

ANNUAL REPORT

CHINA UNIVERSAL INTERNATIONAL ETF SERIES – C-SHARES
CSI CONSUMER STAPLES INDEX ETF
(A Sub-Fund of China Universal International ETF Series, an umbrella
unit trust established under the laws of Hong Kong)

31 December 2017



CHINA UNIVERSAL INTERNATIONAL ETF SERIES – C-SHARES CSI CONSUMER STAPLES
INDEX ETF
(A Sub-Fund of China Universal International ETF Series)

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IMPORTANT:

Any opinion expressed herein reflects the Manager's view only and is subject to change. For more information about the Sub-Fund, please refer to the prospectus of the Sub-Fund which is available at our website: <http://www.99fund.com.hk>

Investors should not rely on the information contained in this report for their investment decisions.

CHINA UNIVERSAL INTERNATIONAL ETF SERIES – C-SHARES CSI CONSUMER STAPLES
INDEX ETF
(A Sub-Fund of China Universal International ETF Series)

MANAGEMENT AND ADMINISTRATION

MANAGER AND RQFII HOLDER

China Universal Asset Management (Hong Kong) Company
Limited
3710-11, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DIRECTORS OF THE MANAGER

LI Wen
WAN Qing
ZHANG Hui

ADVISER

China Universal Asset Management Company Limited
22/F, Aurora Plaza
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Pudong District
Shanghai 200120
China

RQFII CUSTODIAN

Bank of China Limited
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China

LEGAL ADVISER TO THE MANAGER

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Central
Hong Kong

TRUSTEE

BOCI-Prudential Trustee Limited
12/F & 25/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

CUSTODIAN

Bank of China (Hong Kong) Limited
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1 Garden Road
Central
Hong Kong

REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

SERVICE AGENT OR CONVERSION AGENT

HK Conversion Agency Services Limited
1/F One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

AUDITOR

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PARTICIPATING DEALERS

BOCI Securities Limited
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1 Garden Road, Hong Kong

China International Capital Corporation Hong Kong
Securities Limited
29/F, One International Centre
1 Harbour View Street, Central, Hong Kong

China Merchants Securities (HK) Co., Ltd.
48/F, One Exchange Square,
Central, Hong Kong

CITIC Securities Brokerage (HK) Limited
26/F CITIC Tower
1 Tim Mei Avenue, Central, Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road, Central, Hong Kong

KGI Asia Limited
41/F, Central Plaza
18 Harbour Road, Wan Chai, Hong Kong

Morgan Stanley Hong Kong Securities Limited
Level 46, International Commerce Centre,
1 Austin Road West, Kowloon, Hong Kong

Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
8 Finance Street, Central, Hong Kong

Orient Securities (Hong Kong) Limited
28/F & 29/F
100 Queen's Road Central, Hong Kong

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REPORT OF THE MANAGER TO THE UNITHOLDERS

Introduction

The C-Shares CSI Consumer Staples Index ETF (the "Sub-Fund"), is a sub-fund of China Universal International ETF Series, a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance of Hong Kong. The Sub-Fund seeks to track the performance of CSI Consumer Staples Index (the "Index"). Both the RMB counter (stock code: 83107) and the HKD counter (stock code: 3107) commenced trading on the Hong Kong Stock Exchange (the "HKEx") on 12 May 2014.

The Sub-Fund is a physical ETF, and mainly invests in A shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through the RMB Qualified Foreign Institutional Investor ("RQFII") investment quota of RMB3.1 billion granted to the Manager by the State Administration of Foreign Exchange.

Performance of the Sub-Fund

The C-Shares CSI Consumer Staples Index ETF seeks to provide investment result that, before deduction of fees and expenses, closely corresponds to the performance of the Index. There can be no assurance that the Sub-Fund will achieve investment objective.

A summary of the performance of the CSI Consumer Staples Index and the Sub-Fund as at 31 December 2017 is given as follows:

Total Returns in respective currency¹:

	1-Month	3-Month	Since Launch
CSI Consumer Staples Index	10.26%	16.77%	143.08%
RMB Counter of the Sub-Fund (NAV-to-NAV)	9.47%	15.31%	81.34%
RMB Counter of the Sub-Fund (Market-to-Market)	6.07%	15.89%	75.71%
HKD Counter of the Sub-Fund (NAV-to-NAV)	11.32%	18.19%	75.02%
HKD Counter of the Sub-Fund (Market-to-Market)	6.94%	19.01%	71.13%

Activities of the Sub-Fund

According to Wind Information Co., Ltd, a service provider of financial data and information in the People's Republic of China ("PRC"), the average daily trading volume of the RMB Counter of the Sub-Fund is 3,775 units, while the average daily trading volume of the HKD Counter of the Sub-Fund is 4,406 units. As of 31 December 2017, there were 300,000 units outstanding.

Activities of the Index

The CSI Consumer Staples Index had two regular rebalances during the year of 2017. The changes were made on 12 June 2017 and 11 December 2017 respectively.

¹ Source: Wind Info, as of 31 December 2017, the performances of CSI Consumer Staples Index and the RMB counter of the Sub-Fund are calculated in RMB, and the performances of the HKD counter of the Sub-Fund are calculated in HKD.

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REPORT OF THE MANAGER TO THE UNITHOLDERS (continued)

12 June 2017:

Inclusion List²

Code	Company
000729	Beijing Yanjing Brewery Co.,Ltd.

Deletion List²:

Code	Company
000869	Yantai Changyu Pioneer Wine Company Limited
002568	Shanghai Bairun Investment Holding Group Co., Ltd.
600873	Meihua Holdings Group Co.,Ltd

11 December 2017

Inclusion List²

Code	Company
600438	Tongwei Co., Ltd.
600598	Heilongjiang Agriculture Company Limited

Deletion List²:

Code	Company
002646	Qinghai Huzhu Barley Wine Co.,Ltd.
600251	Xinjiang Guannong Fruit & Antler Group Co., Ltd.
600809	Shanxi Xinghuacun Fen Wine Factory Co.,Ltd
603866	Toly Bread Co.,Ltd.

Pursuant to the announcement dated 15 December 2017, the Manager has notified to all its existing investors regarding its liquidation plan of the Sub-Fund. The Sub-Fund has ceased trading on the HKEx from 16 January 2018. The Manager will bear all costs and expenses associated with the termination, deauthorisation and delisting (other than the operating expenses such as transaction costs and any taxes relating to the realisation of assets of a Sub-Fund) from 15 December 2017 up to and including the termination date and that it has not make any provision in respect of such costs and expenses.

For and on behalf of
China Universal Asset Management (Hong Kong) Company Limited, the Manager

26 April 2018

² Source: China Securities Index Co. Ltd. www.csindex.com.cn

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REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, China Universal Asset Management (Hong Kong) Company Limited, the Manager of C-Shares CSI Consumer Staples Index ETF (the "Sub-Fund") has, in all material respects, managed the Sub-Fund in accordance with the provisions of the trust deed dated 31 May 2013 as amended by three supplemental deeds dated 7 April 2014 (collectively, the "Trust Deed") for the year ended 31 December 2017.

On behalf of
BOCI-Prudential Trustee Limited, the Trustee

26 April 2018

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STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

The Manager of the C-Shares CSI Consumer Staples Index ETF (a Sub-Fund of China Universal International ETF Series) is required by the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the "SFC Code") and the trust deed dated 31 May 2013 as amended by three supplemental deeds dated 7 April 2014 (collectively, the "Trust Deed") to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Sub-Fund at the end of that period and of the transactions for the year then ended. In preparing these financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are prudent and reasonable; and
- prepare the financial statements on a liquidation basis as the Manager intends to wind up the Sub-Fund by way of a voluntary liquidation.

The Manager is also required to manage the Sub-Fund in accordance with the Trust Deed and take reasonable steps for the prevention and detection of fraud and other irregularities.

China Universal International ETF Series (the "Trust") is an umbrella unit trust governed by its Trust Deed. As at 31 December 2017, the Trust has established three Sub-Funds.

Trustee's responsibilities

The Trustee of the Sub-Fund is required to:

- ensure that the Sub-Fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Sub-Fund and rights attaching thereto; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Sub-Fund.

Independent auditor's report

To the unitholders of China Universal International ETF Series – C-Shares CSI Consumer Staples Index ETF (A Sub-Fund of China Universal International ETF Series, an umbrella unit trust established under the laws of Hong Kong)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of C-Shares CSI Consumer Staples Index ETF (a sub-fund of China Universal International ETF Series (the "Trust") and referred to as the "Sub-Fund") set out on pages 11 to 42, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2017, and of its financial performance and its 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 ("HKSAs") 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent auditor's report (continued)

To the unitholders of China Universal International ETF Series – C-Shares CSI Consumer Staples Index ETF (A Sub-Fund of China Universal International ETF Series, an umbrella unit trust established under the laws of Hong Kong)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of financial assets at fair value through profit or loss	
<p>As at 31 December 2017, the financial assets at fair value through profit or loss represented the majority of the net asset value of the Sub-Fund. These financial assets were listed shares in the Shanghai Stock Exchange or the Shenzhen Stock Exchange, comprising of approximate 39 constituent listed shares of CSI Consumer Staples Index. They were kept by one custodian and measured at fair value. Furthermore, as at 31 December 2017, equity investments amounting to RMB69,368 were suspended shares which represented approximately 1.23% of the net asset value of the Sub-Fund. We focused on this area because the financial assets at fair value through profit or loss represented the principal element of the financial statements and the significant assumptions and judgement involved in measuring the fair value of the suspended shares.</p>	<p>We obtained independent confirmation from the custodian and counterparties of the investment portfolio held at 31 December 2017, agreeing the quantities held to the accounting records. We tested the design and operating effectiveness of controls for the valuation of financial instruments. In addition, we checked the valuation of the financial assets at fair value through profit or loss that are quoted in active markets by independently agreeing the valuation of financial assets to third party vendor sources such as Reuters or Bloomberg at 31 December 2017.</p> <p>For suspended shares whose quoted price cannot be obtained, we evaluated the valuation techniques and inputs applied through comparison with the valuation techniques that are commonly used in the market and the validation of observable inputs using external market data. In addition, we evaluated the assumptions made by the management and we reviewed the financial statement disclosures regarding fair value hierarchy as set out in the note 11 to the financial statements.</p>

Other information included in the Annual Report

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

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

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

Independent auditor's report (continued)

To the unitholders of China Universal International ETF Series – C-Shares CSI Consumer Staples Index ETF (A Sub-Fund of China Universal International ETF Series, an umbrella unit trust established under the laws of Hong Kong)

Responsibilities of the Manager and the Trustee for the financial statements

The Manager and the Trustee 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 Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee of the Sub-Fund are responsible for assessing the Sub-Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee either intend to liquidate the Sub-Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the trust deed dated 31 May 2013 as amended by three supplemental deeds dated 7 April 2014 (collectively, the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 HKSA's 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.

Independent auditor's report (continued)

To the unitholders of China Universal International ETF Series – C-Shares CSI Consumer Staples Index ETF (A Sub-Fund of China Universal International ETF Series, an umbrella unit trust established under the laws of Hong Kong)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee.
- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting. When such use is inappropriate and the Manager and the Trustee use an alternative basis of accounting, we conclude on the appropriateness of the Manager's and the Trustee's use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusion are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee 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 Manager and the Trustee 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 Manager and the Trustee, 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.

Independent auditor's report (continued)

To the unitholders of China Universal International ETF Series – C-Shares CSI Consumer Staples Index ETF (A Sub-Fund of China Universal International ETF Series, an umbrella unit trust established under the laws of Hong Kong)

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kwong Chun Kit.

Certified Public Accountants
Hong Kong
26 April 2018

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB	2016 RMB
INCOME			
Dividend income		137,997	125,379
Interest income		694	470
Other income	5	<u>141,970</u>	<u>21,919</u>
		<u>280,661</u>	<u>147,768</u>
EXPENSES			
Brokerage commission	5	(4,371)	(4,563)
Trustee and custodian fees	5	(58,667)	(67,089)
Auditor's remuneration		(5,753)	(144,811)
Index licensing fee		-	(75,280)
Professional fee		-	(72,063)
Other operating expenses		<u>(90,418)</u>	<u>(223,714)</u>
		<u>(159,209)</u>	<u>(587,520)</u>
GAINS/(LOSSES) BEFORE INVESTMENT AND EXCHANGE DIFFERENCES		121,452	(439,752)
INVESTMENT AND EXCHANGE DIFFERENCES			
Net change in unrealised gains or losses on financial assets at fair value through profit or loss		1,479,826	356,950
Net realised gain/(losses) on financial assets at fair value through profit or loss		<u>1,242,779</u>	<u>(784,331)</u>
NET INVESTMENTS AND EXCHANGE GAINS/(LOSSES)		<u>2,722,605</u>	<u>(427,381)</u>
PROFIT/(LOSS) BEFORE TAX		2,844,057	(867,133)
Withholding tax expense	7	<u>(13,846)</u>	<u>(14,885)</u>
PROFIT/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,830,211</u>	<u>(882,018)</u>

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STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB	2016 RMB
ASSETS			
Financial assets at fair value through profit or loss	10	5,520,340	7,230,822
Amount due from a broker		8,071	-
Prepayment and other receivables		16	13,604
Deposit reserve-China Exchange Clearing		17	1,334
Amount due from the Manager	5	122,388	108,147
Cash and bank balances	12	<u>211,486</u>	<u>243,961</u>
TOTAL ASSETS		<u>5,862,318</u>	<u>7,597,868</u>
LIABILITIES			
Trustee and custodian fees payable	5	10,000	10,000
Withholding tax provision	7	15	174
Other payables and accruals		<u>203,872</u>	<u>247,688</u>
TOTAL LIABILITIES		<u>213,887</u>	<u>257,862</u>
EQUITY			
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	9	<u>5,648,431</u>	<u>7,340,006</u>
NUMBER OF UNITS IN ISSUE	9	<u>300,000</u>	<u>600,000</u>
NET ASSET VALUE PER UNIT	9	<u>18.8281</u>	<u>12.2333</u>

For and on behalf of
China Universal Asset Management (Hong Kong)
Company Limited, as the Manager

For and on behalf of
BOCI-Prudential Trustee Limited,
as the Trustee

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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2017

	RMB
At 1 January 2016	12,016,738
Redemption of units	(3,794,714)
Total comprehensive income for the year	<u>(882,018)</u>
At 31 December 2016 and 1 January 2017	7,340,006
Redemption of units	(4,521,786)
Total comprehensive income for the year	<u>2,830,211</u>
At 31 December 2017	<u><u>5,648,431</u></u>

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STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 RMB	2016 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		2,844,057	(867,133)
Adjustments for:			
Net change in unrealised gains on financial assets at fair value through profit or loss		(1,479,826)	(356,950)
Net realised (gains)/losses on financial assets at fair value through profit or loss		(1,242,779)	<u>784,331</u>
		121,452	(439,752)
Purchase of financial assets at fair value through profit or loss		(2,653,176)	(2,340,388)
Proceeds from sale of financial assets at fair value through profit or loss		7,086,263	6,751,778
Decrease in deposit reserve-China Exchange Clearing		1,318	1,188
Decrease/(increase) in prepayment and other receivables		13,587	(810)
Increase in amount due from the Manager		(14,241)	(108,147)
Increase in amount due from a broker		(8,071)	-
Increase in trustee and custodian fees payable		-	8,960
(Decrease)/increase in other payables and accruals		(43,816)	<u>51,823</u>
Cash generated from operations		4,503,316	3,924,652
Tax paid		(14,005)	(36,893)
Net cash flows from operating activities		<u>4,489,311</u>	<u>3,887,759</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on redemption of units		(4,521,786)	(3,794,714)
Net cash flows used in financing activities		(4,521,786)	(3,794,714)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>243,961</u>	<u>150,916</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>211,486</u></u>	<u><u>243,961</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	12	<u><u>211,486</u></u>	<u><u>243,961</u></u>
NET CASH FROM OPERATING ACTIVITIES INCLUDES:			
Dividend received		137,997	125,379
Interest received		<u>694</u>	<u>470</u>

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NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. THE TRUST

China Universal International ETF Series (the "Trust") is an umbrella unit trust governed by its trust deed dated 31 May 2013 as amended by three supplemental deeds dated 7 April 2014 (collectively, the "Trust Deed") between China Universal Asset Management (Hong Kong) Company Limited (the "Manager") and BOCI-Prudential Trustee Limited (the "Trustee"). It is authorised by the Securities and Futures Commission of Hong Kong (the "SFC") pursuant to Section 104(1) of the Securities and Futures Ordinance of Hong Kong (the "SFO").

These financial statements relate to one of the three sub-funds of the Trust, C-Shares CSI Consumer Staples Index ETF (the "Sub-Fund"). The Sub-Fund commenced trading under the stock code 83107 (RMB counter) and 03107 (HKD counter) on the HKEx on 12 May 2014.

The investment objective of the Sub-Fund is to provide investment results that closely correspond to the performance of the CSI Consumer Staples Index (the "Index"). The Sub-Fund is a physical exchange traded fund investing directly in the underlying A-Shares of the Index. As at 31 December 2017, the approved Renminbi Qualified Foreign Institutional Investor ("RQFII") quota granted to the Manager by the State Administration of Foreign Exchange ("SAFE") was RMB3.1 billion (2016: RMB3.1 billion).

Pursuant to the announcement dated 15 December 2017, the Manager has notified to all its existing investors regarding its liquidation plan of the Sub-Fund. The Manager has, by means of a resolution of the Board of Directors of the Manager dated 5 December 2017, decided to terminate the Trust and the Sub-Funds under Clause 27.3(a) of the Trust Deed ("Termination"), and voluntarily seek the deauthorisation of the Trust and the Sub-Funds ("Deauthorisation") from the SFC under section 106 of the SFO and the delisting of the Sub-Funds ("Delisting") from The Stock Exchange of Hong Kong Limited ("SEHK").

On 9 February 2018, the Manager declared the Sub-Fund's interim distribution to the investors who were recorded as holding units in the Sub-Fund as at close of business on 23 January 2018 (the distribution record date). The interim distribution was paid on 28 February 2018, while the termination date is expected to be no later than 14 December 2018 (the "Termination Date").

2.1 BASIS OF PREPARATION

These financial statements 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the relevant disclosure provisions of the Trust Deed, and the relevant disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds of the SFC (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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest RMB except where otherwise indicated.

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2.1 BASIS OF PREPARATION (continued)

As mentioned in note 1 to the financial statements, the Manager intends to wind up the Sub-Fund by way of a voluntary liquidation. Accordingly, these financial statements have been prepared on a liquidation basis. All assets have been adjusted to their estimated net realisable values. The Manager will bear all costs and expenses associated with the Termination, Deauthorisation and Delisting (other than the operating expenses such as transaction costs and any taxes relating to the realisation of assets of a Sub-Fund) from 15 December 2017 up to and including the Termination Date and that it has not make any provision in respect of such costs and expenses.

Due to the change in the basis of preparation in the current year, the amounts presented in these financial statements and the related explanatory notes for the year ended 31 December 2017 are not entirely comparable with the amounts presented for the year ended 31 December 2016 which were extracted from the Sub-Fund's financial statements for the year ended 31 December 2016 that were prepared on a going concern basis.

2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles adopted in the current year are consistent with those of the prior year; expect that the Sub-Fund has adopted the following new revised accounting standard:

Amendments to HKAS 7 *Disclosure Initiative*

The nature and the impact of the amendments are described below:

Amendments to HKAS 7 - *Disclosure Initiative*

Amendments to HKAS 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 amendments have had no impact on the Sub-Fund's financial statements as the Sub-Fund has no changes in liabilities arising from financing activities.

2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED

The Sub-Fund has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 9 *Financial Instrument*¹

¹ Effective for annual periods beginning on or after 1 January 2018

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2.3 NEW AND REVISED HKFRSs NOT YET ADOPTED (continued)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 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 1 January 2018. The Sub-Fund will not restate comparative information and will recognise any transition adjustments against the opening balance of net assets attributable to unitholders at 1 January 2018. During 2017, the Sub-Fund has performed a detailed assessment of the impact of the adoption of HKFRS 9. The Sub-Fund does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement, and impairment of its financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than as adjusted for the adoption of liquidation basis for the current year as disclosed in Note 2.1 to the financial statements, the significant accounting policies applied in the preparation of these financial statements are set out below.

Financial instruments

(i) **Classification**

The Sub-Fund classifies its financial assets and liabilities into the categories below in accordance with HKAS 39.

Financial instruments at fair value through profit or loss

Financial instruments designated as fair value through profit or loss upon initial recognition: these include equity securities and debt instruments that are not held for trading. These financial instruments are designated upon initial recognition on the basis that they are part of a group of financial instruments which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Sub-Fund. This category includes listed equity securities.

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 bank balances, amount due from the Manager and amount due from a broker.

Financial liabilities

This category includes all financial liabilities. The Sub-Fund includes in this category amounts relating to management fee payable, trustee and custodian fees payable, and other payable and accruals.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Recognition

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 financial asset.

(iii) Initial measurement

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

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in "Net change in unrealised gains/losses on financial assets at fair value through profit or loss". Interests earned of such instruments are recorded separately in "Interest income on financial assets at fair value through profit and 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 is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) ***Derecognition***

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

Fair value measurement

The Sub-Fund measures financial instruments, such as, equities investments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Sub-Fund.

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

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price, without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other financial instruments not traded in an active market, the fair value is determined by using the last traded price or valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (e.g. Price to Earnings Ratio) and income approach.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

- Level 1 - 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

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

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 indicate 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 occurred, 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 occurred) 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.

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, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to profit or loss.

Interest revenue 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand, demand deposits, and short-term deposits in banks, with original maturities of three months or less.

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

Redeemable units

Redeemable units are classified as an equity instrument when:

- (a) The redeemable units entitle the holder to a pro-rata share of the Sub-Fund's net assets in the event of the Sub-Fund's liquidation;
- (b) The redeemable units are in the class of instruments that is subordinate to all other classes of instrument;
- (c) All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical feature;
- (d) The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a *pro-rata* share of the Sub-Fund's net assets; and
- (e) The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

In addition to the redeemable units having all the above features, the Sub-Fund must have no other financial instrument or contract that has:

- (a) Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund; and
- (b) The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Sub-Fund's redeemable units meet the definition of puttable instruments classified as equity instruments under the revised HKAS 32 and are classified as equity.

The Sub-Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Sub-Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Sub-Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units (continued)

The issuance, acquisition and cancellation of redeemable units are accounted for as financial liabilities transactions. Upon issuance of redeemable units, the consideration received is included in equity.

Transaction costs incurred by the Sub-Fund in issuing or its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Own equity instruments which are reacquired are deducted from equity and accounted for at amounts equal to the consideration paid, including any directly attributable incremental costs.

No gain or loss is recognised in profit or loss on the purchase, sale, issuance or cancellation of the Sub-Fund's own equity instruments.

Dividend income

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

Interest income and expense

Interest income and expense is recognised in profit or loss as it accrues, using the effective interest method.

Net change in unrealised gains or losses on financial assets at fair value through profit or loss

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

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

Net realised gains or losses on disposal of financial assets at fair value through profit or loss

Realised gains and losses on disposals of financial instruments classified as "at fair value through profit or loss" are calculated using the weighted average method. They represent the difference between an instrument's average cost and disposal amount.

Foreign currency

These financial statements are presented in RMB, which is the Sub-Fund's functional and presentation currency. Foreign currency transactions recorded by the Sub-Fund are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. Differences arising on settlement or transaction of monetary items are recognised in profit or loss.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the statement of profit or loss and other comprehensive income as part of the 'net change in unrealised gains or losses on financial assets at fair value through profit or loss'.

Functional currency

The Sub-Fund's functional currency is RMB, which is the currency of the primary economic environment in which it operates. The Sub-Fund's performance is evaluated and its liquidity is managed in RMB. Moreover, the net asset value per unit at the time of issue or redemption is determined and units quoted on the HKEx are denominated in RMB. Therefore, RMB is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Sub-Fund's presentation currency is also RMB.

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 group 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 a part, provides key management personnel services to the Sub-Fund or to the parent of the Sub-Fund.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

The Sub-Fund is exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of profit or loss and other comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

Distributions to unitholders

Distributions are at the discretion of the Sub-Fund. A distribution to the Sub-Fund's unitholders is accounted for as a deduction from net assets attributable to unitholders. A proposed distribution is recognised as a liability in the year in which it is approved by the Manager. No distribution will be paid out of the Sub-Fund's capital.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimates and assumptions

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

Fair value of financial instruments

When the fair values of financial assets recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, the Sub-Fund performs sensitivity analysis or stress testing techniques.

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5. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS AND RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into during the year between the Sub-Fund and the Manager and their 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, the Manager and their connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except for those disclosed below:

Brokerage commission

The Sub-Fund utilises the trading services of only one broker, CITIC Securities Co Ltd. As such, the Sub-Fund did not enter into any transactions with any related broker for the year ended 31 December 2017 (2016: Nil).

Management fee

The Manager is entitled to receive a management fee from the Sub-Fund, at the current rate of 0.5% (up to maximum of 2%) per annum of the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears. The Manager is responsible for the payment of the investment advisory fees to China Universal Asset Management Company Limited (the "Investment Adviser"), out of its fees received from the Sub-Fund. On 15 November 2016, the Manager announced that for the period from 1 January 2017 to 30 June 2017, the Manager waived the management fee of the Sub-Fund. On 28 April 2017, the Manager announced that for the period from 1 July 2017 to 31 December 2017, the Manager waived the management fee of the Sub-Fund. On 15 December 2017, the Manager announced to continue to waive the management fee for the Sub-Fund until the Termination Date.

Trustee and custodian fees

Trustee and custodian fees pertain to the amounts charged by the Trustee and Bank of China (Hong Kong) Limited (the "Custodian") and Bank of China Limited (the "RQFII Custodian") as safe keeping and custodian fees, respectively.

The Trustee is entitled to receive a trustee fee from the Sub-Fund which is accrued on each dealing day and is paid monthly in arrears. The trustee fee is calculated at the current rate of 0.10% per annum of the net asset value of the Sub-Fund and subject to a monthly minimum of RMB40,000, which is waived for the first and second year of the initial launch of the Sub-Fund. 75% discount on monthly minimum trustee fee is applied from 1 April 2016 to 31 December 2017. The trustee fee is inclusive of the custodian fee to the Custodian and the RQFII Custodian.

Under the terms of the Trust Deed, the Trustee may, after consulting the Manager, on giving not less than one month's notice to unitholders, increase the rate of the trustee fee payable in respect of the Sub-Fund up to or towards the maximum rate of 1% per annum of the net asset value of the Sub-Fund accrued daily and calculated as at each dealing day and payable monthly in arrears.

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5. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS AND RELATED PARTY TRANSACTIONS (continued)

Cash and bank balances

Bank balances are maintained with the RQFII Custodian and Custodian of the Sub-Fund. Bank balances deposited with the RQFII Custodian and the Custodian at 31 December 2017 and 31 December 2016 are summarised below:

	2017 RMB	2016 RMB
Cash at banks	<u>211,486</u>	<u>243,961</u>

Creation and redemption of the Sub-Fund

The Manager and the Trustee entered into a participating agreement with participating dealers to effect applications for creation and redemption of the Sub-Fund. There is no creation and redemption of the Sub-Fund by connected persons of the Manager and related party of the Trustee and Custodian for the year ended 31 December 2017 (2016: Nil).

Holdings of the Sub-Fund

On 13 July 2016, the Manager purchased 300,000 units in the RMB counter (stock code: 83107) of the Sub-Fund through the over-the-counter market. On 26 June 2017, the Manager redeemed 300,000 units of the Sub-Fund through the participating dealer.

The holdings of the Sub-Fund by the Manager as at 31 December 2017 and 31 December 2016 were as follows:

At 31 December 2017

	Units outstanding at 1 January 2017	Units purchased during the year	Units sold during the year	Units outstanding at 31 December 2017
RMB counter of the Sub-Fund	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>-</u>

At 31 December 2016

	Units outstanding at 1 January 2016	Units purchased during the year	Units sold during the year	Units outstanding at 31 December 2016
RMB counter of the Sub-Fund	<u>-</u>	<u>300,000</u>	<u>-</u>	<u>300,000</u>

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5. TRANSACTIONS WITH THE MANAGER AND ITS CONNECTED PERSONS AND RELATED PARTY TRANSACTIONS (continued)

Certain charges, fees and expenses borne by the Manager

Pursuant to the announcement of the Sub-Fund dated 15 November 2016, certain ongoing charges of the Sub-Fund are borne by the Manager at its discretion with effect from 15 November 2016 until a future date as notified by the Manager, and the ongoing charges in respect of the Sub-Fund are capped at 3% per annum of the average net asset value of the Sub-Fund. For the year ended 31 December 2017, the Manager has borne a total sum of RMB735,498 for the ongoing charges of the Sub-Fund (2016: RMB108,147).

Included in the above total sum is an unamortised portion of the preliminary expenses amounted to RMB141,970 (2016: RMB18,281), which has been recharged to the Manager, was recognised as other income in profit or loss.

6. SOFT COMMISSION ARRANGEMENTS

The Manager and its connected persons have not received any soft dollar commissions or entered into any soft dollar arrangements in respect of the management of the Sub-Fund for the year ended 31 December 2017 (2016: Nil).

7. INCOME TAX

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made for the Sub-Fund. The Sub-Fund is authorised by the SFC as a collective investment scheme pursuant to Section 104 of the SFO to offer to the retail public in Hong Kong. It is exempted from Hong Kong profits tax under Section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

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7. INCOME TAX (continued)

People's Republic of China ("PRC") tax

Under PRC laws and regulations, foreign investors (such as the Sub-Fund) may be subject to a 10% withholding tax on income (such as dividend/interest and capital gains) imposed on securities issued by PRC tax resident enterprises.

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 holder will pass on this tax liability to the Sub-Fund in the form of 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. The distribution tax for the year ended 31 December 2017 was RMB13,846 (2016: RMB13,188).

Capital gains tax

In view of the "Notice on the issues of temporary exemption from the imposition of corporate income tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by Qualified Foreign Institutional Investor ("QFII") and RQFII" ("關於QFII和RQFII取得中國境內的股票等權益性投資資產轉讓所得暫免徵收企業所得稅問題的通知") Caishui [2014] No.79 (the "Notice") issued by the Ministry of Finance of the PRC (the "MoF"), the State Administration of Taxation of the PRC ("SAT") and the China Securities Regulatory Commission (the "CSRC"), no PRC withholding income tax ("WIT") provision is made on the gross realised and unrealised capital gains derived from investments in China A-Shares, except for those gross realised capital gains derived before 17 November 2014 from investments in China A-Shares issued by PRC tax resident companies which are "land rich companies" (i.e. at least 50% of the PRC tax resident company's assets are comprised, directly or indirectly, of immovable property situated in the PRC); and a 10% provision for PRC WIT is made for the gross realised capital gains derived before 17 November 2014 by the Sub-Fund from investments in China A-Shares issued by PRC tax resident companies which are land rich companies.

Upon the request of the Beijing Xicheng State Tax Bureau (the "Beijing Tax Authority"), the Manager, as the RQFII licence holder, submitted the requested information and documents on behalf of the Sub-Fund to the Beijing Tax Authority in July 2015 to (i) report the WIT payable on gross realised capital gains derived from transfer of China A-Shares issued by land rich companies and (ii) apply for tax treaty relief on gross realised capital gains derived from transfer of China A-Shares issued by non-land rich companies under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("Arrangement") during the period commencing on the date of inception of the Sub-Fund and ending on 16 November 2014, both days inclusive. In the documents and information submitted, the Manager has set out the amount of gains, the amount of tax liability, the amount of tax relief or reduction and the Manager's basis for such position.

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7. INCOME TAX (continued)

People's Republic of China ("PRC") tax (continued)

Capital gains tax (continued)

The Beijing Tax Authority completed the review on the Sub-Fund's aforesaid tax reporting and tax treaty relief application in February 2016. The Beijing Tax Authority has accepted the Sub-Fund's tax treaty application in the form of record-filing and affixed an official stamp on the "Reporting Form for Non-resident Taxpayer Claiming Tax Treaty Benefits" for the Sub-Fund. The Beijing Tax Authority has also reviewed the calculation of WIT liability on gains (including capital gains through the transfer of PRC securities, dividend and interest) of the Sub-Fund since its inception date to 16 November 2014. Upon the Beijing Tax Authority's confirmation, the Sub-Fund settled its PRC tax liability (for the period from its inception date to 16 November 2014) in respect of gross realised capital gains derived from transfer of China A-Shares issued by land rich companies in 2016. No capital gains tax was settled for the year ended 31 December 2017 (2016: RMB23,879).

8. DISTRIBUTIONS

The Manager may in its absolute discretion distribute income to unitholders at such time or times as it may determine in each financial year or determine that no distribution shall be made in any financial year. The amount to be distributed to unitholders, if any, will be derived from the net income of the Sub-Fund.

The Sub-Fund did not make any distribution for the year ended 31 December 2017 (2016: Nil).

9. THE REDEEMABLE UNITS

	2017	2016
	Number of units	Number of units
Units in issue at the beginning of the year	600,000	900,000
Redemption of units	<u>(300,000)</u>	<u>(300,000)</u>
Units in issue at the end of the year	<u>300,000</u>	<u>600,000</u>
	RMB	RMB
Net asset value attributable to unitholders at the end of the year	<u>5,648,431</u>	<u>7,340,006</u>
Net asset value per unit at the end of the year	<u>18.8281</u>	<u>12.2333</u>

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9. THE REDEEMABLE UNITS (continued)

The creation and redemption of units of the Sub-Fund can only be facilitated by or through participating dealers. Investors other than the participating dealers make a request to create or redeem units through a participating dealer, and if the investor is a retail investor, such request must be made through a stockbroker which has opened an account with a participating dealer.

The Trustee shall receive subscription proceeds from the participating dealers for the creation of units and pay redemption proceeds for the redemption of units to the relevant participating dealer in such form and manner as prescribed by the Trust Deed.

Units are denominated in RMB and no fractions of a unit shall be created or issued by the Trustee. Units of the Sub-Fund are offered and issued at their dealing net asset value only in aggregation of a specified number of units (an "Application Unit"). Units are redeemable only in an Application Unit or multiple thereof at the dealing net asset value. Currently, creation and redemption of units will be effected in cash.

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
Net assets attributable to unitholders (Note)		5,753,323	7,586,869
Recognition of preliminary expense (Note)		<u>(104,892)</u>	<u>(246,863)</u>
Net assets attributable to unitholders (per financial statements)		<u>5,648,431</u>	<u>7,340,006</u>
			Net assets per unit (per financial statements)
<u>At 31 December 2017</u>	Net assets per unit (Note)		RMB
			RMB
Net assets attributable to unitholders per unit		<u>19.1777</u>	<u>18.8281</u>
			Net assets per unit (per financial statements)
<u>At 31 December 2016</u>	Net assets per unit (Note)		RMB
			RMB
Net assets attributable to unitholders per unit		<u>12.6448</u>	<u>12.2333</u>

Note:

The net assets are calculated in accordance with the explanatory memorandum where preliminary expense are capitalised and to be amortised over the first five years of the operation of the Sub-Fund, while the net assets as reported in the audited financial statements, the preliminary expenses are expensed as incurred, as required under HKFRS.

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10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB	2016 RMB
Financial assets designated as at fair value through profit or loss:		
Listed equity securities	<u>5,520,340</u>	<u>7,230,822</u>

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets traded in active markets is based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Sub-Fund is the current traded price.

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 following table shows an analysis of the Sub-Fund's financial assets measured at fair value at 31 December 2017 and 2016:

<u>2017</u>	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss</u>				
Listed equity securities	<u>5,450,972</u>	<u>-</u>	<u>69,368</u>	<u>5,520,340</u>
<u>2016</u>	Quoted prices in active markets (Level 1) RMB	Significant observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	Total RMB
<u>Financial assets at fair value through profit or loss</u>				
Listed equity securities	<u>7,230,822</u>	<u>-</u>	<u>-</u>	<u>7,230,822</u>

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

When fair values of listed equity securities at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

During the year ended 31 December 2017, there have been transfers of investments between Level 1 and Level 3 due to suspension of trading.

Transfers between Level 1 and Level 3

As at 31 December 2017, the Sub-Fund reclassified one listed equity security, amounted to RMB69,368, from Level 1 to Level 3 financial instruments due to suspension. The listed equity security suspended trading as at 31 December 2017 and was still suspended from trading during the period between the end of the reporting period (i.e. 31 December 2017) and the date of authorisation of the Sub-Fund's financial statements for the year ended 31 December 2017.

The transfer between Level 1 and Level 3 of the fair value hierarchy is deemed to have occurred at the end of the reporting period.

Valuation techniques

Listed equity securities traded in active market with quoted market prices

When fair values of listed equity securities at the reporting date are based on quoted market prices in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Sub-Fund values these investments at last traded prices.

Listed equity securities temporarily suspended on year end date

In the absence of a quoted price in an active market, the Manager applied market approach in which they have used the last traded price before their trading suspension trading as there has been no expected material gap-down. Adjustments are made to the valuations when necessary to recognise the differences of timing between the date of suspension and resumption which is within a reasonable time and the price fluctuation when the investments resume trading subsequent to the year end. To the extent that the significant inputs are observable, the Sub-Fund categorises these investments as Level 2.

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques (continued)

Listed equity securities suspended on year end date and has not resumed prior to the date of authorisation of the financial statements

The fair value of suspended investments which do not resume trading in a short period of time subsequent to period end, for which there is an absence of quoted prices, the fair value was estimated by the Manager by multiplying the estimated forecast earnings per share ("Forecast EPS") of the investment by the industry average Price to Earnings Ratio ("P/E ratio") and then adjusting the valued price by a liquidity discount. Such valuation method is generally accepted in the industry. The model incorporates unobservable data inputs, which include industry average P/E ratio, assumptions regarding Forecast EPS and the liquidity discount rate. The Sub-Fund classifies the fair value of these investments as Level 3.

Valuation process for Level 3 valuations

The valuation of suspended investment is performed on a quarterly basis by the portfolio manager or when the suspended investments are more than certain thresholds of the net asset value of the Sub-Fund and reviewed by the senior management of the Manager. The latest valuation is compared with the valuations in the preceding periods. If fair value changes are more than certain thresholds set, the changes are further considered by the senior management of the Manager. The Manager considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods be applied to support the valuation arising from the chosen method. There were no changes in valuation techniques during the year.

Quantitative information of significant unobservable inputs – Level 3

Description	RMB	Valuation technique	Unobservable input	Value of input
As at 31 December 2017				
Equity securities	69,368	Price to earnings ("P/E") multiple	Average industry P/E	34.56
			Forecast EPS	0.45
			Liquidity Discount	20%

The following table demonstrates the sensitivity of the fair value of investments as at the end of the year to a reasonably possible change in inputs, with all other variables held constant.

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2017

	Input	Changes in the input	Effect on the fair value of investment RMB	Effect on the net assets attributable to unitholders RMB
Equity securities	Average industry P/E	+5%	3,000	3,000
	Average industry P/E	-5%	(3,000)	(3,000)
	Forecast EPS	+5%	3,000	3,000
	Forecast EPS	-5%	(3,000)	(3,000)
	Liquidity discount	+10%	(8,000)	(8,000)
	Liquidity discount	-10%	8,000	8,000

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 for the year ended 31 December 2017 and 2016.

	Financial assets designated as at fair value through profit or loss equity securities 2017 RMB	Financial assets designated as at fair value through profit or loss equity securities 2016 RMB
At 1 January	-	226,681
Transfer out of Level 3 to Level 1	-	(226,681)
Transfer from Level 1 into Level 3	69,368	-
At 31 December	69,368	-
Total gains for the year included in profit or loss for assets held at the end of reporting period	5,715	-

12. CASH AND BANK BALANCES

The cash at banks held with the RQFII Custodian and the Custodian of the Sub-Fund, was placed into accounts bearing floating interest.

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13. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

The SFC Code requires the Sub-Fund to disclose a list of the constituent securities, if each accounts for more than 10% of the weighting of the index as at the end of reporting period and their respective weightings.

The SFC Code allows the Sub-Fund to invest in constituent securities issued by a single issuer for more than 10% of the Sub-Fund's net asset value provided that:

- (a) the investment is limited to any constituent securities that each accounts for more than 10% of the weighting of the index; and
- (b) the Sub-Fund's holding of any such constituent securities may not exceed their respective weightings in the index, except where weightings are exceeded as a result of changes in the composition of the index and the excess is only transitional and temporary in nature.

Constituent securities that individually accounted for more than 10% of the net asset value of the Sub-Fund and their respective weightings of CSI Consumer Staples Index as at 31 December 2017 and 31 December 2016 were as follows:

<u>2017</u>	Respective weighting in the Index (%)	% of published net asset value	% of net asset value (per audited financial statements)
Inner Mongolia Yili Industrial Group Co Ltd	15.13%	14.95%	15.23%
Kweichow Moutai Co Ltd	15.22%	14.55%	14.82%
Wuliangye Yibin Co Ltd	15.68%	15.55%	15.84%
<u>2016</u>	Respective weighting in the Index (%)	% of published net asset value	% of net asset value (per audited financial statements)
Inner Mongolia Yili Industrial Group Co Ltd	14.65%	13.88%	14.35%
Kweichow Moutai Co Ltd	15.88%	21.63%	22.37%

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13. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE (continued)

There were no other constituent securities that individually accounted for more than 10% of the net asset value of the Sub-Fund as at 31 December 2017 and 31 December 2016.

The percentage of the published NAV of Kweichow Moutai Co Ltd ("Kweichow") was 21.63% as at 31 December 2016 and exceeded its respective weightings in the index which was 15.88%. The Manager and the Trustee noted this transitional and temporary difference, and have lowered the position of Kweichow to 15.69% of published NAV on 6 March 2017. The Manager and Trustee have confirmed that the Sub-Fund has complied with the relevant requirements during the year ended 31 December 2017.

14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

Risk management

Risk is inherent in the Sub-Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Manager is responsible for identifying and controlling risks. In perspective of risk management, the Sub-Fund's objective is to create and protect value for unitholders.

The Sub-Fund is exposed to market risk (which includes equity price risk, interest rate risk and currency risk), credit risk and counterparty risk and liquidity risk arising from the financial instruments it holds.

(a) Market risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market variables, either caused by factors specific to the individual instrument or factors affecting all instruments in the market.

(i) Equity price risk

The Sub-Fund invested substantially all of its assets in A-Shares of those PRC companies comprising the Index in substantially the same weightings as constituted in the CSI Consumer Staples Index. The Sub-Fund is therefore exposed to substantially the same market price risk as the Index.

When there are changes in the constituent A-Shares comprised in the Index and/or their respective weightings within the Index, the Manager will rebalance the composition of the relevant investment holdings or the underlying dynamic basket of A-Shares of selected constituent companies of the Index.

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

Risk management (continued)

(a) Market risk (continued)

(i) Equity price risk (continued)

The Sub-Fund's investments were concentrated in the following industries.

<u>31 December 2017</u>	Fair value RMB	% of net asset value
A-Shares holdings - By Sectors		
Consumer Staples	<u>5,520,340</u>	<u>97.73%</u>
<u>31 December 2016</u>	Fair value RMB	% of net asset value
A-Shares holdings - By Sectors		
Consumer Staples	<u>7,230,822</u>	<u>98.51%</u>

Sensitivity analysis in the event of a possible change in the Index by 5% as estimated by the Manager

As at 31 December 2017, if the CSI Consumer Staples Index was to increase by 5% with all other variables held constant, this would increase the pre-tax profit for the year by approximately RMB276,000 (2016: RMB362,000). Conversely, if the CSI Consumer Staples Index was to decrease by 5%, this would decrease the pre-tax profit for the year by an approximately equal amount.

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in market interest rates.

The Manager considers that the Sub-Fund is not subject to significant risk due to fluctuations in the prevailing level of market interest rate. As the Sub-Fund has no investments in fixed income assets, the Manager considers that changes in the fair value in the event of a change in market interest rates will not be material. Therefore, no sensitivity analysis is presented.

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

Risk management (continued)

(a) Market risk (continued)

(iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Approximately 100% of the Sub-Fund's sales and purchases were denominated in the Sub-Fund's functional currency. Assets and liabilities held by the Sub-Fund are mainly denominated in RMB, the functional currency of the Sub-Fund. Therefore, the Manager considers the Sub-Fund is not exposed to significant currency risk and no sensitivity analysis is presented.

(b) Credit and counterparty risk

Credit risk is the risk of loss to the Sub-Fund that may arise on outstanding financial instruments should a counterparty default on its obligations. The Sub-Fund minimises exposure to credit risk by only dealing with creditworthy counterparties.

All transactions by the Sub-Fund in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Sub-Fund's financial assets which are potentially subject to concentrations of counterparty risk consist principally of bank deposits and assets held with the Custodian. The table below summarises the Sub-Fund's assets placed with a bank and the RQFII Custodian and their related credit ratings from Standard & Poor's ("S&P"):

As at 31 December 2017

	RMB	Credit rating	Source of credit rating
Bank			
Bank of China (Hong Kong) Limited	137,863	A+	S&P
Bank of China Limited	73,623	A	S&P
RQFII Custodian			
Bank of China Limited	5,520,340	A	S&P

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

Risk management (continued)

(b) Credit and counterparty risk (continued)

As at 31 December 2016

	RMB	Credit rating	Source of credit rating
Bank			
Bank of China (Hong Kong) Limited	40,308	A+	S&P
Bank of China Limited	203,653	A	S&P
RQFII Custodian			
Bank of China Limited	7,230,822	A	S&P

The Sub-Fund's maximum exposure to credit risk at the end of the reporting period is the carrying amount of total assets as shown on the statement of financial position.

The Manager considers that none of these assets are impaired nor past due as at 31 December 2017 (2016: Nil).

(c) Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Sub-Fund could be required to pay its liabilities or redeem its units earlier than expected. The Sub-Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the holder's option based on the Sub-Fund's net asset value per unit at the time of redemption, calculated in accordance with the Sub-Fund's Trust Deed. It is the Sub-Fund's policy that the Manager monitors the Sub-Fund's liquidity position on a daily basis.

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

Risk management (continued)

(c) Liquidity risk (continued)

The table below summarises the maturity profile of Sub-Fund's financial liabilities at the end of the reporting period based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Fund's contractual commitments and liquidity.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a 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.

Financial assets

Analysis of equity securities at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

At 31 December 2017	Less than 1 month RMB	1 to 12 months RMB	Total RMB
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	5,450,972	69,368	5,520,340
Financial assets included in prepayment and other receivables	-	16	16
Deposit reserve	-	17	17
Amount due from a broker	8,071	-	8,071
Amount due from the Manager	-	122,388	122,388
Cash and bank balances	211,486	-	211,486
	<u>211,486</u>	<u>-</u>	<u>211,486</u>
 Total financial assets	 <u>5,670,529</u>	 <u>191,789</u>	 <u>5,862,318</u>

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

Risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 month RMB	1 to 12 months RMB	Total RMB
<u>Financial liabilities</u>			
Trustee and custodian fees payable	10,000	-	10,000
Other payables and accruals	57,030	146,842	203,872
Total financial liabilities	67,030	146,842	213,872

At 31 December 2016

	Less than 1 month RMB	1 to 12 months RMB	Total RMB
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	-	7,230,822	7,230,822
Financial assets included in prepayment and other receivables	-	23	23
Deposit reserve	-	1,334	1,334
Amount due from the Manager	-	108,147	108,147
Cash and bank balances	243,961	-	243,961
Total financial assets	243,961	7,340,326	7,584,287

	Less than 1 month RMB	1 to 12 months RMB	Total RMB
<u>Financial liabilities</u>			
Trustee and custodian fees payable	10,000	-	10,000
Other payables and accruals	14,304	233,384	247,688
Total financial liabilities	24,304	233,384	257,688

Capital management

The Sub-Fund's capital is represented by its net assets attributable to unitholders. The Sub-Fund strives to invest the subscription proceeds of redeemable units in investments that meet the Sub-Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions. The Manager manages the capital of the Sub-Fund in accordance with the Sub-Fund's investment objectives and policies stated in the prospectus.

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

Capital management (continued)

Pursuant to the announcement dated 15 December 2017, the Manager has notified to all its existing investors regarding its liquidation plan of the Sub-Fund. No creation of units of the Sub-Fund in the primary market through any participating dealers would be allowed from 18 December 2017. The Sub-Fund have ceased trading on SEHK from 16 January 2018 ("Trading Cessation Date"). No redemption of units of the Sub-Fund in the primary market would be accepted from the Trading Cessation Date.

From the Trading Cessation Date, the Manager starts to realise all the assets of the Sub-Fund and the Sub-Fund mainly holds cash and the suspended stocks and therefore ceases to track the underlying index and is not able to meet the investment objectives of tracking the performance of the underlying index.

15. SEGMENT INFORMATION

The Manager makes the strategic resource allocations on behalf of the Sub-Fund and has determined the operating segments based on the reports reviewed which are used to make strategic decisions.

The Manager considers that each sub-fund as a single operating segment which is investing in securities. The objectives of the Sub-Fund are to track the performance of its respective index and invest in substantially all the index constituents with security weight and industry weight that are closely aligned to the characteristics of the tracked index.

The internal financial information used by the Manager for the Sub-Fund's assets, liabilities and performance is the same as that disclosed in the statement of financial position and statement of profit or loss and other comprehensive income.

The Sub-Fund is domiciled in Hong Kong. All of the Sub-Fund's income is from investments in securities which constitute its tracked index. The Sub-Fund's investments are mainly domiciled in PRC.

The Sub-Fund has no assets classified as non-current assets. The Sub-Fund has portfolio that closely correspond to the security weight and industry weight of its tracked index.

16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 26 April 2018.

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INVESTMENT PORTFOLIO

31 December 2017

	Holdings Shares	Market Value RMB	% of NAV
<u>Financial assets at fair value through profit or loss</u>			
Listed Securities			
China (100%)			
Consumer Staples			
ANGEL YEAST CO LTD	2,238	73,227	1.30%
ANHUI GUJING DISTILLERY CO LTD	600	39,402	0.70%
ANHUI KOUZI DISTILLERY CO LTD	1,600	73,680	1.30%
ANHUI YINGJIA DISTILLERY CO LTD	1,200	21,108	0.37%
BEIJING DABEINONG TECHNOLOGY GROUP CO LTD	11,300	68,478	1.21%
BEIJING SHUNXIN AGRICULTURE CO LTD	2,166	41,609	0.74%
BEIJING YANJING BREWERY CO LTD	7,800	52,572	0.93%
BRIGHT DAIRY & FOOD CO LTD	3,414	51,722	0.92%
BY-HEALTH CO LTD	4,000	60,080	1.06%
CHUYING AGRO-PASTORAL GROUP CO LTD	10,400	46,176	0.82%
COFCO BIOCHEMICAL (ANHUI) CO LTD	5,200	69,368	1.23%
COFCO TUNHE SUGAR CO LTD	5,500	43,725	0.77%
FUJIAN SUNNER DEVELOPMENT CO LTD	2,400	34,560	0.61%
GANSU YASHENG INDUSTRIAL GROUP CO LTD	8,569	35,219	0.62%
GUANGDONG HAID GROUP CO LTD	3,780	88,452	1.57%
HE BEI CHENG DE LOLO CO LTD	3,226	30,518	0.54%
HEILONGJIANG AGRICULTURE CO LTD	4,000	43,120	0.76%
HENAN SHUANGHUI INVESTMENT & DEVELOPMENT CO LTD	5,489	145,459	2.57%
HUNAN DAKANG INTL FOOD & AGRICULTURE CO LTD	15,770	44,787	0.79%
INNER MONGOLIA YILI INDUSTRIAL GROUP CO LTD	26,728	860,374	15.23%
JIANGSU KING'S LUCK BREWERY JSC LTD	2,100	32,571	0.58%
JIANGSU YANGHE BREWERY JOINT-STOCK CO LTD	3,598	413,770	7.33%
JONJEE HI-TECH INDUSTRIAL AND COMMERCIAL HLDG CO LTD	3,024	74,874	1.33%
KWEICHOW MOUTAI CO LTD	1,200	836,988	14.82%
LUZHOU LAOJIAO CO LTD	4,419	291,654	5.16%
MUYUAN FOODSTUFF CO LTD	2,000	105,720	1.87%
NEW HOPE LIUHE CO LTD	11,600	86,420	1.53%
ORIENT GROUP INC	17,593	80,576	1.43%
SHANDONG DENGHAI SEEDS CO LTD	1,925	24,736	0.44%
SHANGHAI BAILIAN GROUP CO LTD	4,302	58,034	1.03%
SHANGHAI JAHWA UNITED CO LTD	2,600	95,914	1.70%
SHANGHAI MALING AQUARIUS CO LTD	3,620	29,394	0.52%
TONGWEI CO LTD	8,700	105,357	1.86%
TSINGTAO BREWERY CO LTD	1,981	77,913	1.38%
V V FOOD & BEVERAGE CO LTD	6,471	28,278	0.50%
WULIANGYE YIBIN CO LTD	11,200	894,656	15.84%
YONGHUI SUPERSTORES CO LTD	22,712	229,391	4.06%

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INVESTMENT PORTFOLIO (continued)

31 December 2017

	Holdings Shares	Market Value RMB	% of NAV
<u>Financial assets at fair value through profit or loss</u> (continued)			
Consumer Staples (continued)			
YUAN LONGPING HIGH-TECH AGRICULTURE CO LTD	4,100	105,452	1.87%
ZHEJIANG GUYUELONGSHAN SHAOXING WINE CO LTD	2,663	25,006	0.44%
TOTAL INVESTMENTS, AT FAIR VALUE		<u>5,520,340</u>	<u>97.73%</u>
TOTAL INVESTMENTS, AT COST		<u><u>3,986,375</u></u>	

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MOVEMENTS IN INVESTMENT PORTFOLIO

31 December 2017

	Holdings As at 1 January 2017	Additions	Corporate Action	Disposals	Holdings As at 31 December 2017
<u>Financial assets at fair value through profit or loss (continued)</u>					
Listed Securities					
ANGEL YEAST CO LTD	3,138	1,300	-	(2,200)	2,238
ANHUI GUJING DISTILLERY CO LTD	800	500	-	(700)	600
ANHUI KOUZI DISTILLERY CO LTD	3,000	300	-	(1,700)	1,600
ANHUI YINGJIA DISTILLERY CO LTD	2,400	-	-	(1,200)	1,200
BEIJING DABEINONG TECHNOLOGY GROUP CO LTD	21,100	1,500	-	(11,300)	11,300
BEIJING SHUNXIN AGRICULTURE CO LTD	3,766	600	-	(2,200)	2,166
BEIJING YANJING BREWERY CO LTD	-	15,600	-	(7,800)	7,800
BRIGHT DAIRY & FOOD CO LTD	5,914	900	-	(3,400)	3,414
BY-HEALTH CO LTD	7,200	900	-	(4,100)	4,000
CHUYING AGRO-PASTORAL GROUP CO LTD	13,500	7,300	-	(10,400)	10,400
COFCO BIOCHEMICAL (ANHUI) CO LTD	8,300	2,100	-	(5,200)	5,200
COFCO TUNHE SUGAR CO LTD	8,800	2,200	-	(5,500)	5,500
FUJIAN SUNNER DEVELOPMENT CO LTD	3,900	1,000	-	(2,500)	2,400
GANSU YASHENG INDUSTRIAL GROUP CO LTD	14,869	2,300	-	(8,600)	8,569
GUANGDONG HAID GROUP CO LTD	7,580	-	-	(3,800)	3,780
HE BEI CHENG DE LOLO CO LTD	5,626	900	-	(3,300)	3,226
HEILONGJIANG AGRICULTURE CO LTD	-	4,000	-	-	4,000
HENAN SHUANGHUI INVESTMENT & DEVELOPMENT CO LTD	9,689	1,200	-	(5,400)	5,489
HUNAN DAKANG INTL FOOD & AGRICULTURE CO LTD	15,770	-	-	-	15,770
INNER MONGOLIA YILI INDUSTRIAL GROUP CO LTD	59,828	3,100	-	(36,200)	26,728
JIANGSU KING'S LUCK BREWERY JSC LTD	3,700	500	-	(2,100)	2,100
JIANGSU YANGHE BREWERY JOINT-STOCK CO LTD	5,998	1,400	-	(3,800)	3,598
JONJEE HI-TECH INDUSTRIAL AND COMMERCIAL HLDG CO LTD	5,324	800	-	(3,100)	3,024
KWEICHOW MOUTAI CO LTD	4,911	2,800	-	(6,511)	1,200

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MOVEMENTS IN INVESTMENT PORTFOLIO (continued)

31 December 2017

	Holdings As at 1 January 2017	Additions	Corporate Action	Disposals	Holdings As at 31 December 2017
<u>Financial assets at fair value through profit or loss (continued)</u>					
Listed Securities (continued)					
LUZHOU LAOJIAO CO LTD	6,919	1,400	-	(3,900)	4,419
MEIHUA HLDGS GROUP CO LTD	16,000	4,000	-	(20,000)	-
MUYUAN FOODSTUFF CO LTD	4,000	-	-	(2,000)	2,000
NEW HOPE LIUHE CO LTD	20,600	2,700	-	(11,700)	11,600
ORIENT GROUP INC	13,318	9,800	2,375	(7,900)	17,593
QINGHAI HUZHU BARLEY WINE CO LTD	1,731	-	-	(1,731)	-
SHANDONG DENGHAI SEEDS CO LTD	3,325	600	-	(2,000)	1,925
SHANGHAI BAILIAN GROUP CO LTD	6,602	2,000	-	(4,300)	4,302
SHANGHAI BAIRUN INVESTMENT HLDG GROUP CO LTD	2,500	-	-	(2,500)	-
SHANGHAI JAHWA UNITED CO LTD	5,300	700	-	(3,400)	2,600
SHANGHAI MALING AQUARIUS CO LTD	6,420	800	-	(3,600)	3,620
SHANXI XINGHUACUN FEN WINE FACTORY CO LTD	2,469	400	-	(2,869)	-
SHENYANG TOLY BREAD CO LTD	400	300	-	(700)	-
TONGWEI CO LTD	-	8,700	-	-	8,700
TSINGTAO BREWERY CO LTD	2,681	1,200	-	(1,900)	1,981
V V FOOD & BEVERAGE CO LTD	11,571	1,400	-	(6,500)	6,471
WULIANGYE YIBIN CO LTD	18,800	3,000	-	(10,600)	11,200
XINJIANG GUANNONG FRUIT & ANTLER GROUP CO LTD	4,472	700	-	(5,172)	-
YANTAI CHANGYU PIONEER WINE CO LTD	1,262	-	-	(1,262)	-
YONGHUI SUPERSTORES CO LTD	37,812	6,100	-	(21,200)	22,712
YUAN LONGPING HIGH-TECH AGRICULTURE CO LTD	5,400	2,900	-	(4,200)	4,100
ZHEJIANG GUYUELONGSHAN SHAOXING WINE CO LTD	4,763	600	-	(2,700)	2,663

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PERFORMANCE RECORD

31 December 2017

1. NET ASSET VALUE

	Net asset value per unit RMB	Total net asset value RMB
As at 31 December 2017	<u>18.8281</u>	<u>5,648,431</u>
As at 31 December 2016	<u>12.2333</u>	<u>7,340,006</u>
As at 31 December 2015	<u>13.3519</u>	<u>12,016,738</u>

2. HIGHEST ISSUE AND LOWEST REDEMPTION PRICES PER UNIT

	Highest subscription unit price RMB	Lowest redemption unit price RMB
For the year ended 31 December 2017	<u>19.4028</u>	<u>12.5337</u>
For the year ended 31 December 2016	<u>13.5238</u>	<u>10.8819</u>
For the year ended 31 December 2015	<u>19.2620</u>	<u>11.9449</u>
For the period from 5 May 2014 (date of inception) to 31 December 2014	<u>13.0156</u>	<u>10.0676</u>

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PERFORMANCE RECORD (continued)

31 December 2017

3. COMPARISON OF THE SCHEME PERFORMANCE AND THE ACTUAL INDEX PERFORMANCE

The table below illustrates the comparison between the Sub-Fund's performance (Market-to-Market) and that of the Index during the year/period:

	CSI Consumer Staples Index	RMB counter of the Sub-Fund	HKD counter of the Sub-Fund
During the year/period ended:			
31 December 2017	55.98%	54.08%	65.80%
31 December 2016	0.64%	-12.52%	-17.10%
31 December 2015	26.49%	11.71%	5.17%
31 December 2014 ¹	22.42%	16.70%	18.38%

¹ Year of inception