

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

**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

Chu Xiaoming
Lu Wenqing
Lee Man Chun Tony
Guo Chun
Bai Youge
Fu Xingyi

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

2016 is a year of black swans and proven to be a roller-coaster year for China bond market after 2 years of bull run. Stable money market condition continues from 2015 and new low in oil price initially provided stability to the market start of the year, only to be momentarily interrupted by scare on the impact of VAT reform on policy bank bonds, resulting in a selling off. Optimism on stable and cheap funding has been overwhelming though, and coupled with the surprise Brexit vote in UK, yields started to trade down to post financial crisis new lows in Q3 despite Producer Prices Index (PPI) gradually climbing towards positive territory after being in negative since 2012. Complacency proven to be costly, as PBOC gradually tightened monetary policy amongst worries on financial leverage and capital outflow. This combined with the again surprising win of Donald Trump in the US presidential election, resulted in China bond market joining the global fixed income sell off towards the end of year. The sell-off was also fuelled by the fraudulent entrusted bond holding scandal by Guohai Securities. Treasury yields ended the year high than start of year.

There were a couple of noticeable events throughout the year that impacted the bond market. Commodity market has been performing particularly strong globally after many years of downward trend, where rally in China domestic market even exceeded the global market. This was the result of effective supply-side reform by the government. Surging PPI weighed on the bond market. Financial leverage among banks has also surged, which was a major reason PBOC started to lengthen and elevate the money market operation duration and rates, in order to curb the potential systematic risk.

In terms of yield curve movement, the 1, 3, 5, 7, 10 year tenor key rate treasury YTM's raised by 35bps, 24bps, 15bps, 16bps and 19bps respectively, representing a bear flattening of the risk-free curve, reflecting a tightening of money market liquidity to reduce leverage.

We also witnessed a general widening of the credit spread due to sell off towards the end of the year. The spread between 5 year tenor AAA, AA+, AA, AA- corporate bonds and corresponding 5 year treasuries changed by 51bps, 29bps, 5bps and -22bps respectively. AA- corporate bonds saw the only spread compression due to favourable macro-economic environment and higher commodity prices, enhancing the credit-worthiness of high yield issuers.

Portfolio review

For the 12 month period, the Fund's NAV is down by 1.44% for A (Retail) class and down by 1.04% for I (Institutional) class assuming reinvestment of dividend. In comparison, the China Bond Composite Full Price Index (CBCFPI) was down by 1.64%. Hence the A class recorded a 0.20% out-performance over the benchmark index whilst the I class saw a greater magnitude 0.60% outperformance.

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

Market Outlook

The question to answer domestically in 2017 is whether surging commodity price and exuberant housing market represent a structural upward trend or just a cyclical recovery. In general, we believe commodity price was mainly the result of effective supply-side reform of the overcapacity industries instead of continual increase in aggregate demand from the real economy, which means the upward trend is unlikely to be sustainable. Having said that, positive PPI numbers will still likely to be recorded first half of 2017 on low base. Despite all the measures to curb house prices, housing market will likely to be stable, given the importance to the economy. The deleverage process of banks will also continue into 2017, and further clarification will likely to be released in the first half of the year. The sustainability of the global reflation trade will also affect the global bond market, including China. Overall, 2nd half of 2017 will likely to fare better than 1st of 2017.

Sincerely yours,



Shenwan Hongyuan Asset Management (Asia) Limited

27 April 2017

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.

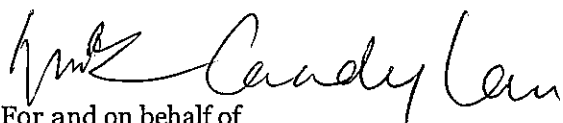
**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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REPORT OF THE TRUSTEE

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 2016.

We have not become aware of any failures by the Manager to comply with obligations imposed on it with respect to the Sub-Fund during the year ended 31 December 2016, except to the extent that a non-compliance issue has been identified. We have exercised reasonable diligence to ensure the Manager remedied the non-compliance issue.



For and on behalf of
Bank of Communications Trustee Limited
27 April 2017

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 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 Sub-Fund as at 31 December 2016, 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").

Emphasis of Matter

We draw attention to Note 3 to the financial statements which indicates that the Trustee and the Manager (the "Management") consider that the enforcement of PRC tax on gains on debt securities and value added tax on interest income arising from debt securities is uncertain as at the date of approval of these financial statements, and that Management has exercised significant judgement in their assessment of the potential tax charge and the relevant provision included in the financial statements of the Sub-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) 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.

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

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.

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

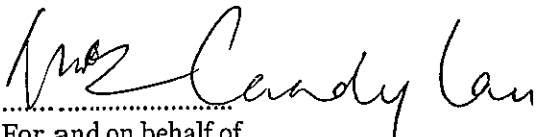
Hong Kong, 27 April 2017

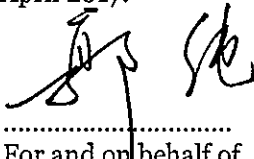
**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Note	2016 RMB	2015 RMB
Assets			
Current assets			
Cash and cash equivalent	4(e)	18,249,296	7,394,682
Investments	4(e),4(g)	71,483,755	146,063,795
Interest receivable		1,093,447	3,117,108
Deposits		21,916	53,013
Prepayments		1,004	1,082
Total assets		<u>90,849,418</u>	<u>156,629,680</u>
Liabilities			
Current liabilities			
Amounts due to brokers		6,150	27,900
Amounts payable on redemption		-	41,585
Management fee payable	7(a)	61,786	116,493
Trustee fee payable	7(b)	51,564	51,705
Sub-custodian fee payable	7(c)	7,462	14,430
Tax payable	6	2,438,201	3,095,829
Other payables and accruals		199,672	169,921
Total liabilities (excluding net assets attributable to unitholders)		<u>2,764,835</u>	<u>3,517,863</u>
Net assets attributable to unitholders		<u>88,084,583</u>	<u>153,111,817</u>
Represented by:			
Net assets attributable to unitholders (calculated in accordance with the Sub-Fund's Explanatory Memorandum)			
	8	87,727,215	153,266,815
Adjustment to preliminary expenses recognised and tax payables	8	<u>357,368</u>	<u>(154,998)</u>

Approved by the Trustee and the Manager on 27 April 2017.


.....
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 2016**

	Note	2016 RMB	2015 RMB
Income			
Interest income		3,480,531	13,245,185
Net (loss)/gain on investments	5	(2,508,885)	8,689,600
Net exchange loss		(11,919)	(5,901)
Total investment income		<u>959,727</u>	<u>21,928,884</u>
Expenses			
Management fee	7(a)	793,603	2,125,333
Trustee fee	7(b)	608,783	608,784
Sub-custodian fee	7(c)	96,552	263,887
Auditor's remuneration		226,807	152,555
Commission and brokerage fee		44,123	-
Legal and professional fees		246,746	34,401
Other expenses		43,333	164,829
Total operating expenses		<u>2,059,947</u>	<u>3,349,789</u>
Finance Cost			
Distribution to unitholders	9	(2,199,704)	(5,316,736)
(Loss)/profit before tax		<u>(3,299,924)</u>	<u>13,262,359</u>
Taxation	6	598,966	(91,549)
Total comprehensive (loss)/income		<u>(2,700,958)</u>	<u>13,170,810</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 2016

	Note	Class A		Class I			Total
		Number of units	Net assets attributable to unitholders 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 2015		482,763,890	49,974,011	3,008,244,851	315,285,778	104.807	365,259,789
Issuance of units		17,711,734	1,865,969	384,754,298	41,321,974		43,187,943
Redemption of units		(299,256,509)	(31,577,708)	(2,196,483,009)	(236,929,017)		(268,506,725)
Total comprehensive income		-	1,462,866	-	11,707,945		13,170,810
As at 31 December 2015 and 1 January 2016	8	201,219,115	21,725,138	1,196,516,140	131,386,679	109.807	153,111,817
Issuance of units		1,230,408	129,448	-	-		129,448
Redemption of units		(57,297,012)	(6,094,256)	(512,394,046)	(56,361,468)		(62,455,724)
Total comprehensive loss		-	(611,392)	-	(2,089,566)		(2,700,958)
As at 31 December 2016	8	145,152,511	15,148,938	684,122,094	72,935,645	106.612	88,084,583

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 2016**

	2016 RMB	2015 RMB
Cash flows from operating activities		
Total comprehensive (loss)/income	(2,700,958)	13,170,810
Adjustments for:		
- Interest income	(3,480,531)	(13,245,185)
- Distribution to unitholders	2,199,704	5,316,736
- Withholding tax	(598,966)	91,549
Operating (loss)/income before working capital changes	(4,580,751)	5,333,910
Net decrease in investments	74,580,040	197,865,129
Decrease in deposits	31,097	40,624
Decrease/(increase) in prepayments	78	(219)
(Decrease)/increase in amount due to brokers	(21,750)	27,900
Decrease in management fee payable, trustee fee payable, sub-custodian fee payable and other payables and accruals	(32,065)	(216,885)
Cash generated from operations	69,976,649	203,050,459
Interest received	5,504,192	20,773,387
Withholding tax paid	(58,662)	(8,630)
Net cash generated from operating activities	<u>75,422,179</u>	<u>223,815,216</u>
Cash flows from financing activities		
Proceeds from issue of units	129,448	53,671,743
Payments on redemption of units	(62,497,309)	(268,691,289)
Distribution paid	(2,199,704)	(5,316,736)
Net cash used in financing activities	<u>(64,567,565)</u>	<u>(220,336,282)</u>
Net increase in cash and cash equivalents	10,854,614	3,478,934
Cash and cash equivalents at beginning of the year	7,394,682	3,915,748
Cash and cash equivalents at end of the year	<u>18,249,296</u>	<u>7,394,682</u>
Analysis of balances of cash and cash equivalents		
Bank balances	<u>18,249,296</u>	<u>7,394,682</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)**

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 2016, there were another three sub-funds, SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund, Shenyin Wanguo RQFII PRC Government Bond 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.

As at 31 December 2016 and 2015, there were nil Class I redeemable units of the Sub-Fund were held by a fellow subsidiary of the Manager, which is considered as a related party of the Sub-Fund.

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.

**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)

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.

New standards and amendments to existing standards effective 1 January 2016

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2016 that would be expected to have a material impact on 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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. The new standard is not expected to have a significant impact on the Sub-Fund's financial position or performance as it is expected that the Sub-Fund will continue to classify its financial assets and liabilities at fair value through profit or loss.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Sub-Fund.

(b) Investments

Classification

The Sub-Fund classifies its investments as financial assets at fair value through profit or loss. These financial assets are designated by the Management at fair value through profit or loss at inception. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Sub-Fund's documented investment strategies. The Sub-Fund's policies require the Management to evaluate the information about these financial assets on a fair value basis together with other related financial information.

**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) Investments (Continued)

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.

(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.

**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)

(d) Income (Continued)

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 loss”.

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 (loss)/gain on investments”.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(h) Redeemable units (Continued)

Net assets attributable to unitholders (Continued)

Redeemable units are issued and redeemed at the holder's option at prices based on the Sub-Fund's net assets attributable to unitholders per unit at the time of issue or redemption. The Sub-Fund's net assets attributable to unitholders 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 7 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(i) Taxation (Continued)

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.

There are currently no specific tax rules or regulations on the 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 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% withholding interest income tax. Pursuant to the PRC CIT Law, debt securities issuers in PRC are obligated to withhold the 10% interest income tax for those foreign debt securities holders who are subject to the interest income tax in the PRC. 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 and through the Shanghai Connect from trading of marketable securities (including A-shares and other PRC listed securities) are exempted from VAT in the PRC 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. Hence, gains derived by QFIIs and interest income on non-government bonds (including corporate bonds) technically should be subject to 6% VAT. In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities (the "VAT related taxes").

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NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

(a) Capital gains on PRC Investments

During the year ended 31 December 2016 and 2015, 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. The Manager considers that its estimation may be impacted by any future clarification by the PRC State Administration of Taxation ("SAT") and the applicability of 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 Manager envisioned.

On 1 April 2015, the Third Branch of Shanghai Municipal Office, SAT and the Third Branch of Shanghai Bureau of Local Taxation jointly issued the Notice on Tax Issues to notify that the QFII/RQFII shall declare and handle with the tax-related issues concerning the gains from transfer of equity investment assets, including A-Shares, realised prior to 17 November 2014 to the tax authority in charge before 30 September 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 Manager, on behalf of the Sub-Fund, had made the Tax Reporting for the period from 10 January 2012 (date of inception) to 31 December 2014 inclusively in 2015. The documents submitted include a "nil" basis tax return for gross realised capital gains derived from trading of PRC debt securities. The tax authority in charge endorsed the nil basis return for gross realized capital gains derived by the Sub-Fund from PRC debt securities for the period from 10 January 2012 (date of inception) up to and including 31 December 2014.

However, the Manager considered that the withholding tax policy for investment in debt securities has not been fully clarified in 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 Manager has reassessed the withholding tax provisioning approach and considered the assessment on the Sub-Fund's PRC taxation position for investment in debt securities remains unchanged as the Notice has not addressed the withholding tax policy for other investments except for equity investment. As such, the Sub-Fund has continued to provide WIT provision on the gross realized gains for the period from 18 November 2014 to 31st December 2016 and unrealised gains as at 31st December 2016 derived from the PRC debt securities of the Sub-Fund.

As at 31 December 2016, provision for capital gain tax of RMB2,049,239 (2015: RMB2,635,480) represents 2.33% (2015: 1.72%) of the net assets attributable to unitholders of the Sub-Fund as at 31 December 2016.

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

3 Critical accounting estimates and assumptions (Continued)

(a) Capital gains on PRC Investments (Continued)

The Manager considers that the capital gains tax provision amount for gross realised capital gains derived by the Sub-Fund from trading of PRC Investments may differ significantly from the amounts that may have to be ultimately borne by the Sub-Fund. In the event a capital gains tax is levied at an amount that is different from what was provided by the Sub-Fund, the Sub-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 Sub-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.

(b) Interest Income on debt securities in PRC

The Management considers that the enforcement of PRC withholding tax, VAT and the VAT related taxes arising from debt securities 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.

VAT, urban maintenance and construction tax and educational surcharge

As at 31 December 2016, the Manager estimated that the Sub-Fund's accumulated interest income received from PRC non-government bonds since 1 May 2016 of RMB509,600 could be exposed to VAT, urban maintenance and construction tax and educational surcharge amounting to approximately RMB32,595. This amount has been provided in full.

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.

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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:

	2016 RMB	2015 RMB
Debt securities	62,906,820	135,696,130
Collective investment schemes	8,576,935	10,367,665
	<u>71,483,755</u>	<u>146,063,795</u>

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

	2016		2015	
	RMB	% of net asset value	RMB	% of net asset value
Basic Materials	-	-	10,638,640	6.94%
Consumer, Cyclical	2,030,000	2.31%	-	-
Consumer, Non-cyclical	-	-	20,499,040	13.37%
Industrial	3,060,000	3.49%	20,939,860	13.66%
Energy	3,024,000	3.45%	-	-
Financial	40,491,265	46.16%	52,260,295	34.10%
Utilities	3,069,600	3.50%	20,632,150	13.46%
Government	19,808,890	22.58%	10,144,150	6.62%
Diversified	-	-	10,949,660	7.14%
	<u>71,483,755</u>	<u>81.49%</u>	<u>146,063,795</u>	<u>95.29%</u>

The Sub-Fund's market price risk is managed through diversification of the investment portfolio ratios by exposures to different industries. There is no exposure to individual investments/issuers representing over 10% of the Sub-Fund's net asset value at the reporting date.

As the Sub-Fund mainly invests in debt securities, the sensitivity analysis of market price risk is disclosed in the interest rate sensitivity analysis in note 4(c) below.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(c) Interest rate risk (Continued)

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.

The tables below summarise the Sub-Fund's exposure to interest rate risks at the reporting date. Included in the table are the Sub-Fund's interest bearing assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

	Maturity up to 1 year RMB	Maturity 1 – 5 years RMB	Maturity over 5 years RMB	Total RMB
As at 31 December 2016				
Investment				
- Debt securities	5,090,000	57,816,820	-	62,906,820
Cash and cash equivalents	18,249,296	-	-	18,249,296
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As at 31 December 2015

Investment				
- Debt securities	-	114,602,320	21,093,810	135,696,130
Cash and cash equivalents	7,394,682	-	-	7,394,682
	<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 2016, 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 RMB1,517,805 (2015: RMB3,835,000).

(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.

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NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk management (Continued)

(e) Credit risk (Continued)

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 2016 and 2015:

Credit rating of debt securities Rating	2016 % of net asset value	2015 % of net asset value
China Chengxin		
AAA	5.76	13.68
AA+	3.50	-
AA	-	6.95
China Lianhe		
AAA	-	6.75
AA+	-	6.85
AA	2.36	-
Dagong Global Credit Rating		
AA+	-	6.77
AA	-	6.71
Shanghai Brilliance Credit Rating		
AAA	3.49	6.64
AA+	-	6.73
AA	-	7.02
Fitch		
A+	-	6.63
Standard and Poor's		
AA-	56.61	6.75
Not rated	-	7.15
	71.72	88.63
	71.72	88.63

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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 2016 and 2015:

	RMB	Credit rating	Source of credit rating
As at 31 December 2016			
<u>Bank balances</u>			
Bank of Communications Co., Ltd., Hong Kong Branch*	201,445	A2	Moody's
Bank of Communications Co.,Ltd.	18,047,851	A2	Moody's
<u>Investments</u>			
Bank of Communications Co.,Ltd.	71,483,755	A2	Moody's
As at 31 December 2015			
<u>Bank balances</u>			
Bank of Communications Co., Ltd., Hong Kong Branch*	7,301,057	A2	Moody's
Bank of Communications Co.,Ltd.	93,625	A2	Moody's
<u>Investments</u>			
Bank of Communications Co.,Ltd.	135,696,130	A2	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.

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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 2016			
Amounts due to broker	6,150	-	6,150
Amounts payable on redemption	-	-	-
Management fee payable	61,786	-	61,786
Trustee fee payable	51,564	-	51,564
Sub-custodian fee payable	7,462	-	7,462
Other payable and accruals	199,672	-	199,672
Tax payable	-	2,817,087	2,817,087
Net assets attributable to unitholders	87,705,697	-	87,705,697
	<u>88,032,331</u>	<u>2,817,087</u>	<u>90,849,418</u>
As at 31 December 2015			
Amounts due to broker	27,900	-	27,900
Amounts payable on redemption	41,585	-	41,585
Management fee payable	116,493	-	116,493
Trustee fee payable	51,705	-	51,705
Sub-custodian fee payable	14,430	-	14,430
Other payable and accruals	169,921	-	169,921
Tax payable	-	3,095,829	3,095,829
Net assets attributable to unitholders	153,111,817	-	153,111,817
	<u>153,533,851</u>	<u>3,095,829</u>	<u>156,629,680</u>

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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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 2016, there were nil (2015: 2) unitholders 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 2016				
Total assets	<u>18,249,296</u>	<u>71,483,755</u>	<u>1,115,363</u>	<u>90,848,414</u>
As at 31 December 2015				
Total assets	<u>7,394,682</u>	<u>146,063,795</u>	<u>3,170,121</u>	<u>156,628,598</u>

(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.

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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 2016 and 2015:

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2016				
Investments				
- listed and quoted debt securities	-	62,906,820	-	62,906,820
- collective investment schemes	-	8,576,935	-	8,576,935
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2015				
Investments				
- listed and quoted debt securities	-	135,696,310	-	135,696,310
- collective investment schemes	-	10,367,665	-	10,367,665
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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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 2016, the Sub-Fund did not hold any investments classified in level 3. (2015: Nil).

During the year ended 31 December 2016 and 2015, 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 investments

	2016 RMB	2015 RMB
Change in unrealised loss of investments	(3,652,389)	(1,268,160)
Net realised gain on sale of investments	1,143,504	9,957,760
	<u>(2,508,885)</u>	<u>8,689,600</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
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation (Continued)

(b) PRC

For the year ended 31 December 2016 and 2015, 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:

	2016 RMB	2015 RMB
Withholding tax on interest income	(12,725)	(777,081)
Capital gains tax on gross realised gains and unrealised gains of investment	(586,241)	868,630
	<u>(598,966)</u>	<u>91,549</u>

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

	2016 RMB	2015 RMB
At beginning of the year	2,635,480	1,766,850
Capital gains tax (reversed)/charged	(586,241)	868,630
At end of the year	<u>2,049,239</u>	<u>2,635,480</u>

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

	2016 RMB	2015 RMB
At beginning of the year	460,349	1,246,060
Withholding tax reversed	(12,725)	(777,081)
Tax paid	(58,662)	(8,630)
At end of the year	<u>388,962</u>	<u>460,349</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 FUNDS
(A SUB-FUND OF SWS STRATEGIC INVESTMENT FUNDS)**

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 RMB793,603 (2015: RMB2,125,333). As at 31 December 2016, the management fee of RMB61,786 (2015: RMB116,493) 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 RMB608,783 (2015: RMB608,784). As at 31 December 2016, the trustee fee of RMB51,564 (2015: RMB51,705) was payable to the Trustee.

(c) 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 RMB96,552 (2015: RMB263,887). As at 31 December 2016, the sub-custodian fee of RMB7,462 (2015: RMB14,430) 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 Trading (H.K.) Limited, are as follows:

	2016 Units	2015 Units
At the beginning of the year	-	567,633.726
Subscription	-	283,416.229
Redemption	-	(851,049.955)
	<hr/>	<hr/>
At the end of the year	<hr/> <hr/>	<hr/> <hr/>

**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 %
2016				
Shenwan & Hongyuan Securities Co., Ltd.	59,838,974	5,984	12.83	0.01

2015

There were no investment transactions with connected persons of the Manager during the year.

(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 RMB62,486 (2015: RMB106,855).

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:

	2016 RMB	2015 RMB
Published net assets attributable to unitholders	87,727,215	153,266,815
Adjustment to preliminary expenses recognised and tax payables (a)	357,368	(154,998)
Net assets attributable to unitholders (calculated in accordance with IFRSs)	<u>88,084,285</u>	<u>153,111,817</u>

Note:

- (a) The explanatory memorandum provides for the amortisation of preliminary expense over the first 5 years of operation of the Sub-Fund, instead of those amounts being expensed as incurred during the current period, as required under IFRSs. The Manager has decided that an over-provision of PRC tax payables should be reversed, such reversal has been reflected in the financial statements.

**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	2016 RMB
<u>For class A and class I</u>		
Interim dividend on 23 March 2016 at RMB0.65 per unit	880,379.058	572,247
Interim dividend on 23 June 2016 at RMB0.65 per unit	841,562.771	547,016
Interim dividend on 26 September 2016 at RMB0.65 per unit	833,255.818	541,616
Final dividend as of 22 December 2016 at RMB0.65 per unit	828,961.885	538,825
		<hr/> 2,199,704 <hr/>
	Number of units	2015 RMB
<u>For class A and class I</u>		
Interim dividend on 25 March 2015 at RMB0.60 per unit	2,390,809.783	1,434,486
Interim dividend on 25 June 2015 at RMB0.65 per unit	2,335,817.460	1,518,281
Interim dividend on 24 September 2015 at RMB0.65 per unit	2,240,348.488	1,456,226
Final dividend as of 22 December 2015 at RMB0.65 per unit	1,396,527.161	907,743
		<hr/> 5,316,736 <hr/>

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 27 April 2017.

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

**INVESTMENT PORTFOLIO (UNAUDITED)
AS AT 31 DECEMBER 2016**

Investments	Holdings	Fair value RMB	% of net asset value
Debt securities			
China			
China Development Bank 3.54% 06/18/18	20,000,000	20,011,600	22.81
China Development Bank 2.72% 03/03/19	10,000,000	9,833,930	11.21
China Government Bond 2.65% 07/14/21	10,000,000	9,920,900	11.31
China Government Bond 2.58% 04/14/21	10,000,000	9,887,990	11.27
Fantasia Group China Company Limited 7.29% 12/30/20	2,000,000	2,068,800	2.36
Guangzhou Development Group Company Inc 4.74% 06/25/19	3,000,000	3,024,000	3.45
Shanghai Dazhong Public Utilities Group Company Limited 5.28% 01/06/18	3,000,000	3,069,600	3.50
Shanghai Fosun High Technology Group Company Limited 6.00% 12/24/17	3,000,000	3,060,000	3.49
Suning Commerce Group Company Limited 5.20% 12/14/17	2,000,000	2,030,000	2.31
		62,906,820	71.71
Unlisted Unit Trust¹			
China			
202301 China Southern Cash Income Fund - A	4,026,991	4,026,991	4.59
202302 China Southern Cash Income Fund - B	4,549,944	4,549,944	5.19
		8,576,935	9.78
Total investment portfolio, at fair value		71,483,755	81.49
Other net assets		16,243,460	18.51
Net assets value as at 31 December 2016 (calculated in accordance with the Sub-Fund's explanatory memorandum)		87,727,215	100.00
Total investment at cost		72,275,384	

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)**

**STATEMENT OF MOVEMENT IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

	% holdings of net assets as at 31 December 2016	% holdings of net assets as at 31 December 2015
People's Republic of China		
Listed interbank bonds	71.71	88.53
Unlisted unit trust ¹	9.78	6.76
	<hr/>	<hr/>
Total investment portfolio	81.49	95.29
Other net assets	18.51	4.71
	<hr/>	<hr/>
Net assets	100	100
	<hr/> <hr/>	<hr/> <hr/>

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 2016**

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 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
As at 31 December 2014		
CLASS A	103.598	50,013,854
CLASS I	104.889	315,534,048

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 2016		
CLASS A	108.281	103.186
CLASS I	110.148	105.402
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

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

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

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
Period from 10 January 2012 (date of inception) to 31 December 2012		
CLASS A	102.187	100.000
CLASS I	102.278	100.000