



INCOME PARTNERS

Annual Report 2017

**INCOME PARTNERS
RMB BOND FUND**

INCOME PARTNERS RMB BOND FUND

(A sub-fund of an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Annual Reports

For the year ended 31 December 2017

INCOME PARTNERS RMB BOND FUND

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**INCOME PARTNERS RMB BOND FUND
MANAGEMENT AND ADMINISTRATION**

MANAGER AND RQFII HOLDER

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Francis Tjia
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MANAGER'S REPORT TO THE UNITHOLDERS OF INCOME PARTNERS RMB BOND FUND

We are pleased to provide you with the annual report of the Income Partners RMB Bond Fund (the "Sub-Fund"). To revise, the Sub-Fund seeks long-term interest income and capital appreciation through investing all or substantially all of its assets in Renminbi ("RMB")-denominated fixed income securities issued within mainland China directly through the Renminbi Qualified Foreign Institutional Investor ("RQFII") quota of Income Partners Asset Management (HK) Limited.

2017 PERFORMANCE OVERVIEW

For the latest performance overview, please refer to the Performance and Dividend section on our website

<http://www.incomepartners.com/products/long-only-strategy/onshore-renminbi-bond-strategy#>

For the year 2017, the **Income Partners RMB Bond Fund** (the "Fund") generated a total return¹ as per below table:

Class of Shares	ISIN Code	Bloomberg ticker	Fund Class Inception Date	FY 2017 Return
Class 1A Dis (USD)	HK0000204443	IPRB1AD HK	not yet launched	-
Class 1A Acc (USD)	HK0000204450	IPRB1AA HK	deactivated	-
Class 1B Dis (RMB)	HK0000204468	IPRB1BD HK	not yet launched	-
Class 1B Acc (RMB)	HK0000204476	IPRB1BA HK	4-Jun-15	-2.09%
Class 2A Dis (USD)	HK0000204526	IPRB2AD HK	8-Jul-14	4.22%
Class 2A Acc (USD)	HK0000204534	IPRB2AA HK	4-Jul-14	4.22%
Class 2B Dis (RMB)	HK0000204542	IPRB2BD HK	11-Jul-14	-2.58%
Class 2B Acc (RMB)	HK0000204559	IPRB2BA HK	4-Jul-14	-2.57%
Class 2C Dis (HKD)	HK0000204567	IPRB2CD HK	not yet launched	-
Class 2C Acc (HKD)	HK0000204575	IPRB2CA HK	not yet launched	-
Class 2D Dis (EUR)	HK0000204583	IPRB2DD HK	1-Aug-14	-0.59% ²
Class 2D Acc (EUR)	HK0000204591	IPRB2DA HK	deactivated	-

The Fund paid an annualized 1% dividend yield for Class 2A shares, and 3% dividend yield for Classes 2B and 2D shares.

MARKET OVERVIEW AND OUTLOOK

The onshore CNY and offshore CNH appreciated by 6.7% and 7.0% respectively against the USD in 2017. The unwinding of "Trump" trades on USD, along with the seasonal spike of onshore and offshore RMB interest rates, which squeezed out a very large number of RMB short positions, provided a sizable boost to RMB in the beginning of the year. The strong RMB trend persisted until September as RMB was buoyed by several factors: 1) China's improving economy, indicated by better-than-expected economic data; 2) improved sentiment on China and RMB; 3) continued USD weakness stemming from the Fed's dovish stance on rate hikes, ECB's hint at reducing its monetary stimulus, and a lack of progress in Trump administration's tax reform and healthcare plans. However, RMB softened against the USD towards the end of the year as the Fed hiked rates as expected, and Congress managed to pass the tax reform before the end of the year.

In related currency news, after linking the RMB to a trade-weighted currency basket in 2016, Chinese policy makers followed up with a mechanism change in May 2017 on the CNY daily fixing rate by adding a new 'counter-cyclical adjustment factor' that aimed to lower its volatility by smoothing over the impact of any major movements of USD on RMB.

¹ Adjusted for monthly dividend distributions

² Performance as of 6 April 2017 (share class deactivated)

**MANAGER'S REPORT (CONTINUED)
TO THE UNITHOLDERS OF INCOME PARTNERS RMB BOND FUND**

MARKET OVERVIEW AND OUTLOOK (CONTINUED)

On the economy front, China's real GDP growth grew 6.9% in 2017, exceeding the government's initial target of 6.5%. China made a concerted effort in economic restructuring to tackle the high levels of government and corporate debt, while maintaining stable growth as the economy transitions from investment-driven to consumption-driven. Fiscal stimulus continued to support manufacturing and real estate investments to stabilize growth. The capital outflow trend in 2016 has reversed through a more transparent USDCNY fixing mechanism, tighter capital controls, and improvement in market sentiment on the currency and economy.

On the credit side, movement in onshore bonds largely hinged on market liquidity and the central bank's deleveraging policies directed at corporates and the financial market. Overall bond yields rose in the first half of 2017, due to tight market liquidity and the central bank's hard stance towards deleveraging. This trend continued in the second half despite brief instances of eased liquidity, but it can be attributed to several factors: 1) improved market outlook and confidence due to stabilization of the economy; 2) strong equity performance on the back of a rebound in corporate profits; and 3) rise in US Treasury yields that influenced sentiment onshore.

In the policy makers' effort to curb leverage, they have tightened regulations on the shadow banking system, which reduced banks' outsourced investments and demand in bonds. Meanwhile, regulators published detailed guidelines on the Bond Connect program, the latest and most convenient method yet for foreign investors to access the onshore interbank bond market. While these policies may not positively impact growth in the short run, we believe it is the right approach to address China's debt issue and promote long-term sustainable growth of the real economy and capital markets.

Looking into 2018, we believe that RMB should hold firm as USD is expected to continue its weak trend in the face of a strengthening EUR.

As for the economy, we believe that controlled slower growth and corporate deleverage will continue to be the prevalent themes for China in 2018. Similarly, fundamentals are improving for many of the Asian economies, which bode well for Asian corporate credits. With such an emphasis on deleveraging, policy makers should allow more credit events to happen within the onshore bond market in the medium term. In conjunction with their aim to attract more foreign capital, we see a positive outlook for onshore bonds despite increased repricing and default risks. We will continue to focus on sovereign/quasi-sovereign and high grade credits.

**MANAGER'S REPORT (CONTINUED)
TO THE UNITHOLDERS OF INCOME PARTNERS RMB BOND FUND**

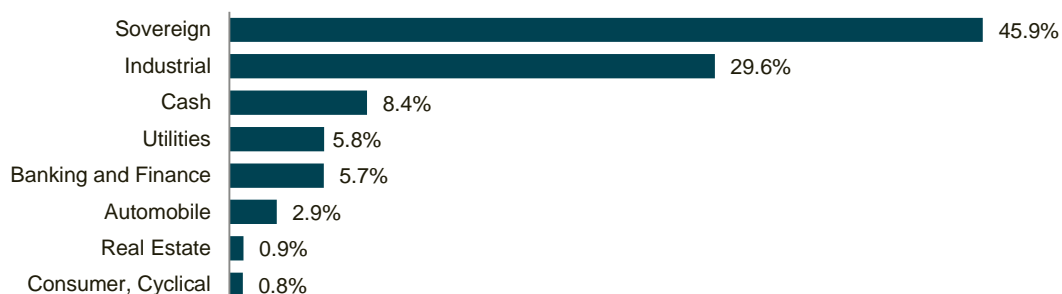
PORTFOLIO OVERVIEW AS OF 29 DECEMBER 2017

The following financial information is extracted and calculated before audit adjustments. For the detail of the audit adjustments, please refer to Note 11 to the financial statements.

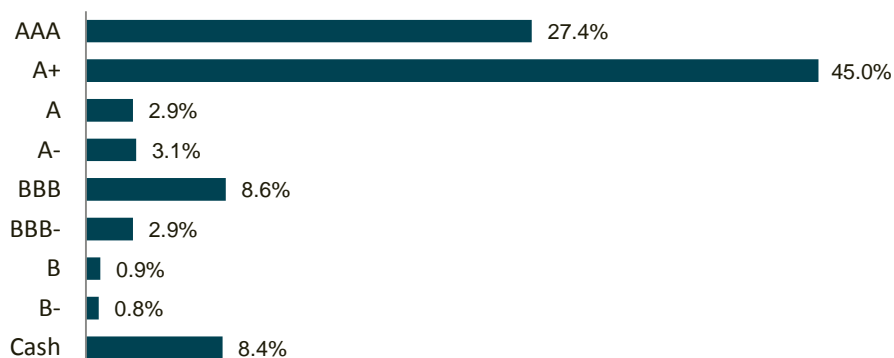
Modified Duration:	Average Credit Rating:	Yield to Maturity (YTM):
3.0 years	A+	4.4%

Top 5 Holdings	78.4%
Asian Development Bank	27.4%
China National Petroleum Corp	23.6%
China Government Bond	18.5%
China Merchants Securities Co Ltd	5.7%
Power Construction Corp of China	3.1%

Industry Exposure



Credit Rating Exposure



Total exposures may differ due to rounding. Please note the ratings exposures shown here include some of Income Partners' own implied internal ratings. Where S&P/Moody's/Fitch ratings for bond holdings are not available, Income Partners' internal credit ratings apply.

Source: Income Partners, based on 29 December 2017

MANAGER'S REPORT (CONTINUED)
TO THE UNITHOLDERS OF INCOME PARTNERS RMB BOND FUND

CORPORATE ACTION

Income Partners Asset Management (HK) Limited (the "Manager") reviewed the Fund's PRC tax provisioning policy. After having taken professional and independent tax advice and considered the latest information in respect of the implementation of Withholding Income Tax ("WIT"), the Manager is of the view that the Fund should not be subject to the WIT on the capital gains derived from the investments in RMB fixed income securities. As such, with effect from 18 August 2017, the Fund no longer makes a PRC WIT provision on the gross realized and unrealized capital gains derived from the investments in RMB fixed income securities. All such WIT provisions made from the launch of the fund have been reversed accordingly.

For further details on the above changes, please refer to the Notice to investors dd. 18 September 2017.

Furthermore, due to the change in the Chinese name of the Manager, starting on 30 November 2017 the Chinese name of the Fund has been changed from "豐收人民幣債券基金" to "弘收人民幣債券基金". In the mean time, Income Partners Asset Management (HK) Limited, 豐收投資管理(香港)有限公司, has been renamed to 弘收投資管理(香港)有限公司.

For further details on the above changes, please refer to the Notice to investors dd. 30 November 2017. A copy of the revised Explanatory Memorandum for the Fund encompassing the changes set out above are available on the Manager's website (www.incomepartners.com). The Manager's website has not been reviewed by the Securities and Futures Commission.

TRUSTEE'S REPORT

TO THE UNITHOLDERS OF INCOME PARTNERS RMB BOND FUND

We hereby confirm that, in our opinion, the Manager, Income Partners Asset Management (HK) Limited has, in all material respects, managed Income Partners RMB Bond Fund for the year ended 31 December 2017 in accordance with the provisions of the Trust Deed dated 23 June 2014.

Caroline Chan Stewart Aldcroft

.....
Cititrust Limited,
the Trustee

12 April 2018

INDEPENDENT AUDITOR'S REPORT

To the Trustee and the Manager of Income Partners RMB Bond Fund
(a sub-fund of Income Partners Investment Fund, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Income Partners RMB Bond Fund (a sub-fund of Income Partners Investment Fund (the "Trust") and referred to as the "Sub-Fund") set out on pages 10 to 53, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and comprehensive income, statement of changes in net assets attributable unitholders and 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 2017, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. 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 HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), 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 in the Annual Report

The Trustee and the Manager of the Sub-Fund are responsible for the other information. The other information comprises all the information included in this annual report (the "Annual Report"), but does not include the financial statements and our auditor's report thereon (the "Other Information").

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 Income Partners RMB Bond Fund
(a sub-fund of Income Partners Investment Fund, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Responsibilities of Manager and Trustee 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 HKFRSs issued by the HKICPA, and for such internal control as the Trustee and the Manager determines are 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 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 provisions of the Trust Deed of the Sub-Fund dated 23 June 2014 (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.

The Trustee and the Manager are responsible for overseeing the Sub-Fund's financial reporting process.

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 auditor's report that includes our opinion. Our report is made 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 HKSAAs 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 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 HKSAAs, we exercise professional judgment and maintain professional skepticism 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 Income Partners RMB Bond Fund
(a sub-fund of Income Partners Investment Fund, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Sub-Fund to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

We also provide the Trustee and the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Trustee and the Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

ERNST & YOUNG

Certified Public Accountants
Hong Kong
12 April 2018

INCOME PARTNERS RMB BOND FUND**STATEMENT OF FINANCIAL POSITION****As at 31 December 2017**

	Notes	2017 RMB	2016 RMB
Assets			
Cash and cash equivalents	8	3,216,853	13,092,500
Financial assets at fair value through profit or loss	7	32,224,060	73,841,818
Interest receivable		743,507	2,115,181
Amounts due from brokers	9	–	3,142,545
Prepayments and other assets		4,871	–
Total assets		<u>36,189,291</u>	<u>92,192,044</u>
Liabilities			
Custodian fee payable	12	16,793	17,616
Management fee payable	12	38,217	99,719
Trustee fee payable	12	40,304	42,279
Tax payable		111,312	1,964,073
Amounts due to brokers	9	–	2,048,786
Accruals and other payables		316,867	237,066
Total liabilities (excluding net assets attributable to unitholders)		<u>523,493</u>	<u>4,409,539</u>
Net assets attributable to unitholders	11	<u>35,665,798</u>	<u>87,782,505</u>
Total liabilities		<u>36,189,291</u>	<u>92,192,044</u>

For the number of units in issue, please refer to Note 10 for details.

Emil Nguy

.....
Income Partners Asset Management (HK) Limited,
the Manager

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

INCOME PARTNERS RMB BOND FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
Income			
Interest income on financial assets at fair value through profit or loss		2,142,221	4,414,317
Interest income on bank deposits		20,119	20,881
Net losses on financial assets at fair value through profit or loss	7	(1,724,637)	(2,674,838)
Net foreign exchange differences		(52,226)	78,695
Total income		<u>385,477</u>	<u>1,839,055</u>
Expenses			
Management fee	12	(665,277)	(1,351,123)
Trustee fee	12	(483,814)	(483,338)
Custodian fee	12	(201,589)	(210,341)
Auditors remuneration		(206,961)	(203,681)
Legal fees		(168,580)	(106,297)
Bank charges		(11,257)	(15,818)
Brokerage fees and other transaction costs		(7,891)	(3,368)
Other expenses		(589,952)	(388,749)
Total expenses		<u>(2,335,321)</u>	<u>(2,762,715)</u>
Operating loss		(1,949,844)	(923,660)
Finance costs			
Distributions to unitholders	13	(116,821)	(234,232)
Loss before taxation		<u>(2,066,665)</u>	<u>(1,157,892)</u>
Taxation			
Capital gains tax	2n(ii)	1,759,583	160,619
Distribution tax	2n(iii)	(536,860)	(277,590)
Value-added tax	2n(iv)	(577,746)	–
		<u>644,977</u>	<u>(116,971)</u>
Decrease in net assets attributable to unitholders and total comprehensive income during the year		<u>(1,421,688)</u>	<u>(1,274,863)</u>

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

INCOME PARTNERS RMB BOND FUND

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2017

	Note	Class 1A USD ¹ (Accumulation) units RMB	Class 1B RMB (Accumulation) units RMB	Class 2A USD (Distribution) units RMB	Class 2A USD (Accumulation) units RMB	Class 2B RMB (Distribution) units RMB	Class 2B RMB (Accumulation) units RMB	Class 2D EUR ² (Distribution) units RMB	Class 2D EUR ³ (Accumulation) units RMB	Total RMB
At 1 January 2016		10,327,214	206,848	10,221,743	5,386,549	3,625,725	93,266,183	1,286,298	532,450	124,853,010
Subscription of units	10	–	–	–	–	994,690	2,977,500	–	–	3,972,190
Redemption of units	10	(10,385,811)	–	(8,832,369)	(932,757)	(1,333,423)	(17,744,037)	–	(539,435)	(39,767,832)
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income during the year		<u>58,597</u>	<u>(1,474)</u>	<u>(37,605)</u>	<u>(53,902)</u>	<u>(145,721)</u>	<u>(1,046,231)</u>	<u>(55,512)</u>	<u>6,985</u>	<u>(1,274,863)</u>
At 31 December 2016 and 1 January 2017		<u>–</u>	<u>205,374</u>	<u>1,351,769</u>	<u>4,399,890</u>	<u>3,141,271</u>	<u>77,453,415</u>	<u>1,230,786</u>	<u>–</u>	<u>87,782,505</u>
Subscription of units	10	–	–	658,411	–	–	25,000,000	–	–	25,658,411
Redemption of units	10	–	–	(59,781)	(2,242,264)	(488,214)	(72,347,232)	(1,215,939)	–	(76,353,430)
Decrease in net assets attributable to unitholders and total comprehensive income during the year		<u>–</u>	<u>(5,156)</u>	<u>(75,295)</u>	<u>(67,352)</u>	<u>(168,077)</u>	<u>(1,090,961)</u>	<u>(14,847)</u>	<u>–</u>	<u>(1,421,688)</u>
At 31 December 2017		<u>–</u>	<u>200,218</u>	<u>1,875,104</u>	<u>2,090,274</u>	<u>2,484,980</u>	<u>29,015,222</u>	<u>–</u>	<u>–</u>	<u>35,665,798</u>

¹Class 1A USD (Accumulation) units were fully redeemed on 3 February 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

²Class 2D EUR (Distribution) units were fully redeemed on 6 April 2017. Hence, there will be no net asset value available after such date until subscription in such share class.

³Class 2D EUR (Accumulation) units were fully redeemed on 11 November 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

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

INCOME PARTNERS RMB BOND FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB	2016 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(2,066,665)	(1,157,892)
Adjustments for:			
Interest income on financial assets at fair value through profit or loss		(2,142,221)	(4,414,317)
Interest income on bank deposits		(20,119)	(20,881)
Distributions to unitholders		116,821	234,232
Operating losses before changes in working capital		<u>(4,112,184)</u>	<u>(5,358,858)</u>
Decrease in financial assets at fair value through profit or loss		41,617,758	41,304,678
Decrease in interest receivable		1,371,674	3,733,740
Decrease/(increase) in amounts due from brokers		3,142,545	(3,142,545)
Increase in prepayments and other receivables		(4,871)	-
(Decrease)/increase in custodian fee payable		(823)	982
Decrease in management fee payable		(61,502)	(33,031)
(Decrease)/increase in trustee fee payable		(1,975)	2,357
(Decrease)/increase in amounts due to brokers		(2,048,786)	2,048,786
Increase in accruals and other payables		<u>79,801</u>	<u>29,385</u>
Cash flows from operating activities		39,981,637	38,585,494
Interest received		2,162,340	1,966,670
Tax paid		<u>(1,207,784)</u>	<u>(864,181)</u>
Net cash flows from operating activities		<u>40,936,193</u>	<u>39,687,983</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units		25,658,411	3,972,190
Payments for redemption of units		(76,353,430)	(39,767,832)
Distributions paid to unitholders		<u>(116,821)</u>	<u>(234,232)</u>
Net cash flows used in financing activities		<u>(50,811,840)</u>	<u>(36,029,874)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(9,875,647)	3,658,109
Cash and cash equivalents at the beginning of the year		<u>13,092,500</u>	<u>9,434,391</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>3,216,853</u>	<u>13,092,500</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash at banks	8	<u>3,216,853</u>	<u>13,092,500</u>

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

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. THE SUB-FUND

Income Partners Investment Fund (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 23 June 2014 (the "Trust Deed") between Income Partners Asset Management (HK) Limited (the "Manager") and Cititrust Limited (the "Trustee"). The Trust has been established as an umbrella fund and the assets of the Trust are separated into different sub-funds.

Income Partners RMB Bond Fund (the "Sub-Fund") is a sub-fund of the Trust. The Sub-Fund is a unit trust and is authorised by the Securities and Futures Commission ("SFC") pursuant to 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 SFC (the "SFC Code"). The date of inception of the Sub-Fund was on 2 July 2014 with a financial year-end of 31 December.

The investment objective of the Sub-Fund is to seek long-term interest income and capital appreciation through investing all or substantially all of its assets in Renminbi ("RMB") denominated fixed income securities issued within the People's Republic of China ("PRC") directly through the RMB Qualified Foreign Institutional Investor ("RQFII") quota of the Manager. All PRC bonds in which the Sub-Fund invests will be onshore investments in the PRC and denominated and settled in RMB.

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 years presented, unless otherwise stated.

(a) Statement of compliance and basis of preparation

The financial statements of the Sub-Fund have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong, and the relevant disclosure provisions of the Trust Deed dated 23 June 2014, and the relevant disclosure provisions specified in 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.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Trustee and the Manager to exercise their judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies and disclosures

The Sub-Fund applied for the first time certain standards and amendments, which are effective for annual periods beginning on 1 January 2017. The Sub-Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the financial statements of the Sub-Fund. The nature and the impact of the new standard or amendment which is applicable to the Sub-Fund is described below.

Amendments to HKAS 7 “Disclosure Initiative”

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Sub-Fund has provided the information for both the current and the comparative period in Note 14.

There are some other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2017. However, they do not have significant impact on the Sub-Fund's financial statements and have therefore not been analysed in detail.

(c) Impact of issued but not yet effective HKFRSs

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Sub-Fund except the following set out below.

In September 2014, the HKICPA issued the final version of HKFRS 9 “Financial instruments”, bringing together all phases of the financial instruments project to replace HKAS 39 “Financial Instruments: Recognition and Measurement” and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Sub-Fund will adopt HKFRS 9 from 1st January 2018. The Sub-Fund will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Manager has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts arising from the adoption of HKFRS 9 relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Manager does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

Receivables including cash and cash equivalent, interest receivable and amount due from brokers are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Manager analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under HKFRS 9. Therefore, reclassification for these instruments is not required.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impact of issued but not yet effective HKFRSs (continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Manager will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its other receivables. Furthermore, the Manager will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

The Manager expects that the adoption of HKFRS 9 will not have a significant impact on the Sub-Fund' financial position or performance.

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

(d) Foreign currency translation

(i) Functional and presentation currency

The Sub-Fund's subscriptions and redemptions are mainly denominated in RMB. The primary activity of the Sub-Fund is to invest mainly in RMB-denominated bonds and settle fixed income securities issued within the PRC which are traded in RMB. The performance of the Sub-Fund is measured and reported to unitholders in RMB. Management considers RMB as the currency that most faithfully represents the economic effects of the transactions, events and conditions (the "Functional Currency"). The Sub-Fund's financial statements are presented in RMB, which is the Sub-Fund's functional and presentation currency.

(ii) Translations 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 statement of financial position date.

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

Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the statement of profit or loss and other comprehensive income within "Net losses on financial assets at fair value through profit or loss". Foreign exchange gains and losses relating to other financial instruments are presented in the statement of profit or loss and other comprehensive income within "Net foreign exchange differences".

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments

(i) Classification

The Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with HKAS 39.

Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through profit or loss is subdivided into:

Financial assets and liabilities held for trading: Financial assets are classified as financial assets at fair value through profit or loss if they are not acquired for the purpose of selling or repurchasing in the near term. This category includes debt instruments. These assets are not acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial instruments designated as at fair value through profit or loss upon initial recognition: These financial assets and liabilities are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Sub-Fund's offering document.

Net assets attributable to unitholders: The Sub-Fund's accounting policy regarding the net assets attributable to unitholders is described in Note 2(j) below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to cash and cash equivalents, interest receivable and amounts due from brokers.

Other financial liabilities

This category includes all financial liabilities, other than those classified as at fair value through profit or loss. The Sub-Fund includes in this category amounts relating to custodian fee payable, management fee payable, trustee fee payable, amounts due to brokers and accruals and other payables.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(ii) Recognition, derecognition and measurement

The Sub-Fund recognises a financial asset or a financial liability when, and only 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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Sub-Fund commits to purchase or sell the asset.

Financial assets and 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.

Loans and receivables and financial liabilities are measured initially at their fair value and net of directly attributable transaction costs.

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 losses on financial assets at fair value through profit or loss". Interest earned on such instruments is recorded separately in "Interest income on financial assets at fair value through profit or loss".

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables 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 and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or 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.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(ii) Recognition, derecognition and measurement

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- 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 Sub-Fund has transferred substantially all the risks and rewards of the asset, or (b) the Sub-Fund 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), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Fund's continuing involvement in the asset. 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.

(iii) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at year end. Under HKFRS 13 "Fair value measurement", last-traded price or mid-market price is allowed to be adopted as long as the last-traded price or the mid-market price adopted fall within the bid-ask spread. In circumstances where the last-traded price and the mid-market price are not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

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 fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Sub-Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity specific inputs.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(iv) Impairment of financial assets

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as "Credit loss expense".

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Fund. If a previous write-off is later recovered, the recovery is credited to the "Credit loss expense".

Interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Offsetting financial instruments

Financial assets and 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.

(g) Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(h) Accrued expenses

Accrued expenses are accounted for on an accruals basis and charged to the statement of profit or loss and other comprehensive income.

(i) Amounts due from and due to brokers

Amounts due from and to the brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date, respectively.

(j) Net assets attributable to unitholders

The Sub-Fund issues redeemable units, namely Class 1B RMB (Accumulation), Class 2A USD (Distribution), Class 2A USD (Accumulation), Class 2B RMB (Distribution) and Class 2B RMB (Accumulation), which are redeemable at the unitholder's option and are classified as financial liabilities.

For Distribution class units, there will be a dividend distributed on a monthly basis based on the Manager's discretion, distributions may be paid out of the capital of the Sub-Fund and any such distributions may result in an immediate reduction of the net asset value per unit of the Sub-Fund.

For Accumulation class units, no dividends will be paid.

As at 31 December 2017, Class 1B RMB (Accumulation), Class 2A USD (Distribution), Class 2A USD (Accumulation), Class 2B RMB (Distribution) and Class 2B RMB (Accumulation) units were in issue. As at 31 December 2016, Class 1B RMB (Accumulation) units, Class 2A USD (Distribution), Class 2A USD (Accumulation), Class 2B RMB (Distribution), Class 2B RMB (Accumulation) and Class 2D EUR were in issue.

Class 1A USD (Accumulation), Class 2D EUR (Accumulation) and Class 2D EUR (Distribution) units were fully redeemed on 3 February 2016, 11 November 2016 and 6 April 2017 respectively. Hence, there will be no net asset value available after such date until subscription in such share class.

(k) Revenue recognition

Interest income is recognised in the statement of profit or loss and other comprehensive income for all interest bearing instruments on an accrual basis using the effective interest rate method. It represents interest income on debt securities at fair value through profit or loss and interest income on bank deposits.

Other income is accounted for on an accrual basis.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Net losses 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 income and expense.

Unrealised losses comprise changes in the fair value of financial instruments for the year.

Realised losses on disposals of financial instruments classified as at fair value through profit or loss are calculated using the First In, First Out ("FIFO") 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).

(m) 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 a group of which it is part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

(n) Taxation

(i) Income tax

a) Hong Kong Tax

No provision for Hong Kong profit tax has been made for the Sub-Fund as the interest/dividend income and realised gain on disposal of investment of the Sub-Fund are excluded from the charge to profits tax under Section 14, Section 26 or Section 26A of the Hong Kong Inland Revenue Ordinance.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Taxation (continued)

(i) Income tax (continued)

b) PRC Tax

The Sub-Fund invests in fixed income securities issued through the PRC RQFII. By investing in these securities, the Sub-Fund may be subjected to withholding tax and other taxes imposed in the PRC.

(ii) Capital gains tax

Under the prevailing PRC Corporate Income Tax Law ("CIT Law"), there is no specific provision on whether capital gains derived by a non-resident investor (including the Sub-Fund) from disposal of PRC debt securities would be considered as PRC sourced income and subject to PRC capital gains tax at 10%.

In the absence of specific rules governing taxes on capital gains derived by RQFIIs in the past as well as consultation to professional tax advisor, the Sub-Fund has elected to withhold a 10% tax provision on both capital gains realised and unrealised on the PRC debt securities which is based on the general tax provisions of the CIT Law, which stipulates a 10% tax on a withholding basis for capital gains derived on disposal of PRC debt securities.

During the year ended 31 December 2017, the Sub-Fund consulted its independent professional tax advisor, the Manager assessed that, based on the current interpretation of the State Administration of Taxation of the PRC ("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 should not be subject to PRC capital gains tax. The Sub-Fund therefore did not accrue any PRC capital gains tax and value-added tax ("VAT") provisions related to the capital gains on disposal of PRC debt securities during the year and reversed the previously made potential tax liabilities amounting to RMB1,759,583 for the year ended 31 December 2017. For detail, please refer to the "Notice to Unitholders" date 18 September 2017.

(iii) 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%. There is no assurance that the rate of the distribution tax will not be changed by the PRC tax authorities in the future.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Taxation (continued)

(iv) Value-added tax

According to Circular 36 and Caishui [2016] No. 70, a supplementary notice to Circular 36 issued by the Ministry of Finance (“MOF”) and the SAT concerning the financial industry (“Circular 70”), interest income received from investment in non-government bonds is subject to a 6% VAT from 1 May 2016 onwards. 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. Subsequently, the MOF and SAT jointly issued Circular Caishui [2017] No.56 further clarifying that asset management products start to be subject to VAT from January 1, 2018. In early 2017, there is clarification under the above circulars that PRC VAT shall apply to non-government bond interest received by offshore asset management products on or after 1 May 2016.

The prevailing VAT regulations do not specifically exempt VAT on interest income received by QFIIs, RQFIIs and qualified foreign financial institutions for directly investing in CIBM or via Bond Connect (“CIBM investor”) from investments in PRC debt securities. Interest receipts from investment in PRC debt securities by QFIIs, RQFIIs and CIBM investors shall be subject to 6% VAT unless special exemption applies. In addition, there are also other local surtaxes that would amount to as high as 12% of VAT liabilities. The SAT is working on the implementation rule for the VAT collection in relation to asset management products. 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.

Interest income derived from government bonds issued by the MOF, or bonds issued by local government of a province, autonomous region, municipality directly under the Central Government or municipality separately listed on the state plan, as approved by the State Council (“Government Bonds”) is exempt from PRC withholding tax and VAT. According to Circular 36 and Caishui [2016] No.46, deposit interest income is not subject to VAT.

The Sub-Fund accrued the PRC VAT provision on these interest and dividend income during the year and are included in “Value-added tax” in the statements of profit or loss and other comprehensive income of the Sub-Fund.

For PRC VAT on interest income applicable from 1 May 2016 onwards, the Manager did not accrue the provision as at 31 December 2016 due to the lack of clarification on the Circular 140 and Circular Caishui [2017] 2. The potential PRC VAT and local surcharges have been quantified as approximately RMB126,453 on any non-government bond interest received by the Fund on or after from 1 May 2016 to 31 December 2016. With the clarification of tax treatments from the PRC tax authorities in 2017, the Manager accrued all applicable PRC VAT and surcharges since 1 May 2016. The VAT and surcharges provisions are include in “Value-added tax” in the statements of profit or loss and other comprehensive income of the Sub-Fund for the year ended 31 December 2017.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT

The Sub-Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The principle investment objective of the Sub-Fund is to provide a return of capital growth and income in RMB or RMB equivalent terms. The Sub-Fund mainly invests in the RMB instruments which are below investment grade or unrated with long-only position. The portfolio of the Sub-Fund is expected to maintain a level of diversity across countries and industries.

The Sub-Fund uses different methods to measure and manage the various types of risk to which it is exposed, these methods are explained below.

(a) 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, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Sub-Fund's investment in debt securities is susceptible to market price risk arising from uncertainties about future prices of the instruments. The Manager monitors the Sub-Fund's market price risk on a daily basis and the Trustee reviews it on a daily basis. The following table discloses the financial asset investments at fair value through profit or loss of the Sub-Fund by product type:

	2017 RMB	2016 RMB
Financial assets at fair value through profit or loss		
- Corporate bonds	25,634,105	57,767,380
- Government bonds	6,589,955	14,974,450
- Private label asset backed securities	—	1,099,988
	<u>32,224,060</u>	<u>73,841,818</u>

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market price risk (continued)

The following tables disclose the financial assets at fair value through profit or loss of the Sub-Fund by sector:

	2017		2016	
	RMB	% of net asset value ⁽¹⁾	RMB	% of net asset value ⁽¹⁾
Corporate bonds				
Automobile	1,003,402	2.81	6,147,720	7.01
Banking and Financing	1,995,070	5.59	–	–
Consumer, non-cyclical	–	–	5,033,720	5.74
Industrial	10,221,145	28.66	16,031,705	18.26
Sovereign	9,837,940	27.58	10,001,640	11.39
Transportation	–	–	5,349,805	6.09
Utilities	1,999,348	5.61	15,202,790	17.32
Real estate	299,670	0.84	–	–
Consumer, cyclical	277,530	0.78	–	–
Total corporate bonds	25,634,105	71.87	57,767,380	65.81
Government bonds				
Banking and finance	–	–	10,011,700	11.41
Sovereign	6,589,955	18.48	4,962,750	5.65
Total government bonds	6,589,955	18.48	14,974,450	17.06
Private label asset backed securities				
Banking and finance	–	–	1,099,988	1.25
Total private label asset backed securities	–	–	1,099,988	1.25
Total financial assets at fair value through profit or loss	32,224,060	90.35	73,841,818	84.12

⁽¹⁾ The percentage is calculated based on the fair value of the debt instruments without accrued interest, which are separately disclosed as interest receivable on the statement of financial position.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market price risk (continued)

As at 31 December 2017 and 31 December 2016, if the underlying securities were to increase by the following sensitivity thresholds with all other variables held constant, this would increase the net asset value by the amounts stated below. Conversely, if the underlying securities were to decrease by the same sensitivity thresholds, this would decrease the net asset value by approximately equal amounts.

	2017		2016	
	Sensitivity threshold in %	Impact on net assets attributable to unitholders RMB	Sensitivity threshold in %	Impact on net assets attributable to unitholders RMB
Financial assets at fair value through profit or loss				
- Debt securities	+/-5	<u>+/-1,032,337</u>	+/-5	<u>+/-3,909,048</u>

(b) Risks relating to debt securities

There are several risks relating to debt securities, including the following:

(i) Credit risk

Investment in bonds or other debt securities involve credit risk of the issuers. An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security's liquidity, making it more difficult to sell. The Sub-Fund's investment is also subject to the risk that issuers may not make timely payments on principal and/or interests of the securities they issue. If the issuers of any of the securities in which the Sub-Fund's assets are invested default, the performance of the Sub-Fund will be adversely affected.

The debt securities that the Sub-Fund invests in may be offered on an unsecured basis without collateral. In such circumstances, the Sub-Fund will rank equally with other unsecured creditors of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of the relevant fixed income instrument issued by it only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

The Sub-Fund may hold cash and deposits in banks or other financial institutions and the extent of governmental and regulatory supervision may vary. The Sub-Fund might suffer a significant or even total loss in the event of insolvency of the banks or financial institutions.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Risks relating to debt securities (continued)

(ii) Credit rating risk

The ratings of debt securities by Moody's Investor Services, Standard & Poor's and Fitch's are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor's standpoint. The rating of an issuer is heavily weighted by past performance and does not necessarily reflect probable future conditions. Rating agencies might not always change their credit rating of an issuer in a timely manner to reflect events that could affect the issuer's ability to make scheduled payment on its obligations. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

The table below summarises the Sub-Fund's assets placed with banks and their related credit ratings:

Investment's credit risk

Credit rating ⁽²⁾	2017 %	2016 %
AAA	27.58	11.39
A+	44.10	–
AA-	–	27.11
A-	3.01	2.46
A	2.80	–
BBB+	0.03	7.35
BBB	8.40	18.41
BBB-	2.81	6.88
BB+	–	4.66
BB	–	5.86
B	0.84	–
B-	0.78	–
Total	<u>90.35⁽¹⁾</u>	<u>84.12⁽¹⁾</u>

⁽¹⁾ The percentage is calculated based on the fair value of the debt instruments without accrued interest, which are separately disclosed as interest receivable on the statement of financial position.

⁽²⁾ Where S&P/Moody's/Fitch ratings for bond holdings are not available, the Sub-Fund's internal credit rating applies based on the similar assessment basis of S&P. As at 31 December 2017 and 2016, 12.41% (2016: 49.83%) of the bond holdings are applied internal credit rating due to the limited credit rating information in China's bond market while 87.59% (2016:50.17%) of the bond holdings are reference to S&P/Moody's/Fitch ratings.

(iii) Credit rating downgrading risk

The credit rating assigned to a security or an issuer may be re-evaluated and updated based on recent market events or specific developments. As a result, investment grade securities may be subject to the risk of being downgraded to below investment grade securities. Similarly, an issuer having an investment grade rating may be downgraded, for example, as a result of deterioration of its financial conditions.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Risks relating to debt securities (continued)

(iii) Credit rating downgrading risk (continued)

In the event of downgrading in the credit ratings of a security or an issuer relating to a security, the Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the Sub-Fund. In the event of investment grade securities being downgraded to below investment grade securities and such securities continued to be held by the Sub-Fund, the Sub-Fund will also be subject to the below investment grade securities risk outlined in the following paragraph.

(iv) Below investment grade and unrated securities risk

The Sub-Fund may invest in securities which are below investment grade or which are unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated, lower yielding securities and may be subject to greater fluctuation in value and higher chance of default. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. Valuation of these securities is more difficult and thus the Sub-Fund's prices may be more volatile.

The value of lower-rated or unrated corporate bonds may be affected by investors' perceptions. When economic conditions appear to be deteriorating, below investment grade or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

(v) Interest rate risk

Changes in interest rates may affect the value of a debt security as well as the financial markets in general. Debt securities (such as bonds) are more susceptible to fluctuation in interest rates and may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes. If the debt securities held by the Sub-Fund fall in value, the Sub-Fund's value will also be adversely affected.

In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be significant.

	2017		2016	
	Sensitivity of change in basis points	Change in fair value of investments RMB	Sensitivity of change in basis points	Change in fair value of investments RMB
Debt Securities	+/-25	<u>245,802</u>	+/-25	<u>+/-369,209</u>

The Manager has used its view of what would be a reasonable possible shift in the interest rates to estimate the change in the sensitivity analysis above.

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in interest rates are revised annually depending on the Manager's current view of interest rates volatility and other relevant factors.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Risks relating to debt securities (continued)

(v) Interest rate risk (continued)

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 unitholders of redeemable units as at 31 December 2017 and 31 December 2016 and therefore no sensitivity analysis of interest on bank deposits is presented.

(vi) Valuation risk

The value of debt securities that the Sub-Fund invests may be subject to the risk of mispricing or improper valuation, i.e. operational risk that the debt securities are not priced properly. Valuations of quoted or listed debt securities are primarily based on the valuations from independent third party sources where the prices are available. However, in the case where independent pricing information may not be available such as in extreme market conditions or break down in the systems of third party sources, the value of such debt securities may be based on certification by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager after consultation with the Trustee. Valuations in such circumstance may involve uncertainty and judgmental determination. In the event of adverse market conditions where it is not possible to obtain any reference quotation from the market at the relevant time of valuation, the latest available quotations of the relevant debt securities may be used to estimate the fair market value. Alternatively, the Manager after consultation with the Trustee may, permit some other method of valuation to be used to estimate the fair market value of such debt securities including the use of quotation of other debt securities with very similar attributes. Such valuation methodology may not equal to the actual liquidation price due to liquidity and size constraints. If valuation is proven to be incorrect, this will affect the net asset value calculation of the Sub-Fund.

The valuation of unlisted debt securities is more difficult to calculate than listed debt securities. Normally, unlisted debt securities are valued at their initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition thereof (excluding in each case the amount of the stamp duties, commissions and other acquisition expenses which will be charged as expenses to the Sub-Fund) provided that the value of any such unlisted debt securities shall be determined on a regular basis by a professional person approved by the Trustee as qualified to value such unlisted debt securities. Such professional person may value the unlisted debt securities by reference to the prices of other comparable unlisted debt securities. The trading of unlisted debt securities may not be transparent and the prices of unlisted debt securities may not be openly displayed. There is a risk that such professional person is not aware of all the trading in unlisted debt securities and may use prices which may be historical only and may not reflect recent trading in the debt securities concerned. In such circumstance, the valuation of the unlisted debt securities may not be accurate as a result of incomplete price information. This would have impact on the calculation of the net asset value of the Sub-Fund.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Risks relating to debt securities (continued)

(vii) Unlisted debt securities risk

The debt securities in which the Sub-Fund invests may not be listed on an exchange traded or interbank bond market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities.

As at 31 December 2017 and 31 December 2016, debt securities of the Sub-Fund are either listed in exchange traded or inter-bank bond markets.

(c) Risk relating to convertible bonds

The Sub-Fund may invest in convertible bonds. Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the company issuing the bond at a specified future date. Prior to conversion, convertible bonds have the same general characteristics as non-convertible fixed income securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. However, while convertible bonds generally offer lower interest or dividend yields than non-convertible fixed income securities of similar quality, they enable the Sub-Fund to benefit from increases in the market price of the underlying stock, and hence the price of a convertible bond will normally vary with changes in the price of the underlying stock.

Therefore, investors should be prepared for greater volatility than straight bond investments, with an increased risk of capital loss, but with the potential of higher returns.

As at 31 December 2017 and 31 December 2016, the Sub-Fund has no convertible bonds in its portfolio holdings.

(d) Settlement risk

Settlement procedures in emerging countries are frequently less developed and less reliable and may involve the Sub-Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. The Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for the Sub-Fund if investment opportunities are missed or if the Sub-Fund is unable to acquire or dispose of a security as a result.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

(e) Custodial risk

Custodians or sub-custodians may be appointed in local markets for the purpose of safekeeping assets in those markets. Where the Sub-Fund invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Sub-Fund may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Sub-Fund may take a longer time to recover its assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Sub-Fund may even be unable to recover all of its assets. The costs borne by the Sub-Fund in investing and holding investments in such markets will be generally higher than in organised securities markets.

(f) Counterparty risk

Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to the Sub-Fund. The Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, futures and options. To the extent that a counterparty defaults on its obligations and the Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, the Sub-Fund may experience a decline in the value and incur costs associated with its rights attached to the security. The Sub-Fund may sustain substantial losses as a result.

(g) Currency and foreign exchange risk

The Sub-Fund may also issue classes denominated in a currency other than the base currency of that fund. The Sub-Fund may be invested in part in assets quoted in currencies other than its base currency or the relevant class currency. The performance of the Sub-Fund will therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the base currency of the Sub-Fund or the relevant class currency. Since the Manager aims to maximise returns for the Sub-Fund in terms of its base currency, investors in the Sub-Fund may be exposed to additional currency risk. These risks may have adverse impact on the Sub-Fund and its investors.

The Sub-Fund may, in part, seek to offset the risks associated with such exposure through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency. These risks may have adverse impact on the Sub-Fund and its investors.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Currency and foreign exchange risk (continued)

The Sub-Fund's net direct exposure to each currency other than RMB at the reporting date and their estimated impact to the net assets attributable to unitholders and the changes in net assets attributable to unitholders and total comprehensive income during the year has the RMB weakened by 5% are illustrated below.

	2017		2016	
	Net direct exposure	Estimated increase had the RMB weakened by 5% RMB	Net direct exposure	Estimated increase had the RMB weakened by 5% RMB
Euro	-	-	19,376	969
Hong Kong Dollar	-	-	18,272	914
United States Dollar	356,638	17,832	724,897	36,245

A 5% appreciation of RMB against the above currencies would have resulted in an equal but opposite effect on the financial statements, on the basis that all other variables remain constant.

(h) Liquidity risk

Some of the markets in which the Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value. As a result, this may have adverse impact on the Sub-Fund and its investors.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Sub-Fund can be required to pay.

The following table summarises the maturity profile of the Sub-Fund's financial liabilities. Balances due within one year equal their carrying amounts, as the impact of discounting is insignificant.

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Others ⁽¹⁾ RMB	Total RMB
As at 31 December 2017					
Financial liabilities					
Custodian fee payable	-	16,793	-	-	16,793
Management fee payable	-	38,217	-	-	38,217
Trustee fee payable	-	40,304	-	-	40,304
Accruals and other payables	-	-	316,867	-	316,867
Net assets attributable to unitholders ⁽¹⁾	-	-	-	35,665,798	35,665,798
Total financial liabilities	-	95,314	316,867	35,665,798	36,077,979

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(h) Liquidity risk (continued)

Financial liabilities (continued)

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Others ⁽¹⁾ RMB	Total RMB
As at 31 December 2016					
<u>Financial liabilities</u>					
Custodian fee payable	–	17,616	–	–	17,616
Management fee payable	–	99,719	–	–	99,719
Trustee fee payable	–	42,279	–	–	42,279
Amounts due to brokers	–	2,048,786	–	–	2,048,786
Accruals and other payables	–	–	237,066	–	237,066
Net assets attributable to unitholders ⁽¹⁾	–	–	–	87,782,505	87,782,505
Total financial liabilities	–	2,208,400	237,066	87,782,505	90,227,971

⁽¹⁾ Please refer to Note 11 to the financial statements for the redemption policy.

(i) Restricted markets risk

The Sub-Fund may invest all or substantially all of its assets in bonds issued by PRC resident issuers which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Fund may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

(j) Legal, tax and regulatory risk

Legal, tax and regulatory changes could occur in the future. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in their regulation or taxation may adversely affect the value of derivative instruments. Changes to the current laws and regulations will lead to changes in the legal requirements to which the Sub-Fund may be subject, and may adversely affect the Sub-Fund and its investors.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(k) Distributions risk

Distributions may be made in respect of the distribution classes. However, there is no guarantee that such distributions will not be made nor will there be a target level of distributions payout. A high distribution yield does not imply a positive or high return.

Subject to the disclosure in the relevant appendix, distributions may be paid out of the capital of the Sub-Fund. The Manager may distribute out of the capital of the Sub-Fund if the net distributable income attributable to the relevant distribution class during the relevant period is insufficient to pay distributions as declared. Investors should note that the payment of distributions out of capital represents a return or a withdrawal of part of the amount they originally invested or capital gain attributable to that amount. Distributions will result in an immediate decrease in the net asset value of the relevant units.

For accumulation classes, the Manager does not intend to pay distributions. Accordingly, an investment in the accumulation classes may not be suitable for investors seeking income returns for financial or tax planning purposes.

4. FAIR VALUE ESTIMATION

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on mid-market prices at the close of trading on the year end date.

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.

The fair value hierarchy has the following levels:

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

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 judgement, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires significant judgement 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.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. FAIR VALUE ESTIMATION (CONTINUED)

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value. Please refer to Note 3(a) for disclosure of the Sub-Fund's financial assets by class.

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2017				
Assets				
Financial assets at fair value through profit or loss:				
- Corporate bonds	–	25,634,105	–	25,634,105
- Government bonds	–	6,589,955	–	6,589,955
	<u>–</u>	<u>32,224,060</u>	<u>–</u>	<u>32,224,060</u>

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value. Please refer to Note 3(a) for disclosure of the Sub-Fund's financial assets by class. (continued)

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2016				
Assets				
Financial assets at fair value through profit or loss:				
- Corporate bonds	–	57,767,380	–	57,767,380
- Government bonds	–	14,974,450	–	14,974,450
- Private label asset backed securities	–	1,099,988	–	1,099,988
	<u>–</u>	<u>73,841,818</u>	<u>–</u>	<u>73,841,818</u>

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted/tradable market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include corporate bonds, government bonds and private label asset backed securities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Management considers the carrying value of the Sub-Fund's other financial assets and financial liabilities are a reasonable approximation of fair value.

There was no transfer between the levels of fair value hierarchy during the year ended 31 December 2017 and 31 December 2016.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL ACCOUNT ESTIMATES AND JUDGMENTS

(a) Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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.

Fair value of financial instruments

The Sub-Fund may, from time to time, hold financial instruments that are not quoted in active markets, whereby the arranging banks or placement banks would be the sole providers of mark to market prices. Fair values of such instruments are determined by using valuation techniques. The Sub-Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date.

Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel at the Manager. The Manager also closely monitors the coupon and principal payment of these fixed income and debt instruments.

In certain cases, the Manager may determine the prices or make adjustments to the market values of investments at their discretion if they believe that an adjustment is required to arrive at the fair value of the investment.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Sub-Fund holds financial instruments that are not actively traded on an exchange such as unlisted bonds which may not trade in an active market and whose fair value has been determined by reference to quotations provided by the relevant brokers. Their quotations may be indicative quotes only and may not necessarily represent actual transactions price nor may represent a binding offer price. The directors consider that the above valuation approach as the best estimate of the fair value of the investments. Actual transacted prices may differ from the quotes provided by the relevant brokers.

(b) Critical judgments

Functional currency

The Manager considers RMB the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. RMB is the currency in which the Sub-Fund measures its performance and reports its results.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5. CRITICAL ACCOUNT ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Critical judgments (continued)

Taxation

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.

Capital gains tax

The Sub-Fund invests primarily in debt securities through the RQFII quota. The PRC taxation of gains on debt securities is presently unclear as to:

- a) whether the PRC will enforce tax on RQFII gains on debt securities; and
- b) if the PRC were to enforce the tax on gains on debt securities, it is uncertain from which date the tax would be calculated and payable.

Value-added tax (the "VAT")

For the year ended 31 December 2016, the Manager had exercised their own judgment without accruing the PRC VAT detailed at the Note 2(n)(iv) to the financial statements due to the lack of clarification on the Circular 140 and Circular Caishui [2017] 2. With the clarification of tax treatments from the PRC tax authorities in 2017, the Manager accrued all applicable PRC VAT and surcharges since 1 May 2016 which the VAT and surcharges provisions are include in "value-added tax" in the statements of profit or loss and other comprehensive income of the Fund for the year ended 31 December 2017.

6. FINANCIAL INSTRUMENTS BY CATEGORY

The following tables disclose the financial assets and liabilities of the Sub-Fund by category:

	Loans and receivables RMB	Assets at fair value through profit or loss RMB	Other financial assets RMB	Total RMB
As at 31 December 2017				
<u>Financial assets</u>				
Cash and cash equivalents	3,216,853	–	–	3,216,853
Financial assets at fair value through profit or loss	–	32,224,060	–	32,224,060
Interest receivable	743,507	–	–	743,507
Total financial assets	<u>3,960,360</u>	<u>32,224,060</u>	<u>–</u>	<u>36,184,420</u>

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The following tables disclose the financial assets and liabilities of the Sub-Fund by category:
(continued)

	Loans and receivables RMB	Liabilities at fair value through profit or loss RMB	Other financial liabilities RMB	Total RMB
As at 31 December 2017				
<u>Financial liabilities</u>				
Custodian fee payable	–	–	16,793	16,793
Management fee payable	–	–	38,217	38,217
Trustee fee payable	–	–	40,304	40,304
Accruals and other payables	–	–	316,867	316,867
Net assets attributable to unitholders	–	35,665,798	–	35,665,798
Total financial liabilities	–	35,665,798	412,181	36,077,979

	Loans and receivables RMB	Assets fair value through profit or loss RMB	Other financial assets RMB	Total RMB
As at 31 December 2016				
<u>Financial assets</u>				
Cash and cash equivalents	13,092,500	–	–	13,092,500
Financial assets at fair value through profit or loss	–	73,841,818	–	73,841,818
Interest receivable	2,115,181	–	–	2,115,181
Amounts due from brokers	3,142,545	–	–	3,142,545
Total financial assets	18,350,226	73,841,818	–	92,192,044

	Loans and receivables RMB	Liabilities at fair value through profit or loss RMB	Other financial liabilities RMB	Total RMB
As at 31 December 2016				
<u>Financial liabilities</u>				
Custodian fee payable	–	–	17,616	17,616
Management fee payable	–	–	99,719	99,719
Trustee fee payable	–	–	42,279	42,279
Amounts due to brokers	–	–	2,048,786	2,048,786
Accruals and other payables	–	–	237,066	237,066
Net assets attributable to unitholders	–	87,782,505	–	87,782,505
Total financial liabilities	–	87,782,505	2,445,466	90,227,971

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB	2016 RMB
Held for trading		
- Debt securities	<u>32,224,060</u>	<u>73,841,818</u>
Total financial assets at fair value through profit or loss	<u>32,224,060</u>	<u>73,841,818</u>
Losses recognised in relation to financial assets at fair value through profit or loss:		
- realised losses	(252,133)	(168,900)
- change in unrealised losses	<u>(1,472,504)</u>	<u>(2,505,938)</u>
Net losses	<u>(1,724,637)</u>	<u>(2,674,838)</u>

8. CASH AND CASH EQUIVALENTS

	2017 RMB	2016 RMB
Bank balance	<u>3,216,853</u>	<u>13,092,500</u>

The cash at bank of the Sub-Fund is being held in an interest bearing account with Citibank, N.A. (Hong Kong) and Industrial and Commercial Bank of China ("ICBC"). Citibank, N.A. (Hong Kong) is an affiliate company of the Trustee.

9. AMOUNTS DUE FROM/TO BROKERS

	2017 RMB	2016 RMB
Amounts due from brokers:		
Receivables for securities sold but not yet settle	<u>-</u>	<u>3,142,545</u>
Amounts due to brokers:		
Payables for securities purchased but not yet settled	<u>-</u>	<u>2,048,786</u>

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. NUMBER OF UNITS IN ISSUE

The following is the subscription/(redemption) of units of the Sub-Fund during the year ended 31 December 2017:

	Class 1A USD ¹ (Accumulation) units Number of units	Class 1B RMB (Accumulation) units Number of units	Class 2A USD (Distribution) units Number of units	Class 2A USD (Accumulation) units Number of units	Class 2B RMB (Distribution) units Number of units	Class 2B RMB (Accumulation) units Number of units	Class 2D EUR ² (Distribution) units Number of units	Class 2D EUR ³ (Accumulation) units Number of units	Total Number of units
At the beginning of the year	–	2,000.000	2,173.425	6,612.806	31,885.359	722,523.811	1,500.000	–	766,695.401
Subscription of units	–	–	1,063.201	–	–	234,815.743	–	–	235,878.944
Redemption of units	–	–	(97.427)	(3,374.099)	(5,067.091)	(678,312.136)	(1,500.000)	–	(688,350.753)
At the end of the year	<u>–</u>	<u>2,000.000</u>	<u>3,139.199</u>	<u>3,238.707</u>	<u>26,818.268</u>	<u>279,027.418</u>	<u>–</u>	<u>–</u>	<u>314,223.592</u>
NAV/ Share	<u>–</u>	<u>100.11</u>	<u>597.32</u>	<u>645.40</u>	<u>92.66</u>	<u>103.99</u>	<u>–</u>	<u>–</u>	

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. NUMBER OF UNITS IN ISSUE (CONTINUED)

The following is the subscription/(redemption) of units of the Sub-Fund during the year ended 31 December 2016:

	Class 1A USD ¹ (Accumulation) units Number of units	Class 1B RMB (Accumulation) units Number of units	Class 2A USD (Distribution) units Number of units	Class 2A USD (Accumulation) units Number of units	Class 2B RMB (Distribution) units Number of units	Class 2B RMB (Accumulation) units Number of units	Class 2D EUR ² (Distribution) units Number of units	Class 2D EUR ³ (Accumulation) units Number of units	Total Number of units
At the beginning of the year	16,089.322	2,000.000	16,027.925	7,997.920	35,234.146	859,523.986	1,500.000	580.000	938,953.299
Subscription of units	–	–	–	–	9,707.624	27,107.611	–	–	36,815.235
Redemption of units	<u>(16,089.322)</u>	<u>–</u>	<u>(13,854.500)</u>	<u>(1,385.114)</u>	<u>(13,056.411)</u>	<u>(164,107.786)</u>	<u>–</u>	<u>(580.000)</u>	<u>(209,073.133)</u>
At the end of the year	<u>–</u>	<u>2,000.000</u>	<u>2,173.425</u>	<u>6,612.806</u>	<u>31,885.359</u>	<u>722,523.811</u>	<u>1,500.000</u>	<u>–</u>	<u>766,695.401</u>
NAV/ Share	<u>–</u>	<u>102.69</u>	<u>621.95</u>	<u>665.36</u>	<u>98.52</u>	<u>107.20</u>	<u>820.52</u>	<u>–</u>	

¹Class 1A USD (Accumulation) units were fully redeemed on 3 February 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

²Class 2D EUR (Distribution) units were fully redeemed on 6 April 2017. Hence, there will be no net asset value available after such date until subscription in such share class.

³Class 2D EUR (Accumulation) units were fully redeemed on 11 November 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. NUMBER OF UNITS IN ISSUE (CONTINUED)

Units can be issued and redeemed on each valuation day. A valuation day is each business day on which the net asset value of a unit or a class of unit falls to be calculated and in relation to each subscription day or redemption day (as the case may be) of any class or classes of units means either such subscription day or redemption day (as the case may be) or such other business day or day as the Trustee and the Manager may from time to time determine, either generally or in relation to a class of units. The unitholders may redeem the units on any valuation day by no later than the redemption deadline. Redemption requests received after such time will be deemed to have been received on the next business day.

As stated in the explanatory memorandum, redemption deadline refers to 5:00 p.m. (Hong Kong time) on the business day immediately preceding the relevant redemption day by which a redemption request in respect of the Sub-Fund or a class of units must be received or such other time or on such other business day or day as the Manager may from time to time determine generally or in relation to any particular jurisdiction in which units of the Sub-Fund or the relevant class may from time to time be sold.

Applications for redemption of units may be made to the processing agent by completing the redemption form and sent by post or by facsimile to the processing agent at the business address or facsimile number on the redemption form. The redemption form is available from the processing agent and/or the authorised distributors.

A redemption form received by the processing agent by the redemption deadline of a redemption day will be dealt with on that redemption day. If an application for redemption of units is received after the redemption deadline in respect of a redemption day then the application will be held over until the next redemption day provided that the Manager may in the event of system failure which is beyond the reasonable control of the Manager or events of natural disaster and with the approval of the Trustee (or the registrar on its behalf) after taking into account the interest of other unitholders of the Sub-Fund, exercise its discretion to accept a redemption request in respect of a redemption day which is received after the redemption deadline if it is received prior to the valuation point relating to that redemption day. Notwithstanding the aforesaid, where in the reasonable opinion of the Trustee (or the registrar on its behalf), the Trustee's or the registrar's operational requirements cannot support accepting any such redemption request, the Manager shall not exercise its discretion to accept any redemption request.

A request for redemption once given cannot be revoked without the consent of the Manager.

The Manager may suspend the redemption or delay the payment of redemption proceeds during any periods in which the determination of the net asset value of the Sub-Fund is suspended under certain conditions as set out in the explanatory memorandum of the Sub-Fund.

With a view to protecting the interests 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 of the Sub-Fund in issue. In this event, the limitation will apply pro rata so that all unitholders of the Sub-Fund who have validly requested to redeem units of the Sub-Fund on that dealing day will redeem the same proportion of such units of the Sub-Fund.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The published net asset value per unit issued is calculated in accordance with the explanatory memorandum while the net asset value per unit as reported in the statement of financial position included the following adjustments:

- a) Adjustment for recognition of all establishment cost incurred by the Sub-Fund in profit or loss
- b) Reclassification to PnL and off-set establishment cost payable
- c) Adjustment for derecognition of withholding tax expense recorded on interest from PRC government bonds
- d) Adjustment for recognition of various fees incurred by the Sub-Fund in profit or loss

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

	2017 RMB	2016 RMB
Published net assets attributable to unitholders	35,977,298	88,179,518
a) Adjustment on establishment costs	(200,977)	(389,991)
b) Adjustments on withholding tax expense	3,426	5,519
c) Adjustments on various fees	<u>(113,949)</u>	<u>(12,541)</u>
Net assets attributable to unitholders as per audited financial statements	<u>35,665,798</u>	<u>87,782,505</u>

	2017		2016	
	Unit price (per financial statements) RMB	Published unit price RMB	Unit price (per financial statements) RMB	Published unit price RMB
- Class 1A USD (Accumulation) units ¹	-	-	-	-
- Class 1B RMB (Accumulation) units	100.11	100.98	102.69	103.15
- Class 2A USD (Distribution) units	597.32	602.54	621.95	624.77
- Class 2A USD (Accumulation) units	645.40	651.04	665.36	668.37
- Class 2B RMB (Distribution) units	92.66	93.47	98.52	98.96
- Class 2B RMB (Accumulation) units	103.99	104.90	107.20	107.68
- Class 2D EUR (Distribution) units ²	-	-	820.52	824.24
- Class 2D EUR (Accumulation) units ³	-	-	-	-

¹Class 1A USD (Accumulation) units were fully redeemed on 3 February 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

²Class 2D EUR (Distribution) units were fully redeemed on 6 April 2017. Hence, there will be no net asset value available after such date until subscription in such share class.

³Class 2D EUR (Accumulation) units were fully redeemed on 11 November 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (CONTINUED)

The net asset value is calculated by determining the value of the assets attributable to the Sub-Fund, including accrued income, and deducting all its liabilities as at 31 December 2017 and 31 December 2016. The resultant sum is divided by the total number of units in issue as at 31 December 2017 and 31 December 2016 to give the net asset value per unit and adjusting the resultant sum to the nearest 2 decimal places.

12. FEES

Management fee

For the year ended 31 December 2017 and 2016, the Manager is entitled to receive a management fee from the Sub-Fund, 0.75% per annum (with maximum of 1.5%) for Class 1 units, and at a rate of 1.25% per annum (with maximum of 1.5%) for Class 2 and 3 units with respect to the net asset value of the Sub-Fund calculated and accrued and payable monthly in arrears.

Total management fee for the year ended 31 December 2017 amounted to RMB665,277 (31 December 2016: RMB1,351,123), with RMB38,217 (31 December 2016: RMB99,719) outstanding as at 31 December 2017.

Trustee fee

For the year ended 31 December 2017 and 2016, the Trustee is entitled to receive a trustee fee from the Sub-Fund based on a percentage of the net asset value of the Sub-Fund. For first US\$250 million of the net asset value of the Sub-fund, 0.10% per annum will be payable, and for the remaining balance of the net asset value of the Sub-Fund, 0.08% per annum will be payable, subject to a minimum monthly fee of US\$6,000. The fees are accrued and payable monthly in arrears.

Administration fee for the above fund administration services form part of the trustee fee mentioned above.

Total trustee fee/administration fee for the year ended 31 December 2017 amounted to RMB483,814 (31 December 2016: RMB483,338), with RMB40,304 (31 December 2016: RMB42,279) outstanding as at 31 December 2017.

Custodian fee

Pursuant to the Fund Administration Services Agreement between the Manager, the Trustee and Citibank, N.A. (the "Custodian"), the Trustee separately acting as a fund administrator has agreed to procure financial, accounting, administrative and other services to the Sub-Fund and has appointed the Custodian to provide these services.

Under the Trust Deed, Citicorp Financial Services Limited is the transfer agent of the Fund.

The Trustee has appointed Citibank, N.A. ("Citibank"), acting through its Hong Kong Branch, to act as custodian of the Sub-Fund's assets.

The Custodian and registrar fee are also entitled to fees payable out of the assets of the Sub-Fund, such fees being at rates agreed between the Manager, the Trustee and the Custodian, or the Registrar (as the case may be) from time to time. The Custodian's and the Registrar fees will be accrued daily and payable on a monthly basis.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. FEES (CONTINUED)

Custodian fee (continued)

Total custodian fee and registrar fee for the year ended 31 December 2017 amount to RMB201,589 (31 December 2016: RMB210,341) with RMB16,793 (31 December 2016: RMB17,616) outstanding as at 31 December 2017.

Total registrar fee for the year ended 31 December 2017 amount to RMB40,318 (2016 RMB40,277) with RMB3,359 (2016 RMB3,523) outstanding as at 31 December 2017

Total financial statement preparation fee for the year ended 31 December 2017 amount to 67,271 (2016: RMB69,486) with RMB67,509 (2016: RMB33,996) outstanding as at 31 December 2017.

13. DISTRIBUTION TO UNITHOLDERS

	RMB
Undistributed income at 1 January 2016	14,492,872
Decrease in net assets attributable to unitholders during the year	(1,274,863)
Add: Distribution to unitholders	234,232
Add: Unrealised losses on financial assets at fair value through profit or loss	<u>2,505,938</u>
Undistributed income before distribution	15,958,179
Monthly distribution USD for Class 2A declared on 4 January 2016	(38,232)
Monthly distribution RMB for Class 2B declared on 4 January 2016	(12,684)
Monthly distribution EUR for Class 2D declared on 4 January 2016	(4,336)
Monthly distribution USD for Class 2A declared on 1 February 2016	(7,448)
Monthly distribution RMB for Class 2B declared on 1 February 2016	(9,108)
Monthly distribution EUR for Class 2D declared on 1 February 2016	(3,228)
Monthly distribution USD for Class 2A declared on 1 March 2016	(6,866)
Monthly distribution RMB for Class 2B declared on 1 March 2016	(8,472)
Monthly distribution EUR for Class 2D declared on 1 March 2016	(3,204)
Monthly distribution USD for Class 2A declared on 1 April 2016	(3,611)
Monthly distribution RMB for Class 2B declared on 1 April 2016	(9,699)
Monthly distribution EUR for Class 2D declared on 1 April 2016	(3,324)
Monthly distribution USD for Class 2A declared on 3 May 2016	(3,620)
Monthly distribution RMB for Class 2B declared on 3 May 2016	(9,702)
Monthly distribution EUR for Class 2D declared on 3 May 2016	(3,383)
Monthly distribution USD for Class 2A declared on 1 June 2016	(3,675)
Monthly distribution RMB for Class 2B declared on 1 June 2016	(8,402)
Monthly distribution EUR for Class 2D declared on 1 June 2016	(3,308)
Monthly distribution USD for Class 2A declared on 4 July 2016	(3,721)
Monthly distribution RMB for Class 2B declared on 4 July 2016	(8,253)
Monthly distribution EUR for Class 2D declared on 4 July 2016	(3,339)
Monthly distribution USD for Class 2A declared on 1 August 2016	(3,708)
Monthly distribution RMB for Class 2B declared on 1 August 2016	(8,257)
Monthly distribution EUR for Class 2D declared on 1 August 2016	(3,339)

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. DISTRIBUTION TO UNITHOLDERS (CONTINUED)

	RMB
Monthly distribution USD for Class 2A declared on 1 September 2016	(3,733)
Monthly distribution RMB for Class 2B declared on 1 September 2016	(9,532)
Monthly distribution EUR for Class 2D declared on 1 September 2016	(3,358)
Monthly distribution USD for Class 2A declared on 11 October 2016	(3,752)
Monthly distribution RMB for Class 2B declared on 11 October 2016	(9,536)
Monthly distribution EUR for Class 2D declared on 11 October 2016	(3,355)
Monthly distribution USD for Class 2A declared on 1 November 2016	(3,782)
Monthly distribution RMB for Class 2B declared on 1 November 2016	(8,290)
Monthly distribution EUR for Class 2D declared on 1 November 2016	(3,357)
Monthly distribution USD for Class 2A declared on 1 December 2016	(1,350)
Monthly distribution RMB for Class 2B declared on 1 December 2016	(7,971)
Monthly distribution EUR for Class 2D declared on 1 December 2016	(3,297)
Transfer to capital	—
Undistributed income at 31 December 2016 and 1 January 2017	15,723,947
Decrease in net assets attributable to unitholders during the year	(1,421,688)
Add: Distribution to unitholders	116,821
Add: Unrealised losses on financial assets at fair value through profit or loss	1,472,504
Undistributed income before distribution	15,891,584
Monthly distribution USD for Class 2A declared on 3 January 2017	(1,363)
Monthly distribution RMB for Class 2B declared on 3 January 2017	(7,971)
Monthly distribution EUR for Class 2D declared on 3 January 2017	(3,370)
Monthly distribution USD for Class 2A declared on 3 February 2017	(1,037)
Monthly distribution RMB for Class 2B declared on 3 February 2017	(7,652)
Monthly distribution EUR for Class 2D declared on 3 February 2017	(3,077)
Monthly distribution USD for Class 2A declared on 1 March 2017	(1,045)
Monthly distribution RMB for Class 2B declared on 1 March 2017	(7,652)
Monthly distribution EUR for Class 2D declared on 1 March 2017	(3,043)
Monthly distribution USD for Class 2A declared on 5 April 2017	(1,556)
Monthly distribution RMB for Class 2B declared on 5 April 2017	(7,971)
Monthly distribution EUR for Class 2D declared on 5 April 2017	(3,085)
Monthly distribution USD for Class 2A declared on 2 May 2017	(1,558)
Monthly distribution RMB for Class 2B declared on 2 May 2017	(7,971)
Monthly distribution USD for Class 2A declared on 1 June 2017	(1,529)
Monthly distribution RMB for Class 2B declared on 1 June 2017	(6,705)
Monthly distribution USD for Class 2A declared on 3 July 2017	(1,537)
Monthly distribution RMB for Class 2B declared on 3 July 2017	(6,705)
Monthly distribution USD for Class 2A declared on 1 August 2017	(1,739)
Monthly distribution RMB for Class 2B declared on 1 August 2017	(6,705)
Monthly distribution USD for Class 2A declared on 1 September 2017	(1,699)
Monthly distribution RMB for Class 2B declared on 1 September 2017	(6,705)
Monthly distribution USD for Class 2A declared on 9 October 2017	(1,713)
Monthly distribution RMB for Class 2B declared on 9 October 2017	(6,705)

13. DISTRIBUTION TO UNITHOLDERS (CONTINUED)

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

	RMB
Monthly distribution USD for Class 2A declared on 1 November 2017	(1,659)
Monthly distribution RMB for Class 2B declared on 1 November 2017	(6,705)
Monthly distribution USD for Class 2A declared on 1 December 2017	(1,659)
Monthly distribution RMB for Class 2B declared on 1 December 2017	(6,705)
Transfer to capital	—
	<hr/>
Undistributed income at 31 December 2017	15,774,763

The amount available for distribution is the total net amount receivable by the Sub-Fund in respect of the relevant year ("Total Income") minus any expenses chargeable against income, subject to adjustments made in accordance with the Trust Deed. Total Income would include amount receivable by way of interests (e.g. generated from bank deposits and debt securities), or other receipts as determined by the Manager to be in the nature of income. Unrealised capital gains or losses do not form part of Total Income and therefore would not impact on the amounts available for distribution.

	2017 RMB
Distribution declared on 3 January 2017:	
- Class 2A USD (Distribution) at USD0.09 per unit	1,363
- Class 2B RMB (Distribution) at RMB0.25 per unit	7,971
- Class 2D EUR (Distribution) at EUR0.31 per unit	3,370
Distribution declared on 3 February :	
- Class 2A USD (Distribution) at USD0.07 per unit	1,037
- Class 2B RMB (Distribution) at RMB0.24 per unit	7,652
- Class 2D EUR (Distribution) at EUR0.28 per unit	3,077
Distribution declared on 1 March 2017:	
- Class 2A USD (Distribution) at USD0.07 per unit	1,045
- Class 2B RMB (Distribution) at RMB0.24 per unit	7,652
- Class 2D EUR (Distribution) at EUR0.28 per unit	3,043
Distribution declared on 5 April 2017:	
- Class 2A USD (Distribution) at USD0.07 per unit	1,556
- Class 2B RMB (Distribution) at RMB0.25 per unit	7,971
- Class 2D EUR (Distribution) at EUR0.28 per unit	3,085
Distribution declared on 2 May 2017:	
- Class 2A USD (Distribution) at USD0.07 per unit	1,558
- Class 2B RMB (Distribution) at RMB0.25 per unit	7,971
Distribution declared on 1 June 2017:	
- Class 2A USD (Distribution) at USD0.07 per unit	1,529
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. DISTRIBUTION TO UNITHOLDERS (CONTINUED)

	2017 RMB
Distribution declared on 3 July 2017:	
- Class 2A USD (Distribution) at USD0.07 per unit	1,537
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
Distribution declared on 1 August 2017:	
- Class 2A USD (Distribution) at USD0.08 per unit	1,739
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
Distribution declared on 1 September 2017:	
- Class 2A USD (Distribution) at USD0.08 per unit	1,699
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
Distribution declared on 9 October 2017:	
- Class 2A USD (Distribution) at USD0.08 per unit	1,713
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
Distribution declared on 1 November 2017:	
- Class 2A USD (Distribution) at USD0.08 per unit	1,659
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
Distribution declared on 1 December 2017:	
- Class 2A USD (Distribution) at USD0.08 per unit	1,659
- Class 2B RMB (Distribution) at RMB0.25 per unit	6,705
	<hr/>
	<u>116,821</u>
	2016 RMB
Distribution declared on 4 January 2016:	
- Class 2A USD (Distribution) at USD0.36 per unit	38,232
- Class 2B RMB (Distribution) at RMB0.36 per unit	12,684
- Class 2D EUR (Distribution) at EUR0.40 per unit	4,336
Distribution declared on 1 February 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	7,448
- Class 2B RMB (Distribution) at RMB0.26 per unit	9,108
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,228
Distribution declared on 1 March 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	6,866
- Class 2B RMB (Distribution) at RMB0.26 per unit	8,472
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,204
Distribution declared on 1 April 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,611
- Class 2B RMB (Distribution) at RMB0.26 per unit	9,699
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,324
Distribution declared on 3 May 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,620
- Class 2B RMB (Distribution) at RMB0.26 per unit	9,702
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,383
Distribution declared on 1 June 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,675
- Class 2B RMB (Distribution) at RMB0.26 per unit	8,402
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,308

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. DISTRIBUTION TO UNITHOLDERS (CONTINUED)

	2016 RMB
Distribution declared on 4 July 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,721
- Class 2B RMB (Distribution) at RMB0.26 per unit	8,253
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,339
Distribution declared on 1 August 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,708
- Class 2B RMB (Distribution) at RMB0.26 per unit	8,257
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,339
Distribution declared on 1 September 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,733
- Class 2B RMB (Distribution) at RMB0.26 per unit	9,532
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,358
Distribution declared on 11 October 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,752
- Class 2B RMB (Distribution) at RMB0.26 per unit	9,536
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,355
Distribution declared on 1 November 2016:	
- Class 2A USD (Distribution) at USD0.08 per unit	3,782
- Class 2B RMB (Distribution) at RMB0.26 per unit	8,290
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,357
Distribution declared on 1 December 2016:	
- Class 2A USD (Distribution) at USD0.09 per unit	1,350
- Class 2B RMB (Distribution) at RMB0.25 per unit	7,971
- Class 2D EUR (Distribution) at EUR0.30 per unit	3,297
	<u>234,232</u>

14. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2017 RMB	Cash flows RMB	Other RMB	31 December 2017 RMB
Net assets attributable to unitholders	<u>87,782,505</u>	<u>(50,695,019)</u>	<u>(1,421,688)</u>	<u>35,665,798</u>
	1 January 2016 RMB	Cash flows RMB	Other RMB	31 December 2016 RMB
Net assets attributable to unitholders	<u>124,853,010</u>	<u>(35,795,642)</u>	<u>(1,274,863)</u>	<u>87,782,505</u>

The 'Other' column includes the net decrease in net assets attributable to holders of redeemable participating shares from operations for the year.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. 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 12 to the financial statements and below.

(a) Bank deposits held by the Trustee's affiliates

The Sub-Fund's bank deposits were held by Citibank. Further details of the balances held are described in Note 8 to the financial statements. During the year, interest income on these bank balances was RMB6,177 (31 December 2016: RMB1,229).

(b) 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 2017 and 31 December 2016 were as follows:

Units held by Income Partners Renminbi Investment Grade Fund, a fund managed by the Manager:

As at 31 December 2017

	As at 1 January 2017 Units	Subscribed during the year Units	Redeemed during the year Units	Outstanding as at 31 December 2017 Units
Class 2B RMB (Accumulation)	<u>636,521</u>	<u>–</u>	<u>(636,521)</u>	<u>–</u>

As at 31 December 2016

	As at 1 January 2016 Units	Subscribed during the year Units	Redeemed during the year Units	Outstanding as at 31 December 2016 Units
Class 2B RMB (Accumulation)	<u>729,501</u>	<u>–</u>	<u>(92,980)</u>	<u>636,521</u>

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS (CONTINUED)

(b) Holdings in the Sub-Fund (continued)

Units held by Income Partners Managed Volatility High Yield Bond Fund, a fund managed by the Manager:

As at 31 December 2017

	As at 1 January 2017 Units	Subscribed during the year Units	Redeemed during the year Units	Outstanding as at 31 December 2017 Units
Class 2B RMB (Accumulation)	—	234,816	—	234,816

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.

(c) Cross trade

During the year ended 31 December 2017 and 2016, there was no investment holdings which were bought from other funds also managed by the Manager of the Sub-fund.

During the year ended 31 December 2017 and 2016, there was no investment holdings which were sold to other funds also managed by the Manager of the Sub-funds.

16. SOFT COMMISSION ARRANGEMENTS

The Manager and/or any of its connected person reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its connected person has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its connected person goods or services for which no direct payment is made but instead the Manager and/or any of its connected person undertakes to place business with that party. The Manager shall procure that no such arrangements are entered into unless the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders (taken as a body and in their capacity as such) whether by assisting the Manager in its ability to manage the relevant Sub-Fund or otherwise and the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

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.

INCOME PARTNERS RMB BOND FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. CAPITAL MANAGEMENT

As a result of the ability to issue, repurchase and resell shares, the capital of the Sub-fund can vary depending on the demand for redemptions and subscriptions to the Sub-Fund. The Sub-Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable shares beyond those included in the Sub-Fund's constitution.

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

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in its prospectus
- To achieve consistent returns while safeguarding capital by investing in diversified portfolio, by participating in derivative and other capital markets and by using various investment strategies and hedging techniques
- To maintain sufficient liquidity to meet the expenses of the Sub-Fund, and to meet redemption requests as they arise
- To maintain sufficient size to make the operation of the Sub-Fund cost-efficient

Risks arising from holding financial instruments are inherent in the Sub-Fund's activities, and are managed through a process of ongoing, measurement and monitoring.

18. COMMITMENTS AND CONTINGENT LIABILITIES

The Sub-Fund has no commitments and contingent liabilities as at 31 December 2017 and 31 December 2016.

19. SUBSEQUENT EVENTS

There were no significant events occurred since the end of the reporting year which would impact on the financial position of the Sub-Fund disclosed in the statement of financial position as at 31 December 2017.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Trustee and the Manager and on 12 April 2018.

INCOME PARTNERS RMB BOND FUND**INVESTMENT PORTFOLIO (UNAUDITED)**

As at 31 December 2017

DEBT SECURITIES (90.35%)

	Holding/ nominal value	Fair value RMB	% of net assets
Denominated in RMB (90.35%)			
<i>China (90.35%)</i>			
Asian Dev Bank Asia 4.20 12/08/19	10,000,000	9,837,940	27.58%
China Govt Bond Cgb 2.78 02/09/18	1,800,000	1,797,455	5.04%
China Govt Bond Cgb 3.40 04/17/23	5,000,000	4,792,500	13.44%
China Natl Petro Cnpcch 5.00 02/22/27	8,330,000	8,146,090	22.84%
China Power Cons Chpwn 5.70 04/23/19	1,066,000	1,071,896	3.01%
Cn Merchants Sec Mersec 4.45 03/05/18	2,000,000	1,995,070	5.59%
Csr Corp Ltd Csloco 4.70 04/22/18	995,000	993,166	2.78%
Evergrande Evercn 5.48 06/19/20	300,000	299,670	0.84%
Huaneng Pow Huanen 5.20 05/08/18	1,000,000	1,000,348	2.81%
Maoye Building Shemao 4.50 01/05/21	300,000	277,530	0.78%
Shg Electric Grp Secgrp 4.90 02/27/18	1,000,000	999,000	2.80%
Sinochem Intl Sinint 4.99 03/05/19	10,000	9,993	0.03%
Zhejiang Geely Geelz 6.40 06/21/18	1,000,000	1,003,402	2.81%
Total quoted debt securities		<u>32,224,060</u>	<u>90.35%</u>
<u>TOTAL NET ASSETS</u>			
Total debt securities (Cost: RMB 32,544,851)		32,224,060	90.35%
Cash and cash equivalents		<u>3,216,853</u>	<u>9.02%</u>
		35,440,913	99.37%
Other net assets		<u>224,885</u>	<u>0.63%</u>
Total net assets		<u>35,665,798</u>	<u>100.00%</u>
Total investment cost		<u>32,544,851</u>	

INCOME PARTNERS RMB BOND FUND

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the year ended 31 December 2017

	At 1 January 2017	Movement in holdings		At 31 December 2017
		Additions	Disposals	
<u>QUOTED DEBT SECURITIES</u>				
Denominated in RMB				
<i>China</i>				
Asian Dev Bank Asia 4.20 12/08/19	10,000,000	–	–	10,000,000
China Dev Bank Sdbc 3.05 08/25/26	–	10,000,000	10,000,000	–
China Dev Bank Sdbc 5.69 01/14/17	10,000,000	–	10,000,000	–
China Govt Bond Cgb 2.22 02/18/17	2,826,000	–	2,826,000	–
China Govt Bond Cgb 2.78 02/09/18	–	1,800,000	–	1,800,000
China Govt Bond Cgb 3.40 04/17/23	2,100,000	4,400,000	1,500,000	5,000,000
China Govt Bond Cgb 3.52 05/04/27	–	2,000,000	2,000,000	–
China Natl Petro Cnpcch 5.00 02/22/27	8,330,000	–	–	8,330,000
China Power Cons Chpwcn 5.70 04/23/19	2,066,000	–	1,000,000	1,066,000
China T-Bill Cgtb 0.00 06/05/17	–	10,000,000	10,000,000	–
Chongqing Changa Chqcha 5.30 04/23/17	1,000,000	–	1,000,000	–
Cn Merchants Sec Mersec 4.45 03/05/18	–	2,000,000	–	2,000,000
Csr Corp Ltd Csloco 4.70 04/22/18	5,000,000	–	4,005,000	995,000
Dazhong Public Shdazh 0 01/06/18	4,000,000	–	4,000,000	–
Evergrande Evercn 5.48 06/19/20	–	300,000	–	300,000
Gd Power Develop Guopow 4.35 06/15/17	3,000,000	–	3,000,000	–
Guangzhou Metro Co Guamet 6.00 08/11/24	5,000,000	–	5,000,000	–
Huaneng Pow Huanen 5.20 05/08/18	3,957,000	–	2,957,000	1,000,000
Huayu 2015-1 B 5.20 05/26/22	1,101,000	–	1,101,000	–
Maoye Building Shemao 4.50 01/05/21	–	300,000	–	300,000
Shg Electric Grp Secgrp 4.90 02/27/18	4,000,000	–	3,000,000	1,000,000
Sinochem Intl Sinint 4.99 03/05/19	10,000	–	–	10,000
Wangfujing Store Wangfu 4.94 10/24/17	5,000,000	–	5,000,000	–
Zhejiang Geely Geelz 6.40 06/21/18	5,000,000	–	4,000,000	1,000,000

INCOME PARTNERS RMB BOND FUND

PERFORMANCE TABLE (UNAUDITED)

Published net assets attributable to unitholders

(Calculated in accordance with the Sub-Fund's Trust Deed)

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Net assets attributable to unitholders per unit (share class currency)	Net assets attributable to unitholders (RMB)	Net assets attributable to unitholders per unit (share class currency)	Net assets attributable to unitholders (RMB)	Net assets attributable to unitholders per unit (share class currency)	Net assets attributable to unitholders (RMB)
- Class 1A USD (Accumulation) units ¹	–	–	–	–	98.30	10,327,214
- Class 1B RMB (Accumulation) units	100.11	200,218	102.69	205,374	103.42	206,848
- Class 2A USD (Distribution) units	91.68	1,875,104	89.23	1,351,769	97.07	10,221,743
- Class 2A USD (Accumulation) units	99.06	2,090,274	95.46	4,399,890	102.51	5,386,549
- Class 2B RMB (Distribution) units	92.66	2,484,980	98.52	3,141,271	102.90	3,625,725
- Class 2B RMB (Accumulation) units	103.99	29,015,222	107.20	77,453,415	108.51	93,266,183
- Class 2D EUR (Distribution) units ²	–	–	111.62	1,230,786	119.63	1,286,298
- Class 2D EUR (Accumulation) units ³	–	–	–	–	128.07	532,450

INCOME PARTNERS RMB BOND FUND

PERFORMANCE TABLE (UNAUDITED) (CONTINUED)

Published net assets attributable to unitholders (continued)

(Calculated in accordance with the Sub-Fund's Trust Deed)

Highest issue price and lowest redemption price per unit

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015		Period from 2 July 2014 (date of inception) to 31 December 2014	
	Highest issue price per unit (share class currency)	Lowest redemption (share class currency)	Highest issue price per unit (share class currency)	Lowest redemption (share class currency)	Highest issue price per unit (share class currency)	Lowest redemption (share class currency)	Highest issue price per unit (share class currency)	Lowest redemption (share class currency)
- Class 1A USD (Accumulation) units ¹	–	–	98.42	96.07	101.26	96.29	–	–
- Class 1B RMB (Accumulation) units	103.29	100.98	105.72	102.53	103.97	99.93	–	–
- Class 2A USD (Distribution) units	95.11	88.85	98.81	89.41	102.14	97.17	103.08	99.73
- Class 2A USD (Accumulation) units	102.50	95.44	104.92	95.64	106.33	101.23	102.09	99.72
- Class 2B RMB (Distribution) units	98.83	93.47	103.39	98.38	103.56	100.64	101.87	99.70
- Class 2B RMB (Accumulation) units	107.81	104.9	110.47	107.05	109.09	102.55	102.95	99.64
- Class 2D EUR (Distribution) units ²	–	–	121.18	111.62	128.26	112.93	111.23	99.92
- Class 2D EUR (Accumulation) units ³	–	–	130.16	122.24	134.45	116.88	114.64	99.73

¹Class 1A USD (Accumulation) units were fully redeemed on 3 February 2016. Hence, there will be no net asset value available after such date until subscription in such share class.

²Class 2D EUR (Distribution) units were fully redeemed on 6 April 2017. Hence, there will be no net asset value available after such date until subscription in such share class.

³Class 2D EUR (Accumulation) units were fully redeemed on 11 November 2016. Hence, there will be no net asset value available after such date until subscription in such share class.