



**GF CHINA RMB FIXED INCOME FUND**  
**(A sub-fund of GF Investment Funds)**

Reports and Financial Statements  
*For the year ended 31 December 2017*

GF CHINA RMB FIXED INCOME FUND  
(A sub-fund of GF Investment Funds)

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

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GF CHINA RMB FIXED INCOME FUND  
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MANAGEMENT AND ADMINISTRATION

**MANAGER**

GF Asset Management (Hong Kong) Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**RQFII HOLDER**

GF Holdings (Hong Kong) Corporation Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**TRUSTEE AND REGISTRAR**

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

**CUSTODIAN**

Bank of China (Hong Kong) Limited  
14/F, Bank of China Tower  
1 Garden Road  
Hong Kong

**RQFII CUSTODIAN**

Bank of China Limited  
No. 1, Fuxingmen Nei Dajie  
Beijing 100818  
China

**AUDITOR**

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

GF CHINA RMB FIXED INCOME FUND  
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TRUSTEE'S REPORT

GF INVESTMENT FUNDS (the "Fund")

We hereby confirm that, in our opinion, the Manager of GF China RMB Fixed Income Fund (the "Sub-Fund") of the Fund has, in all material respects, managed the Sub-Fund for the year ended 31 December 2017 in accordance with the provisions of the Trust Deed dated 5 January 2012.

For and on behalf of  
BOCI-Prudential Trustee Limited

27 April 2018

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF GF CHINA RMB FIXED INCOME FUND  
(A sub-fund of GF Investment Funds)

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of GF China RMB Fixed Income Fund (the "Sub-Fund"), the Sub-Fund of GF Investment Funds, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Sub-Fund in accordance with the International Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

The Trustee and the Manager are responsible for the other information. The other information comprises the information included in the annual report but does not include 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

TO THE UNITHOLDERS OF GF CHINA RMB FIXED INCOME FUND - continued  
(A sub-fund of GF Investment Funds)

**Report on the Audit of the Financial Statements** - continued

**Responsibilities of the Trustee, the Manager and Those Charged with Governance for the Financial Statements**

The Trustee and the Manager are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the Trustee and Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Sub-Fund's financial reporting process.

In addition, the Trustee and the Manager are also responsible for preparing the financial statements in accordance with the relevant disclosure provisions of the trust deed dated 5 January 2012 (the "Trust Deed") and the relevant financial statement disclosure requirements specified in Appendix E of the Code on Unit Trusts and Mutual Funds (the "Code") issued by the Hong Kong Securities and Futures Commission (the "SFC").

**Auditors' 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 solely to you, as a body, in accordance with Chapter 5 of Section II of the Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, 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.

GF CHINA RMB FIXED INCOME FUND  
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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF GF CHINA RMB FIXED INCOME FUND - continued  
(A sub-fund of GF Investment Funds)

**Report on the Audit of the Financial Statements** - continued

**Auditors' Responsibilities for the Audit of the Financial Statements** - continued

- 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 Trustee and the Manager.
- Conclude on the appropriateness of the Trustee's and the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sub-Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 financial statement disclosure requirements specified in Appendix E of the Code issued by the SFC**

In our opinion, 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 financial statement disclosure requirements specified in Appendix E of the Code issued by the SFC.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
27 April 2018

**GF CHINA RMB FIXED INCOME FUND**  
(A sub-fund of GF Investment Funds)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>NOTES</u>	<u>2017</u> RMB	<u>2016</u> RMB
<b>INCOME</b>			
Dividend income		310,526	638,451
Interest income on investments		4,519,934	14,379,792
Interest income on deposits		40,026	73,119
		<u>4,870,486</u>	<u>15,091,362</u>
<b>EXPENDITURE</b>			
Management fee	6(d)	(1,086,525)	(2,638,573)
Trustee fee	6(e)	(478,710)	(561,480)
Custodian fee	6(f)	(140,851)	(244,372)
Audit fee		(69,565)	(195,217)
Legal and professional fee		(517,093)	(411,194)
Other expenses		(335,430)	(2,216,026)
		<u>(2,628,174)</u>	<u>(6,266,862)</u>
<b>NET INCOME BEFORE GAINS ON INVESTMENTS AND FOREIGN EXCHANGE</b>		2,242,312	8,824,500
<b>NET REALISED (LOSSES) GAINS ON SALE OF INVESTMENTS</b>		(2,465,750)	249,112
<b>NET CHANGES IN UNREALISED GAINS (LOSSES) IN VALUE OF INVESTMENTS</b>		465,072	(8,114,782)
<b>NET REALISED AND UNREALISED GAINS (LOSSES) ON FOREIGN EXCHANGE</b>		<u>34,776</u>	<u>(29,647)</u>
<b>PROFIT BEFORE TAX AND DIVIDEND DISTRIBUTION</b>		276,410	929,183
Dividend distribution	7	(389,292)	(6,764,882)
Taxation	8	(562,080)	(1,240,377)
<b>LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR</b>		<u>(674,962)</u>	<u>(7,076,076)</u>

**GF CHINA RMB FIXED INCOME FUND**  
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**STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2017**

	<u>NOTES</u>	<u>2017</u> <u>RMB</u>	<u>2016</u> <u>RMB</u>
<b>NON-CURRENT ASSET</b>			
Deposit reserve	9	-	49,364
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	10	17,147,285	251,610,772
Interest receivables		243,625	8,589,082
Prepayments and other receivables		-	21,226
Bank balances	6(c), 11	6,750,755	11,538,335
		<u>24,141,665</u>	<u>271,759,415</u>
<b>TOTAL ASSETS</b>		<u>24,141,665</u>	<u>271,808,779</u>
<b>LIABILITIES</b>			
Other payables	6	825,950	1,965,270
Tax payable		5,871,500	5,323,471
<b>TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)</b>		<u>6,697,450</u>	<u>7,288,741</u>
<b>NET CURRENT ASSETS</b>		<u>17,444,215</u>	<u>264,470,674</u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u>17,444,215</u>	<u>264,520,038</u>
<b>Net asset value per unit</b>			
- Class A		93.062	99.275
- Class I		-	101.625
<b>Number of units in issue</b>			
- Class A	12	187,446.973	248,993.741
- Class I	12	-	2,359,656.742

The financial statements on pages 6 to 32 were approved by the Trustee and Manager on 27 April 2018.

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TRUSTEE

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MANAGER

**GF CHINA RMB FIXED INCOME FUND**  
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**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>2017</u> RMB	<u>2016</u> RMB
Balance at beginning of the year	264,520,038	413,717,972
Subscription of units	-	393,255
Redemption of units	<u>(246,400,861)</u>	<u>(142,515,113)</u>
	18,119,177	271,596,114
Loss and total comprehensive expense for the year	<u>(674,962)</u>	<u>(7,076,076)</u>
Balance at end of the year	<u><u>17,444,215</u></u>	<u><u>264,520,038</u></u>

	<u>2017</u>		<u>2016</u>	
	Class A	Class I	Class A	Class I
At beginning of the year	248,993.741	2,359,656.742	329,545.370	3,652,369.070
Issued during the year	-	-	-	3,817.597
Redeemed during the year	<u>(61,546.768)</u>	<u>(2,359,656.742)</u>	<u>(80,551.629)</u>	<u>(1,296,529.925)</u>
At end of the year	<u><u>187,446.973</u></u>	<u><u>-</u></u>	<u><u>248,993.741</u></u>	<u><u>2,359,656.742</u></u>

**GF CHINA RMB FIXED INCOME FUND**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>NOTES</u>	<u>2017</u> RMB	<u>2016</u> RMB
<b>OPERATING ACTIVITIES</b>			
Profit before tax and dividend distribution		276,410	929,183
Adjustments for:			
Interest income		(4,559,960)	(14,452,911)
Dividend income		(310,526)	(638,451)
Net changes unrealised (gains) losses in value of investments		(465,072)	8,114,782
Operating cash flows before movements in working capital		(5,059,148)	(6,047,397)
Decrease in deposit reserve		49,364	39,620
Decrease in financial assets at fair value through profit or loss		234,928,559	111,014,786
Decrease in prepayments and other receivables		800	268,237
(Decrease) increase in other payables		(1,139,320)	606,035
Cash from operations		228,780,255	105,881,281
Interest received		12,905,417	19,225,692
Dividend received		330,952	638,010
Withholding tax paid		(14,051)	(4,133,963)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<u>242,002,573</u>	<u>121,611,020</u>
<b>FINANCING ACTIVITIES</b>			
Subscription proceeds		-	393,255
Redemption payments	15	(246,400,861)	(142,545,866)
Dividend distribution to unitholders	15	(389,292)	(6,764,882)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<u>(246,790,153)</u>	<u>(148,917,493)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(4,787,580)	(27,306,473)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<u>11,538,335</u>	<u>38,844,808</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u>6,750,755</u>	<u>11,538,335</u>
Represented by bank balances		<u>6,750,755</u>	<u>11,538,335</u>

## GF CHINA RMB FIXED INCOME FUND

(A sub-fund of GF Investment Funds)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### 1. GENERAL

GF Investment Funds (the "Fund") is an open-ended unit trust established as an umbrella fund constituted by a trust deed dated 5 January 2012 (the "Trust Deed"). The Trust Deed is governed by the laws of the Hong Kong Special Administrative Region of the People's Republic of China. As at the reporting date, the Fund consists of one fund, GF China RMB Fixed Income Fund (the "Sub-Fund").

The Sub-Fund has been authorised as unit trust by the Hong Kong Securities and Futures Commission (the "SFC") under the Hong Kong Securities and Futures Ordinance of Hong Kong.

Under the Trust Deed, BOCI-Prudential Trustee Limited is appointed as the trustee (the "Trustee") of the Fund and its Sub-Fund since 2 March 2012.

The Sub-Fund's investment activities are managed by GF Asset Management (Hong Kong) Limited (the "Manager") with the administration delegated to the Trustee.

The investment objective of the Sub-Fund is to provide long term capital growth and income in RMB terms through investment primarily in fixed income securities issued within Mainland China (i.e. not less than 80% of the Sub-Fund's net asset value) and China A-Shares (i.e. not more than 20% of the Sub-Fund's net asset value) through the RMB Qualified Foreign Institutional Investor ("RQFII") quota of the RQFII Holder. The RQFII Holder is the holding company of the Manager acting through the Manager as its asset management arm.

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Sub-Fund.

#### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

##### Amendments to IFRSs that are mandatorily effective for the current year

The Sub-Fund has applied following amendments to IFRS issued by the International Accounting Standards Board (the "IASB") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Sub-Fund's financial performance and positions for the current and prior years and/or disclosures set out in the financial statements.

## GF CHINA RMB FIXED INCOME FUND

(A sub-fund of GF Investment Funds)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - continued

#### Amendments to IAS 7 "Disclosure initiative"

The Sub-Fund has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 15. Consistent with the transition provisions of the amendments, the Sub-Fund has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 15, the application of these amendments has had no impact on the Sub-Fund's financial statements.

#### New and revised IFRSs in issue but not yet effective

The Sub-Fund has not early applied the following new and revised IFRSs and International Accounting Standards ("IAS") that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers and the Related Amendments <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>4</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to IAS 28	Long-term Interests in associates and Joint Ventures <sup>2</sup>
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 - 2016 Cycle <sup>1</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 Cycle <sup>2</sup>

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - continued

New and revised IFRSs in issue but not yet effective - continued

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2018
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2019
- <sup>3</sup> Effective for annual periods beginning on or after a date to be determined
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2021

Except for the impact described below, the Trustee and the Manager of the Sub-Fund anticipate that the application of the new and revised IFRSs and IASs will have no material impact on the Sub-Fund's financial performance and positions and/or the disclosures when they become effective.

IFRS 9 Financial instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Sub-Fund are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Sub-Fund's financial instruments and risk management policies as at 31 December 2017, the Trustee and the Manager of the Sub-Fund anticipate the following impact on initial application of IFRS 9:

**GF CHINA RMB FIXED INCOME FUND**  
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2. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - continued**

IFRS 9 Financial instruments - continued

*Classification*

Based on the Sub-Fund's financial instruments and risk management policies as at 31 December 2017, the Trustee and the Manager of the Fund do not anticipate that the application of IFRS 9 in the future would have a material impact on the classification and measurement of the Sub Fund's financial assets.

*Impairment*

In general, the Trustee and the Manager of the Sub-Fund anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Sub-Fund's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Sub-Fund.

Based on the assessment by the Trustee and the Manager of the Sub-Fund, the application of the expected credit loss model by the Sub-Fund would not have a material impact on the Sub-Fund's financial statements.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with IFRSs and on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

## GF CHINA RMB FIXED INCOME FUND

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### Revenue recognition

Revenue is measured at the fair value of the considerations received or receivable, and represents the amounts receivable for services provided in the normal course of business.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Sub-Fund and when specific criteria have been met for each of the Sub-Fund's activities, as described below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Sub-Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the rights to receive payment have been established.

#### Distribution to unitholders

Distribution to unitholders is recognised in the statement of profit or loss and other comprehensive income when they are approved by the Manager.

#### Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Sub-Fund become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in statement of profit or loss and other comprehensive income. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets**

The Sub-Fund's financial assets are mainly financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for loans and receivables.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified portfolio of financial instruments that the Manager of the Sub-Fund manages and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

All investments of the Sub-Fund are classified as financial assets held for trading and measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit reserve, interest receivables, other receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments**

Debt and equity instruments issued by the Sub-Fund are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Sub-Fund after deducting all of its liabilities. Equity instruments issued by the Sub-Fund are recognised at the proceeds received, net of direct issue costs.

*Net assets attributable to unitholders*

Puttable financial instruments that meet the definition of a financial liability are classified as equity where certain strict criteria are met. Those criteria include: the puttable instruments shall entitle the holder to a pro-rata share of net assets in the event of liquidation; the puttable instruments must be the most subordinated class and that class's features must be identical; there shall be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer; and there are no other financial instruments or contracts whose total cash flows are based substantially on profit or loss, and changes in recognised net assets or changes in fair value of recognised and unrecognised net assets of the entity have the effect of substantially restricting or fixing residual return to the puttable instrument holders.

As at 31 December 2016, there were two classes of units issued for the Sub-Fund with different terms as set out in the explanatory memorandum, including management fees. As the unitholders for each class are not entitled to an identical pro-rata share of net assets in the event of liquidation, the units issued by the Sub-Fund are classified as liabilities as net assets attributable to unitholders.

On 30 June 2017, all Class I units were redeemed and there was only one class of units (Class A units) issued for the Sub-Fund which met the above conditions to be classified as equity. Accordingly, Class A units were reclassified from financial liabilities to equity prospectively.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Financial instruments - continued

**Financial liabilities and equity instruments** - continued

*Financial liabilities at amortised cost*

Financial liabilities, including other payables, are subsequently measured at amortised cost, using the effective interest method.

**Derecognition**

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire, or when the Sub-Fund transfers the financial assets and substantially all the risks and rewards of the assets to another entity. If the Sub-Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Sub-Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Sub-Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Sub-Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the statement of profit or loss and other comprehensive income excludes any interest earned on the financial assets.

The Sub-Fund derecognises financial liabilities when, and only when, the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss and other comprehensive income.

Taxation

Taxation comprises current tax and deferred tax. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Withholding taxes are imposed by certain countries on investment income and capital gains. Such income or gains are recorded gross of withholding taxes in the statement of profit or loss and other comprehensive income. Withholding taxes are shown as a separate item in the statement of profit or loss and other comprehensive income.

**GF CHINA RMB FIXED INCOME FUND**  
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3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Expenses

All expenses are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and demand deposits with banks and other financial institutions that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Foreign currencies

Transactions in currencies other than the functional currency of the Sub-Fund (foreign currencies) are recorded in the functional currency (i.e. the currency of the primary economic environment in which the Sub-Fund operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Proceeds and payments on issue and redemption of units

Subscription proceeds from units issued and redemption from units redeemed are accounted for on a transaction date basis.

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Sub-Fund's accounting policies, which are described in note 3, the Trustee and the Manager are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

GF CHINA RMB FIXED INCOME FUND  
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4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Critical accounting estimate and assumption

*Fair value of financial assets at fair value through profit or loss*

The Manager of the Sub-Fund uses its judgement in selecting an appropriate valuation technique in estimating the fair value of financial assets at FVTPL. The Manager of the Sub-Fund uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Manager uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Details of the valuations are disclosed in note 5. The Manager believes that the chosen valuation techniques are appropriate in determining the fair value of financial assets at FVTPL.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2017</u> RMB	<u>2016</u> RMB
Financial assets		
Fair value through profit or loss		
Held-for-trading investments	17,147,285	251,610,772
Loans and receivables (including bank balances)	6,994,380	20,197,208
	<u>                    </u>	<u>                    </u>
Financial liabilities		
At amortised cost	825,950	1,965,270
Net assets attributable to unitholders	-	264,520,038
	<u>                    </u>	<u>                    </u>

Financial risk management objectives and policies

The objective of the Sub-Fund is to provide long term capital growth and income in RMB terms through investments primarily in fixed income securities issued within the Mainland China. The Sub-Fund's investing activities expose them to various types of risks that are associated with financial instruments and markets in which they invest.

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

The risk exposures inherent in the Sub-Fund and the risk management policies employed by the Sub-Fund are discussed below.

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Market risk**

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation, etc. which may have a significant impact on the value of the investments. Market movement may therefore result in substantial fluctuation in the net asset value per redeemable unit of the Sub-Fund.

The Sub-Fund's activities expose them primarily to the market risk of changes in market prices, interest rates and foreign exchange rates.

*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.

Financial assets and liabilities of the Sub-Fund are mainly denominated in its functional currency. Accordingly, the currency risk of the Sub-Fund is not considered material.

*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 may invest in debt securities whose value is driven significantly by changes in interest rates, the Sub-Fund is subject to fair value interest rate risk. When interest rates rise, the value of previously issued debt securities will normally fall because debt securities issued will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously issued debt securities will normally rise.

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 Sub-Fund is also subject to cash flow interest rate risk from bank balances at variable interest rates.

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5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Market risk - continued**

*Interest rate risk - continued*

The table below summarises the Sub-Fund's exposure and sensitivity analysis to interest rate risk. 10 basis point is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	RMB	Change in assumption of +/-10 basis point and effects on profit before tax and dividend <u>distribution</u> RMB
<u>At 31 December 2017</u>		
Assets		
Held-for-trading investments in debt securities	14,344,465	-/+42,887
Bank balances	6,750,755	+/-6,751
	<u>21,095,220</u>	
<u>At 31 December 2016</u>		
Assets		
Held-for-trading investments in debt securities	231,162,980	-/+60,742
Bank balances	11,538,335	+/-11,538
	<u>242,701,315</u>	

*Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Sub-Fund is exposed to market price risk arising from listed equity instruments and collective investment schemes. Unlisted debt securities are considered not subject to price risk. The Manager manages the Sub-Fund's market price risk on a daily basis in accordance with the Sub-Fund's investment objectives and policies. The Sub-Fund's price risk is managed through diversification of the investment portfolio as well as investing in equity securities with strong fundamentals.

**GF CHINA RMB FIXED INCOME FUND**  
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5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Market risk** - continued

*Price risk* - continued

At the end of the reporting period, the overall market exposure and sensitivity analysis for the Sub-Fund attributable to collective investment schemes, based on 10% increase or decrease for the market prices as at 31 December 2017 with all other variables held constant is summarised below. The 10% increase or decrease is used when reporting price risk internally to key management personnel and represents management's assessment of the reasonably possible change in market prices. The Manager has used its view of what would be a "reasonable shift" in each key market to estimate the change for use in the market sensitivity analysis below. However, this does not represent a prediction of the future movement in the corresponding key markets.

	<u>% of increase/ decrease</u>	<u>Fair value RMB</u>	<u>Changes in fair value and effects on profit before tax and dividend distribution RMB</u>
<u>2017</u>			
Held-for-trading investments (other than debt securities)	±10%	2,802,820	280,282
<u>2016</u>			
Held-for-trading investments (other than debt securities)	±10%	20,447,792	2,044,779

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Sub-Fund.

The Sub-Fund's financial assets which are potentially subject to concentrations of credit risk consist principally of quoted debt securities classified as held-for-trading investments, interest receivables, other receivables and bank balances. In the opinion of the Manager, the carrying amounts of these financial assets shown in the statement of financial position represent the maximum credit risk exposure at the end of the reporting period.

The Sub-Fund may invest in securities which are (i) with a credit rating of BB+ or below assigned by any PRC domestic credit rating agency, (ii) with a credit rating of BB+/Ba1 or below as rated by an international credit rating agency or (iii) unrated. As at 31 December 2017, 100% (2016: 100%) of the Sub-Fund investment in debt securities were below investment grade or without rating.

**GF CHINA RMB FIXED INCOME FUND**  
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5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk** - continued

The Manager has a documented policy in place of spreading the aggregate value of transactions concluded amongst approved counterparties with an appropriate credit quality. The Sub-Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Manager.

The Sub-Fund has deposits with Bank of China (Hong Kong) Limited and Bank of China Limited and investments held by Bank of China (Hong Kong) Limited, which are financial institutions with high credit quality. Thus, the Manager considers that the credit risk from the bank and custodian is not significant.

**Liquidity risk**

Liquidity risk is the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with its financial liabilities.

The Sub-Fund's units are redeemable at the option of the unitholders, subject to the limitation below, for cash equal to a proportionate share of the Sub-Fund's net asset values. The Sub-Fund is therefore potentially exposed to cash redemptions of redeemable units. As such, the Sub-Fund invests most of the assets in short-term bank deposits and debt securities, which can be liquidated quickly in order to meet redemption payment requests.

The Manager monitors the Sub-Fund's liquidity position on a daily basis. In accordance with the Sub-Fund's offering memorandum, the Manager may, with the approval of the Trustee, limit the total number of units redeemable on any dealing day to 10% of the total number of units in issue. Any units not allowed to be redeemed will be carried forward to the following dealing day subject to the same limitation.

The table below analyses the Sub-Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	<u>Repayable on demand</u> RMB	<u>Within 1 month</u> RMB	<u>1 -3 months</u> RMB	<u>Total</u> RMB
<u>At 31 December 2017</u>				
Other payables	-	825,950	-	825,950
<u>At 31 December 2016</u>				
Other payables	-	1,965,270	-	1,965,270
Net asset attributable to unitholders*	264,520,038	-	-	264,520,038
	<u>264,520,038</u>	<u>1,965,270</u>	<u>-</u>	<u>266,485,308</u>

\* Subject to redemption terms of the Sub-Fund.

**GF CHINA RMB FIXED INCOME FUND**  
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5. FINANCIAL INSTRUMENTS - continued

Capital management

The Sub-Fund's capital is represented by the net assets attributable to unitholders. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Sub-Fund is subject to daily subscriptions and redemptions at the discretion of the unitholders. The Sub-Fund's objective when managing capital is to safeguard the Sub-Fund's ability to continue as a going concern in order to provide returns for the unitholders and benefits for other stakeholders and to maintain a strong capital base to support the investment activities of the Sub-Fund. The description of the terms and the restrictions on redemption of units are disclosed in note 12 to the financial statements.

Fair value measurements of financial instruments

All fair value measurements disclosed are recurring fair value measurements.

	<u>At 31 December 2017</u>			<u>Total</u> RMB
	<u>Level 1</u> RMB	<u>Level 2</u> RMB	<u>Level 3</u> RMB	
<b>Financial assets at FVTPL</b>				
Non-derivative financial assets held-for-trading				
Listed equity instruments	2,802,820	-	-	2,802,820
Quoted debt securities	-	14,344,465	-	14,344,465
	<u>2,802,820</u>	<u>14,344,465</u>	<u>-</u>	<u>17,147,285</u>

	<u>At 31 December 2016</u>			<u>Total</u> RMB
	<u>Level 1</u> RMB	<u>Level 2</u> RMB	<u>Level 3</u> RMB	
<b>Financial assets at FVTPL</b>				
Non-derivative financial assets held-for-trading				
Collective investment schemes	-	20,447,792	-	20,447,792
Quoted debt securities	-	231,162,980	-	231,162,980
	<u>-</u>	<u>251,610,772</u>	<u>-</u>	<u>251,610,772</u>

There were no transfers between Levels 1 and 2 during the year.

The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices at the close of trading on the year-end date. These investments are classified as level 1. The Sub-Fund's financial instruments are valued using the last traded prices provided such price is within the bid-ask spread. 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.

**GF CHINA RMB FIXED INCOME FUND**  
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5. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

For financial assets that are not traded in an active market and classified as level 2 investments, the fair value is determined using quoted market prices from observable current market transactions.

The Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values. The fair value of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models on discounted cash flow analysis.

6. TRANSACTIONS WITH THE MANAGER, THE TRUSTEE AND THEIR CONNECTED PERSONS

Connected persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the SFC (the "Code"). All transactions entered into during the year between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except those disclosed below.

(a) Holdings in the Sub-Fund

The Manager and the Manager's affiliates including connected persons did not subscribe and redeem any units in the Sub-Fund for the year ended 31 December 2017 and 2016, and did not hold any units as at 31 December 2017 and 2016.

(b) Fee payable by unitholders

Pursuant to the Sub-Fund's offering memorandum, the Manager is entitled to impose the initial charge on up to 5% of the subscription amount received for both Class A and Class I units.

During the year ended 31 December 2017 and 31 December 2016, no initial charges were paid to the Manager as they have been waived by the Manager.

(c) Bank balances and interest income on bank deposits

	<u>2017</u> RMB	<u>2016</u> RMB
The bank balance of the Sub-Fund held with Bank of China (Hong Kong) Limited, a connected person of the Trustee	378,405	4,306,367
The bank balance of the Sub-Fund held with Bank of China Limited, a connected person of the Trustee	<u>6,372,350</u>	<u>7,231,968</u>
	<u>6,750,755</u>	<u>11,538,335</u>

**GF CHINA RMB FIXED INCOME FUND**

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6. **TRANSACTIONS WITH THE MANAGER, THE TRUSTEE AND THEIR CONNECTED PERSONS - continued**

(c) Bank balances and interest income on bank deposits - continued

	<u>2017</u>	<u>2016</u>
	RMB	RMB
The interest income on bank balances held with Bank of China (Hong Kong) Limited, a connected person of the Trustee	7,201	9,526
The interest income on bank balances held with Bank of China Limited, a connected person of the Trustee	<u>32,825</u>	<u>63,593</u>
	<u>40,026</u>	<u>73,119</u>

The Sub-fund's investments were held by Bank of China (Hong Kong) Limited, the custodian of the Sub-Fund (the "Custodian").

(d) Management fee

Pursuant to the Sub-Fund's offering memorandum, management fee is charged by the Manager at the rate of 1.2% per annum for Class A and 0.75% per annum for Class I shares, calculated on a daily basis on the respective net asset value ("NAV").

For the year ended 31 December 2017, the total management fee charged was RMB1,086,525 (for the year ended 31 December 2016: RMB2,638,573) of which RMB565,850 (2016: RMB1,174,311) was payable as of 31 December 2017. The management fee payable is included in the statement of financial position as part of 'Other payables'.

(e) Trustee fee

Trustee fee is charged by the Trustee on the following basis:

For the first RMB200 million NAV per each class of the Sub-Fund: 0.175% per annum  
For the next RMB200 million NAV per each class of the Sub-Fund: 0.15% per annum  
For the next RMB200 million NAV per each class of the Sub-Fund: 0.125% per annum  
For the remaining balance of the NAV per each class of the Sub-Fund: 0.11% per annum  
With monthly minimum fee of RMB 40,000 per Sub-Fund

Trustee fee is calculated on a daily basis on the respective NAV of the Sub-Fund. For the year ended 31 December 2017, the total trustee fee charged was RMB478,710 (for the year ended 31 December 2016: RMB561,480), of which RMB37,419 (2016: RMB38,710) was payable as of 31 December 2017. The trustee fee payable is included in the statement of financial position as part of 'Other payables'.

## GF CHINA RMB FIXED INCOME FUND

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### 6. TRANSACTIONS WITH THE MANAGER, THE TRUSTEE AND THEIR CONNECTED PERSONS - continued

#### (f) Custodian fee

Pursuant to the Sub-Fund's offering memorandum, Bank of China (Hong Kong) Limited, the Custodian, and Bank of China Limited (the "RQFII Custodian"), are entitled to custody fees up to 0.1% per annum of the NAV of the Sub-Fund, including fees payable to Custodian and RQFII Custodian which are connected persons of the Trustee.

For the year ended 31 December 2017, the total custodian fee charged and paid was RMB140,851 (for the year ended 31 December 2016: RMB244,372).

All custodian fee was settled as at 31 December 2017 and 2016.

#### (g) Brokerage commission

The Sub-Fund utilised the services of GF Securities (Hong Kong) Brokerage Limited, the fellow subsidiary of the Manager, for the Sub-Fund's purchases and sales of securities.

No transaction was executed through GF Securities (Hong Kong) Brokerage Limited for the years ended 2017 and 2016.

### 7. DIVIDEND DISTRIBUTION

For the year ended 31 December 2017, the Sub-Fund distributed dividend to the Class A and Class I unitholders at RMB0.15 per unit with an ex-dividend date of 23 March 2017.

In prior year, the Sub-Fund distributed dividend to the Class A and Class I unitholders at RMB0.55 per unit with an ex-dividend date of 22 March 2016, 22 June 2016, 22 September 2016 and 21 December 2016.

### 8. TAXATION

#### Hong Kong

The Sub-Fund is exempted from Hong Kong Profits Tax on income and capital gains under Section 26A, Part (1A) of the Inland Revenue Ordinance.

**GF CHINA RMB FIXED INCOME FUND**  
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8. TAXATION - continued

China

Under the PRC Enterprise Income Tax Law, the Trust and the Sub-Fund will generally be subject to PRC withholding income tax on interests derived from RMB denominated corporate bonds issued by a PRC resident entity at the rate of 10%.

Interest income derived from bonds issued by the State Council's finance departments is specifically exempt from EIT under the PRC EIT Law; whereas interest income from bonds issued by local governments from 2009 to 2011 and those issued in 2012 and subsequent years are exempt from EIT under Circular Caishui [2011] No. 76 and Circular Caishui [2013] No. 5 respectively. The Sub-Fund treated interest income derived from policy bank bonds as quasi-government bonds and did not provide EIT prior to 8 June 2016. The Sub-Fund has reviewed the PRC tax provisioning policy on interest income derived from policy bank bonds and make provisions on interest income derived from policy bank bonds from 17 November 2014 onwards in the year ended 31 December 2016.

The Sub-Fund invested in RMB denominated securities, investment gains generated from such PRC related investments could be exposed to capital gains at a rate of 10%. On 14 November 2014, the Ministry of Finance of the PRC, the State Administration of Taxation of the PRC and the China Securities Regulatory Commission issued "Caishui [2014] No. 79 - The Circular concerning the issues of temporary exemption from the imposition of capital gains tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by the qualified foreign institutional investors (the "QFIIs") and the RMB qualified foreign institutional investors (the "RQFIIs)". Effective from 17 November 2014, the gains obtained by QFII and RQFII from transfer of equity investment assets such as PRC domestic stocks (the "Gains") shall temporarily be exempted from the corporate income tax. The clarification allows the Manager to cease capital gain tax provisioning for gains made on A Shares direct investment through RQFII Quota from 17 November 2014 onwards.

Prior to 8 June 2016, the Manager made provisions for any PRC taxes payable by the Sub-Fund on gross realised capital gains derived from RMB fixed income securities. The Sub-fund has reviewed such PRC tax provisioning policy and cease to make provisions on capital gains derived from RMB fixed income securities with effect from 8 June 2016 and to reverse all such WIT provisions made from the date of inception of the Sub-Fund to 7 June 2016.

During the year ended 31 December 2016, a late payment surcharge amounting to RMB1,834,200 was paid to the Beijing Tax Authority and is included in the statement of profit and loss and other comprehensive income as part of 'other expenses'.

Breakdown of the taxation recorded in the statement of profit or loss and other comprehensive income is as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
PRC withholding income tax provided for interest income	562,080	5,239,328
PRC withholding tax for dividend from China A-shares	-	51,933
PRC capital gains tax reversed	-	(4,050,884)
	<u>562,080</u>	<u>1,240,377</u>

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9. DEPOSIT RESERVE

As at 31 December 2016, the deposit reserve was an interest-bearing deposit at 1.62% per annum placed at the China Securities Depository and Clearing Corporation Limited ("CSDCC") for the trading of investments through the CSDCC.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2017</u> RMB	<u>2016</u> RMB
Collective investment schemes	-	20,447,792
Equity	2,802,820	-
Fixed interest rate bonds (Note)	<u>14,344,465</u>	<u>231,162,980</u>
	<u>17,147,285</u>	<u>251,610,772</u>

Note:

Maturity of the fixed interest rate bonds

	<u>Interest rate</u>	<u>Within</u> <u>1 year</u> RMB	<u>1 to 3</u> <u>years</u> RMB	<u>3 to 5</u> <u>years</u> RMB	<u>Over</u> <u>5 years</u> RMB	<u>Total</u> RMB
<u>31 December 2017</u>						
Fixed interest rate bonds	0.30% - 5.98% per annum	<u>2,244,303</u>	<u>2,495,040</u>	<u>6,864,603</u>	<u>2,740,519</u>	<u>14,344,465</u>
<u>31 December 2016</u>						
Fixed interest rate bonds	4.77% - 5.44% per annum	<u>231,162,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,162,980</u>

11. BANK BALANCES

Bank balances comprise savings and current accounts with banks at market interest rates.

12. CLASSES OF UNITS

Pursuant to the Trust Deed, multiple classes of units can be issued for the Sub-Fund. The Sub-Fund will be valued per unit of each class in accordance with the Trust Deed.

**GF CHINA RMB FIXED INCOME FUND**  
(A sub-fund of GF Investment Funds)

12. CLASSES OF UNITS - continued

The details of the investment minima apply to each class of units issued by the Sub-Fund are as follow:

Minimum initial subscription	Class A unit: RMB10,000 Class I unit: RMB10,000,000
Minimum subsequent subscription	Class A unit: RMB10,000 Class I unit: RMB500,000
Minimum holding	Class A unit: RMB10,000 Class I unit: RMB10,000,000
Minimum redemption amount	Class A unit: RMB10,000 Class I unit: RMB500,000

	<u>Class A</u>			<u>Class I</u>	
<u>As at 31 December</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	
Net asset value per unit	<u>RMB93.062</u>	<u>RMB99.275</u>	<u>N/A</u>		<u>RMB101.625</u>
Net assets attributable to unitholders	<u>RMB17,444,215</u>	<u>RMB24,718,789</u>	<u>N/A</u>		<u>RMB239,801,249</u>
Number of units	<u>187,446.973</u>	<u>248,993.741</u>	<u>-</u>		<u>2,359,656.742</u>

As at 31 December 2017, one class (2016: two classes) of units, Class A (2016: Class A and Class I), have been issued to unitholders.

As at 31 December 2016, there were two classes of units issued for the Sub-Fund with different terms as set out in the explanatory memorandum, including management fees. As the unitholders for each class are not entitled to an identical pro-rata share of net assets in the event of liquidation, the units issued by the Sub-Fund are classified as liabilities as net assets attributable to unitholders.

On 30 June 2017, all Class I units were redeemed and there was only one class of units (Class A units) issued for the Sub-Fund which met the conditions to be classified as equity as mentioned in note 3. Accordingly, Class A units were reclassified from financial liabilities to equity prospectively.

The Manager is entitled to limit the number of units of the Sub-Fund redeemed on any dealing day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of units of the Sub-Fund in issue. In this event, the limitation will apply pro rata so that all unitholders of the Sub-Fund wishing to redeem units of that Sub-Fund on that dealing day will redeem the same proportion of such units, and units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next dealing day based on the redemption price as at that dealing day, subject to the same limitation, and will have priority on the next dealing day over subsequent redemption requests received in respect of such subsequent dealing day.



**GF CHINA RMB FIXED INCOME FUND**

(A sub-fund of GF Investment Funds)

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 DECEMBER 2017

<u>Securities name</u>	<u>Holdings</u>	<u>Fair value</u> RMB	<u>% of net</u> <u>assets</u>
<b>Equity</b>			
<b>Denominated in RMB</b>			
DONGXU OPTOELECTRONIC TECHNOLOGY CO LTD-A	88,000	825,440	4.73%
HANG ZHOU GREAT STAR INDUSTRIAL CO LTD-A	70,000	968,100	5.55%
NANTONG FUJITSU MICROELECTRONICS CO LTD-A	34,000	449,480	2.58%
SUZHOU GOOD-ARK ELECTRONICS CO LTD-A	60,000	559,800	3.21%
		<u>2,802,820</u>	<u>16.07%</u>
<b>Quoted Debt Securities</b>			
<b>Denominated in RMB</b>			
AISINO CO LTD CB 1% A 12JUN2021	16,420	1,631,327	9.35%
BEIJING JOIN-CHEER SOFTWARE CO LTD CB 0.3% A 07JUN2023	8,800	838,913	4.81%
CAMEL GROUP CO LTD CB 0.3% A 24MAR2023	8,250	785,978	4.51%
CHINA GOVT BOND 2.78% A 09FEB2018	22,470	2,244,303	12.87%
CHINA SOUTH INTERNATIONAL INDUSTRIAL MATERIALS CITY SHENZHEN CO LTD 5.98% A 14JAN2019	16,000	1,515,840	8.69%
GUANGDONG HIGHSUN GROUP CO LTD CB 0.7% A 08JUN2022	9,900	912,849	5.23%
JIANGNAN MOULD AND PLASTIC TECHNOLOGY CO LTD CB 0.5% A 02JUN2023	12,000	1,115,628	6.40%
JIANGSU AUCKSUN CO LTD CB 0.7% A 22JAN2022	6,000	701,250	4.02%
JIANGSU JIANGNAN WATER CO LTD CB 0.5% A 18MAR2022	16,240	1,684,738	9.66%
JOINTOWN PHARMACEUTICAL GROUP CO LTD CB 0.4% A 15JAN2022	7,800	852,072	4.88%
SHANDONG RUYI TECHNOLOGY GROUP CO LTD 5.95% A 23OCT2020	10,000	979,200	5.61%
SHENZHEN MAOYE TRADE BUILDING CO LTD 4.5% A 05JAN2021	11,700	1,082,367	6.20%
		<u>14,344,465</u>	<u>82.23%</u>
Total investment portfolio		17,147,285	98.30%
Other net assets		296,930	1.70%
Total net assets as at 31 December 2017		<u>17,444,215</u>	<u>100%</u>
Total investments, at cost		<u>18,313,324</u>	

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

**GF CHINA RMB FIXED INCOME FUND**  
(A sub-fund of GF Investment Funds)

**PERFORMANCE TABLE (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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1. NET ASSET VALUE

<u>At the financial reporting year</u>	<u>Net asset value of the Sub-Fund RMB</u>	<u>Net asset value per unit RMB</u>
31 December 2017		
- Class A	17,444,215	93.062
- Class I	-	-
31 December 2016		
- Class A	24,718,789	99.275
- Class I	239,801,249	101.625
31 December 2015		
- Class A	33,667,024	102.162
- Class I	380,050,948	104.056

2. HIGHEST ISSUE/LOWEST REDEMPTION PRICE PER UNIT

<u>For the financial reporting year</u>	<u>Highest issue price per unit RMB</u>	<u>Lowest redemption price per unit RMB</u>
31 December 2017		
- Class A	104.863	92.514
- Class I	101.959	101.644
31 December 2016		
- Class A	102.515	98.973
- Class I	104.517	101.305
31 December 2015		
- Class A	102.897	101.081
- Class I	104.629	102.556
31 December 2014		
- Class A	101.849	96.939
- Class I	103.137	97.798
31 December 2013		
- Class A	104.306	97.462
- Class I	104.911	98.288
31 December 2012		
- Class A	102.021	99.938
- Class I	102.196	99.968

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**GF CHINA RMB FIXED INCOME FUND**  
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**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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	<u>% of net asset value</u>	
	<u>2017</u>	<u>2016</u>
<b>Fixed income securities</b>		
China	82.23%	87.39%
<b>Equity</b>		
China	16.07%	-
<b>Collective Investment Schemes</b>		
China	-	7.73%
Total investment portfolio	98.30%	95.12%
Other net assets	1.70%	4.88%
Total net asset	<u>100.00%</u>	<u>100.00%</u>

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