

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

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**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

ADMINISTRATION AND MANAGEMENT

Manager

Shenwan Hongyuan Asset Management (Asia) Limited
Level 19,
28 Hennessy Road
Hong Kong

Directors of the Manager

Zhu Minjie
Chen Xiaosheng
Guo Chun
Qiu Yizhou
Xia Mingrui

Trustee and Registrar

Bank of Communications Trustee Limited
1/F, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

Auditor

PricewaterhouseCoopers
21/F Edinburgh Tower
15 Queen's Road Central
Hong Kong

Legal Adviser

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

RQFII Custodian

Bank of Communications Co., Ltd.
188 Yin Cheng Zhong Road
Shanghai 200120
The People's Republic of China

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

REPORT OF THE MANAGER

Market Review

After the lackluster 2017, China bond market performed well in 2018. On the first half, the worries of regulation and inflation were relieved, which led the yield curve of government bond move down significantly, and the reserve requirement ratio(RRR) cut on April reflected the economic downtrend stress and the loosen tone of the monetary policy. On the second half, even with the mass supplies of special debt, the worsen economic data, US-China trade friction and easing money policy drive the yield lower, the sluggish global economy and dovish FED also help. The 2018 China GDP growth recorded 6.4%, slightly lower than the expectation 6.5% and 6.9% in 2017.

In terms of yield curve movement, the 1, 3, 5, 7, 10 year tenor key rate treasury YTM increase by 114bps, 94bps, 81bps, 64bps and 59bps respectively, almost wipe out the 2017 surge, which the whole curve moved significantly downwards.

The spread between 5 year tenor AAA, AA+, AA, AA- corporate bonds and corresponding 5 year treasuries changed by -49bps, -44bps, 3bps and 104bps respectively. The changes of spreads reflect a liquidity loosening and deterioration in credit market.

Portfolio review

For the 12 month period, the Fund's NAV before dividend distribution is up 1.59% for A (Retail) class and up 2.05% for I (Institutional) class. In comparison, the Chinabond Composite Full Price Index (CBCFPI) was up 4.79%.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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REPORT OF THE MANAGER (CONTINUED)

Market Outlook

We see as much as 2.7-2.8% as the low point in 10yr CGB yield this year. Most expect the lowest yield to be reached by end of 1H, in line with PPI and growth trajectory. PPI may further decline according to locals, likely printing negative yoy levels in the coming months. The rate curve is likely to flatten given weaker demand and deflation risks. The PBOC probably welcomes a flatter curve which incentivizes banks to shift their exposure to longer-dated credit assets, and leads to credit spreads compression.

Given downward growth pressure and a more dovish Fed, we expect monetary policy to further loosen. On top of RRR cuts, TMLF and OMO injections, we also see rate cuts this year. Cuts of MLF/TMLF rates are viewed as the most plausible action, as lower-cost medium-term liquidity facilities could help reduce banks' funding costs.

Also, the PBOC showed further commitments to opening up the bond market, and mentioned a few future enhancements on market access, including developing bond ETF, catering to investors' requirement on longer settlement period, optimizing FX hedging process, working on permitting all foreign investors to repo etc. Bloomberg's China bond trading platform was officially launched, which may help reduce trading costs. Another key focus was whether Bloomberg Barclays will start including China into its Global Aggregate Index in April as scheduled. JP Morgan's GBI-EM index provider expressed they 'feel positive' on China's index inclusion review this summer. FTSE Russell's WGBI expressed their annual review announcements are in September. While they have no doubt that China will be included in WGBI eventually, they did not give specific timeline for such inclusion. We expect passive inflows into the CGB and policy bank notes market from inclusion of the three major bond indices.

Sincerely yours,



Shenwan Hongyuan Asset Management (Asia) Limited

26 April 2019

Investments are subject to investment risks, fund value may go up as well as down and past performance is not indicative of future performance. Please refer to the Explanatory Memorandum for details including the risk factors. Shenwan Hongyuan Asset Management (Asia) Limited is the issuer of this report. This document has not been reviewed by the Securities and Futures Commission.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

REPORT OF THE TRUSTEE

To the unitholders of SWS Strategic Investment Funds

We hereby confirm that, in our opinion, the Manager has, in all material respects, managed the SWS Strategic Investment Funds – Shenyin Wanguo RMB Mainland Investment Fund in accordance with the provisions of the Trust Deed dated 6 January 2012 and all its supplemental deeds for the year ended 31 December 2018.

A handwritten signature in black ink, consisting of several fluid, connected strokes, positioned above the printed text of the trustee's name and date.

For and on behalf of
Bank of Communications Trustee Limited
26 April 2019

Independent Auditor's Report

To the Unitholders of Shenyin Wanguo RMB Mainland Investment Fund (The "Sub-Fund")

Report on the Audit of the Financial Statements

Opinion

What we have audited

The financial statements of Shenyin Wanguo RMB Mainland Investment Fund (the "Sub-Fund") set out on pages 8 to 31, which comprise:

- the statement of financial position as at 31 December 2018;
- 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 Sub-Fund as at 31 December 2018, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the IASB. 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 Sub-Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "ISEBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the ISEBA Code.

Other Information

The Management of the Sub-Fund is responsible for the other information. The other information comprises all of 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.

Independent Auditor's Report

To the Unitholders of Shenyin Wanguo RMB Mainland Investment Fund (The "Sub-Fund")
(Continued)

Report on the Audit of the Financial Statements (Continued)

Other Information (Continued)

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 Sub-Fund is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, 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 of the Sub-Fund is 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 Management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Management of the Sub-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 6 January 2012 ("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 Sub-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 Shenyin Wanguo RMB Mainland Investment Fund (The "Sub-Fund")
(Continued)

Report on the Audit of the Financial Statements (Continued)

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 Sub-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 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 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

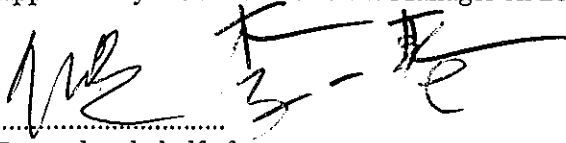
Hong Kong, 26 April 2019

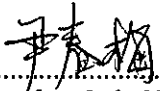
**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

| | Note | 2018 RMB | 2017 RMB |
|--|-----------|-------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalent | 4(e) | 2,108,254 | 1,932,946 |
| Financial assets at fair value through profit or loss | 4(e),4(g) | 44,584,939 | 51,760,107 |
| Interest receivable | | 682,658 | 919,275 |
| Deposits | | 11,015 | 13,216 |
| Prepayments | | 1,030 | 6,792 |
| Total assets | | <u>47,387,896</u> | <u>54,632,336</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Amounts due to brokers | | 563 | 7,832 |
| Management fee payable | 7(a) | 34,733 | 42,003 |
| Trustee fee payable | 7(b) | 51,705 | 51,705 |
| Sub-custodian fee payable | 7(c) | 3,981 | 4,593 |
| Tax payable | 6 | 332,580 | 386,471 |
| Other payables and accruals | | 250,905 | 205,834 |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>674,467</u> | <u>698,438</u> |
| Net assets attributable to unitholders | | <u>46,713,429</u> | <u>53,933,898</u> |
| Represented by: | | | |
| Net assets attributable to unitholders (calculated in accordance with the Sub-Fund's Explanatory Memorandum) | 8 | <u>46,713,429</u> | <u>53,933,898</u> |

Approved by the Trustee and the Manager on 26 April 2019.


.....
For and on behalf of
Bank of Communications Trustee Limited
As the Trustee


.....
For and on behalf of
Shenwan Hongyuan Asset Management (Asia) Limited
As the Manager

The notes on pages 12 to 31 are an integral part of these financial statements.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | 2018 RMB | 2017 RMB |
|--|------|------------------|--------------------|
| Income | | | |
| Dividend income | | 46,251 | - |
| Interest income | | 17,739 | 89,937 |
| Interest from financial assets at fair value through profit or loss | | 1,704,987 | 2,433,151 |
| Net gain/(losses) on financial assets at fair value through profit or loss | 5 | 498,451 | (1,109,210) |
| Net exchange gains | | 452 | 173 |
| Total net income | | <u>2,267,880</u> | <u>1,414,051</u> |
| Expenses | | | |
| Management fee | 7(a) | 451,540 | 610,690 |
| Trustee fee | 7(b) | 608,784 | 608,784 |
| Sub-custodian fee | 7(c) | 50,442 | 72,996 |
| Auditor's remuneration | | 191,821 | 205,625 |
| Commission and brokerage fee | | 33,064 | 41,169 |
| Legal and professional fees | | 5,840 | 95,091 |
| Other expenses | | 34,302 | 42,518 |
| Total operating expenses | | <u>1,375,793</u> | <u>1,676,873</u> |
| Finance Cost | | | |
| Distribution to unitholders | 9 | (1,295,418) | (1,762,722) |
| Loss before tax | | <u>(403,331)</u> | <u>(2,025,544)</u> |
| Taxation | 6 | 35,096 | 2,024,274 |
| Total comprehensive loss | | <u>(368,235)</u> | <u>(1,270)</u> |

The notes on pages 12 to 31 are an integral part of these financial statements.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | Note | Class A | | Class I | | | Total | |
|--|------|-----------------|--|------------------------------|-----------------|--|------------------------------|--|
| | | Number of units | Net assets attributable to unitholders RMB | Net asset value per unit RMB | Number of units | Net assets attributable to unitholders RMB | Net asset value per unit RMB | Net assets attributable to unitholders RMB |
| As at 1 January 2017 | | 145,152,511 | 15,148,938 | 104.365 | 684,122,094 | 72,935,645 | 106.612 | 88,084,583 |
| Issuance of units | | 71,079,733 | 7,465,424 | | - | - | | 7,465,424 |
| Redemption of units | | (26,753,743) | (2,754,598) | | (363,929,539) | (38,860,241) | | (41,614,839) |
| Total comprehensive loss | | - | (133,909) | | - | 132,639 | | (1,270) |
| As at 31 December 2017 and 1 January 2018 | 8 | 189,478,501 | 19,725,855 | 104.106 | 320,192,555 | 34,208,043 | 106.835 | 53,933,898 |
| Issuance of units | | 2,505,478 | 259,947 | | - | - | | 259,947 |
| Redemption of units | | (68,108,398) | (7,112,181) | | - | - | | (7,112,181) |
| Total comprehensive loss | | - | (126,180) | | - | (242,055) | | (368,235) |
| As at 31 December 2018 | 8 | 123,875,581 | 12,747,441 | 102.905 | 320,192,555 | 33,965,988 | 106.079 | 46,713,429 |

The notes on pages 12 to 31 are an integral part of these financial statements.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | 2018 RMB | 2017 RMB |
|---|--------------------|---------------------|
| Cash flows from operating activities | | |
| Total comprehensive loss | (368,235) | (1,270) |
| Adjustments for: | | |
| - Interest income | (1,722,726) | (2,523,088) |
| - Distribution to unitholders | 1,295,418 | 1,762,722 |
| - Dividend income | (46,251) | - |
| - Withholding tax | (35,096) | (2,024,274) |
| Operating loss before working capital changes | (876,890) | (2,785,910) |
| Net decrease in financial assets at fair value through profit or loss | 7,175,168 | 19,723,648 |
| Decrease in deposits | 2,201 | 8,700 |
| Decrease/(increase) in prepayments | 5,762 | (5,788) |
| (Decrease)/increase in amount due to brokers | (7,269) | 1,682 |
| Increase/(decrease) in management fee payable, trustee fee payable, sub-custodian fee payable and other payables and accruals | 37,189 | (16,349) |
| Cash generated from operations | 6,336,161 | 16,925,983 |
| Interest received | 1,959,343 | 2,697,260 |
| Withholding tax paid | (18,795) | (27,456) |
| Dividend income received | 46,251 | - |
| Net cash generated from operating activities | 8,322,960 | 19,595,787 |
| Cash flows from financing activities | | |
| Proceeds from issue of units | 259,947 | 7,465,424 |
| Payments on redemption of units | (7,112,181) | (41,614,839) |
| Distribution paid | (1,295,418) | (1,762,722) |
| Net cash used in financing activities | (8,147,652) | (35,912,137) |
| Net increase/(decrease) in cash and cash equivalents | 175,308 | (16,316,350) |
| Cash and cash equivalents at beginning of the year | 1,932,946 | 18,249,296 |
| Cash and cash equivalents at end of the year | 2,108,254 | 1,932,946 |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances | 2,108,254 | 1,932,946 |

The notes on pages 12 to 31 are an integral part of these financial statements.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

1 General information

SWS Strategic Investment Funds (the “Trust”) was constituted as an umbrella unit trust established under the laws of Hong Kong pursuant to a trust deed dated 6 January 2012 (the “Trust Deed”) and supplemental deed dated 6 January 2012, 10 January 2012, 26 September 2014, 24 October 2014, 26 February 2015 and 19 June 2015 (the “Supplemental Deeds”) entered into between Shenwan Hongyuan Asset Management (Asia) Limited (the “Manager”) and Bank of Communications Trustee Limited (the “Trustee”).

Shenyin Wanguo RMB Mainland Investment Fund (the “Sub-Fund”) was constituted as a separate sub-fund of the Trust on 10 January 2012. The Sub-Fund is an open-ended unit trust and is authorised by Securities and Futures Commission of Hong Kong under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the “SFC Code”).

A separate sub-fund can be created and established to which assets and liabilities attributable to the relevant sub-fund applied. A separate class of units relating exclusively to each sub-fund will be issued. As at 31 December 2018, there were another two sub-funds, SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund and Shenyin Wanguo RQFII A Share Strategy Fund. The assets and liabilities of each sub-fund of the Trust are separate and distinct from the assets and liabilities of the sub-fund of the Trust.

The investment objectives of the Sub-Fund is to achieve medium to long-term capital appreciation by investing primarily in RMB-denominated and settled debt securities issued in the People’s Republic of China (“PRC”). These include RMB denominated and settled debt securities issued in the PRC which include, but are not limited to, government treasury, local government bond, financial bond, central bank paper, enterprise bond, listed company bond, medium term note, commercial paper and convertible bond, fixed income funds which are authorised by the China Securities Regulatory Commission (“CSRC”), RMB denominated and settled equities which are listed on the Shanghai or Shenzhen Stock Exchanges and equity funds which are authorised by the CSRC.

The Sub-Fund can invest directly in debt securities issued within PRC and China A-Shares by using the Renminbi Qualified Institutional Investors (“RQFII”) quota of Shenwan Hongyuan (International) Holdings Limited, the holding company of the Manager.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) 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 and financial liabilities held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Trustee and Manager to exercise their judgment in the process of applying the Sub-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.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

New standards and amendments to existing standards effective 1 January 2018

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest ("SPPI"). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss ("ECL") impairment model.

IFRS 9 has been applied retrospectively by the Sub-Funds and did not result in a change to the classification or measurement of financial instruments as outlined in note 2(b). The Sub-Fund's investment portfolios continue to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Sub-Fund.

New standards and amendments to standards that are relevant to the Sub-Fund but are not yet effective and have not been early adopted by the Sub-Fund

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Sub-Fund.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(b) Financial assets and financial liabilities at fair value through profit or loss

Classification

The Sub-Fund classifies its investments based on both the Sub-Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Sub-Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Sub-Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Sub-Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Sub-Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Sub-Fund holds equity securities of RMB1,567,340 (2017: RMB5,062,980), debt securities of RMB40,861,804 (2017: RMB41,623,475) and collective investment schemes of RMB2,155,795 (2017: RMB 5,073,652) which had previously been designated at fair value through profit or loss. On adoption of IFRS 9 these securities are mandatorily classified as fair value through profit or loss.

Recognition/derecognition

Purchases and sales of investments are accounted for on the trade date basis. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Sub-Fund has transferred substantially all risks and rewards of ownership.

Measurement

Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all investments are measured at fair value. Realised and unrealised gains and losses on investments are recognised in the statement of comprehensive income in the period in which they arise.

Fair value estimation

The Sub-Fund adopted IFRS 13 "Fair value measurement" for fair value estimation of financial assets at fair value through profit or loss. The fair value of investments that are listed or traded on an exchange is based on quoted market prices at close of trading on the reporting date.

Investments which are not listed on an exchange or are thinly traded are valued by using quotes from brokers.

Investments which are traded in the interbank markets (for example, unlisted debt securities) are fair valued by using the valuation provided by China Central Depository & Clearing Co., Ltd., a company jointly established by People's Bank of China and Ministry of Finance to undertake the function of centralized depository and settlement for the interbank bond market.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(c) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Income

Interest income is recognised on a time-proportionate basis using the effective interest method.

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 Sub-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.

Dividend income is recorded on the ex-dividend date with the corresponding foreign withholding taxes recorded as an expense.

(e) Expenses

Expenses are accounted for on an accruals basis.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits, other short-term highly liquid investments with original maturities of three months or less.

(g) Translation of foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Sub-Fund operates (the “functional currency”). The performance of the Sub-Fund is measured and reported to the unitholders in Renminbi (the “RMB”). The Manager considers the 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 Sub-Fund’s functional and presentation currency.

Transactions and balances

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.

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

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within “Net exchange gains/(losses)”.

Foreign exchange gains and losses relating to the financial assets and financial liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within “Net losses on financial assets at fair value through profit or loss”.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(h) Redeemable units

Net assets attributable to unitholders

The Sub-Fund issues redeemable units, namely Class A units and Class I units, which are redeemable at the unitholder's option and are classified as financial liabilities.

The unitholders can redeem the units on dealing days which are generally Hong Kong and PRC business days or such other day or days determined by the Manager and Trustee may agree from time to time for cash equal to a proportionate share of the Sub-Fund's net assets attributable to unitholders of the relevant class. Class A units are subject to management fee at 1.2% per annum while Class I units are subject to management fee at 0.75% per annum.

Redeemable units are issued and redeemed at the holder's option at prices based on the Sub-Fund's net assets attributable to unitholders per unit at the time of issue or redemption. The Sub-Fund's net assets attributable to unitholders is calculated by dividing the net assets attributable to unitholders by number of units in issue.

Redemption of units are processed on each business day (Dealing Date) and redemption proceeds are usually settled within 5 business days from the Dealing Date.

The Manager maintains the right to limit redemption up to 10% of total number of units in issue on dealing day prorated by investors' redemptions on the same dealing day. Any units not redeemed which would have otherwise been redeemed will be carried forward for redemption, subject to the same limitation on the next succeeding dealing day(s) until initial redemption request has been satisfied in full.

Distributions to unitholders

Distribution are at the discretion of the Manager of the Sub-Fund. A distribution to the Sub-Fund's unitholder is included in the statement of comprehensive income as "Finance cost". A proposed distribution is recognised as a liability in the period in which it is approved by the Manager of the Sub-Fund.

Proceeds and payments on issue and redemption of units

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

(i) Taxation

The Sub-Fund currently incurs withholding taxes imposed by the PRC 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.

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.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(i) Taxation (Continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Sub-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 income tax liability on the statement of financial position.

3 Critical accounting estimates and judgements

The Manager makes 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.

PRC tax provision

In preparing these financial statements, the Manager has 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.

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 withholding income tax (“WIT”) on the PRC-sourced income, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

In addition, the non-PRC residents with interest income derived from the debt securities will be subject to 10% WIT. Pursuant to the PRC CIT Law, debt securities issuers in the PRC are obligated to withhold the 10% PRC WIT on interest income for those foreign debt securities holders. However, interest income derived from government bonds issued by the State Council’s finance departments and/or local government bonds approved by the State Council is exempt from PRC WIT under the PRC CIT Law.

Furthermore, according to the notice Caishui [2016] No.36 (“Circular 36”), Value-Added Tax (“VAT”) at 6% shall be levied on the difference between the selling and buying prices of those marketable securities starting from 1 May 2016. The gains derived by QFIIs/RQFIIs and through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect from trading of marketable securities (including A-shares and other PRC listed securities) are exempted from VAT in the PRC under Circular 36 and other prevailing VAT regulations. Dividend income or profit distributions on equity investment derived from the PRC are not included in the taxable scope of VAT under Circular 36. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT. However, the prevailing VAT regulations do not specifically exempt VAT on interest received by QFIIs/RQFIIs. Hence, gains derived by QFIIs/RQFIIs and interest income on non-government bonds (including corporate bonds) technically should be subject to 6% VAT. In addition, if VAT is applicable, local surtaxes 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%) are imposed based on the VAT liabilities (the “VAT related taxes”).

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

PRC tax provision (Continued)

Exemption of PRC WIT and VAT effective from 7 November 2018

On 7 November 2018, the Ministry of Finance and the PRC State Administration of Taxation (“SAT”) jointly issued a notice Caishui [2018] No.108 (“Circular 108”) which stipulates that foreign institutional investors are temporarily exempted from PRC WIT and VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021.

(a) Capital gains on PRC Investments

During the year ended 31 December 2018 and 2017, the Sub-Fund invests in PRC Investments in PRC through the RQFII program. The Manager considers that the enforcement of PRC tax 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 Sub-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 Manager may substantially differ from the actual events.

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 strictly enforced by the PRC tax authorities, therefore on 19 September 2017, the Manager reversed the unused WIT provision on PRC debt securities amount to RMB2,612,550. In addition, with effect from 19 September 2017, the Manager has decided to change the tax provisioning policy with the Sub-Fund and ceased to provide PRC withholding income tax for realised and unrealised gains on trading of PRC debt securities.

(b) Interest Income on debt securities in PRC

The Management considers that the PRC WIT treatment on accrued interest arising from PRC non-government bonds from 10 January 2012 (date of inception) to 6 November 2018 and the enforcement of VAT and the VAT related taxes from 1 May 2016 to 6 November 2018 is uncertain as at the date of approval of these financial statements. The Manager has exercised significant judgment in their assessment of the PRC withholding tax expense and the related tax provision.

PRC withholding tax

For the debt securities disposed of during the year, Management has not made provision on the accrued interest income of debt securities during the year and as at reporting date as they consider that:

- (i) the issuers of debt securities are required to withhold 10% interest income tax at the coupon payment date before distributing the interest income to the bond holder; and
- (ii) the Manager has sold the debt securities before the coupon payment dates or the maturity dates of the debt securities.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

PRC tax provision (Continued)

(b) Interest Income on debt securities in PRC (Continued)

VAT, urban maintenance and construction tax and educational surcharge

As at 31 December 2018, the Manager estimated that the Sub-Fund's accumulated interest income received from PRC non-government bonds since 1 May 2016 of RMB867,598 could be exposed to VAT, urban maintenance and construction tax and educational surcharge amounting to approximately RMB88,946. This amount has been provided in full.

PRC WIT, VAT and related taxes provision made from 7 November 2018 to 31 December 2018

The Manager had not stopped WIT and VAT provision on accrued interest income from PRC non-government bonds since 7 November 2018 upon the notice of Circular 108 due to practical time used for consulting professional tax advisor.

As at 31 December 2018, provision for WIT of RMB12,001 and VAT and related taxes of RMB7,676 was made for the Sub-Fund which was arising from the accumulated interest income received from PRC non-government bonds from 7 November 2018 to 31 December 2018 of RMB125,800 and the interest receivable from PRC non-government bonds of RMB404,242.

4 Financial risk management

(a) Strategy in using financial instruments

The Sub-Fund's objective in managing risk is the creation and protection of unitholder value. Risk is inherent in the Sub-Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subjecting to relevant controls. The process of risk management is critical to the Sub-Fund's continuing profitability.

The investments in the Sub-Fund are subject to normal market fluctuation and other risks inherent in trading in securities and derivatives. There can be no assurance that any appreciation in value will occur. The value of investments may fluctuate and therefore the value of the units can fall as well as rise.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(b) 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 (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The following table discloses the investments of the Sub-Fund by product type:

| | 2018 RMB | 2017 RMB |
|-------------------------------|-------------------|-------------------|
| Listed equity securities | 1,567,340 | 5,062,980 |
| Debt securities | 40,861,804 | 41,623,475 |
| Collective investment schemes | 2,155,795 | 5,073,652 |
| | <u>44,584,939</u> | <u>51,760,107</u> |

The following table discloses the non-derivative financial assets at fair value through profit or loss of the Sub-Fund by industrial sectors:

| | 2018 | | 2017 | |
|------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | RMB | % of net asset value | RMB | % of net asset value |
| Communications | - | - | 1,937,800 | 3.59 |
| Consumer Discretionary | 2,012,000 | 4.31 | 5,096,900 | 9.45 |
| Consumer Staples | 365,940 | 0.78 | 1,798,400 | 3.33 |
| Energy | 2,503,750 | 5.36 | - | - |
| Financials | 7,943,955 | 17.01 | 25,286,507 | 46.89 |
| Government | 23,777,094 | 50.90 | 8,807,700 | 16.33 |
| Health Care | 1,997,200 | 4.28 | 1,911,600 | 3.55 |
| Industrial | - | - | 998,500 | 1.85 |
| Materials | - | - | 2,998,000 | 5.56 |
| Utilities | 5,985,000 | 12.80 | 2,924,700 | 5.42 |
| | <u>44,584,939</u> | <u>95.44</u> | <u>51,760,107</u> | <u>95.97</u> |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(b) Market price risk (Continued)

The Sub-Fund's net assets attributable to unitholders is impacted by the increases/decreases of the underlying securities to which the Sub-Fund is exposed. As at 31 December 2018, if the underlying securities had increased/decreased by 5% (2017: 5%), the Sub-Fund's pre-tax profits for the year would have resulted in an increase/decrease of RMB86,992 (2017: RMB247,910).

The Manager has used their view of what would be a "reasonable possible shift" in each key market to estimate the change for use in the market sensitivity analysis.

(c) Interest rate risk

Interest rate risks arise from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The majority of interest rate exposure arises on investments in debt securities in the PRC and denominated in RMB. All of the Sub-Fund's investments in debt securities carry fixed interest rates and mature within 1 to 10 years.

| | Maturity up to 1 year RMB | Maturity 1 – 5 years RMB | Maturity over 5 years RMB | Total RMB |
|-------------------------------|---------------------------------|--------------------------------|---------------------------------|-----------------------------|
| As at 31 December 2018 | | | | |
| Investment | | | | |
| - Debt securities | 10,485,950 | 28,970,860 | 1,404,994 | 40,861,804 |
| Cash and cash equivalents | 2,108,254 | - | - | 2,108,254 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As at 31 December 2017 | | | | |
| Investment | | | | |
| - Debt securities | 13,465,138 | 23,365,837 | 4,792,500 | 41,623,475 |
| Cash and cash equivalents | 1,932,946 | - | - | 1,932,946 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

The majority of the Sub-Fund's interest rate exposure on debt instruments are RMB denominated. Interest rate exposures are expressed in terms of rate of weighted modified duration. The Manager monitors the interest rate risks by quantifying market exposure in duration terms. Beta adjusted weighted modified duration is the modified duration multiplied by the allocation of net asset value and a sensitivity factor (beta).

At 31 December 2018, should interest rates have lowered/risen by 100 basis points with all other variables remaining constant, the increase/decrease in net assets attributable to unitholders for the year would amount to approximately RMB1,213,377 (2017: RMB812,376).

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(d) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Sub-Fund mainly invests in securities and other investments that are denominated in RMB, the functional currency of the Sub-Fund. Accordingly, the Manager considers that the Sub-Fund is not exposed to significant currency risk and therefore no sensitivity analysis is presented.

(e) Credit risk

Credit risk is the risk that an issuer or counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation.

The main concentration to which the Sub-Fund is exposed arises from the Sub-Fund's investment in debt securities. The Sub-Fund does not have explicit restrictions on the minimum credit ratings of securities it may hold. The Manager will actively manage the portfolio of the Sub-Fund. In case of credit rating downgrading, the Manager will adjust the positions in the portfolio using its credit analysis and rating systems that are designed to manage credit risks.

The table below summarises the credit rating of the Sub-Fund's debt portfolio as at 31 December 2018 and 2017:

| Credit rating of debt securities Rating | 2018 % of net asset value | 2017 % of net asset value |
|--|---------------------------------|---------------------------------|
| China Chengxin | | |
| AAA | 12.95 | 19.39 |
| AA+ | - | - |
| China Lianhe | | |
| AAA | - | 9.00 |
| AA | - | 1.85 |
| Dagong Global Credit Rating | | |
| AAA | 13.90 | 3.57 |
| Shanghai Brilliance Credit Rating | | |
| AAA | 4.28 | 1.86 |
| Standard and Poor's | | |
| AA- | - | - |
| Not rated | 56.35 | 41.49 |
| | 87.48 | 77.16 |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(e) Credit risk (Continued)

The Manager has assessed the credit quality of the RMB denominated bonds based on the nature of the issuers and the historical information about the issuers' default rates.

The Sub-Fund is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honor its contractual obligations. These credit exposure exist within financing relationships, derivatives, and other transactions.

It is the Sub-Fund's policy to enter into financial instruments with reputable counterparties. The Manager closely monitors the creditworthiness of the Sub-Fund's counterparties (e.g. brokers, custodians, and banks) by reviewing their credit rating and financial statements on a regular basis.

All transactions in securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal as delivery of securities sold is only made once the custodian 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.

The Sub-Fund's financial assets which are potentially subject to concentration of credit risk consist principally of banks deposits and financial assets held with the custodian. The table below summarises the Sub-Fund's assets placed with the bank and the custodian as at 31 December 2018 and 2017:

| | RMB | Credit rating | Source of credit rating |
|---|------------|---------------|-------------------------|
| As at 31 December 2018 | | | |
| <u>Bank balances</u> | | | |
| Bank of Communications Co., Ltd., Hong Kong Branch* | 183,111 | A2 | Moody's |
| Bank of Communications Co.,Ltd. | 1,925,143 | A2 | Moody's |
| <u>Investments</u> | | | |
| Bank of Communications Co.,Ltd. | 44,584,939 | A2 | Moody's |
| As at 31 December 2017 | | | |
| <u>Bank balances</u> | | | |
| Bank of Communications Co., Ltd., Hong Kong Branch* | 369,433 | A3 | Moody's |
| Bank of Communications Co.,Ltd. | 1,563,513 | A3 | Moody's |
| <u>Investments</u> | | | |
| Bank of Communications Co.,Ltd. | 51,760,107 | A3 | Moody's |

The maximum exposure to credit risk at year end is the carrying amount of the financial assets as shown on the statement of financial position.

None of the assets is impaired nor past due but not impaired.

* Credit rating of its ultimate holding company, Bank of Communications Co., Ltd, is used.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(f) Liquidity risk

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

The Manager monitors the Sub-Fund's liquidity position on a daily basis. The Manager may limit the aggregate number of units relating to the Sub-Fund redeemed on any dealing day to 10% of the total value of the units in issue of the Sub-Fund. In this event, the limitation will apply pro rata so that all unitholders wishing to redeem units on that dealing day will redeem the same proportion by value of those units, and units not redeemed are carried forward for redemption subject to the same limitation, on the next dealing day.

The table below analyses the Sub-Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed 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.

| | Less than 3 months RMB | Less than 1 year RMB | Total RMB |
|--|------------------------------|----------------------------|-------------------|
| As at 31 December 2018 | | | |
| Amounts due to broker | 563 | - | 563 |
| Management fee payable | 34,733 | - | 34,733 |
| Trustee fee payable | 51,705 | - | 51,705 |
| Sub-custodian fee payable | 3,981 | - | 3,981 |
| Other payable and accruals | 250,906 | - | 250,906 |
| Tax payable | - | 332,580 | 332,580 |
| Net assets attributable to unitholders | 46,713,429 | - | 46,713,429 |
| | <u>47,055,317</u> | <u>332,580</u> | <u>47,387,897</u> |
| As at 31 December 2017 | | | |
| Amounts due to broker | 7,832 | - | 7,832 |
| Management fee payable | 42,003 | - | 42,003 |
| Trustee fee payable | 51,705 | - | 51,705 |
| Sub-custodian fee payable | 4,593 | - | 4,593 |
| Other payable and accruals | 205,834 | - | 205,834 |
| Tax payable | - | 386,471 | 386,471 |
| Net assets attributable to unitholders | 53,933,898 | - | 53,933,898 |
| | <u>54,245,865</u> | <u>386,471</u> | <u>54,632,336</u> |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(f) Liquidity risk (Continued)

Units are redeemed on demand at the unitholder's option. With a view to protecting the interest of unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of units of the Sub-Fund redeemed on any dealing day to 10% of the total number of units in issue. As at 31 December 2018, there was 1 (2017: 1) unitholder holding more than 10% of the Sub-Fund's units.

The following table illustrates the expected liquidity of assets held:

| | On demand RMB | Less than 3 months RMB | Less than 1 year RMB | Total RMB |
|-----------------------------------|------------------|------------------------------|----------------------------|--------------|
| As at 31 December 2018 | | | | |
| Total assets | 2,108,254 | 44,584,939 | 693,674 | 47,386,867 |
| As at 31 December 2017 | | | | |
| Total assets | 1,932,946 | 51,760,107 | 932,491 | 54,625,544 |

(g) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the year end date. The Sub-Fund utilises the last traded market price as its fair valuation inputs for both financial assets and financial liabilities.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Sub-Fund for similar financial instruments.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(g) Fair value estimation (Continued)

The Sub-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 1 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 Sub-Fund. The Sub-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.

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value at 31 December 2018 and 2017:

| | Level 1 RMB | Level 2 RMB | Level 3 RMB | Total RMB |
|-------------------------------------|------------------|-------------------|----------------|-------------------|
| As at 31 December 2018 | | | | |
| Investments | | | | |
| - listed equity securities | 926,940 | 640,400 | - | 1,567,340 |
| - listed and quoted debt securities | - | 40,861,804 | - | 40,861,804 |
| - collective investment schemes | - | 2,155,795 | - | 2,155,795 |
| Total | 926,940 | 43,657,999 | - | 44,584,939 |
| As at 31 December 2017 | | | | |
| Investments | | | | |
| - listed equity securities | 5,062,980 | - | - | 5,062,980 |
| - listed and quoted debt securities | - | 41,623,475 | - | 41,623,475 |
| - collective investment schemes | - | 5,073,652 | - | 5,073,652 |
| Total | 5,062,980 | 46,697,127 | - | 51,760,107 |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(g) Fair value estimation (Continued)

The debt securities are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument terms. To the extent that the significant inputs are observable, the Sub-Fund categorises these investments as Level 2.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As of 31 December 2018, the Sub-Fund did not hold any investments classified in level 3. (2017: Nil).

During the year ended 31 December 2018 and 2017, there were no transfers between levels.

The carrying amount of interest receivable, cash and cash equivalents, deposits, prepayments, amounts payable on redemption, management fee payable, trustee fee payable, sub-custodian fee payable, tax payable, other payables and accruals and net assets attributable to unitholders approximated their fair values and are presented in the statement of financial position. There are no financial assets and financial liabilities not carried at fair value but for which the fair value is disclosed.

(h) Capital risk management

The Sub-Fund's objectives for managing capital are:

- (i) To invest the capital in investments for achieving its investment objectives;
- (ii) To achieve consistent returns while safeguarding capital by investing in diversified portfolio, by participating in derivatives and other capital markets and by using various investment strategies and hedging techniques; and
- (iii) To maintain sufficient liquidity to meet the expenses of the Sub-Fund and redemption requests as they arise.

5 Net changes in fair value on financial assets at fair value through profit or loss

| | 2018 RMB | 2017 RMB |
|--|----------------|--------------------|
| Change in unrealised gains of financial assets at fair value through profit or loss | 378,991 | 868,611 |
| Net realised gains/(losses) on sale of financial assets at fair value through profit or loss | 119,460 | (1,977,821) |
| | <u>498,451</u> | <u>(1,109,210)</u> |

6 Taxation

(a) Hong Kong

No provision for Hong Kong profits tax has been made for the Sub-Fund as it is authorised as collective investment scheme 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.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

6 Taxation (Continued)

(b) PRC

For the year ended 31 December 2018 and 2017, the Sub-Funds had invested in RMB denominated debt securities and collective investment schemes in PRC. Refer to Note 3 for details.

The amount of taxation (reversed)/charged to the statement of comprehensive income represents:

| | 2018 RMB | 2017 RMB |
|--|-----------------|--------------------|
| Withholding tax charged/(reversed) on interest income | (35,096) | 24,965 |
| Capital gains tax on gross realised gains and unrealised gains of investment | - | (2,049,239) |
| | <u>(35,096)</u> | <u>(2,024,274)</u> |

The movement in capital gains tax payable during the year is as follows:

| | 2018 RMB | 2017 RMB |
|----------------------------|-------------|-------------|
| At beginning of the year | - | 2,049,239 |
| Capital gains tax charged | - | 563,311 |
| Capital gains tax reversed | - | (2,612,550) |
| At end of the year | <u>-</u> | <u>-</u> |

The movement in withholding tax payable on interest income during the year is as follows:

| | 2018 RMB | 2017 RMB |
|------------------------------------|----------------|----------------|
| At beginning of the year | 386,471 | 388,962 |
| Withholding tax (reversed)/charged | (35,096) | 24,965 |
| Tax paid | (18,795) | (27,456) |
| At end of the year | <u>332,580</u> | <u>386,471</u> |

7 Transactions with the Trustee, Manager and connected persons

Connected Persons of the Manager 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 between the Sub-Fund and the Trustee, 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 Sub-Fund does not have any other transactions with Connected Persons except for those disclosed below.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

7 Transactions with the Trustee, Manager and connected persons (Continued)

(a) Management fee

The Manager is entitled to receive a management fee from the Sub-Fund, at a rate of 1.2% per annum for Class A and 0.75% per annum for Class I with respect to the units of the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

The management fee charged for the year was RMB451,540 (2017: RMB610,690). As at 31 December 2018, the management fee of RMB34,733 (2016: RMB42,003) was payable to the Manager.

(b) Trustee fee

The Trustee is entitled to receive a trustee fee from the Sub-Fund, at a rate of 0.11% per annum of the net asset value of the Sub-Fund calculated and a minimum monthly fee of USD4,000 for each class of units calculated and accrued on each dealing day and are paid monthly in arrears.

The trustee fee charged for the year was RMB608,784 (2017: RMB608,784). As at 31 December 2018, the trustee fee of RMB51,705 (2017: RMB51,705) was payable to the Trustee.

(c) Sub-Custodian fee

The RQFII Custodian acts as a custodian to the Sub-Fund. The custodian fee comprises of sub-custodian fees charged by the RQFII Custodian, at a rate of 0.10% per annum of the net asset value of the RQFII custodian account of the Sub-Fund.

The sub-custodian fee charged for the year was RMB50,442 (2017: RMB72,996). As at 31 December 2018, the sub-custodian fee of RMB3,981 (2017: RMB4,593) was payable to RQFII Custodian.

(d) Holding in the Sub-Fund

The Sub-Fund allows the Manager, its connected persons and other funds managed by the Manager to subscribe for, and redeem, units in the Sub-Fund. The holdings in the Sub-Fund by the Manager and its connected person at the reporting date were as follows.

Details of Class I units held by a fellow subsidiary of the Manager, Shenwan Hongyuan Strategic Investments (H.K.) Limited, are as follows:

| | 2018 Units | 2017 Units |
|------------------------------|--------------------|--------------------|
| Class A | | |
| At the beginning of the year | 151,252.903 | 87,364.389 |
| Subscription | 2,395.212 | 70,938.036 |
| Redemption | (49,019.822) | (7,049.522) |
| At the end of the year | <u>104,628.293</u> | <u>151,252.903</u> |
| | 2018 Units | 2017 Units |
| Class I | | |
| At the beginning of the year | 320,192.555 | 684,122.094 |
| Subscription | - | - |
| Redemption | - | (363,929.539) |
| At the end of the year | <u>320,192.555</u> | <u>320,192.555</u> |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

7 Transactions with the Trustee, Manager and connected persons (Continued)

(e) Investment transactions with connected persons of the Manager

| | Aggregate value of purchase and sales of securities RMB | Total commission paid RMB | % of Sub-Fund's total transactions during the year % | Average commission rate % |
|--|--|------------------------------------|--|------------------------------------|
| 2018 | | | | |
| Shenwan & Hongyuan Securities Co., Ltd. | 90,799,856 | 21,213 | 88.12 | 0.02 |
| SWS MU Fund Management Co., Ltd | 3,092,314 | - | 3.00 | - |
| 2017 | | | | |
| Shenwan & Hongyuan Securities Co., Ltd. | 80,153,250 | 18,552 | 33.00 | 0.02 |
| SWS MU Fund Management Co., Ltd | 7,049,176 | - | 2.90 | - |

(f) Bank deposits and investments held by the Trustee's affiliates

The Sub-Fund's bank deposits and investments were held by Bank of Communications Co., Ltd., HK Branch under the same group of Trustee and Bank of Communications Co., Ltd, the ultimate holding company of the Trustee. Further details of the balances held are described in Note 4(e) to the financial statements. During the year, interest income received on these bank balances amounted to RMB3,415 (2017: RMB46,735).

8 Net assets attributable to unitholders

A reconciliation of the net assets attributable to unitholders as reported in the statement of financial position to the net assets attributable to unitholders as determined for the purposes of processing unit subscriptions and redemptions is provided below:

| | 2018 RMB | 2017 RMB |
|---|-------------|-------------|
| Published net assets attributable to unitholders | 46,713,429 | 53,933,898 |
| Net assets attributable to unitholders (calculated in accordance with IFRSs) | 46,713,429 | 53,933,898 |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

8 Net assets attributable to unitholders (Continued)

The Sub-Fund's net asset value per unit is calculated by dividing the Sub-Fund's net assets with the total number of outstanding units.

9 Distribution to unitholders

| | Number of units | 2018 RMB |
|---|--------------------|------------------|
| <u>For class A and class I</u> | | |
| Interim dividend on 20 March 2018 at RMB0.65 per unit | 499,098.640 | 324,414 |
| Interim dividend on 20 June 2018 at RMB0.70 per unit | 491,900.809 | 344,331 |
| Interim dividend on 19 September 2018 at RMB0.70 per unit | 451,685.733 | 316,180 |
| Final dividend as of 19 December 2018 at RMB0.70 per unit | 443,560.555 | 310,493 |
| | | <u>1,295,418</u> |
| | Number of units | 2017 RMB |
| <u>For class A and class I</u> | | |
| Interim dividend on 24 March 2017 at RMB0.65 per unit | 742,459.869 | 482,599 |
| Interim dividend on 22 June 2017 at RMB0.65 per unit | 733,471.938 | 476,757 |
| Interim dividend on 25 September 2017 at RMB0.65 per unit | 726,987.521 | 472,542 |
| Final dividend as of 21 December 2017 at RMB0.65 per unit | 508,959.877 | 330,824 |
| | | <u>1,762,722</u> |

10 Soft commission arrangements

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

The goods and services must be of demonstrable benefit to the Sub-Fund and may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis and data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications.

Since the inception of the Sub-Fund, the Manager had not participated in any soft dollar arrangements in respect of any transactions for the accounts of the Sub-Fund.

11 Approval of financial statements

The financial statements of the Sub-Fund were approved by the Trustee and the Manager on 26 April 2019.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**INVESTMENT PORTFOLIO (UNAUDITED)
AS AT 31 DECEMBER 2018**

| Investments | Holdings | Fair value RMB | % of net asset value |
|---|------------|-------------------|-------------------------|
| Listed Equity securities | | | |
| China | | | |
| Luzhou Laojiao Co Ltd-A | 9,000 | 365,940 | 0.78 |
| CITIC Securities Co-A | 40,000 | 640,400 | 1.37 |
| Ping An Insurance Group Co - A | 10,000 | 561,000 | 1.20 |
| | | <u>1,567,340</u> | <u>3.35</u> |
| Debt securities | | | |
| China | | | |
| China Government Bond 4.26% 07/31/2021 | 9,000,000 | 9,265,500 | 19.83 |
| China Govt Bond 3.40% 04/17/2023 | 13,000,000 | 13,106,600 | 28.06 |
| China Government Bond 3.27% 08/22/2046 | 1,527,000 | 1,404,994 | 3.01 |
| Financial Street Hldgs Var% 08/20/2021 | 2,000,000 | 2,036,760 | 4.36 |
| Byd Co Ltd 4.87% 06/15/2022 | 2,000,000 | 2,012,000 | 4.31 |
| China Natl Petroleum Co 4.50% 02/22/2019 | 2,500,000 | 2,503,750 | 5.36 |
| China Guodian Corp 2.98% 01/05/2019 | 2,000,000 | 1,999,000 | 4.28 |
| Shanghai Electric Gp Co 3.00% 01/21/2019 | 2,000,000 | 1,998,000 | 4.28 |
| Sh Pharmaceuticals Hld 2.98% 01/26/2019 | 2,000,000 | 1,997,200 | 4.28 |
| State Grid Corp Of China 2.99% 11/14/2019 | 2,000,000 | 1,988,000 | 4.26 |
| China Development Bank 3.87% 08/01/2023 | 2,500,000 | 2,550,000 | 5.45 |
| | | <u>40,861,804</u> | <u>87.48</u> |
| Unlisted Unit Trust¹ | | | |
| China | | | |
| 003474 China Southern Tian Tian Li CCY B | 2,155,795 | 2,155,795 | 4.61 |
| Total investment portfolio, at fair value | | 44,584,939 | 95.44 |
| Other net assets | | 2,128,490 | 4.56 |
| Net assets value as at 31 December 2018 (calculated in accordance with the Sub-Fund's explanatory memorandum) | | <u>46,713,429</u> | <u>100.00</u> |
| Total investment at cost | | <u>44,128,965</u> | |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF MOVEMENT IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | % holdings of net assets as at 31 December 2018 | % holdings of net assets as at 31 December 2017 |
|-----------------------------------|--|--|
| People's Republic of China | | |
| Listed Equity securities | 3.35 | 9.39 |
| Listed interbank bonds | 87.48 | 77.17 |
| Unlisted unit trust ¹ | 4.61 | 9.41 |
| | <hr/> | <hr/> |
| Total investment portfolio | 95.44 | 95.97 |
| Other net assets | 4.56 | 4.03 |
| | <hr/> | <hr/> |
| Net assets | <u>100.00</u> | <u>100.00</u> |

¹Not authorised in Hong Kong and not available to Hong Kong Residents

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**PERFORMANCE TABLE (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Net asset value

(calculated in accordance with the Sub-Fund's explanatory memorandum)

| | Net asset value per unit RMB | Total net asset value RMB |
|------------------------|------------------------------------|---------------------------------|
| As at 31 December 2018 | | |
| CLASS A | 102.905 | 12,747,441 |
| CLASS I | 106.079 | 33,965,988 |
| As at 31 December 2017 | | |
| CLASS A | 104.106 | 19,725,855 |
| CLASS I | 106.835 | 34,208,043 |
| As at 31 December 2016 | | |
| CLASS A | 103.934 | 15,086,385 |
| CLASS I | 106.181 | 72,640,830 |
| As at 31 December 2015 | | |
| CLASS A | 108.078 | 21,747,452 |
| CLASS I | 109.918 | 131,519,363 |

Highest issue price and lowest redemption price per unit

(calculated in accordance with the Sub-Fund's explanatory memorandum)

| | Highest issue price per unit RMB | Lowest redemption price per unit RMB |
|-----------------------------|---|--|
| Year ended 31 December 2018 | | |
| CLASS A | 105.495 | 102.747 |
| CLASS I | 108.479 | 105.783 |
| Year ended 31 December 2017 | | |
| CLASS A | 105.508 | 101.599 |
| CLASS I | 108.210 | 104.017 |
| Year ended 31 December 2016 | | |
| CLASS A | 108.281 | 103.186 |
| CLASS I | 110.148 | 105.402 |

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**PERFORMANCE TABLE (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Highest issue price and lowest redemption price per unit (Continued)
(calculated in accordance with the Sub-Fund's explanatory memorandum)

| | Highest issue price per unit RMB | Lowest redemption price per unit RMB |
|---|---|--|
| Year ended 31 December 2015 | | |
| CLASS A | 108.178 | 103.686 |
| CLASS I | 110.001 | 104.984 |
| Year ended 31 December 2014 | | |
| CLASS A | 105.691 | 98.758 |
| CLASS I | 106.942 | 99.547 |
| Year ended 31 December 2013 | | |
| CLASS A | 103.433 | 98.697 |
| CLASS I | 103.980 | 99.468 |
| Period from 10 January 2012 (date of inception) to 31 December 2012 | | |
| CLASS A | 102.187 | 100.000 |
| CLASS I | 102.278 | 100.000 |