100% of the Fund's units. Refer to Note 8(f).

As at 31 December 2016, the total assets of the Fund amounted to RMB4,915,689 (2015: RMB8,438,135). The Fund manages its liquidity risk by holding cash and cash equivalents.

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4 Financial risk management (Continued)

(f) Fair value estimation

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

As at 31 December 2016 and 2015, there was no investment held by the Fund. For the year ended 31 December 2016 and 2015, there was no transfer between levels.

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4 Financial risk management (Continued)

(f) Fair value estimation (Continued)

The following table analyses within the fair value hierarchy the Fund's assets and liabilities (by class) not measured at fair value at 31 December 2016 and 2015 but for which fair value is disclosed.

	Level 1 RMB	Level 2 RMB	Total RMB
At 31 December 2016			
Assets			
Cash and cash equivalents	4,766,757	-	4,766,757
Prepayments and other receivables	-	148,500	148,500
Interest receivable	-	432	432
	<u>4,766,757</u>	<u>148,932</u>	<u>4,915,689</u>
Liabilities			
Management fee payable	-	438	438
Accounts payable and accrued expenses	-	125,105	125,105
Payable to a former unitholder	-	2,589,231	2,589,231
	-	<u>2,714,774</u>	<u>2,714,774</u>
At 31 December 2015			
Assets			
Cash and cash equivalents	8,433,080	-	8,433,080
Prepayments	-	4,301	4,301
Interest receivable	-	754	754
	<u>8,433,080</u>	<u>5,055</u>	<u>8,438,135</u>
Liabilities			
Management fee payable	-	29,244	29,244
Accounts payable and accrued expenses	-	203,567	203,567
	-	<u>232,811</u>	<u>232,811</u>

The assets and liabilities included in the above table are carried at amortised cost, their carrying values are a reasonable approximation of fair value.

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NOTES TO THE FINANCIAL STATEMENTS
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4 Financial risk management (Continued)

(g) Capital risk management

The Fund's capital is represented by the net assets attributable to unitholders. The Fund strives to invest the subscriptions in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions.

The Management may:

- Redeem and issue new units in accordance with the constitutive documents of the Fund; and
- Exercise discretion when determining the amount of distributions of the Fund to the unitholders.

5 Financial instruments by category

Financial assets

All financial assets as disclosed in the statement of financial position, including interest receivable, prepayments and other receivables and cash and cash equivalents, are categorised as "loans and receivables".

Financial liabilities

All financial liabilities as disclosed in the statement of financial position, including management fee payable and accounts payable and accrued expenses are categorised as "other financial liabilities".

6 Net loss on financial assets at fair value through profit or loss

	2016 RMB	2015 RMB
Change in unrealised loss in value of investments	-	(8,172,539)
Net realised gain on sale of investments	-	7,189,930
	<u>-</u>	<u>(982,609)</u>
	<u>-</u>	<u>(982,609)</u>

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7 Number of units in issue and net assets attributable to unitholders per unit

There are 4 classes of units in the Fund. Class A units and Class B units are available for sale to the retail public in Hong Kong. Class I units and Class I-2 units are offered to institutional investors. Class A units and Class I units ceased to be available for subscription commencing 1 October 2015 until further notice and Class B units and Class I-2 units are available for subscription commencing 1 October 2015. No units are issued in Class B and Class I-2 during the year ended 31 December 2016 and 2015.

The movements of the redeemable units are as follows:

	2016		2015	
	Class A	Class I	Class A	Class I
Number of units in issue at the beginning of year	2,120	-	1,040	4,284,125
Units issued	-	-	2,120	-
Units redeemed	-	-	(1,040)	(4,284,125)
	<hr/>	<hr/>	<hr/>	<hr/>
Number of units in issue at the end of year	<u>2,120</u>	<u>-</u>	<u>2,120</u>	<u>-</u>

The following table details the net asset value per unit of each class of units at the reporting date:

	Net assets per class RMB	Number of units outstanding RMB	Net asset value per unit RMB
At 31 December 2016			
Class A	220,116	2,120	103.82
At 31 December 2015			
Class A	212,234	2,120	100.10

At the discretion of the Manager, Class A and Class I units may be subject to a subscription charge of up to 3% of the value of any subscription.

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8 Balances and transactions with the Trustee and its affiliates and the Manager and its connected persons

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following is a summary of significant related party transactions/transactions entered into during the year ended 31 December 2016 and 2015 between the Fund and the Manager and its Connected Persons. Connected Persons of the Fund are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the year ended 31 December 2016 and 2015 between the Fund and the Manager and its 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 Fund does not have any other transactions with Connected Persons except for those disclosed below.

(a) Management fee

The Manager is entitled to receive a management fee of 1.2% per annum of the net asset value of Class A and 0.6% per annum of the net asset value of Class I, calculated and accrued on each dealing day and payable monthly in arrears.

Management fee charged for the year was RMB2,586 (2015: RMB1,296,412) of which RMB438 (2015: RMB29,244) was payable to the Manager as at 31 December 2016.

(b) Trustee fee

The Trustee is entitled to receive a trustee fee of 0.15% per annum on the first RMB200 million, 0.125% per annum on the next RMB200 million, and 0.11% per annum on the remaining balance of the net asset value of the Fund subject to a minimum monthly fee of RMB40,000.

The fee is calculated and accrued on each dealing day and payable monthly in arrears.

Trustee fee charged for the year was RMB323 (2015: RMB299,878) of which RMB 28 (2015: RMB27) was payable to the Trustee as at 31 December 2016.

(c) Custodian fee

The Custodian is entitled to receive transaction charges at customary market rates and custody fees at different rates. Such charges and fees will be calculated monthly and payable monthly in arrears. The Custodian will be paid a custodian fee of up to 0.10% per annum of the net asset value of the Fund. No custodian fee was charged for the year (2015: RMB185,163).

(d) Expenses reimbursement from the Manager

The auditor's remuneration and the other operating expenses reimbursed by the Manager were RMB125,076 and RMB19,722 respectively, all of which were receivable from the Manager as at 31 December 2016.

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NOTES TO THE FINANCIAL STATEMENTS
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8 Balances and transactions with the Trustee and its affiliates and the Manager and its connected persons (Continued)

(e) Cash at banks

Cash at banks amounted to RMB51,371 (2015: RMB209,875) and RMB4,715,386 (2015: RMB8,223,205) are held with Bank of China (Hong Kong) Limited and Bank of China Limited respectively. Interest income earned and bank charges charged for the year were RMB17,504 and RMB1,731 respectively. Bank of China (Hong Kong) Limited and Bank of China Limited are related parties of the Trustee.

(f) Transactions with the Manager

At 31 December 2016 and 2015, 2,120 units of RMB Class A units were held by the Manager.

9 Taxation

Hong Kong Profit Tax

No provision for Hong Kong profits tax has been made for the Fund as it was authorised as collective investment schemes under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempt from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

PRC Withholding Tax

For the year ended 31 December 2015, the Fund invested in RMB denominated debt securities in the PRC. The Fund has provided WIT provision on the interest income and gross realised gains for the year ended 31 December 2015 derived from the PRC debt securities of the Fund. Refer to note 3 for details.

The taxation of the Fund for the year ended 31 December 2016 and 2015 represents:

	2016 RMB	2015 RMB
Capital gains tax (reversed)/charged on realised gains on investments	(5,220,451)	961,052
Deferred tax reversed on change in unrealised gains on investments	-	(391,654)
	<u>(5,220,451)</u>	<u>569,398</u>
Withholding tax charge/(credit) on interest income from debt securities	2,631,220	(374,731)
Withholding tax on interest income from banks	1,207	2,421
	<u>2,632,427</u>	<u>(372,310)</u>
Tax (credit)/expense	<u>(2,588,024)</u>	<u>197,088</u>

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9 Taxation (Continued)

The movement in deferred tax liabilities arising from change in unrealised gains on investments during the year is as follows:

	2016 RMB	2015 RMB
As the beginning of the year	-	391,654
Deferred tax reversed to the statement of comprehensive income	-	(391,654)
At the end of the year	<u>-</u>	<u>-</u>

The movement in provision for tax during the year is as follows:

	2016 RMB	2015 RMB
As the beginning of the year	7,993,090	7,406,729
Tax (reversed)/charged to the statement of comprehensive income	(2,588,024)	588,742
Tax paid	(3,424,267)	(2,381)
At the end of the year	<u>1,980,799</u>	<u>7,993,090</u>

The provision for tax of the Fund as at 31 December 2016 and 2015 represents:

	2016 RMB	2015 RMB
PRC WIT - bond interest income	1,024,384	1,660,461
PRC WIT - A-shares capital gains	-	1,269,701
PRC WIT - bond capital gains	956,415	5,062,928
	<u>1,980,799</u>	<u>7,993,090</u>

10 Other operating expenses

	2016 RMB	2015 RMB
Bank charges	1,731	2,339
Publishing charges	23,497	34,157
Printing expense	-	10,609
	<u>25,228</u>	<u>47,105</u>

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11 Accounts payable and accrued expenses

	2016 RMB	2015 RMB
Trustee fee payable	29	27
Audit fee payable	125,076	100,000
Interbank transaction fee payable	-	1,112
Other fee payable	-	102,428
	<u>125,105</u>	<u>203,567</u>

12 Prepayments and other receivables

	2016 RMB	2015 RMB
Prepaid expenses	3,702	4,301
Amount due from the Manager (note 8(d))	144,798	-
	<u>148,500</u>	<u>4,301</u>

13 Payable to a former unitholder

During the year ended 31 December 2016, the Fund reversed the tax provision of RMB2,589,231. Refer to note 3 and 9 for details.

The Manager undertakes that the over-provision of tax in prior financial periods should be payable to the then unitholder during the corresponding period. The Manager is expecting to settle this amount upon finalisation of the tax liability up to 31 December 2015.

14 Soft commission arrangements

The Management confirm that there has been no soft commission arrangement existing during the year ended 31 December 2016 and 2015 in relation to directing transactions of the Fund through a broker or dealer.

15 Approval of financial statements

The financial statements were approved by the Management on 26 April 2017.

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PERFORMANCE TABLE (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2016

Net asset

	Net asset value of the Fund RMB	Net asset value per unit RMB
At the end of financial period dated 31 December 2016		
Class A	220,116	103.82
Class I	N/A	N/A
At the end of financial period dated 31 December 2015		
Class A	212,234	100.10
Class I	N/A	N/A
At the end of financial period dated 31 December 2014		
Class A	104,280	100.29
Class I	437,220,098	102.06

Highest and lowest net asset value per unit

	Highest net asset value per unit	Lowest net asset value per unit
Financial period ended 31 December 2016		
Class A	103.82	99.70
Class I	N/A	N/A
Financial period ended 31 December 2015		
Class A	101.97	99.84
Class I	104.06	102.10
Financial period ended 31 December 2014		
Class A	100.36	95.99
Class I	102.06	97.10
Financial period ended 31 December 2013		
Class A	107.99	97.11
Class I	108.62	98.22
Financial period ended 31 December 2012 (since commencement of operations)		
Class A	102.14	96.18
Class I	102.31	96.50