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

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2019

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

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ADMINISTRATION AND MANAGEMENT

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Zhu Minjie
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Guo Chun
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Xia Mingrui

Trustee and Registrar

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Auditor

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

REPORT OF THE MANAGER

Market Review

Over 2019, trade tensions further resulted in a slower growth in China economy. China manufacturing PMI had been hovering at 50 level whilst service PMI had been staying at around 53. The PBOC had been accommodative to promote domestic liquidity. For example, required reserve ratio for big banks cut to 13% from 17% over the year; similarly, RRR for small banks cut to 11% from 15% over the course of 2019.

In terms of yield curve, the 1,3,5,7,10 year tenor key rate treasury YTM dropped by 14bps, 5bps, 6bps, 5bps, and 4bps, respectively. However, the 30 year tenor increased 4bps, effectively made a steepened yield curve.

Portfolio Review

For the 12 month period, the Fund's total return (including dividend pay-out) was 2.67% for A (Retail) class and up 3.07% for I (institutional) class. The Chinabond Composite Full Price Index (CBCFPI) was up 4.06%.

REPORT OF THE MANAGER (CONTINUED)

Market Outlook
On the back of Convid-19 pandemic, central banks around the global cut rate aggressively in to manage risks of liquidity crunch. In fact, the lockdown measures imposed by various countries resulted in global recession concerns that also put downwards pressures on global rates, including CGB yields. We shall expect to see historical low yields across the global, including CGBs.

Although global leaders may have no idea when a full recovery may kick in, market participants have expected a deep-U shape recovery for the post pandemic era. With the most aggressive fiscal supports, we are convinced that although we may suffer a global recession, the pain should be short-lived. However, a new era of economic structure could emerge post the pandemic i.e. a more digitalized economy to take place. Moreover, inflationary pressure could be much more contained under such new economic era.

Given the trend of global inclusion of China bond market, including Bloomberg Barclays Global Aggregate Index, JP Morgan's GBI-EM Index, as well as FTSE Russell's WGBI index, we believe that China bond market will no longer "too small" to be ignored. In contrast, global bond investors are recommended to explore channels to include China bond market under their radar screens.

Sincerely yours,

Shenwan Hongyuan Asset Management (Asia) Limited

27 April 2020

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 2019.

Candy Lau

For and on behalf of
Bank of Communications Trustee Limited
27 April 2020

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 30, which comprise:

- the statement of financial position as at 31 December 2019;
- 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 2019, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Sub-Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the ISEBA Code.

Other Information

The Management of the Sub-Fund is responsible for the other information. The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Report on the Audit of the Financial Statements (Continued)

Other Information (Continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management for the Financial Statements

The Management of the Sub-Fund is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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 Sub-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 Appendix E of the SFC Code.

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 Appendix E of the SFC Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and Appendix E of the SFC Code.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 April 2020

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 RMB	2018 RMB
Assets			
Current assets			
Cash and cash equivalent	4(e)	464,056	2,108,254
Financial assets at fair value through profit or loss	4(e),4(g)	46,666,756	44,584,939
Interest receivable		750,090	682,658
Deposits		10,430	11,015
Prepayments		128	1,030
Total assets		47,891,460	47,387,896
Liabilities			
Current liabilities			
Amounts due to brokers		-	563
Amounts payable on redemption of units		12,010	-
Management fee payable	7(a)	35,746	34,733
Trustee fee payable	7(b)	53,373	51,705
Sub-custodian fee payable	7(c)	4,100	3,981
Tax payable	6	266,299	332,580
Other payables and accruals		373,094	250,905
Total liabilities (excluding net assets attributable to unitholders)		744,622	674,467
Net assets attributable to unitholders		47,146,838	46,713,429

Approved by the Trustee and the Manager on 27 April 2020.

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 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 2019

	Note	2019 RMB	2018 RMB
Income			
Dividend income		49,090	46,251
Interest on bank deposit		12,839	17,739
Interest from financial assets at fair value through profit or loss		1,763,111	1,704,987
Net gain on financial assets at fair value through profit or loss	5	1,263,258	498,451
Net exchange gains		5,644	452
Total net income		3,093,942	2,267,880
Expenses			
Management fee	7(a)	410,204	451,540
Trustee fee	7(b)	608,784	608,784
Sub-custodian fee	7(c)	47,446	50,442
Auditor's remuneration		143,006	191,821
Commission and brokerage fee		11,041	33,064
Legal and professional fees		160,816	5,840
Other expenses		36,255	34,302
Total operating expenses		1,417,552	1,375,793
Finance Cost			
Distribution to unitholders	9	(1,242,444)	(1,295,418)
Profit/(loss) before tax		433,946	(403,331)
Taxation	6	66,107	35,096
Total comprehensive income/(loss)		500,053	(368,235)

The notes on pages 12 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 2019

		Class A			Class I			Total
	Note	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 2018	8	189,478.501	19,725,855	104.106	320,192.555	34,208,043	106.835	53,933,898
Issuance of units		2,505.478	259,947		-	-		259,947
Redemption of units		(68,108.398)	(7,112,181)		-	-		(7,112,181)
Total comprehensive loss		-	(126,180)		-	(242,055)		(368,235)
As at 31 December 2018 and 1 January 2019	8	123,875.581	12,747,441	102.905	320,192.555	33,965,988	106.079	46,713,429
Issuance of units		2,054.211	211,959		-	-		211,959
Redemption of units		(2,693.590)	(278,603)		-	-		(278,603)
Total comprehensive loss			92,430			407,623		500,053
As at 31 December 2019		123,236.202	12,773,227	103.648	320,192.555	34,373,611	107.352	47,146,838

The notes on pages 12 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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB	2018 RMB
Cash flows from operating activities		
Total comprehensive income/(loss)	500,053	(368,235)
Adjustments for:		
- Interest income on bank deposit	(12,839)	(17,739)
- Interest from financial assets at fair value through profit or loss	(1,763,111)	(1,704,987)
- Distribution to unitholders	1,242,444	1,295,418
- Dividend income	(49,090)	(46,251)
- Withholding tax	(66,107)	(35,096)
Operating loss before working capital changes	(148,650)	(876,890)
Net (increase)/decrease in financial assets at fair value through profit or loss	(2,081,817)	7,175,168
Decrease in deposits	585	2,201
Decrease in prepayments	901	5,762
Decrease in amount due to brokers	(563)	(7,269)
Increase in management fee payable, trustee fee payable, sub-custodian fee payable and other payables and accruals	124,989	37,189
Cash (used in)/generated from operations	(2,104,554)	6,336,161
Interest received	1,708,517	1,959,343
Withholding tax paid	(174)	(18,795)
Dividend income received	49,090	46,251
Net cash (used in)/generated from operating activities	(347,121)	8,322,960
Cash flows from financing activities		
Proceeds from issue of units	211,960	259,947
Payments on redemption of units	(278,603)	(7,112,181)
Distribution paid	(1,230,434)	(1,295,418)
Net cash used in financing activities	(1,297,077)	(8,147,652)
Net (decrease)/increase in cash and cash equivalents	(1,644,198)	175,308
Cash and cash equivalents at the beginning of the year	2,108,254	1,932,946
Cash and cash equivalents at the end of the year	464,056	2,108,254
Analysis of balances of cash and cash equivalents		
Bank balances	464,056	2,108,254

The notes on pages 12 to 30 are an integral part of these financial statements.

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, as amended (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 2019, there were another two sub-funds, SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund and Shenyin Wanguo RQFII A Share Strategy Fund. The assets and liabilities of each sub-fund of the Trust are separate and distinct from the assets and liabilities of the sub-fund of the Trust.

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

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

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

New standards and amendments to existing standards effective 1 January 2019

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Fund.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Sub-Fund.

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

Classification

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

Recognition/derecognition

Regular 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.

2 Summary of significant accounting policies (Continued)

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

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.

Dividend income on equity securities is recorded on the ex-dividend date. Dividend income on equity securities where no ex-dividend date is quoted is accounted for when the Sub-Fund's right to receive payment is established.

(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.

2 Summary of significant accounting policies (Continued)

(g) Translation of foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within "Net exchange gains".

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

(h) Redeemable units

Net assets attributable to unitholders

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

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

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

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

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

2 Summary of significant accounting policies (Continued)

(h) Redeemable units (Continued)

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.

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 for debt securities

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.

3 Critical accounting estimates and judgements (Continued)

PRC tax provision for debt securities (Continued)

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 capital gain derived from disposal of securities, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

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

Furthermore, according to the notice Caishui [2016] No.36 ("Circular 36"), Value-Added Tax ("VAT") at 6% shall be levied on the difference between the selling and buying prices of those marketable securities starting from 1 May 2016. In addition, if VAT is applicable, local surtaxes including Urban Maintenance and Construction Tax (currently at the rate ranging from 1% to 7%), Education Surcharge (currently at the rate of 3%) and Local Education Surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities (the "VAT related taxes"). The gains derived by QFIIs/RQFIIs and through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect from trading of marketable securities (including A-shares and other PRC listed securities) are exempted from VAT in the PRC under Circular 36 and other prevailing VAT regulations. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT.

<u>Exemption of PRC WIT and VAT effective from 7 November 2018</u>

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

Prior or 23 April 2020, the Manager had not stopped WIT and VAT provision on interest income from PRC non-government bonds since 7 November 2018 upon the notice of Circular 108. Pursuant to the notice to unitholders dated 23 April 2020, the Manager decided to change the tax provisioning policy of the Sub-Fund and cease to make provisions for PRC WIT and VAT (plus the VAT related taxes) on the interest income derived from PRC non-government bonds for the period from 7 November 2018 to 6 November 2021. Such provision during the period from 7 November 2018 to 21 April 2020 was reversed and credited to the Sub-Fund retrospectively on 31 December 2019 and 21 April 2019. Refer to Note 3(b) for details.

(a) Capital gains on PRC debt securities and investment funds ("PRC Investments")

During the year ended 31 December 2019 and 2018, 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.

3 Critical accounting estimates and judgements (Continued)

(a) Capital gains on PRC debt securities and investment funds ("PRC Investments") (Continued)

As a matter of practice, such 10% PRC WIT on capital gains realised by non-PRC tax resident enterprises from the trading of these securities has not been strictly enforced by the PRC tax authorities, therefore on 19 September 2017, the Manager reversed the unused WIT provision on PRC Investments amount to RMB2,612,550. In addition, with effect from 19 September 2017, the Manager has decided to change the tax provisioning policy with the Sub-Fund and ceased to provide PRC withholding income tax for realised and unrealised gains on trading of PRC debt securities on or after 19 September 2017.

(b) Interest income on bonds issued by PRC tax residents ("PRC bonds")

The Management considers that the PRC WIT treatment on accrued interest of PRC non-government bonds holding by the Sub-Fund as at 31 December 2019 derived from 10 January 2012 (date of inception) to 6 November 2018 (prior to WIT exemption under Circular 108) and the enforcement of VAT and the VAT related taxes from 1 May 2016 to 6 November 2018 (prior to WIT exemption under Circular 108) 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.

<u>PRC WIT</u>

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.

<u>PRC VAT and related taxes</u>

As at 31 December 2019, the Manager estimated that the Sub-Fund's accumulated interest income received from PRC non-government bonds from 1 May 2016 to 6 November 2018 (prior to VAT exemption under Circular 108) of RMB1,264,798 could be exposed to PRC VAT, Urban Maintenance and Construction Tax, Education Surcharge and Local Education Surcharge amounting to approximately RMB80,899. This amount has been provided in the statement of financial position.

<u>Provision on PRC WIT, VAT and related taxes on interest income derived from PRC non-government bonds made from 7 November 2018 to 31 December 2019</u>

Prior to the notice to unitholders dated 23 April 2020, the Sub-Fund has made provision on PRC WIT, VAT and related taxes on interest income derived from PRC non-government bonds of totally RMB370,593 for the period from 7 November 2018 to 31 December 2019 and further provision of totally RMB119,299 for the period from 1 January 2020 to 21 April 2020. Pursuant to the notice to unitholders dated 23 April 2020 and the change of the PRC WIT and VAT provision policy as stated in note 3(a), the Sub-Fund has reversed such provision in full amounted to RMB370,593 on 31 December 2019 and RMB119,299 on 21 April 2020 retrospectively.

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.

(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:

	2019 RMB	2018 RMB
Listed equity securities	-	1,567,340
Debt securities	46,666,756	40,861,804
Collective investment schemes	-	2,155,795
	46,666,756	44,584,939

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

	2019		2018	
	RMB	% of net asset value	RMB	% of net asset value
Consumer Discretionary	2,009,400	4.26	2,012,000	4.31
Consumer Staples	-	-	365,940	0.78
Energy	4,444,190	9.43	2,503,750	5.36
Financials	15,747,160	33.40	7,943,955	17.01
Government	12,440,107	26.39	23,777,094	50.90
Health Care	-	-	1,997,200	4.28
Industrial	7,026,000	14.90	-	-
Real Estate	2,999,700	6.36	-	-
Utilities	2,000,200	4.25	5,985,000	12.80
	46,666,757	98.99	44,584,939	95.44

4 Financial risk management (Continued)

(b) Market price risk (Continued)

The Sub-Fund's net assets attributable to unitholders is impacted by the increases/decreases of the equity securities to which the Sub-Fund is exposed. As at 31 December 2018, if the equity securities had increased/decreased by 5%, the Sub-Fund's pre-tax profits for the year would have resulted in an increase/decrease of RMB86,992. As at 31 December 2019, no equity securities were held, no sensitivity analysis was prepared.

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

(c) Interest rate risk

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

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

	Maturity up to 1 year RMB	Maturity 1 – 5 years RMB	Maturity over 5 years RMB	Total RMB
As at 31 December 2019				
Investment				
- Debt securities	4,002,400	36,236,440	6,427,916	46,666,756
Cash and cash equivalents	464,056	-	-	464,056
As at 31 December 2018				
Investment				
- Debt securities	10,485,950	28,970,860	1,404,994	40,861,804
Cash and cash equivalents	2,108,254	-	-	2,108,254

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 2019, 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 RMB1,319,624 (2018: RMB1,213,377).

(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.

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 Sub-Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2019 and 31 December 2018, all other receivables and cash and cash equivalent are held with counterparties with a credit rating of A2 or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Sub-Fund.

The table below summarises the credit rating of the Sub-Fund's debt portfolio as at 31 December 2019 and 2018:

Credit rating of debt securities Rating	2019 % of net asset value	2018 % of net asset value
China Chengxin		
AAA	43.63	12.95
AA+	4.26	-
Dagong Global Credit Rating		
AAA	-	13.90
Shanghai Brilliance Credit Rating		
AAA	6.36	4.28
Standard and Poor's		
A-1	14.18	-
A-2	4.17	-
Not rated	26.39	56.35
	98.99	87.48

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 2019 and 2018:

	RMB	Credit rating	Source of credit rating
As at 31 December 2019			
Bank balances			
Bank of Communications Co., Ltd., Hong Kong Branch*	353,093	A2	Moody's
Bank of Communications Co.,Ltd.	110,963	A2	Moody's
Investments			
Bank of Communications Co.,Ltd.	46,666,756	A2	Moody's
As at 31 December 2018			
Bank balances			
Bank of Communications Co., Ltd., Hong Kong Branch*	183,111	A2	Moody's
Bank of Communications Co.,Ltd.	1,925,143	A2	Moody's
Investments			
Bank of Communications Co.,Ltd.	44,584,939	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.

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 2019			
Amounts payable on redemption of units	12,010	-	12,010
Management fee payable	35,746	-	35,746
Trustee fee payable	53,373	-	53,373
Sub-custodian fee payable	4,100	-	4,100
Other payable and accruals	373,094	-	373,094
Tax payable	-	266,299	266,299
Net assets attributable to unitholders	47,146,838	-	47,146,838
	47,625,161	266,299	47,891,460
As at 31 December 2018			
Amounts due to broker	563	-	563
Management fee payable	34,733	-	34,733
Trustee fee payable	51,705	-	51,705
Sub-custodian fee payable	3,981	-	3,981
Other payable and accruals	250,906	-	250,906
Tax payable	-	332,580	332,580
Net assets attributable to unitholders	46,713,429	-	46,713,429
	47,055,317	332,580	47,387,897

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 2019, there was 1 (2018: 1) unitholder holding more than 10% of the Sub-Fund's units.

The following table illustrates the expected liquidity of assets held:

	On demand RMB	Less than 3 months RMB	Less than 1 year RMB	Total RMB
As at 31 December 2019				
Total assets	464,056	46,666,756	760,520	47,891,332
As at 31 December 2018				
Total assets	2,108,254	44,584,939	693,674	47,386,867

(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.

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 2019 and 2018:

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2019				
Investments				
- Debt securities	-	46,666,756	-	46,666,756
Total	-	46,666,756	-	46,666,756
As at 31 December 2018				
Investments				
- listed equity securities	926,940	640,400	-	1,567,340
- Debt securities	-	40,861,804	-	40,861,804
- collective investment schemes	-	2,155,795	-	2,155,795
Total	926,940	43,657,999	-	44,584,939

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 2019, the Sub-Fund did not hold any investments classified in level 3. (2018: Nil).

During the year ended 31 December 2019 and 2018, there were no transfers between levels.

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

(h) Capital risk management

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

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

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

	2019 RMB	2018 RMB
Change in unrealised gains of financial assets at fair value through profit or loss	136,630	378,991
Net realised gains on sale of financial assets at fair value through profit or loss	1,126,628	119,460
	1,263,258	498,451

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.

6 Taxation (Continued)

(b) PRC

For the year ended 31 December 2019 and 2018, the Sub-Fund 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:

	2019 RMB	2018 RMB
Withholding tax reversed on bond interest income	(66,107)	(35,096)
	(66,107)	(35,096)

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

	2019 RMB	2018 RMB
At beginning of the year	332,580	386,471
Withholding tax reversed	(66,107)	(35,096)
Tax paid	(174)	(18,795)
At the end of the year	266,299	332,580

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.

(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 RMB410,204 (2018: RMB451,540). As at 31 December 2019, the management fee of RMB35,746 (2018: RMB34,733) was payable to the Manager.

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

(b) Trustee fee

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

The trustee fee charged for the year was RMB608,784 (2018: RMB608,784). As at 31 December 2019, the trustee fee of RMB53,373 (2018: RMB51,705) was payable to the Trustee.

(c) Sub-Custodian fee

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

The sub-custodian fee charged for the year was RMB47,446 (2018: RMB50,442). As at 31 December 2019, the sub-custodian fee of RMB4,100 (2018: RMB3,981) 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 A and Class I units held by a fellow subsidiary of the Manager, Shenwan Hongyuan Strategic Investments (H.K.) Limited, are as follows:

	2019 Units	2018 Units
Class A		
At the beginning of the year	104,628.293	151,252.903
Subscription	1,943.061	2,395.212
Redemption	(1,160.071)	(49,019.822)
At the end of the year	105,411.283	104,628.293

	2019 Units	2018 Units
Class I		
At the beginning of the year	320,192.555	320,192.555
At the end of the year	320,192.555	320,192.555

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 %
2019				
Shenwan & Hongyuan Securities Co., Ltd.	50,561,564	5,891	95.77	0.01
2018				
Shenwan & Hongyuan Securities Co., Ltd.	90,799,856	21,213	88.12	0.02
SWS MU Fund Management Co., Ltd	3,092,314	-	3.00	-

(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 RMB12,839 (2018: RMB3,415).

9 Distribution to unitholders

	Number of units	2019 RMB
For class A and class I		
Interim dividend on 19 March 2019 at RMB0.70 per unit	444,068.136	310,847
Interim dividend on 20 June 2019 at RMB0.70 per unit	444,158.210	310,911
Interim dividend on 19 September 2019 at RMB0.70 per unit	443,668.878	310,568
Final dividend as of 19 December 2019 at RMB0.70 per unit	443,075.667	310,118
		1,242,444

	Number of units	2018 RMB
For class A and class I		
Interim dividend on 20 March 2018 at RMB0.65 per unit	499,098.640	324,414
Interim dividend on 20 June 2018 at RMB0.70 per unit	491,900.809	344,331
Interim dividend on 19 September 2018 at RMB0.70 per unit	451,685.733	316,180
Final dividend as of 19 December 2018 at RMB0.70 per unit	443,560.555	310,493
		1,295,418

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 Events after the reporting period

Refer to Note 3 for details of the change in tax provisioning policy on PRC investments subsequent to 31 December 2019.

12 Approval of financial statements

The financial statements of the Sub-Fund were approved by the Trustee and the Manager on 27 April 2020.

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

INVESTMENT PORTFOLIO (UNAUDITED)
AS AT 31 DECEMBER 2019

Investments	Holdings	Fair value RMB	% of net asset value
Debt securities			
China			
China Government Bond 4.26% 31/07/2021	4,780,000	4,911,450	10.42
China Government Bond 3.40% 17/04/2023	6,000,000	6,111,600	12.96
China Government Bond 3.27% 22/08/2046	1,527,000	1,417,056	3.01
Financial Street Holdings Var% 20/08/2021	2,000,000	2,038,000	4.32
Financial Street Holdings Var% 20/08/2025	1,000,000	1,009,100	2.14
Byd Co Ltd 4.87% 16/06/2022	2,000,000	2,009,400	4.26
China CITIC Bank Int'l Ltd 0.3% 04/03/2025	1,800,000	2,035,620	4.32
Evergrande Real Estate Grp 6.98% 08/07/2022	3,000,000	2,999,700	6.36
China Natl Petroleum Co Ltd 1.0 % 13/07/2022	2,700,000	2,692,440	5.71
Seazen Holdings Co Ltd 7% 03/11/2020	2,000,000	2,012,400	4.27
Port of Dalian Corp 3.94% 26/11/2020	2,000,000	1,990,000	4.22
SinoTrans Ltd 3.2% 02/03/2021	3,000,000	2,994,000	6.35
China Natl Petroleum Co 3.15% 03/03/2021	1,750,000	1,751,750	3.72
China Southern Power Grid 3.14% 11/03/2021	2,000,000	2,000,200	4.24
China North Industrial Group 4.77% 17/04/2023	2,000,000	2,042,000	4.33
Shanghai Pudong Dev Bank 0.2% 28/10/2025	1,800,000	1,966,140	4.17
China Development Bank 3.87% 01/08/2023	6,500,000	6,685,900	14.18
		46,666,757	98.89
Total investment portfolio, at fair value		46,666,757	98.99
Other net assets		480,081	1.01
Net assets value as at 31 December 2019 (calculated in accordance with the Sub-Fund's explanatory memorandum)		47,146,838	100.00
Total investment at cost		46,074,152	

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 2019

	% holdings of net assets as at 31 December 2019	% holdings of net assets as at 31 December 2018
People's Republic of China		
Listed Equity securities	-	3.35
Listed interbank bonds	98.99	87.48
Unlisted unit trust[1]	-	4.61
Total investment portfolio	98.99	95.44
Other net assets	1.01	4.56
Net assets	100.00	100.00

[1]Not 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 2019

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 2019		
CLASS A	103.648	12,773,227
CLASS I	107.352	34,373,611
As at 31 December 2018		
CLASS A	102.905	12,747,441
CLASS I	106.079	33,965,988
As at 31 December 2017		
CLASS A	104.106	19,725,855
CLASS I	106.835	34,208,043
As at 31 December 2016		
CLASS A	103.934	15,086,385
CLASS I	106.181	72,640,830
As at 31 December 2015		
CLASS A	108.078	21,747,452
CLASS I	109.918	131,519,363

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

	Highest issue price per unit RMB	Lowest redemption price per unit RMB
Year ended 31 December 2019		
CLASS A	104.43	102.56
CLASS I	107.74	106.08
Year ended 31 December 2018		
CLASS A	105.495	102,747
CLASS I	108.479	105.783
Year ended 31 December 2017		
CLASS A	105.508	101.599
CLASS I	108.210	104.017

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

PERFORMANCE TABLE (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Highest issue price per unit RMB	Lowest redemption price per unit RMB
Year ended 31 December 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
Period from 10 January 2012 (date of inception) to 31 December 2012		
CLASS A	102.187	100.000
CLASS I	102.278	100.000