

Annual Report

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds, an open-ended
unit trust established as an umbrella fund under the
laws of Hong Kong)

31 December 2019

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

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TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

ADMINISTRATION AND MANAGEMENT

MANAGER AND RQFII HOLDER

Taikang Asset Management (Hong Kong) Company Limited

Prior to 8 April 2019:

Room 4911

49/F, The Center

No. 99 Queen's Road Central

Hong Kong

On or after 8 April 2019:

39/F Bank of China Tower

1 Garden Road, Central

Hong Kong

DIRECTORS OF THE MANAGER

Chen Yi Lun (Appointed on 1 April 2019)

Duan Guo Sheng

Feng Tie Liang (Appointed on 1 April 2019)

Xing Yi

Zhang Jing Guo

Zhang Le

Chen Dong Sheng (Resigned on 1 January 2020)

SOLICITORS TO THE MANAGER

King & Wood Mallesons

13/F Gloucester Tower, The Landmark,

15 Queen's Road Central

Central

Hong Kong

TRUSTEE AND REGISTRAR

BOCI-Prudential Trustee Limited

12/F & 25/F, Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

AUDITOR

Ernst & Young

22/F CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

CUSTODIAN

Bank of China (Hong Kong) Limited

14/F, Bank of China Tower

1 Garden Road

Hong Kong

RQFII CUSTODIAN

Agricultural Bank of China Limited

No. 69, Jianguomen Nei Avenue

Dongcheng District

Beijing 100005

China

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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REPORT OF THE MANAGER TO THE UNITHOLDERS

MARKET REVIEW

In 2019, China's real GDP growth decelerated to 6.1% YoY (from 6.7% YoY in 2018). China has taken the slowdown in stride, continuing to improve on its business environment through targeted reforms and continuing to open up its capital markets to international investors. Against this backdrop, the Fund's core holdings of high quality corporates contributed to stable coupon income as bond yields remained little changed throughout the year.

MARKET OUTLOOK

Stepping into 2020, we see more accommodative monetary policy stance from central bank as novel coronavirus (2019-nCoV) outbreak unfolded. While the market had previously expected that the PBoC would have been hesitant about significantly loosening monetary policy for fear of stoking inflation and undoing the country's deleveraging campaign of its financial system over the past few years, the latest development in the novel coronavirus outbreak should have changed policymakers' mindset. It is likely that China's central bank would boost credit to support the economy in H1 2020 and interest rate cuts are likely. Under this backdrop, high quality corporate fixed income securities should benefit from accommodative monetary policy tools, ranging from cuts in reserve requirement ratios to declines in interest rates for one-year and five-year medium-term lending facility (MLF) loans which in turn will ease private sectors' cost of borrowing. This should bode well for fixed income markets and the Chinese economy in general. For investors with exposure to onshore high-quality Chinese bonds, all these factors are conducive to a benign investment environment as default rates among such bonds should remain controllable amid government support.

PERFORMANCE

As of 31 December 2019, Taikang Kaitai Corporate Bond Fund generated a return of 2.8% in RMB term. The fund diversifies its holdings among corporate bonds, government and policy bank bonds, and money market funds to harvest stable absolute return and capture extra opportunities in market volatility.

Taikang Asset Management (Hong Kong) Company Limited
22 April 2020

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, the Manager, Taikang Asset Management (Hong Kong) Company Limited, has, in all material respects, managed Taikang Kaitai Funds – Taikang Kaitai China Corporate Bond Fund for the year ended 31 December 2019 in accordance with the provisions of the Trust Deed dated 16 April 2014, as amended or supplemented from time to time .

On behalf of
BOCI-Prudential Trustee Limited, the Trustee

22 April 2020

Independent Auditor's Report

To the Trustee and the Manager of
TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Opinion

We have audited the financial statements of Taikang Kaitai China Corporate Bond Fund (a sub-fund of Taikang Kaitai Funds (the "Trust") and referred to as the "Sub-Fund") set out on pages 7 to 31, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 performance 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 are independent of the Sub-Fund in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Annual Report

The Trustee and the Manager of the Sub-Fund are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)

To the Trustee and the Manager of
TAIKANG KAITAI CHINA CORPORATE BOND FUND
(A Sub-Fund of Taikang Kaitai Funds, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Responsibilities of the Trustee and the Manager for the financial statements

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

In addition, the Trustee and the Manager of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the trust deed dated 16 April 2014, as amended or supplemented from time to time (the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds (the "SFC Code") issued by the Hong Kong Securities and Futures Commission.

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. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with ISAs, we exercise professional judgement 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.

Independent Auditor's Report (continued)

To the Trustee and the Manager of
TAIKANG KAITAI CHINA CORPORATE BOND FUND
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Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee and the Manager.
- Conclude on the appropriateness of the Trustee's and the Manager'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 Trustee and the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on matters under the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of 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 the relevant disclosure provisions of Appendix E of the SFC Code.

Certified Public Accountants
Hong Kong
22 April 2020

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB	2018 RMB
INCOME			
Interest income on financial assets at fair value through profit or loss		859,651	811,776
Dividend income on financial assets at fair value through profit or loss		36,184	36,560
Interest income on bank deposits		4,696	5,439
Net gains on financial assets at fair value through profit or loss	7	125,020	235,465
Net foreign exchange differences		<u>(3,919)</u>	<u>(2,433)</u>
		<u>1,021,632</u>	<u>1,086,807</u>
EXPENSES			
Management fee	4	(153,777)	(148,658)
Trustee fee	4	(145,161)	(143,613)
Auditor's remuneration	12(c)	(200,622)	-
Custodian fee	4	(15,348)	(16,208)
Brokerage fees and other transaction costs		(11,950)	(44,015)
Legal and other professional fee	12(c)	(127,116)	(69,039)
Other expenses		<u>(14,858)</u>	<u>(15,117)</u>
		<u>(668,832)</u>	<u>(436,650)</u>
OPERATING PROFIT AND PROFIT BEFORE TAX		352,800	650,157
Withholding tax	6	<u>88,628</u>	<u>(26,066)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS DURING THE YEAR		<u><u>441,428</u></u>	<u><u>624,091</u></u>

The accompanying notes are an integral part of these financial statements.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB	2018 RMB
ASSETS			
Financial assets at fair value through profit or loss	7	21,668,348	21,431,323
Interest receivable		625,800	587,570
Dividend receivable		165	81
Deposits		2,924	2,967
Amount due from Manager	12(c)	-	190,522
Cash and cash equivalents	8	<u>1,340,909</u>	<u>1,166,362</u>
TOTAL ASSETS		<u>23,638,146</u>	<u>23,378,825</u>
LIABILITIES			
Management fee payable	4	13,452	11,537
Trustee fee payable	4	12,400	10,839
Other payables and accruals		202,585	232,197
Tax payable		<u>1,265,188</u>	<u>1,354,241</u>
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)		<u>1,493,625</u>	<u>1,608,814</u>
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	10	<u>22,144,521</u>	<u>21,770,011</u>
TOTAL LIABILITIES		<u>23,638,146</u>	<u>23,378,825</u>
NUMBER OF UNITS IN ISSUE			
- Class A-RMB-DIST	9	-	6,400.000
- Class A-USD-ACC	9	3,105.000	3,105.000
- Class I-HKD-ACC	9	<u>2,500,000.000</u>	<u>2,500,000.000</u>
NET ASSET VALUE PER UNIT			
- Class A-RMB-DIST	10	-	RMB10.319
- Class A-USD-ACC	10	USD9.803	USD9.654
- Class I-HKD-ACC	10	<u>HKD9.812</u>	<u>HKD9.787</u>

The accompanying notes are an integral part of these financial statements.

.....
Manager

.....
Trustee

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2019

	Number of Units	RMB
As at 31 December 2018 and 1 January 2019	2,509,505.000	21,770,011
Redemption of units - Class A-RMB-DIST	(6,400.000)	(66,918)
Increase in net assets attributable to unitholders during the year	-	441,428
As at 31 December 2019	<u>2,503,105.000</u>	<u>22,144,521</u>

	Number of Units	RMB
As at 31 December 2017 and 1 January 2018	2,509,505.000	21,145,920
Increase in net assets attributable to unitholders during the year	-	624,091
As at 31 December 2018	<u>2,509,505.000</u>	<u>21,770,011</u>

The accompanying notes are an integral part of these financial statements.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 RMB	2018 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		352,800	650,157
Adjustments for:			
Interest income on financial assets at fair value through profit or loss		(859,651)	(811,776)
Dividend income on financial assets at fair value through profit or loss		(36,184)	(36,560)
Interest income on bank deposits		(4,696)	(5,439)
		<u>(547,731)</u>	<u>(203,618)</u>
Increase in financial assets at fair value through profit or loss		(237,025)	(713,649)
Decrease/(increase) in prepayment and deposits		43	(12)
Decrease in amount due from Manager		190,522	125,972
Increase/(decrease) in management fee payable		1,915	(302)
Increase/(decrease) in trustee fee payable		1,561	(387)
(Decrease)/increase in other payables and accruals		<u>(29,612)</u>	<u>136,061</u>
Cash used in operations		(620,327)	(655,935)
Interest received		826,117	737,487
Dividend received		36,100	36,799
Withholding tax paid		<u>(425)</u>	<u>(6,389)</u>
Net cash flows generated from operating activities		<u>241,465</u>	<u>111,962</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Payments for redemption of units		<u>(66,918)</u>	<u>-</u>
Net cash flows used in financing activity		<u>(66,918)</u>	<u>-</u>
INCREASE IN CASH AND CASH EQUIVALENTS		174,547	111,962
Cash and cash equivalents at beginning of year		<u>1,166,362</u>	<u>1,054,400</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>1,340,909</u></u>	<u><u>1,166,362</u></u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash at banks	8	<u><u>1,340,909</u></u>	<u><u>1,166,362</u></u>

The accompanying notes are an integral part of these financial statements.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. THE SUB-FUND

Taikang Kaitai Funds (the "Trust") was constituted as an open-ended unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a trust deed dated 16 April 2014 and its supplemental deed (the "Trust Deed").

Taikang Kaitai China Corporate Bond Fund (the "Sub-Fund") was constituted as a separate Sub-Fund of the Trust on 16 April 2014. The Sub-Fund is an open-ended unit trust and is authorised by the Hong Kong Securities and Futures Commission (the "SFC") under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds issued by the SFC (the "SFC Code"). Authorisation by the SFC does not imply official approval or recommendation.

The Manager of the Trust is Taikang Asset Management (Hong Kong) Company Limited (the "Manager") and the Trustee is BOCI-Prudential Trustee Limited (the "Trustee"). The custodian is Bank of China (Hong Kong) Limited (the "Custodian") and the Renminbi qualified foreign institutional investors ("RQFII") local custodian is Agricultural Bank of China Limited (the "RQFII Custodian").

Three classes of units, namely Class A units, Class I units and Class P units, are available in the Sub-Fund. Class A units are available for sale to the retail public in Hong Kong while Class I and Class P units are offered to institutional investors, private bank clients and other investors determined by the manager from time to time. Class A units, Class I and Class P units are subject to different management fees. For the year ended 31 December 2019, only Class A units and Class I units were in issue.

The Sub-Fund primarily invests in fixed income securities issued or distributed within mainland China through the RQFII quota of the Manager, fixed income funds approved by the China Securities Regulatory Commission (the "CSRC") and fixed income securities issued or distributed outside the mainland China. The Manager was granted with a RQFII quota of RMB2,418 million with remaining quota of RMB2,418 million as at 31 December 2019.

The investment objective of the Sub-Fund is to achieve long-term capital appreciation and stable income generation by primarily (i.e. not less than 70% of its net assets) investing in the PRC Renminbi ("RMB") fixed income securities.

2.1. BASIS OF PREPARATION

The financial statements of the Sub-Fund have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

The financial statements have been prepared under the historical cost basis, except for financial assets classified at fair value through profit or loss that have been measured at fair value. The financial statements are presented in RMB and all values are rounded to the nearest RMB except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Sub-Fund has adopted the following new and revised IFRS, that have been issued and effective for the accounting period beginning on or after 1 January 2019 in the current year's financial statements, which is applicable to the Sub-Fund.

IFRIC-Int 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The interpretation has had no impact on the financial position or performance of the Sub-Fund.

2.3. ISSUED BUT NOT YET EFFECTIVE IFRS

The Sub-Fund has not early applied any of the new and revised IFRSs that have been issued but are not yet effective in the financial statements. Among the new and revised IFRSs, the following is expected to be relevant to the Sub-Fund's financial statements upon it becoming effective:

- Amendments to IAS 1 and IAS 8 - *Definition of Material*¹

¹ Effective for annual periods beginning on or after 1 January 2020

The amendments to IAS 1 and IAS 8 were issued in October 2018 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 and are not expected to have a significant impact on the Sub-Fund's financial statements upon adoption.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) Classification

In accordance with IFRS 9, the Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective as a hedging instrument).

Financial assets

The Sub-Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Sub-Fund includes in this category short-term non-financing receivables including cash and cash equivalents, amount due from Manager, deposits, dividend and interest receivables.

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial liabilities

Financial liabilities measured at fair value through profit or loss

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading. The Sub-Fund includes in this category its redeemable shares and the Sub-Fund's accounting policy regarding the redeemable shares is described below.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Sub-Fund includes in this category management fee payable, trustee fee payable, other payables and accruals.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Recognition

The Sub-Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Sub-Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as fair value through profit or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVPL in profit or loss. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense in profit or loss.

Debt instruments, other than those classified as at fair value through or loss, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the debt instruments are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense in profit or loss over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Sub-Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Sub-Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Sub-Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Portfolio has transferred substantially all the risks and rewards of the asset; or (b) the Portfolio has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Sub-Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Sub-Fund continues to recognise the transferred asset to the extent of the Sub-Fund's continuing involvement. In that case, the Sub-Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Fund has retained. The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Impairment of financial assets

The Sub-Fund holds only deposits, dividend and interest receivables with no financing component and which have maturities of less than 12 months or on demand at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses ("ECL") under IFRS 9 to all its receivables. Therefore, the Sub-Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Sub-Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Sub-Fund uses the provision matrix as a practical expedient to measuring ECLs on receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

Fair value measurement

The Sub-Fund measures its investments in financial instruments, such as debt investments, at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NOTES TO THE FINANCIAL STATEMENTS

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Fair value measurement (continued)

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Sub-Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Fund identifies transfers between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Sub-Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Functional and presentation currency

The Sub-Fund's functional currency is RMB, which is the currency of the primary economic environment in which it operates. The Sub-Fund's performance is evaluated and its liquidity is managed in RMB. Therefore, RMB is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Sub-Fund's presentation currency is also RMB.

Foreign currency translations

Transactions during the reporting period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

Foreign currency translations (continued)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as fair value through profit or loss are included in profit or loss as part of the 'Net gain or loss on financial assets at fair value through profit or loss'. Foreign exchange differences on other financial instruments are included in profit or loss as 'Net foreign exchange differences'.

Net assets attributable to holders of redeemable units

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.

Redeemable units are subscribed and redeemed during the Hong Kong and PRC business days of each calendar month or such other day or days determined by the Manager and the Trustee may agree from time to time for cash equal to a proportionate share of the Sub-Fund's net assets attributable to holders of redeemable units of the relevant classes. The Manager is entitled, with the approval of the Trustee, to limit the number of redeemable units of the Sub-Fund redeemed on any business day to 10% of the total number of redeemable units of the Sub-Fund in issue.

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

Distributions to unitholders

Distributions are at the discretion of the Manager. A distribution to the Sub-Fund's unitholders is included in profit or loss in the statement of profit or loss and other comprehensive income as the "Finance costs". A proposed distribution is recognised as a liability in the period in which it is approved by the Manager of the Sub-Fund.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts when appropriate.

Interest income

Interest income is recognised in profit or loss for all interest-bearing financial instruments using the effective interest method.

Dividend income

Dividend income is recognised when the Sub-Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding tax, which is disclosed separately in profit or loss.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NOTES TO THE FINANCIAL STATEMENTS

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

This item includes changes in the fair value of financial assets as at "fair value through profit or loss" and excludes interest and dividend incomes and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as at "fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

Related parties

A party is considered to be related to the Sub-Fund if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Sub-Fund;
 - (ii) has significant influence over the Sub-Fund; or
 - (iii) is a member of the key management personnel of the Sub-Fund or of a parent of the Sub-Fund; or
- (b) the party is an entity where any of the following conditions applies
 - (i) the entity and the Sub-Fund are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Sub-Fund are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-Fund or an entity related to the Sub-Fund;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of group of which it is a part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

Taxes

In some jurisdiction, dividend income, interest income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of profit or loss and other comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Sub-Fund's financial statements requires the Manager to make judgments, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Estimates

The key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Sub-Fund based its estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Sub-Fund. Such changes are reflected in the assumptions when they occur.

Taxation

In preparing these financial statements, management 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. Further details of income tax are disclosed in note 6.

4. FEES

Management fee

The Manager is entitled to receive a management fee from the Sub-Fund as a percentage of net assets attributable to holders of redeemable units of each class of unit of the Sub-Fund Class A units: 1.2%, Class I units: 0.7% and Class P units: 0.5%, subject to maximum fee of 3% per annum calculated and accrued daily and payable monthly in arrears. The management fee for all Class A units was waived for the period from 1 July 2017 to 31 December 2019.

During the year ended 31 December 2019, the Sub-Fund incurred management fee of RMB153,777 (2018: RMB148,658) of which RMB13,452 (2018: RMB11,537) was payable at the end of the reporting period.

Trustee fee

The Trustee is entitled to receive a trustee fee from the Sub-Fund, at a rate of up to 0.175% per annum of the net assets attributable to holders of redeemable units of the Sub-Fund calculated, subject to a minimum monthly fee of RMB40,000 which was reduced to RMB12,000 for the period from 9 June 2017 to 31 June 2020 and accrued daily and payable monthly in arrears.

During the year ended 31 December 2019, the Sub-Fund incurred trustee fee of RMB145,161 (2018: RMB143,613) of which RMB12,400 (2018: RMB10,839) was payable at the end of the reporting period.

Custodian and RQFII Custodian fee

The Custodian is entitled to receive custody fee from the Sub-Fund, at a rate of up to 0.1% per annum of the net assets attributable to holders of redeemable units of the Sub-Fund, and transaction handling fee for each transactions of investments, calculated and accrued and payable monthly in arrears. The fees and charges payable to the RQFII Custodian is borne by the Custodian. During the year ended 31 December 2019, the Sub-Fund incurred custodian fee of RMB15,348 (2018: RMB16,208).

NOTES TO THE FINANCIAL STATEMENTS

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5. DISTRIBUTION

No dividend distribution was made for the years ended 31 December 2019 and 2018.

6. INCOME TAX

Hong Kong Tax

The Sub-Funds of the Trust are exempt from Hong Kong profits tax on income arising from its authorised activities under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

PRC Tax

Capital Gains Tax

On 14 November 2014, Ministry of Finance of the PRC ("MOF"), State Administration of Taxation of the PRC ("SAT") and CSRC jointly issued Caishui [2014] 79 "the Notice on the issues of temporary exemption from the imposition of corporate income tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII" ("Circular 79") to clarify the PRC Withholding Income Tax ("WHT") treatment with respect to gains derived by the Sub-Fund from the trading of equity investments.

The Notice also states that RQFIIs without an establishment or a place of business in the PRC will be temporarily exempt from corporate income tax on gains derived from the trading of PRC securities effective from 17 November 2014. Based on the current interpretation of the SAT and the local tax authorities, gains derived by foreign investors (including the Sub-Fund) from investment in PRC debt securities should not be treated as PRC sourced income thus would not be subject to PRC WHT. The Sub-Fund therefore did not accrue any PRC WHT provisions related to the capital gains on disposal of PRC debt securities.

For the years ended 31 December 2019 and 2018, the Sub-Fund has not incurred any capital gains tax.

Distribution Tax

A 10% PRC withholding tax has been levied on dividend and interest payments from PRC companies to foreign investors. As such, the RQFII will pass on this tax liability to the Sub-Fund in the form of a distribution tax and therefore, the Sub-Fund is subject to a distribution tax of 10%.

According to Circular Caishui [2018] 108 ("Circular 108"), foreign institutional investors are temporarily exempt from PRC Withholding Income Tax with respect to bond interest income derived in the PRC bond market for the period from 7 November 2018 to 6 November 2021. No provision is required to be provided for the interest income derived from PRC debt securities from 7 November 2018.

The reversal of distribution tax provision on bond interest income during the year ended 31 December 2019 was RMB55,425 (2018: RMB19,051). The distribution tax provision on dividend and deposit interest income during the year ended 31 December 2019 was RMB4,043 (2018: RMB4,093).

NOTES TO THE FINANCIAL STATEMENTS

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6. INCOME TAX (continued)

Value-Added Tax

According to Circular Caishui [2016] 36 ("Circular 36"), interest income received from investment in non-government bonds is subject to PRC Value-Added Tax ("VAT") at 6% from 1 May 2016 onwards. If the investors are non-PRC residents, the PRC VAT should technically be withheld by PRC bond issuers, unless the PRC authorities would clarify otherwise. Circular 36 does not mention whether asset management products should be subject to VAT. Then Circular Caishui [2016] 140 ("Circular 140") is issued to stipulate that asset managers are the VAT payers with respect to taxable income derived by asset management products since 1 May 2016. Shortly after, Circular Caishui [2017] 2 is issued to clarify that PRC VAT is only applicable to the taxable income derived by asset management products on or after 1 July 2017. The State Administration of Taxation is working on the implementation rule for the VAT collection in relation to asset management products.

There lacks clarification under the above circulars on whether PRC VAT shall apply to non-government bond interest received by offshore asset management products on or after 1 May 2016 or 1 July 2017. Where there is PRC VAT payable, local surcharges shall be imposed at the rate up to 13% of VAT payable. Currently, in practice, PRC bond issuers have not withheld PRC VAT and local surcharges when paying non-government bond interest to offshore asset management products.

According to Circular Caishui [2018] 108 ("Circular 108"), foreign institutional investors are temporarily exempt from PRC VAT with respect to bond interest income derived in the PRC bond market for the period from 7 November 2018 to 6 November 2021. No provision is required to be provided for the interest income derived from the PRC debt securities from 7 November 2018.

The reversal of VAT provision made for the interest income received from 7 November 2018 to 31 December 2018 during the year ended 31 December 2019 was RMB37,246 (2018: Provision of RMB41,024).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB	2018 RMB
Financial assets at fair value through profit or loss		
- debt securities	20,126,440	20,125,136
- listed collective investment scheme	<u>1,541,908</u>	<u>1,306,187</u>
	<u>21,668,348</u>	<u>21,431,323</u>
Gains or losses recognised in relation to financial assets at fair value through profit or loss:		
- realised gains	112,315	20,342
- unrealised gains	<u>12,705</u>	<u>215,123</u>
Net gains on financial assets at fair value through profit or loss	<u>125,020</u>	<u>235,465</u>

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NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Valuation techniques

Listed securities and collective investment scheme

When fair values of publicly traded securities and collective investment scheme securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy.

Debt securities

The Sub-Fund invests in fixed rate onshore RMB bonds. In the absence of a quoted price in an active market, they 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's terms. To the extent that the significant inputs are observable, the Sub-Fund categorises these investments as Level 2.

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.

31 December 2019	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
Financial assets at fair value through profit or loss:				
- debt securities	-	20,126,440	-	20,126,440
- listed collective investment scheme	1,541,908	-	-	1,541,908
	<u>1,541,908</u>	<u>20,126,440</u>	<u>-</u>	<u>21,668,348</u>
31 December 2018	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
Financial assets at fair value through profit or loss				
- debt securities	-	20,125,136	-	20,125,136
- listed collective investment scheme	1,306,187	-	-	1,306,187
	<u>1,306,187</u>	<u>20,125,136</u>	<u>-</u>	<u>21,431,323</u>

There are no investments classified within Level 3. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2018: Nil).

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8. CASH AND CASH EQUIVALENTS

	2019 RMB	2018 RMB
Balances with:		
Bank of China (Hong Kong) Limited	113,048	235,643
Agricultural Bank of China Limited	<u>1,227,861</u>	<u>930,719</u>
Total cash and cash equivalents	<u>1,340,909</u>	<u>1,166,362</u>

The bank balance is the cash at bank held in Bank of China (Hong Kong) Limited and Agricultural Bank of China Limited. The bank balances are deposited with creditworthy banks with no recent history of default. Interest is earned at a floating rate based on daily bank deposit rates.

9. NUMBER OF UNITS IN ISSUE

The following is the subscription/(redemption) of units of the Sub-Fund during the year ended 31 December 2019:

	As at 1 January 2019	Subscription of units	Redemption of units	As at 31 December 2019
Class I-HKD-ACC	2,500,000.000	-	-	2,500,000.000
Class A-RMB-DIST	6,400.000	-	(6,400.000)	-
Class A-USD-ACC	<u>3,105.000</u>	<u>-</u>	<u>-</u>	<u>3,105.000</u>
Total	<u>2,509,505.000</u>	<u>-</u>	<u>(6,400.000)</u>	<u>2,503,105.000</u>

The following is the subscription/(redemption) of units of the Sub-Fund during the year ended 31 December 2018:

	As at 1 January 2018	Subscription of units	Redemption of units	As at 31 December 2018
Class I-HKD-ACC	2,500,000.000	-	-	2,500,000.000
Class A-RMB-DIST	6,400.000	-	-	6,400.000
Class A-USD-ACC	<u>3,105.000</u>	<u>-</u>	<u>-</u>	<u>3,105.000</u>
Total	<u>2,509,505.000</u>	<u>-</u>	<u>-</u>	<u>2,509,505.000</u>

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10. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	2019 RMB	2018 RMB
Published net assets attributable to unitholders	22,144,521	21,771,649
Adjustment to preliminary expense (a)	-	(1,638)
Net assets attributable to unitholders as reported in the audited financial statements	<u>22,144,521</u>	<u>21,770,011</u>

As at 31 December 2019

	Unit price as reported in the audited financial statements <i>in class currency</i>	Published unit price <i>in class currency</i>
Class A-USD-ACC units		
Net assets attributable to unitholders	9.803	9.803
Class I-HKD-ACC units		
Net assets attributable to unitholders	9.812	9.812

As at 31 December 2018

	Unit price as reported in the audited financial statements <i>in class currency</i>	Published unit price <i>in class currency</i>
Class A-RMB-DIST units		
Net assets attributable to unitholders	10.319	10.319
Class A-USD-ACC units		
Net assets attributable to unitholders	9.654	9.654
Class I-HKD-ACC units		
Net assets attributable to unitholders	9.787	9.787

Notes:

- (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.

Capital management

The Sub-Fund's objectives for managing capital are to invest the capital in investments in order to achieve its investment objective while maintaining sufficient liquidity to meet the expenses of the Sub-Fund, and to meet redemption requests as they arise.

NOTES TO THE FINANCIAL STATEMENTS

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11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

Investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in investing in securities and there can be no assurance that any appreciation in value will occur. The value of investments and the income from them fluctuate and therefore the value of the redeemable participating units can fall as well as rise.

The performance of the Sub-Fund will be affected by a number of risk factors, including the following:

Market risk

Market risk is the risk of loss arising from uncertainty concerning movements in market prices and rates, including observable variables such as interest rates, credit spreads, exchange rates, and others that may only be indirectly observable such as volatilities and correlations. Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation etc. which may have significant impact on the value of the investments. Market movement may therefore result in substantial fluctuation in the net assets attributable to holders of redeemable units of each class per redeemable class unit of the Sub-Fund.

The maximum risk resulting from financial instruments equals their fair value.

The Sub-Fund assumes market risk in trading activities. The Sub-Fund distinguishes market risk as follows:

- Price risk
- Interest rate risk
- Foreign exchange risk

Price risk

The Sub-Fund's market price risk is managed through diversification of the investment portfolio as well as investing in securities with strong fundamentals. The table below summarises the overall market exposures of the Sub-Fund and the impact of the increase/decrease in the fair value of the Sub-Fund's financial assets at fair value through profit or loss on the Sub-Fund's net asset value as at 31 December 2019 and 31 December 2018. The analysis is based on the assumption that the underlying investments in debt securities increased/decreased by a reasonable possible shift, with all other variables held constant. However, this does not represent a prediction of the future movement in the corresponding key markets.

	Carrying value of financial assets at fair value through profit or loss RMB	% of net assets %	Shift in underlying securities % +/-	Estimated possible change in net asset value RMB +/-
As at 31 December 2019	21,668,348	98	1	216,683
As at 31 December 2018	21,431,323	98	1	214,313

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11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of interest-bearing assets and future cash flow.

As the Sub-Fund has invested in debt securities whose values are driven significantly by changes in interest rates, the Sub-Fund is subject to interest rate risk. When interest rates rise, the value of previously acquired debt securities will normally fall because new debt securities acquired will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously acquired debt securities will normally rise. The Manager regularly assesses the economic condition, monitor changes in interest rates outlook and takes appropriate measures accordingly to control the impact of interest rate risk. In a rising interest rate environment, the Sub-Fund will acquire debts with a shorter maturity profile to minimise the negative impact on the portfolio.

The majority of interest rate exposure arises from investments in debt securities. Most of the Sub-Fund's investments in debt securities carry fixed interest rates. The Manager considers the movement in interest rates will have insignificant impact on the interest income.

The following table demonstrates the sensitivity of an increase or decrease in the Sub-Fund's net assets attributable to unitholders for the year to a reasonably possible change in interest rates, with all other variables held constant.

	Change in basis points	Sensitivity of change in fair value of investments increase/(decrease) RMB
As at 31 December 2019		
- Debt securities	+25/-25	(99,252)/99,252
As at 31 December 2018		
- Debt securities	+25/-25	(75,069)/75,069

The Sub-Fund also has interest-bearing bank deposits. As the bank deposits are on demand, the Manager considers the movement in interest rates will have insignificant cash flow impact on the daily net assets attributable to holders of redeemable units as at 31 December 2019 and 31 December 2018 and therefore no sensitivity analysis on bank deposits is presented.

Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Sub-Fund holds assets and liabilities predominately denominated in RMB, the functional currency of the Sub-Fund. The Manager considers the Sub-Fund is not exposed to significant currency risk and therefore no sensitivity analysis is presented.

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11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Sub-Fund is exposed to cash redemptions of its redeemable units on every Hong Kong and PRC business day during the calendar year.

Liquidity risk may also result from an inability to sell a financial asset quickly at an amount close to its fair value. The Sub-Fund invests generally in the PRC bond market. The RMB denominated bond market is at a developing stage and the market capitalisation and the trading volume may be lower than those of the more developed markets. In the absence of an active market, the Sub-Fund may need to hold the debt securities until their maturity date. Even if a secondary market develops, the price at which debt securities are traded may be higher or lower than the initial subscription price due to many factors including prevailing interest rates. Further, the bid and offer spread of the price of debt securities may be wide and significant trading costs therefore need to be incurred. The Sub-Fund may suffer losses when such investments are sold.

The Manager seeks to control the liquidity risk of the investment portfolio in order to meet unitholders' redemption requests. However, if sizable redemption requests are received, the Manager may need to liquidate investment at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses as a result.

As at 31 December 2019

	On demand RMB	Less than 3 months RMB	3 to less than 12 months RMB	More than 12 months RMB	Total RMB
Financial assets					
Financial assets at fair value through profit or loss	-	3,345,507	2,443,790	15,879,051	21,668,348
Cash and cash equivalents	1,340,909	-	-	-	1,340,909
Interest receivable	-	253,946	371,854	-	625,800
Dividend receivable	-	165	-	-	165
Deposits	-	2,924	-	-	2,924
	<u>1,340,909</u>	<u>3,602,542</u>	<u>2,815,644</u>	<u>15,879,051</u>	<u>23,638,146</u>
Financial liabilities					
Management fee payable	13,452	-	-	-	13,452
Trustee fee payable	12,400	-	-	-	12,400
Other payables and accruals	-	202,585	-	-	202,585
Net asset attributable to unitholders*	<u>22,144,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,144,521</u>
	<u>22,170,373</u>	<u>202,585</u>	<u>-</u>	<u>-</u>	<u>22,372,958</u>

* Subject to redemption terms of the Sub-Fund.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 31 December 2018

	On demand RMB	Less than 3 months RMB	3 to less than 12 months RMB	More than 12 months RMB	Total RMB
Financial assets					
Financial assets at fair value through profit or loss	-	7,500,347	1,991,800	11,939,176	21,431,323
Cash and cash equivalents	1,166,362	-	-	-	1,166,362
Interest receivable	-	307,089	280,481	-	587,570
Dividend receivable	-	81	-	-	81
Deposits	-	2,924	-	-	2,924
Amount due from Manager	190,522	-	-	-	190,522
	<u>1,356,884</u>	<u>7,810,441</u>	<u>2,272,281</u>	<u>11,939,176</u>	<u>23,378,782</u>
Financial liabilities					
Management fee payable	11,537	-	-	-	11,537
Trustee fee payable	10,839	-	-	-	10,839
Other payables and accruals	-	232,197	-	-	232,197
Net asset attributable to unitholders*	<u>21,770,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,770,011</u>
	<u>21,792,387</u>	<u>232,197</u>	<u>-</u>	<u>-</u>	<u>22,024,584</u>

* Subject to redemption terms of the Sub-Fund.

Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation. 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 honour its contractual obligations. These credit exposures exist within debt instruments, money market fund and cash and cash equivalents.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit and counterparty risk (continued)

The Sub-Fund's financial assets which are potentially subject to concentrations of counterparty risk consist principally of bank deposits and investments held with the financial institutions as set out below. The table below summarises the Sub-Fund's assets placed with banks and their related credit ratings from Moody's:

As at 31 December 2019

	Credit rating	Source of credit rating
Bank of China (Hong Kong) Limited	Aa2	Moody's
Agricultural Bank of China Limited	A1	Moody's

As at 31 December 2018

	Credit rating	Source of credit rating
Bank of China (Hong Kong) Limited	A1	Moody's
Agricultural Bank of China Limited	A1	Moody's

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

Financial assets subject to IFRS 9's impairment requirements

The Sub-Fund's financial assets subject to the expected credit loss model within IFRS 9 are deposits, dividend and interest receivables, cash and cash equivalents. At 31 December 2019 and 31 December 2018, no loss allowance had been provided. No assets are considered impaired and no amounts have been written off in the period. All receivables are expected to be received in twelve months or on demand. The Sub-Fund has adopted the simplified approach, meaning loss allowance made, if any, is based on lifetime ECLs.

In calculating the loss allowance, a provision matrix has been used based on historical observed loss rates over the expected life of the receivables adjusted for forward-looking estimates. Items have been grouped by their nature.

Financial assets not subject to IFRS 9's impairment requirements

The Sub-Fund is exposed to credit risk on debt instruments and money market funds. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at fair value through profit or loss. The carrying value of these assets represents the Sub-Fund's maximum exposure to credit risk on financial instruments not subject to the IFRS 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

12. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS

Connected persons of the Manager are those as defined in the SFC Code. All transactions entered into during the year between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except for what is disclosed in note 4 to the financial statements and below.

(a) Investment transactions with connected persons of the Manager

During the years ended 31 December 2019 and 2018, there were no investment transactions with connected persons of the Manager.

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

The Sub-Fund's bank deposits and investments were held by the Trustee's affiliates, Bank of China (Hong Kong) Limited. Further details of the balances held are described in note 8 to the financial statements.

(c) Expenses reimbursed by the Manager

The Manager waived the management fee for all Class A units of the Sub-Fund (includes but not limited to the existing Class A-RMB-DIST and Class A-USD-ACC) for the period from 1 July 2017 to 31 December 2019. Audit fee and certain legal and other professional fee of RMB177,773 and RMB1,414, respectively for the year ended 31 December 2018 were reimbursed by Manager, of which RMB190,522 was receivable as at 31 December 2018.

(d) Holdings 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 persons as at 31 December 2019 and 2018 were as follows:

Units held by Taikang Asset Management (Hong Kong) Company Limited, the Manager of the Sub-Fund:

As at 31 December 2019

	Units outstanding at 31 December 2018	Units subscribed during the year	Units redeemed during the year	Units outstanding at 31 December 2019
Class I-HKD-ACC units	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>

As at 31 December 2018

	Units outstanding at 31 December 2017	Units subscribed during the year	Units redeemed during the year	Units outstanding at 31 December 2018
Class I-HKD-ACC units	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>

All transactions entered into during the year between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

13. 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.

14. SUBSEQUENT EVENTS

The outbreak of Coronavirus Disease ("COVID-19 outbreak") in early 2020 has had significant impact on global financial markets. The Manager will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Sub-Fund. The published NAV per unit of the Sub-Fund has dropped by 0.67% from 1 January 2020 to 22 April 2020. This is considered to be a non-adjusting event after the reporting period. The Manager will continue to remain alert to the situation and monitor the subscriptions and redemptions of the Sub-Fund.

During the period between the reporting date and the date of authorisation of these financial statements, the Sub-Fund has subsequent redemptions (Class A-USD-ACC amounting to USD30,078.14).

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Trustee and the Manager on 22 April 2020.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a Sub-Fund of Taikang Kaitai Funds)

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

31 December 2019

	At 31 December 2018	Movement in holdings			At 31 December 2019
		Additions	Bonus/ Dividends	Disposals	
Listed investments					
<u>Collective Investment Scheme</u>					
China					
FORTUNE SGAM XIANJIN TIANYI MONEY MARKET FUND	13,059	18,361	-	(16,000)	15,420
	13,059	18,361	-	(16,000)	15,420
Listed/quoted investments					
<u>Debt Securities</u>					
China					
CHINA DATANG CORP 5.28% A 29APR2020	2,270	-	-	-	2,270
CHINA DEVELOPMENT BANK CORP 3.91% A 06APR2022	30,000	5,000	-	-	35,000
CHINA DEVELOPMENT BANK CORP 5.84% A 03JAN2019	1,000	-	-	(1,000)	-
CHINA GOVT BOND 3.52% S/A 25APR2046	-	5,000	-	-	5,000
CHINA GUODIAN CORP 2.98% A 05JAN2019	20,000	-	-	(20,000)	-
CHINA RAILWAY GROUP LTD 4.88% A 27JAN2020	20,000	-	-	(2,000)	18,000
CHINA SOUTHERN POWER GRID CO LTD 3.14% A 11MAR2021	-	20,000	-	-	20,000
CHINA UNITED NETWORK COMMUNICATIONS CORP LTD 2.95% A 14JUL2019	10,000	-	-	(10,000)	-
CHINA UNITED NETWORK COMMUNICATIONS CORP LTD 3.07% A 07JUN2019	10,000	-	-	(10,000)	-
CHINA YANGTZE POWER CO LTD 4.76% A 20SEP2022	-	3,000	-	-	3,000
EVERGRANDE REAL ESTATE GROUP LTD 6.3% A 08JUL2019	-	5,000	-	(5,000)	-
EVERGRANDE REAL ESTATE GROUP LTD 6.98% A 08JUL2022	-	10,000	-	-	10,000
GLP CHINA HLDGS LTD 5.45% A 09APR2027	-	10,000	-	-	10,000
GUANGDONG PROVINCIAL COMMUNICATIONS GROUP CO LTD 5.3% A 29JUN2020	20,000	-	-	(330)	19,670
GUANGZHOU R&F PROPERTIES CO LTD 7.2% A 11JAN2021	-	10,000	-	-	10,000
LUNENG GROUP CO LTD 4.4% A 31JUL2021	-	12,370	-	-	12,370
PETROCHINA CO LTD 3.08% A 24MAR2021	-	5,000	-	-	5,000

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a Sub-Fund of Taikang Kaitai Funds)

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED) (continued)

31 December 2019

	At 31 December 2018	At 31 December 2018	<u>Movement in holdings</u>		At 31 December 2019
		Additions	Bonus/ Dividends	Disposals	
Listed/quoted investments (continued)					
<u>Debt Securities</u>					
China					
PETROCHINA CO LTD 3.15% A 03MAR2021	15,000	-	-	-	15,000
SHANGHAI ELECTRIC GROUP CORP 3% A 21JAN2019	20,000	-	-	(20,000)	-
SHANGHAI PHARMACEUTICALS HLDG CO LTD 2.98% A 26JAN2019	21,000	-	-	(21,000)	-
STATE GRID CORP OF CHINA 3.79% A 21OCT2020	-	2,000	-	-	2,000
STATE GRID CORP OF CHINA 4.9% A 09APR2022	15,000	-	-	-	15,000
ZHEJIANG PROVINCIAL ENERGY GROUP CO LTD 4.88% A 26APR2023	15,000	-	-	-	15,000
	199,270	87,370	-	(89,330)	197,310

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

INVESTMENT PORTFOLIO (UNAUDITED)

31 December 2019

	Holding/ Nominal Value	Market Value RMB	Accrued Interest	% of net asset
Listed investments				
Denominated in RMB				
<u>Collective Investment Scheme</u>				
China				
FORTUNE SGAM XIANJIN	15,420	1,541,908	-	6.96%
TIANYI MONEY MARKET FUND	15,420	1,541,908	-	6.96%
Listed/quoted investments				
Denominated in RMB				
<u>Debt Securities</u>				
China				
CHINA DATANG CORP 5.28% A 29APR2020	2,270	228,975	8,111	1.03%
CHINA DEVELOPMENT BANK CORP 3.91% A 06APR2022	35,000	3,589,250	101,232	16.21%
CHINA GOVT BOND 3.52% S/A 25APR2046	5,000	483,600	3,279	2.18%
CHINA RAILWAY GROUP LTD 4.88% A 27JAN2020	18,000	1,803,600	81,583	8.14%
CHINA SOUTHERN POWER GRID CO LTD 3.14% A 11MAR2021	20,000	2,000,200	50,928	9.03%
CHINA YANGTZE POWER CO LTD 4.76% A 20SEP2022	3,000	310,350	4,030	1.40%
EVERGRANDE REAL ESTATE GROUP LTD 6.98% A 08JUL2022	10,000	999,900	33,848	4.52%
GLP CHINA HLDGS LTD 5.45% A 09APR2027	10,000	1,020,690	39,867	4.61%
GUANGDONG PROVINCIAL COMMUNICATIONS GROUP CO LTD 5.3% A 29JUN2020	19,670	2,013,814	53,125	9.09%
GUANGZHOU R&F PROPERTIES CO LTD 7.2% A 11JAN2021	10,000	1,003,000	70,027	4.53%
LUNENG GROUP CO LTD 4.4% A 31JUL2021	12,370	1,362,061	22,964	6.15%
PETROCHINA CO LTD 3.08% A 24MAR2021	5,000	499,000	11,940	2.25%
PETROCHINA CO LTD 3.15% A 03MAR2021	15,000	1,501,500	39,354	6.78%
STATE GRID CORP OF CHINA 3.79% A 21OCT2020	2,000	201,000	1,495	0.91%
STATE GRID CORP OF CHINA 4.9% A 09APR2022	15,000	1,549,500	53,766	7.00%
ZHEJIANG PROVINCIAL ENERGY GROUP CO LTD 4.88% A 26APR2023	15,000	1,560,000	50,137	7.04%
	197,310	20,126,440	625,686	90.89%

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

INVESTMENT PORTFOLIO (UNAUDITED) (continued)

31 December 2019

TOTAL NET ASSETS

Denominated in RMB

Total listed/quoted investment	21,668,348	97.85%
Other net assets	<u>476,173</u>	<u>2.15%</u>
Total net assets as at 31 December 2019	<u>22,144,521</u>	100%
Total investments, at cost	<u>21,458,437</u>	

Note: Investments are accounted for on a trade-date basis.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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PERFORMANCE TABLE (UNAUDITED)

31 December 2019

Net asset value ("NAV") attributable to unitholders
(Calculated in accordance with the Trust Deed)

Net assets attributable to holders of redeemable units per unit

	NAV of the Sub-Fund (RMB)	Class I- RMB-ACC units (RMB)	Class I- HKD-DIST units (HKD)	Class I- USD-ACC units (USD)	Class I- USD-DIST units (USD)	Class I- RMB-DIST units (RMB)	Class A- RMB-DIST units (RMB)	Class A- USD-ACC units (USD)	Class I- HKD-ACC units (HKD)
Year									
2019	22,144,521	-	-	-	-	-	-	9.803	9.812
2018	21,771,649	-	-	-	-	-	10.319	9.654	9.787
2017	21,346,387	-	-	-	-	-	10.048	9.928	10.115

Lowest issue price per unit

	Class I- RMB-ACC units (RMB)	Class I- HKD-DIST units (HKD)	Class I- USD-ACC units (USD)	Class I- USD-DIST units (USD)	Class I- RMB-DIST units (RMB)	Class A- RMB-DIST units (RMB)	Class A- USD-ACC units (USD)	Class I- HKD-ACC units (HKD)
Year								
2019	-	-	-	-	-	10.323	9.451	9.551
2018	-	-	-	-	-	10.047	9.479	9.638
2017	11.171	-	9.965	9.407	-	9.987	9.322	9.477
2016	11.038	-	9.903	9.326	-	10.028	9.292	9.411
2015	10.331	9.960	10.340	9.934	10.145	9.846	9.768	10.000
2014	9.983	9.983	9.983	9.983	10.000	9.830	9.739	-

Highest redemption price per unit

	Class I- RMB-ACC units (RMB)	Class I-HKD- DIST units (HKD)	Class I-USD- ACC units (USD)	Class I-USD- DIST units (USD)	Class I- RMB-DIST units (RMB)	Class A- RMB-DIST units (RMB)	Class A- USD-ACC units (USD)	Class I- HKD-ACC units (HKD)
Year								
2019	-	-	-	-	-	10.472	10.062	10.205
2018	-	-	-	-	-	10.319	10.423	10.640
2017	11.251	-	10.301	9.653	-	10.218	10.080	10.283
2016	11.458	-	10.865	10.232	-	10.419	10.234	10.314
2015	11.211	10.582	10.874	10.556	10.550	10.435	10.262	10.311
2014	10.443	10.620	10.616	10.616	10.450	10.000	10.000	-