

## ANNUAL REPORT

### E FUND DYNAMIC CHINA BOND FUND

(A sub-fund of E Fund Selection Investment Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

Year ended 31 December 2016

E FUND DYNAMIC CHINA BOND FUND  
(A sub-fund of E Fund Selection Investment Series)

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E FUND DYNAMIC CHINA BOND FUND  
(A sub-fund of E Fund Selection Investment Series)

ADMINISTRATION AND MANAGEMENT

**MANAGER AND RQFII HOLDER**

E Fund Management (Hong Kong) Co., Limited  
Suites 3501-02, 35/F  
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8 Finance Street  
Central, Hong Kong

**DIRECTORS OF THE MANAGER**

LIU Xiaoyan  
ZHANG Youzao  
FAN Yue  
MA Jun

**RQFII CUSTODIAN**

China Construction Bank Corporation  
No. 25, Financial Street  
Xicheng District  
Beijing, China

**SOLICITORS TO THE MANAGER**

Deacons  
5/F, Alexandra House  
18 Chater Road  
Central, Hong Kong

**TRUSTEE**

ICBC (Asia) Trustee Company Limited  
33/F, ICBC Tower  
3 Garden Road  
Central, Hong Kong

**CUSTODIAN**

Industrial and Commercial Bank of China (Asia) Limited  
33/F, ICBC Tower  
3 Garden Road  
Central, Hong Kong

**REGISTRAR AND TRANSFER AGENT**

Brown Brothers Harriman (Luxembourg) S.C.A.  
80 route d'Esch  
L-1470 Luxembourg

**REGISTRAR AND TRANSFER AGENT**

**REPRESENTATIVE IN HONG KONG**

Brown Brothers Harriman (Hong Kong) Limited  
13/F Man Yee Building  
68 Des Voeux Road  
Central, Hong Kong

**AUDITOR**

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

E FUND DYNAMIC CHINA BOND FUND  
(A sub-fund of E Fund Selection Investment Series)

REPORT OF THE MANAGER TO THE UNITHOLDERS

**Introduction**

E Fund Dynamic China Bond Fund is a sub-fund of E Fund Selection Investment Series. The inception day of the Fund was on 28 October 2014. The manager of E Fund Dynamic China Bond Fund is E Fund Management (Hong Kong) Co., Ltd. and the trustee is ICBC (Asia) Trustee Company Limited.

**Fund Performance**

E Fund Dynamic China Bond Fund seeks to achieve long term capital growth in RMB terms through investment in a portfolio consisting primarily of RMB denominated and settled fixed income instruments issued or distributed within China through the RQFII quotas of the Manager. As of 31 December 2016, the Net Asset Value per unit of the E Fund Dynamic China Bond Fund for RMB Class I (accumulation) was nil. The total size of the fund was nil.

As of 31 December 2016, a summary of the performance of the E Fund Dynamic China Bond Fund is given below.

Cumulative Performance in RMB*					
	Since Launch <sup>1</sup>	1 Month	3 Months	6 Months	1 Year
Class I RMB (Acc)	22.05%	-1.82%	-1.87%	-1.51%	-0.95%

Source: Bloomberg

\*NAV-to-NAV return, total return with dividend (if any) reinvested

<sup>1</sup> The total return for the period from its launch date to 31 December 2016

Note:

Past performance information is not indicative of future performance. Investors may not get back the full amount invested. The computation basis of the performance is based on the calendar year end, NAV-To-NAV, with dividend reinvested.

Performance data has been calculated in RMB, including ongoing charges and excluding subscription fee and redemption fee you might have to pay.

Where no past performance is shown there was insufficient data available in that year to provide performance.

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REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, the Manager, E Fund Management (Hong Kong) Co., Limited, has in all material aspects, managed E Fund Dynamic China Bond Fund for the year ended 31 December 2016 in accordance with the provisions of the Trust Deed dated 14 August 2014.

For and on behalf of  
ICBC (Asia) Trustee Company Limited  
27 April 2017

## **INDEPENDENT AUDITOR'S REPORT**

To the unitholders of

E Fund Dynamic China Bond Fund

(A sub-fund of E Fund Selection Investment Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

### **Opinion**

We have audited the financial statements of E Fund Dynamic China Bond Fund (a sub-fund of E Fund Selection Investment Series and referred to as the "Sub-Fund") set out on pages 7 to 32, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2016, 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.

### **Information other than the financial statements and auditor's report thereon**

The Manager and 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

E Fund Dynamic China Bond Fund

(A sub-fund of E Fund Selection Investment Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

### **Responsibilities of Manager and Trustee for the financial statements**

The 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 14 August 2014 (the "Trust Deed") and the first supplemental deed dated on 27 October 2014 (the "Supplemental 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure 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

E Fund Dynamic China Bond Fund

(A sub-fund of E Fund Selection Investment Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong)

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

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Fund's internal control.
- 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 conclusions 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.

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

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

Certified Public Accountants  
Hong Kong  
27 April 2017



E FUND DYNAMIC CHINA BOND FUND  
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

		Year ended 31 December 2016 RMB	Period from 28 October 2014 (date of inception) to 31 December 2015 RMB
	Notes		
<b>INCOME</b>			
Interest income on financial assets at fair value through profit or loss		1,348,899	7,079,219
Dividend income		-	447,684
Interest income on bank deposits		54,289	359,125
Net (losses)/gains on financial assets at fair value through profit or loss	6	<u>(333,447)</u>	<u>65,848,182</u>
		<u>1,069,741</u>	<u>73,734,210</u>
<b>EXPENSES</b>			
Management fees	4	(568,454)	(2,701,939)
Brokerage fees and other transaction costs		(16,442)	(664,571)
Professional fees	4	(456,000)	-
Other expenses		<u>(5,000)</u>	<u>(13,004)</u>
		<u>(1,045,896)</u>	<u>(3,379,514)</u>
<b>PROFIT BEFORE TAX</b>		23,845	70,354,696
Withholding taxes	5	1,060,450	(1,863,983)
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u>1,084,295</u>	<u>68,490,713</u>

E FUND DYNAMIC CHINA BOND FUND  
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STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

	Notes	2016 RMB	2015 RMB
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	6	-	85,253,183
Deposit reserve		-	8,596
Interest receivable on financial assets at fair value through profit or loss		-	872,961
Interest receivable on bank deposits		659	1,537
Cash at banks	7	<u>2,352,039</u>	<u>17,379,378</u>
<b>TOTAL ASSETS</b>		<u><b>2,352,698</b></u>	<u><b>103,515,655</b></u>
<b>LIABILITIES</b>			
Management fees payable	4	25,756	73,802
Professional fees payable	4	456,000	-
Withholding tax payable	5	<u>718,092</u>	<u>1,783,890</u>
<b>TOTAL LIABILITIES</b>		<u><b>1,199,848</b></u>	<u><b>1,857,692</b></u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	8	<u><b>1,152,850</b></u>	<u><b>101,657,963</b></u>
<b>NUMBER OF UNITS IN ISSUE</b>			
Class I (accumulation)		<u>-</u>	<u>825,000</u>
<b>NET ASSET VALUE PER UNIT</b>			
Class I (accumulation)		<u>-</u>	<u>123.22</u>

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Manager

\_\_\_\_\_  
Trustee

E FUND DYNAMIC CHINA BOND FUND  
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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Year ended 31 December 2016

	Note	Class I (accumulation) Number of units	Class I (accumulation) RMB
At 28 October 2014 (date of inception)		-	-
Subscription of units	8	3,000,000	300,000,000
Redemption of units	8	<u>(2,175,000)</u>	<u>(266,832,750)</u>
		825,000	33,167,250
Increase in net assets attributable to unitholders during the period		-	68,490,713
At 31 December 2015		<u>825,000</u>	<u>101,657,963</u>
At 1 January 2016		825,000	101,657,963
Subscription of units	8	-	-
Redemption of units	8	<u>(825,000)</u>	<u>(101,589,408)</u>
		-	68,555
Increase in net assets attributable to unitholders during the period		-	1,084,295
At 31 December 2016		<u>-</u>	<u>1,152,850</u>

E FUND DYNAMIC CHINA BOND FUND  
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STATEMENT OF CASH FLOWS

Year ended 31 December 2016

		Year ended 31 December 2016 RMB	Period from 28 October 2014 (date of inception) to 31 December 2015 RMB
	Notes		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		23,845	70,354,696
Adjustments for:			
Dividend income		-	(447,684)
Interest income		(1,403,188)	(7,438,344)
Net losses/(gains) on financial assets at fair value through profit or loss	6	333,447	(65,848,182)
Purchase of financial assets at fair value through profit or loss		(69,563,183)	(776,572,511)
Proceeds from sales of financial assets at fair value through profit or loss		154,482,919	757,167,510
Net changes in operating assets			
Decrease/(increase) in deposit reserve		8,596	(8,596)
(Decrease)/increase in management fees payable		(48,046)	73,802
Increase in professional fee payable		456,000	-
Cash flows generated from/(used in) operations		84,290,390	(22,719,309)
Dividends received, net of withholding taxes		-	402,916
Interest received, net of withholding taxes		2,271,679	6,528,521
Net cash flows generated from/(used in) operations		86,562,069	(15,787,872)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of units		-	300,000,000
Payments for redemption of units		(101,589,408)	(266,832,750)
Net cash flows generated from financing activities		(101,589,408)	33,167,250
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		(15,027,339)	17,379,378
Cash and cash equivalents at beginning of year/period		17,379,378	-
<b>CASH AND CASH EQUIVALENTS AT YEAR/PERIOD END</b>		<b>2,352,039</b>	<b>17,379,378</b>
<b>ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS</b>			
Cash at banks	7	2,352,039	17,379,378

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. THE FUND AND THE SUB-FUND

E Fund Selection Investment Series (the “Fund”) was constituted as an open-ended unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a trust deed dated 14 August 2014 and as amended from time to time (the “Trust Deed”) and the first supplemental deed dated on 27 October 2014. E Fund Dynamic China Bond Fund (the “Sub-Fund”) is a sub-fund under the Fund.

The manager of the Fund is E Fund Management (Hong Kong) Co., Limited (the “Manager”) and the trustee is ICBC (Asia) Trustee Company Limited (the “Trustee”). The Custodian is Industrial and Commercial Bank of China (Asia) Limited (the “Custodian”) and the Renminbi Qualified Foreign Institutional Investors (the “RQFII”) custodian is China Construction Bank Corporation (the “RQFII Custodian”).

The Fund and the Sub-Fund have been authorised by the Securities and Futures Commission of Hong Kong (the “SFC”) under section 104(1) of the Hong Kong Securities and Futures Ordinance and are required to comply with the Code on Unit Trusts and Mutual Funds (the “SFC Code”) established by the SFC. Authorisation by the SFC does not imply official approval or recommendation. The Sub-Fund was launched on 28 October 2014. As at 31 December 2016, the Fund has seven sub-funds namely E Fund Dynamic China Bond Fund, E Fund China Equity Dividend Fund, E Fund Wealth China Bond Fund, E Fund Advanced China Bond Fund, E Fund RQFII China Balanced Income Fund, E Fund RQFII China Multi Assets Income Fund and E Fund Global Bond Fund (the “Sub-Funds”), in respect of which separate class of unit was issued.

The investment objective of the Sub-Fund is to achieve long term capital growth in RMB terms through investment in a portfolio consisting primarily of RMB denominated and settled fixed income instruments issued or distributed within China. Exposure to such Renminbi (“RMB”) denominated and settled fixed income instruments will be through the RQFII quotas of the Manager.

On 21 December 2016, the Sub-Fund had received full redemption requests from the investors and all units were redeemed. As of 31 December 2016, the Sub-Fund held no investments.

Subsequently, on 3 April 2017, the Sub-Fund has submitted the application for withdrawal of authorization of the Sub-Fund to SFC.

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2.1 BASIS OF PREPARATION

The financial statements of the Sub-Fund have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("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 to the SFC Code. The financial statements have been prepared on a historical basis, except for financial assets at fair value through profit or loss that have been measured at fair value. The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Sub-Fund, and all values are rounded to the nearest dollar, except where otherwise indicated.

As explained in Note 1 to the financial statements, the Sub-Fund had received full redemption requests from the investors and all units were redeemed on 21 December 2016.

The directors of the Manager and the Trustee therefore considered that the going concern basis is no longer applicable and the Sub-Fund changed its basis of accounting to liquidation basis. All assets have been adjusted to their estimated net realisable values. The estimated expenses of RMB456,000 associated with liquidation have majority been accrued in the statement of financial position as at 31 December 2016 on the basis that these costs and expenses are associated with the de-registration of the Sub-Fund.

Due to the change in basis of preparation of the financial statements of the Sub-Fund in the current year, the amounts presented in these financial statements and related explanatory notes for the year ended 31 December 2016 are not entirely comparable with amounts presented for the period from 28 October 2014 to 31 December 2015 that were prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Sub-Fund has adopted the following revised HKFRS for the first time for the current year's financial statements, which is applicable to the Sub-Fund.

*Amendments to HKAS 1 Disclosure Initiative*

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Sub-Fund's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Sub-Fund has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2016, in these financial statements. Among the new and revised HKFRSs, the following standards are expected to be relevant to the Sub-Fund's financial statements upon becoming effective:

HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to HKAS 7	<i>Disclosure Initiative</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

*HKFRS 9 Financial Instruments*

In September 2014, the HKICPA issued the final version of HKFRS 9, which reflects all phases of the financial instruments project and replaces 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 expects to adopt the new standard from 1 January 2018.

*HKFRS 15 Revenue from Contracts with Customers*

HKFRS 15 was issued in July 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and reduce the cost and complexity of applying the standard. The Sub-Fund expects to adopt the new standard from 1 January 2018.

*Amendments to HKAS 7*

Amendments to HKAS 7 were issued in June 2016 and 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 will result in additional disclosure to be provided in the financial statements. The Sub-Fund expects to adopt the amendments from 1 January 2017.

The Sub-Fund is currently assessing the impact of these standards upon adoption.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

### 2.4 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 summary of significant accounting policies used in preparing the financial statements are as follows.

#### Financial instruments

##### (i) Classification

The Sub-Fund classifies its financial assets into the following categories in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

##### *Financial assets at fair value through profit or loss*

Financial assets held-for-trading: financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes listed equity securities and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

##### *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 interest receivables on financial assets at fair value through profit or loss and on bank deposits.

##### *Other financial liabilities*

This category includes all financial liabilities, other than those classified as held-for-trading. The Sub-Fund includes in this category management fees payable.

##### (ii) Recognition

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

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

##### (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 held-for-trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

##### (iv) Subsequent measurement

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



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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) Subsequent measurement (continued)

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

The effective interest method is a method of calculating the amortised cost of a financial asset 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.

(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:

- the Sub-Fund has transferred substantially all the risks and rewards of the asset, or
- 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.

Determination of fair value

The Sub-Fund measures its financial assets at fair value through profit or loss 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Determination of fair value (continued)

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

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

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs. 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 appropriate valuation techniques, such as recent arm's length market transactions, quotes from brokers and market makers, deemed to be appropriate in the circumstances.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing the 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 6 to the financial statements.

Impairment of financial assets

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Functional and presentation currency

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

Foreign currency transactions

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

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

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 gains/losses on financial assets at fair value through profit or loss'. Exchange differences on other financial instruments are included in profit or loss in the statement of profit or loss and other comprehensive income as other expenses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units

Redeemable units are classified as equity instruments when:

- 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
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- 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
- 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 of the above features, the Sub-Fund must have no other financial instrument or contract that has:

- 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
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders

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.

Distributions to unitholders

A distribution to the Sub-Fund's unitholders is accounted for as a deduction from equity. A distribution is recognised as a liability in the period in which it is approved by the Manager.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, 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 cash equivalents as defined above, net of outstanding bank overdrafts when appropriate.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income

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

Dividend income

Dividend income is recognised on the date on which the investments are quoted ex-dividend or, where no ex-dividend date is quoted, 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 profit or loss.

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

This item includes changes in the fair value of financial assets held for trading and excludes interest and dividend income.

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

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

Withholding taxes

In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. Withholding tax is a generic term used for the amount of withholding tax deducted at the source of 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.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

3. 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 and the accompanying disclosures recognised in the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in future.

Judgements

In the process of applying the Sub-Fund's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

*Going concern*

As further explained in note 1 to the financial statements, the Sub-Fund has submitted the application for withdrawal of authorization of the Sub-Fund to SFC on 3 April 2017 and determined that the going concern basis is no longer applicable. Therefore, these financial statements have been prepared under liquidation basis. Upon adoption of liquidation basis, all assets have been written down to their net realisable values and all known liquidation costs have been accrued as at 31 December 2016 as determined by the directors of the Manager based on their knowledge up to the date of this report.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Taxation

In preparing these financial statements, the Manager considers that the enforcement of PRC tax on gains derived from the PRC debt securities is uncertain as at the date of approval of these financial statements and has exercised its judgement when assessing the PRC tax exposure on its realised and unrealised gains, and the probability of such tax being levied up to the reporting date. The Manager considers that its estimation may be impacted by any future clarification by the PRC State Administration of Taxation ("SAT") and the applicability of double tax treaty between Hong Kong and China for Hong Kong tax residents. The resulting accounting estimates may be materially different from the related actual results.

4. FEES

Management fees

The Sub-Fund has a single management fee structure. All fees, related costs and expenses (and its due proportion of any costs and expenses of the Fund allocated to it) of the Sub-Fund are included in the management fees as a single flat fee and paid by the Manager, rather than being charged directly to the Sub-Fund.

Fees and expenses taken into account in determining and payable out of the management fees include, but are not limited to, the Manager's fee, the Trustee's fee, the Custodian's fee, the RQFII Custodian's fee, the registrar and transfer agent's fee, the fees and auditor's remuneration, ordinary legal and out-of-pocket expenses incurred by the Trustee or Manager in respect of the Sub-Fund.

In any event should such fees and expenses referred to above exceed the current management fees in respect of the Sub-Fund, the excess of fees and expenses will be borne by the Manager and not by the Sub-Fund.

The Manager is entitled to receive a management fees from the Sub-Fund, at a rate of 0.81% (up to maximum of 3.00%) per annum for Class A (accumulation) units, Class A (distribution) units, Class I (accumulation) units and Class I (distribution) units with respect to the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

The management fees for the year ended 31 December 2016 was RMB568,454 (period ended 31 December 2015: RMB2,701,939). As at 31 December 2016, the management fees of RMB25,756 (2015: RMB73,802) was payable to the Manager.

Trustee fees and custodian fees

The Sub-Fund pays management fees to the Manager out of which the Manager pays the Trustee and the Custodian. The trustee fees and custodian fees for the year ended 31 December 2016 was RMB278,961 (period ended 31 December 2015: RMB714,985).

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Year ended 31 December 2016

4. FEES

Termination related expense

The Sub-Fund set aside a provision of approximately RMB456,000 as of 31 December 2016 (2015: Nil) for discharging any future costs, charges, expenses claims and demands that the Manager and the Trustee may incur in connection with or arising out of, among others, the on-going maintenance of the Sub-Fund until the termination date.

As at 31 December 2016, the provision for termination related expense and ongoing maintenance consists of audit fees, legal fees and tax advisory fees.

5. WITHHOLDING TAXES

Hong Kong tax

The Sub-Fund is exempt from Hong Kong profits tax under section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

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) imposed on securities issued by PRC tax resident enterprises.

*Capital gains tax*

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

The PRC income tax treatment should be governed by the general tax provisions of the Corporate Income Tax Law, which stipulates a 10% tax on a withholding basis for capital gains derived on disposal of PRC securities.

The Notice also states that RQFIIs without an establishment or a place of business in the PRC will be temporarily exempt from corporate income tax on gains derived from the trading of PRC securities effective from 17 November 2014.

During the period ended 31 December 2015, the Sub-Fund had elected to withhold a 10% tax provision on both capital gains realized and unrealized on the PRC debt securities of RMB1,123,685. The Manager estimated that the accumulated gross realised gains for RMB denominated bonds for the period ended 31 December 2015 and gross unrealised gains for RMB denominated bonds as of 31 December 2015 of the Sub-Fund which could be exposed to PRC capital gains tax at the rate of 10% to be approximately RMB11,091,535 and RMB145,322 respectively, and the Manager had made tax provision accordingly.

As at 31 December 2016, the Sub-Fund had elected to reverse the capital gains tax provision in accordance with HKFRS.



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5. WITHHOLDING TAXES (continued)

PRC tax (continued)

*Distribution tax*

A 10% PRC withholding tax has been levied on dividend and interest payments from PRC companies to foreign investors. As such, 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. As at 31 December 2016, the Sub-Fund's accumulated interest income derived from RMB denominated corporate bonds of RMB578,581 (2015: RMB6,600,520) and no dividend income from equity investments (2015: RMB447,684) could be exposed to 10% PRC withholding tax of approximately RMB57,858 (2015: RMB660,052) and Nil (2015: RMB44,768) respectively.

*Value-Added Tax and Surcharges*

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

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

Given the uncertainties, no provision has been made at the end of the reporting period. The potential PRC VAT and local surcharges have been quantified as approximately RMB31,988 on non-government bond interest received by the Sub-Fund on or after 1 May 2016.

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Year ended 31 December 2016

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB	2015 RMB
Financial assets held for trading		
- Debt securities	-	85,253,183
Total financial assets at fair value through profit or loss	-	85,253,183
		Period from 28 October 2014 (date of inception) to 31 December 2015
(Losses)/gains recognised in relation to financial assets at fair value through profit or loss:		
Net realised (losses)/gains	(270,906)	65,785,641
Net change in unrealised gains/losses	(62,541)	62,541
Net (losses)/gains on financial assets at fair value through profit or loss	(333,447)	65,848,182

The fair value of financial assets traded in active markets are based on quoted market prices at the closing of trading on the year/period end date.

Valuation techniques

The Sub-fund invests in fixed income RMB bonds. When fair values of publicly traded debt securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included in Level 1 of the hierarchy. An active market is a market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

In the absence of a quoted price in an active market, they are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Sub-Fund categorises these investments as Level 2.

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

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value at 31 December 2015:

As at 31 December 2015

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Financial assets held for trading				
- Debt securities	-	85,253,183	-	85,253,183
	<u>-</u>	<u>85,253,183</u>	<u>-</u>	<u>85,253,183</u>

There are no investments classified within Level 1 and Level 3 and no transfers between levels during the period ended 31 December 2015.

7. CASH AT BANKS

	2016 RMB	2015 RMB
Cash at banks	<u>2,352,039</u>	<u>17,379,378</u>

The bank balances are held in interest bearing accounts with Industrial and Commercial Bank of China (Asia) Limited, an affiliate company of the Trustee, and China Construction Bank Corporation. The carrying amount of bank balances approximates to their fair value.

8. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The consideration received or paid for units issued or re-purchased respectively is based on the value of the Sub-Fund's net asset value per unit at the date of the transaction. In accordance with the provisions of the Trust Deed, Sub-Fund investment positions are valued based on the last traded market price or closing price for the purpose of determining the trading net asset value per unit for subscriptions and redemptions. The Sub-Fund's net asset value per unit is calculated by dividing the Sub-Fund's net assets with the total number of outstanding units.

Redeemable units can be issued and redeemed on each valuation day, i.e. every business day of the calendar year. The holders of redeemable units may subscribe or redeem the redeemable units on any business day by no later than 4:00p.m. (Hong Kong time) on the relevant business day. Both subscription and redemption prices are calculated by reference to the net asset value per unit of the relevant class as at the valuation day.

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8. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

With a view to protecting the interests of all unitholders, the Manager may limit the number of units of any sub-fund redeemed on any redemption day to 10% of the total number of units of the relevant sub-fund in issue. In this event, the limitation will apply pro rata so that all unitholders of the relevant sub-fund who have validly requested to redeem units of the Sub-Fund on that redemption day will redeem the same proportion of such units of the Sub-Fund.

Capital management

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

9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES

Investment in the Sub-Fund is subject to market fluctuations and other risks inherent in investing in securities and there can be no assurance that any appreciation in value will occur. The performance of the Sub-Fund will be affected by a number of risk factors, including the following:

*Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and equity prices. The maximum risk resulting from financial instruments equals their fair value.

The Sub-Fund assumes market risk in trading activities. The Sub-Fund distinguishes market risk as price risk, interest rate risk, and foreign exchange risk.

Price risk

The Sub-Fund's market price risk is managed through diversification of the investment portfolio as well as investing in securities with strong fundamentals. The Manager considers that the table below summarises the overall market exposures of the Sub-Fund and the impact of increases/decreases from the Sub-Fund's financial assets at fair value through profit or loss on the Sub-Fund's net asset value as at 31 December 2016 and 31 December 2015. The analysis is based on the assumption that the underlying investments in debt securities increased/decreased by a reasonable possible shift, with all other variables held constant. However, this does not represent a prediction of the future movement in the corresponding key markets.

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9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

*Market risk* (continued)

Price risk (continued)

	Carrying value of financial assets at fair value through profit or loss RMB	% of net assets %	Shift in underlying securities increase/ (decrease) %	Estimated possible change in net asset value increase/ (decrease) RMB
31 December 2016				
Financial assets held for trading	-	-	0.1/(0.1)	-
31 December 2015				
Financial assets held for trading	85,253,183	83.86	0.1/(0.1)	85,253/ (85,253)

Interest rate risk

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

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

The majority of interest rate exposure arises on investments in debt securities. Most of the Sub-Fund's investments in debt securities carry fixed interest rates.

The following table demonstrates the sensitivity of the Sub-Fund's profit or loss for the year ended 31 December 2016 and for the period ended 31 December 2015 to a reasonably possible change in interest rates, with all other variables held constant.

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9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

*Market risk (continued)*

Interest rate risk (continued)

	Change in basis points	Sensitivity of Sensitivity of interest income (decrease)/increase RMB	change in fair value of investments (decrease)/increase RMB
31 December 2016			
- Debt securities	+ 25	-	-
- Debt securities	- 25	-	-
31 December 2015			
- Debt securities	+ 25	(128)	(269,772)
- Debt securities	- 25	128	269,772

The Sub-Fund also has interest-bearing bank deposits. As the bank deposits are on demand, the Manager considers the movement in interest rates will not have significant cash flow impact on the net assets attributable to unitholders for the year ended 31 December 2016 and period ended 31 December 2015 and therefore no sensitivity analysis on bank deposit is presented.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Sub-Fund invests in the PRC bond market, which is currently comprised of three markets: the interbank market, the exchange market and the book-entry market trading over-the-counter at commercial banks. The People's Bank of China oversees the interbank market and the over-the-counter market whereas the China Securities Regulatory Commission is responsible for supervising the exchange market in relation to bond transactions.

The RMB denominated bond market is at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated bond market may result in prices of bonds traded on such markets fluctuating significantly and may increase the volatility of the Sub-Fund's net asset value.

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Year ended 31 December 2016

9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

*Liquidity risk* (continued)

The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spreads of the price of fixed income securities in which the Sub-Fund invests may be large, and hence, the Sub-Fund may incur significant trading and realisation costs and losses may be suffered. Also, if sizable redemption requests are received, the Manager may need to liquidate the investment at a substantial discount and the Sub-Fund may suffer losses as a result.

The following table summarises the maturity profile of the Sub-Fund's financial liabilities. The table also analyses the maturity profile of the Sub-Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Sub-Fund's contractual commitments and liquidity.

31 December 2016

	On demand RMB	Less than 3 months RMB	3 months to 12 months RMB	Total RMB
<u>Financial Assets</u>				
Interest receivable on bank deposits	-	659	-	659
Cash at banks	2,352,039	-	-	2,352,039
Total financial assets	<u>2,352,039</u>	<u>659</u>	<u>-</u>	<u>2,352,698</u>

31 December 2016

	On demand RMB	Less than 3 months RMB	3 months to 12 months RMB	Total RMB
<u>Financial Liabilities</u>				
Management fees payable	-	25,756	-	25,756
Professional fees payable	-	-	456,000	456,000
Total financial liabilities	<u>-</u>	<u>25,756</u>	<u>456,000</u>	<u>481,756</u>

E FUND DYNAMIC CHINA BOND FUND  
(A sub-fund of E Fund Selection Investment Series)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

*Liquidity risk (continued)*

31 December 2015

	On demand RMB	Less than 3 months RMB	Total RMB
<u>Financial Assets</u>			
Financial assets at fair value through profit or loss	-	85,253,183	85,253,183
Interest receivable on financial assets at fair value through profit or loss	-	872,961	872,961
Deposit reserve	-	8,596	8,596
Interest receivable on bank deposits	-	1,537	1,537
Cash at banks	17,379,378	-	17,379,378
Total financial assets	<u>17,379,378</u>	<u>86,136,277</u>	<u>103,515,655</u>

31 December 2015

	On demand RMB	Less than 3 months RMB	Total RMB
<u>Financial Liabilities</u>			
Management fees payable	-	73,802	73,802
Total financial liabilities	<u>-</u>	<u>73,802</u>	<u>73,802</u>

*Credit and counterparty risk*

The Sub-Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Sub-Fund invested in RMB fixed income securities in the PRC issued by corporations that carry a credit rating grade of at least BBB-/Baa3 or equivalent assigned by one of the local rating agencies recognised by the relevant authorities in the PRC. If the issuer of any of the fixed interest securities in which the Sub-Fund's assets are invested defaults, the performance of the Sub-Fund will be adversely affected.



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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

9. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES (continued)

*Credit and counterparty risk (continued)*

All transactions 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 trade will fail if either party fails to meet its obligation.

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 and RQFII Custodian. The table below summarises the Sub-Fund's assets placed with banks and the custodian and their related credit ratings from Moody's:

<u>31 December 2016</u>	RMB	Credit rating	Source of credit rating
<u>Custodian</u>			
Industrial and Commercial Bank of China (Asia) Limited			
- Cash at banks	738,066	A2	Moody's
<u>RQFII Custodian</u>			
China Construction Bank Corporation			
- Cash at banks	1,613,973	A1	Moody's
<u>31 December 2015</u>			
<u>Custodian</u>			
Industrial and Commercial Bank of China (Asia) Limited			
- Cash at banks	842,271	A2	Moody's
- Financial assets at fair value through profit or loss	85,253,183		
<u>RQFII Custodian</u>			
China Construction Bank Corporation			
- Cash at banks	16,537,107	A1	Moody's

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

E FUND DYNAMIC CHINA BOND FUND  
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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10. TRANSACTIONS WITH THE TRUSTEE 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 period between the Sub-Fund and the Trustee, and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except for those disclosed in Note 4 to the financial statements and below.

Bank deposits and investments held by the affiliate of the Trustee

The Sub-Fund's bank deposits and investments were held by Industrial and Commercial Bank of China (Asia) Limited, an affiliate company of the Trustee, with interest income amounted to RMB1,702 (2015: RMB3,159). Further details of the balances held are described in Note 9 to the financial statements.

11. SOFT COMMISSION ARRANGEMENT

The Manager and its connected persons may enter into soft commission arrangements with brokers under which certain goods and services used to support investment decision making will be received. The Manager and its connected persons will not make direct payment for these services but will transact an agreed amount of business with the brokers on behalf of the Sub-Fund and commission will be paid on these transactions.

The goods and services must be of demonstrable benefit to the Sub-Fund and may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis and data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications.

For the year/period ended 31 December 2016 and 2015, the Manager had not participated in any soft dollar arrangements in respect of any transactions for the accounts of the Sub-Fund.

12. EVENTS AFTER THE REPORTING PERIOD

As detailed in note 1 to the financial statements, on 3 April 2017, the Sub-Fund has submitted the application for withdrawal of authorization of the Sub-Fund to SFC.

13. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 27 April 2017.

E FUND DYNAMIC CHINA BOND FUND  
(A sub-fund of E Fund Selection Investment Series)

INVESTMENT PORTFOLIO (UNAUDITED)

31 DECEMBER 2016

	Fair value RMB	% of net assets on fair value
Financial assets at fair value through profit or loss	-	-
Other net assets	1,152,850	100%
	<hr/>	<hr/>
Total net assets as at 31 December 2016	1,152,850	100%
	<hr/> <hr/>	<hr/> <hr/>

E FUND DYNAMIC CHINA BOND FUND

(A sub-fund of E Fund Selection Investment Series)

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the year ended 31 December 2016

	At 1 January 2016	<u>Movement in holdings</u>		At 31 December 2016
		Additions	Disposals	
<u>DEBT SECURITIES</u>				
<i>China</i>				
Agricultural Development Bank of China 3.29% 290416	20,000,000	-	(20,000,000)	-
Aisino Corporation 0.2% 120621	51,000	-	(51,000)	-
Shanghai Guosheng Group CO., Ltd 1% 051121	101,000	-	(101,000)	-
China Development Bank Corporation 2.5% 240916	20,000,000	-	(20,000,000)	-
China Development Bank Corporation 2.65% 20102019	-	10,000,000	(10,000,000)	-
China Development Bank Corporation 5.84% 012019	-	1,000	(1,000)	-
China Government Bond 2.92% 240918	20,000,000	-	(20,000,000)	-
China Government Bond 3.13% 130416	5,000,000	-	(5,000,000)	-
China Treasury Bill 0% 130616	20,000,000	-	(20,000,000)	-
China Treasury Bill 0% 191216	-	20,000,000	(20,000,000)	-
China Treasury Bill 0% 230117	-	10,000,000	(10,000,000)	-
China Treasury Bill 0% 240417	-	10,000,000	(10,000,000)	-
China Treasury Bill 0% 261216	-	20,000,000	(20,000,000)	-
GUANGZHOU BAIYUN AIRPORT 0.2% 260221	-	38,000	(38,000)	-
	<u>85,152,000</u>	<u>70,039,000</u>	<u>(155,191,000)</u>	<u>-</u>

E FUND DYNAMIC CHINA BOND FUND

(A sub-fund of E Fund Selection Investment Series)

PERFORMANCE TABLE (UNAUDITED)

31 December 2016

Published net assets attributable to unitholders

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

	Net assets attributable to unitholders per unit RMB	Net assets attributable to unitholders RMB
As at 31 December 2016		
- Class I (accumulation)	- <sup>1</sup>	1,152,850
As at 31 December 2015		
- Class I (accumulation)	123.22	101,657,963

Highest issue price and lowest redemption price per unit

	Highest issue price per unit RMB	Lowest redemption price per unit RMB
For the year ended 31 December 2016	124.49	122.05
- Class I (accumulation)		
Period from 28 October 2014 (date of inception) to 31 December 2015	123.22	100.00
- Class I (accumulation)		

<sup>1</sup> As at 31 December 2016, all units have been fully redeemed by the unitholder. As such, should there be any remaining net asset value after the termination process of the Sub-Fund, such amounts will be distributed to the said unitholder that has fully redeemed.