

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

**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
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Auditor

PricewaterhouseCoopers
21/F Edinburgh Tower
15 Queen's Road Central
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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
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REPORT OF THE MANAGER

Market Review

China bond market recorded a stellar year in 2015. Overall bond market was yielding down to a record low, at the same time, market prevailed extreme volatility in stock and currency, which further add to the “flight to quality” move. When the transiting Chinese economy is adjusting the structure to manage a steady declining growth rate, this foreseeable trend then in return provided a solid foundation for the bullish bond market in 2015. This is further fueled by 5 rates cuts and 5 RRR cuts over the course of year.

In terms of yield curve movement, the 1, 3, 5, 7, 10 year tenor key rate treasury YTM's dropped by -96bps, -82bps, -81bps, -77bps and -80bps respectively, which the whole curve moved significantly downwards.

We also witnessed a general narrowing of the credit spread, especially around the high to mid investment grade bond, when investor chased yield yet worried about the credit quality down the credit curves. The spread between 5 year tenor AAA, AA+, AA, AA- corporate bonds and corresponding 5 year treasuries changed by -73bps, -78bps, -72bps and -59bps respectively.

Portfolio review

For the 12 month period, the Fund's NAV is up 6.86% for A (Retail) class and up 7.30% for I (Institutional) class assuming reinvestment of dividend. In comparison, the Chinabond Composite Full Price Index (CBCFPI) was up by 4.19%. Hence the A class recorded a 2.67% out-performance over the benchmark index whilst the I class saw a greater magnitude 3.11% outperformance.

Our outperformance was mainly due to our decision to increase our position with respect to duration.

Market Outlook

With serious overcapacity in heavy industries and mounting debt burden, China economy will grow at a slower pace in the near future if left unattended. In light of the problems, PBOC will continue the loose monetary policies especially when inflation is unlikely to become an issue in 2016. However, fiscal policies, which have not been very effective in 2015, will likely to be more aggressive going forwards as well giving the poor economic sentiment and social pressure, at least boosting the economy modestly in the short run, notwithstanding the possible negative effect in the long run. US rate hike trajectory and currency volatility will also further add to the equation, influencing policy makers' decisions. In all, foreseeable fundamentals are still supportive for the bond market, but the uncertainty is much bigger than 2015.

Sincerely yours,

Shenwan Hongyuan Asset Management (Asia) Limited

28 April 2016

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 2015.

For and on behalf of
Bank of Communications Trustee Limited
28 April 2016

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF SHENYIN WANGUO RMB MAINLAND INVESTMENT
FUND (THE "SUB-FUND")**

Report on the Financial Statements

We have audited the financial statements of Shenyin Wanguo RMB Mainland Investment Fund (the "Sub-Fund"), a sub-fund of SWS Strategic Investment Funds (the "Trust") set out on pages 7 to 30, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Trustee and the Manager (the "Management") of the Sub-Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 6 January 2012 (the "Trust Deed") and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong (the "SFC Code"), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing issued by the International Accounting Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Sub-Fund's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF SHENYIN WANGUO RMB MAINLAND INVESTMENT
FUND(THE "SUB-FUND") (CONTINUED)**

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 2015, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 3 to the financial statements which indicates that the Management considers that the enforcement of PRC tax on gains on debt securities and collective investment schemes, and interest income arising from debt securities is uncertain as at the date of approval of these financial statements, and that the Management has exercised significant judgment 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 2015. Our opinion is not qualified in respect of this matter.

Other Matters

This report, including the opinion, has been prepared for and only for 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.

Report on Other Legal and Regulatory Requirements

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, 28 April 2016

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

	Note	2015 RMB	2014 RMB
Assets			
Current assets			
Cash and cash equivalent	4(e)	7,394,682	3,915,748
Investments	4(e),4(g)	146,063,795	343,928,924
Interest receivable		3,117,108	10,645,310
Amounts receivable on subscription		-	10,483,800
Deposits		53,013	93,637
Prepayments		1,082	863
Total assets		<u>156,629,680</u>	<u>369,068,282</u>
Liabilities			
Current liabilities			
Amounts payable on redemption		41,585	226,149
Management fee payable	7(a)	116,493	263,623
Trustee fee payable	7(b)	51,705	55,041
Sub-custodian fee payable	7(c)	14,430	30,339
Tax payable	6	3,095,829	3,012,910
Other payables and accruals		197,821	220,431
Total liabilities (excluding net assets attributable to unitholders)		<u>3,517,863</u>	<u>3,808,493</u>
Net assets attributable to unitholders		<u>153,111,817</u>	<u>365,259,789</u>
Represented by:			
Net assets attributable to unitholders (calculated in accordance with the Sub-Fund's Explanatory Memorandum)			
	8	153,266,815	365,547,902
Adjustments for preliminary expenses recognised	8	<u>(154,998)</u>	<u>(288,113)</u>

Approved by the Trustee and the Manager on 28 April 2016.

.....
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 11 to 30 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 2015**

	Note	2015 RMB	2014 RMB
Income			
Interest income		13,245,185	27,470,543
Net gains on investments	5	8,689,600	19,723,640
Net foreign exchange (losses)/gain		(5,901)	586
Total investment income		<u>21,928,884</u>	<u>47,194,769</u>
Expenses			
Management fee	7(a)	2,125,333	4,187,015
Trustee fee	7(b)	608,784	648,008
Sub-custodian fee	7(c)	263,887	491,023
Auditor's remuneration		152,555	187,917
Other expenses		199,230	292,184
Total operating expenses		<u>3,349,789</u>	<u>5,806,147</u>
Finance Cost			
Distribution to unitholders	9	<u>(5,316,736)</u>	<u>(10,974,861)</u>
Profit before tax		13,262,359	30,413,761
Taxation	6	<u>(91,549)</u>	<u>(1,084,821)</u>
Total comprehensive income		<u>13,170,810</u>	<u>29,328,940</u>

The notes on pages 11 to 30 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 2015**

	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 2014		2,120,208.621	209,307,485	98.720	4,397,903.522	437,599,273	99.501	646,906,758
Issuance of units		646,646.935	65,090,309		1,744,988.853	180,070,561		245,160,870
Redemption of units		(2,284,091.666)	(231,442,510)		(3,134,647.524)	(324,694,269)		(556,136,779)
Total comprehensive income		-	7,018,727		-	22,310,213		29,328,940
As at 31 December 2014 and 1 January 2015	8	482,763.890	49,974,011	103.516	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	8	201,219.115	21,725,138	107.967	1,196,516.140	131,386,679	109.807	153,111,817

The notes on pages 11 to 30 are an integral part of these financial statements.

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015 RMB	2014 RMB
Cash flows from operating activities		
Total comprehensive income	13,170,810	29,328,940
Adjustments for:		
- Interest income	(13,245,185)	(27,470,543)
- Distribution to unitholders	5,316,736	10,974,861
- Withholding tax	91,549	1,084,821
Operating income before working capital changes	5,333,910	13,918,079
Net decrease in investments	197,865,129	334,043,160
Decrease in deposits	40,624	158,363
(Increase)/decrease in prepayments	(219)	204
Decrease in management fee payable, trustee fee payable, sub-custodian fee payable and other payables and accruals	(188,985)	(303,944)
Cash generated from operations	203,050,459	347,815,862
Interest received	20,773,387	30,704,106
Withholding tax paid	(8,630)	(7,441)
Net cash generated from operating activities	223,815,216	378,512,527
Cash flows from financing activities		
Proceeds from issue of units	53,671,743	234,677,070
Payments on redemption of units	(268,691,289)	(604,361,217)
Distribution paid	(5,316,736)	(10,974,861)
Net cash used in financing activities	(220,336,282)	(380,659,008)
Net increase/(decrease) in cash and cash equivalents	3,478,934	(2,146,481)
Cash and cash equivalents at beginning of the year	3,915,748	6,062,229
Cash and cash equivalents at end of the year	7,394,682	3,915,748
Analysis of balances of cash and cash equivalents		
Bank balances	7,394,682	3,915,748

The notes on pages 11 to 30 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 2015, there were another two sub-funds, SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund and Shenyin Wanguo RQFII PRC Government Bond 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 2015, 0% (2014: 16.29%) of 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.

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 2015 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.

**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

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.

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.

**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

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 “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 gains/(losses) on investments”.

**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 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.

**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 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and assumptions (Continued)

(a) Capital gains on PRC Investments

During the year ended 31 December 2015 and 2014, 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.

Notice issued on 14 November 2014

On 14 November 2014, the Ministry of Finance of the PRC (the “MoF”), the State Administration of Taxation of the PRC (the “SAT”) and the China Securities Regulatory Commission (the “CSRC”) jointly issued 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”).

According to the Notice, amongst other things:

- (i) QFIIs and RQFIIs, which do not have an establishment or place of business in the PRC or have an establishment or place in the PRC but the income so derived in the PRC is not effectively connected with such establishment, will be temporarily exempt from corporate income tax on gains derived from the transfer of PRC equity investment assets (including China A-Shares) effective from 17 November 2014;
- (ii) PRC corporate income tax will be imposed on gains by QFIIs and RQFIIs from transfer of equity investment assets (including China A-Shares) realised prior to 17 November 2014 in accordance with laws.

For the financial year ended 31 December 2015

The Manager considered that the withholding tax policy for investment in debt securities has not been clarified in 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 PRC Investments 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 provided WIT provision on the gross realized gains for the period from 10 January 2012 (date of inception) to 31 December 2015 and unrealized gains as at 31 December 2015 derived from the PRC Investments of the Sub-Fund.

On 1 April 2015, the Third Branch of Shanghai Municipal Office, SAT (the “Authority”) 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 Authority 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.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and assumptions (Continued)

(a) Capital gains on PRC Investments (Continued)

The Manager had made, on behalf of the Sub-Fund, the Tax Reporting for the period from 10 January 2012 (date of inception) to 31 December 2014 inclusively, in 2015. As at the date of approval of the financial statements, the review of the tax filing by the Authority is in the process and the result of the review is uncertain.

The Manager estimates the gross realised gains from 10 January 2012 (date of inception) to 31 December 2015 and gross unrealised gains of the Sub-Fund as at 31 December 2015 which could be exposed to PRC taxation at the rate of 10% to be RMB23,494,038 (2014: RMB12,794,038) and RMB2,860,760 (2014: RMB4,874,460) respectively. The estimated capital gain tax exposure arisen from realised capital gain and unrealised capital gain would be RMB2,349,404 (2014: RMB 1,279,404) and RMB286,076 (2014: RMB487,446) respectively which in aggregate represents 1.7% (2014: 0.5%) of the net assets attributable to unitholders of the Sub-Fund as at 31 December 2015.

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 Manager considers that the enforcement of PRC withholding tax on interest income 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.

The Manager has not made provision on the accrued interest income of debt securities disposed during the period 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 disposed the debt securities before the coupon payment dates or the maturity dates of the debt securities.

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
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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:

	2015 RMB	2014 RMB
Debt securities	135,696,130	310,359,940
Collective investment schemes	10,367,665	33,568,984
	<u>146,063,795</u>	<u>343,928,924</u>

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

	2015		2014	
	RMB	% of net asset value	RMB	% of net asset value
Basic Materials	10,638,640	6.94%	29,600,310	8.10%
Consumer, Non-cyclical	20,499,040	13.37%	9,934,630	2.72%
Industrial	20,939,860	13.66%	39,687,300	10.87%
Financial	52,260,295	34.10%	134,385,774	36.79%
Utilities	20,632,150	13.46%	49,367,840	13.52%
Diversified	10,949,660	7.14%	50,516,840	13.83%
Technology	-	-	30,436,230	8.33%
Government	10,144,150	6.62%	-	-
	<u>146,063,795</u>	<u>95.29%</u>	<u>343,928,924</u>	<u>94.16%</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.

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

4 Financial risk management (Continued)

(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.

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 2015				
Investment				
- Debt securities	-	114,602,320	21,093,810	135,696,130
Cash and cash equivalents	7,394,682	-	-	7,394,682
	<u>7,394,682</u>	<u>114,602,320</u>	<u>21,093,810</u>	<u>135,696,130</u>
As at 31 December 2014				
Investment				
- Debt securities	29,938,390	238,964,810	41,456,740	310,359,940
Cash and cash equivalents	3,915,748	-	-	3,915,748
	<u>29,938,390</u>	<u>238,964,810</u>	<u>41,456,740</u>	<u>310,359,940</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 2015, 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 RMB3,835,000 (2014: RMB8,649,547).

(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.

**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

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 2015 and 2014:

Credit rating of debt securities Rating	2015 % of net asset value	2014 % of net asset value
China Chengxin		
AAA	13.68	-
AA	6.95	5.57
A-1	-	2.74
China Lianhe		
AAA	6.75	5.52
AA+	6.85	5.42
Dagong Global Credit Rating		
AAA	-	8.33
AA+	6.77	10.78
AA	6.71	18.99
Shanghai Brilliance Credit Rating		
AAA	6.64	-
AA+	6.73	13.65
AA	7.02	5.51
AA-	-	2.74
PengYuan Credit Rating Co., Ltd.		
AA+	-	5.72
Fitch		
A+	6.63	-
Standard and Poor's		
AA-	6.75	-
Not rated	7.15	-
	88.63	84.97

**SHENYIN WANGUO RMB MAINLAND INVESTMENT FUND
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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 2015 and 2014:

	RMB	Credit rating	Source of credit rating
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
As at 31 December 2014			
<u>Bank balances</u>			
Bank of Communications Co., Ltd., Hong Kong Branch*	3,145,687	A2	Moody's
Bank of Communications Co.,Ltd.	770,061	A2	Moody's
<u>Investments</u>			
Bank of Communications Co.,Ltd.	310,359,940	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 2015			
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	197,821	-	197,821
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>
As at 31 December 2014			
Amounts payable on redemption	226,149	-	226,149
Management fee payable	263,623	-	263,623
Trustee fee payable	55,041	-	55,041
Sub-custodian fee payable	30,339	-	30,339
Other payable and accruals	220,431	-	220,431
Tax payable	-	3,012,910	3,012,910
Net assets attributable to unitholders	365,259,789	-	365,259,789
	<u>366,055,372</u>	<u>3,012,910</u>	<u>369,068,282</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 2015, there were 2 (2014: 4) 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 2015				
Total assets	7,394,682	146,063,795	3,170,121	156,628,598
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2014				
Total assets	3,915,748	354,412,724	10,738,947	369,067,419
	<u> </u>	<u> </u>	<u> </u>	<u> </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.

**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 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 2015 and 2014:

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
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>
As at 31 December 2014				
Investments				
- listed and quoted debt securities	-	310,359,940	-	310,359,940
- collective investment schemes	-	33,568,984	-	33,568,984
	<u> </u>	<u> </u>	<u> </u>	<u> </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)

(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 2015, the Sub-Fund did not hold any investments classified in level 3 (2014: Nil).

During the year ended 31 December 2015 and 2014, there were no transfers between levels.

The carrying amount of interest receivable, cash and cash equivalents, amounts receivable on contributions, 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

	2015 RMB	2014 RMB
Change in unrealised gains of investments	(1,268,160)	22,782,350
Net realised gains/(loss) on sale of investments	9,957,760	(3,058,710)
	<u>8,689,600</u>	<u>19,723,640</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 2015 and 2014, 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 charged to the statement of comprehensive income represents:

	2015 RMB	2014 RMB
Withholding tax on interest income	(777,081)	(177,461)
Capital gains tax on gross realised gains and unrealised gains of investment	868,630	1,262,282
	<u>91,549</u>	<u>1,084,821</u>

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

	2015 RMB	2014 RMB
At beginning of the year	1,766,850	504,568
Capital gains tax charged	868,630	1,262,282
At end of the year	<u>2,635,480</u>	<u>1,766,850</u>

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

	2015 RMB	2014 RMB
At beginning of the year	1,246,060	1,430,962
Withholding tax charged	(777,081)	(177,461)
Tax paid	(8,630)	(7,441)
At end of the year	<u>460,349</u>	<u>1,246,060</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 for the year was RMB2,125,333 (2014: RMB4,187,015). As at 31 December 2015, the management fee of RMB116,493 (2014: RMB263,623) 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 for the year was RMB608,784 (2014: RMB648,008). As at 31 December 2015, the trustee fee of RMB51,705 (2014: RMB55,041) 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 for the year was RMB263,887 (2014: RMB491,023). As at 31 December 2015, the sub-custodian fee of RMB14,430 (2014: RMB30,339) 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:

	2015 Units	2014 Units
At the beginning of the year	567,633.726	879,908.151
Subscription	283,416.229	13,444.967
Redemption	(851,049.955)	(325,719.392)
	<hr/>	<hr/>
At the end of the year	-	567,633.726
	<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 %
2015				
Shenwan Hongyuan Securities Limited	-	-	-	-
2014				
Shenwan Hongyuan Securities Limited	-	-	-	-

(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 RMB106,855(2014: RMB105,922).

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:

	2015 RMB	2014 RMB
Published net assets attributable to unitholders	153,266,815	365,547,902
Adjustment to preliminary expenses (a)	(154,998)	(288,113)
Net assets attributable to unitholders (calculated in accordance with IFRSs)	<u>153,111,817</u>	<u>365,259,789</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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

9 Distribution to unitholders

	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/>
	Number of units	2014 RMB
<u>For class A and class I</u>		
Interim dividend on 25 March 2014 at RMB0.60 per unit	6,654,731.578	3,992,839
Interim dividend on 25 June 2014 at RMB0.60 per unit	4,021,504.745	2,412,903
Interim dividend on 25 September 2014 at RMB0.60 per unit	4,221,522.827	2,532,913
Final dividend as of 22 December 2014 at RMB0.60 per unit	3,393,676.429	2,036,206
		<hr/> 10,974,861 <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 28 April 2016.

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

**INVESTMENT PORTFOLIO (UNAUDITED)
AS AT 31 DECEMBER 2015**

Investments	Holdings	Fair value RMB	% of net asset value
Debt securities			
Listed interbank bonds			
China			
Beidahuang Nongken Group 5.60% 06/30/17	10,000,000	10,331,860	6.74
Bright Food Group Company Limited 3.68% 10/16/18	10,000,000	10,167,180	6.63
China Development Bank 4.18% 04/03/18	10,000,000	10,338,790	6.75
China Electronics Corporation 5.40% 06/13/2019	10,000,000	10,667,530	6.96
China Government Bond 2.99% 10/15/25	10,000,000	10,144,150	6.62
Jiangxi Provincial Water Conservancy Investment 5.40% 01/22/2018	10,000,000	10,358,720	6.76
Quanxing Mining Group 6.70% 03/21/2019	10,000,000	10,638,640	6.94
State Grid Corp China 4.38% 11/19/17	10,000,000	10,273,430	6.70
Sanya Phoenix International Airport 6.06% 12/05/2017	10,000,000	10,272,330	6.70
Shanghai Zhangjiang High-Tech 5.00% 10/17/2017	10,000,000	10,308,040	6.73
Sinolight Corporation 5.17% 10/30/2019	10,000,000	10,495,810	6.85
Wenzhou Public Utilities Investment 6.54% 10/14/2018	10,000,000	10,749,990	7.01
Wuhan Chedu Construction Investment 7.18% 02/27/2021	10,000,000	10,949,660	7.14
		<u>135,696,130</u>	<u>88.53</u>
Unlisted Unit Trust¹			
China			
202302 China Southern Cash Income Fund - B	10,367,665.24	10,367,665	6.76
		<u>146,063,795</u>	<u>95.29</u>
Total investment portfolio, at fair value		7,203,020	4.71
Other net assets		<u>153,266,815</u>	<u>100.00</u>
Net assets value as at 31 December 2015 (calculated in accordance with the Sub-Fund's explanatory memorandum)		<u>143,203,035</u>	
Total investment at cost		<u>143,203,035</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)**

**STATEMENT OF MOVEMENT IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Holdings as at 31.12.2015	Holdings as at 31.12.2014
People's Republic of China		
Listed interbank bonds	88.53	84.90
Unlisted unit trust ¹	6.76	9.18
	<hr/>	<hr/>
Total investment portfolio	95.29	94.08
Other net assets	4.71	5.92
	<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 2015**

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 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
As at 31 December 2013		
CLASS A	98.784	209,444,502
CLASS I	99.566	437,883,485

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 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 establishment) to 31 December 2012		
CLASS A	102.187	100.000
CLASS I	102.278	100.000