

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

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CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

MANAGER'S REPORT

Market Review

During the first three quarters of 2011, Hong Kong market trended down along with China's credit tightening, the deteriorating European debt crisis and the sluggish U.S. job data. Moreover, the nuclear crisis in Japan, Chinese local government financing platform issue, and the downgrade of U.S. credit rating by Standard & Poor's were also drivers. Most small and mid-cap stocks were hit hard and plunged over 50% from their previous peak. As the Fund mainly invested in mid-cap industry leaders which are policy beneficiaries yet with comparatively less liquidity, the Fund had trimmed down positions gradually amid market panic selling.

By end of the year, the market rebounded thanks to China's early move in cutting Reserve Requirement Ratio (RRR) and the 489 billion euros longer-term refinancing operation (LTRO) by the European Central Bank. However, as there is still great uncertainty surrounding the European debt crisis, and global economy is expected to further slow down in 2012, the Fund adopted a defensive investment strategy, gradually reducing equity holdings and selling index futures to lower the downside risk. As a result, the Fund recorded significant loss for the year of 2011.

Economic Outlook and Investment Strategy

In the first half of 2011, China's central bank raised both the RRR and the benchmark interest rates several times to control the rising inflation, which has started to come down since late 2011. In 2012, given the weak export and declining property investment growth, we expect China's central government to provide more liquidity for banks and introduce proactive fiscal policies to stimulate domestic demand and boost real economic activity. In all, the improving global PMI, the credit easing in China and Europe, and the loose U.S. monetary policy should provide better ground for the Hong Kong stock market in 2012.

Looking forward, as the Greece's debt payment will peak during February to April, and there has been no final agreement to secure the second bailout fund of euro 130 billion, the Fund will stay prudent with short positions in index futures in the first quarter of 2012. After we see a clear picture of where the European debt crisis is heading, the Fund will rebalance the investment portfolio based on the 12th Five-Year Plan and various industry development policies. With policy support, tier 2/3 market leaders are poised to deliver sustainable earnings growth and to outperform on cheap valuation in the future. We believe our stock pick strategy should offer investors favorable returns in the mid-long term.

)
) For and on behalf of
) CCB International Asset
) Management Limited
)

TRUSTEE'S REPORT
CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND ("THE FUND")

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 12 January 2009, as amended, for the year ended 31 December 2011.

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)
) For and on behalf of
) HSBC Institutional Trust Services
) (Asia) Limited
)
)

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF CCB INTERNATIONAL – CHINA POLICY DRIVEN FUND (THE
“FUND”)**

Report on the Financial Statements

We have audited the financial statements of the Fund set out on pages 5 to 22, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Trustee and the Manager (the “Management”) of the Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 12 January 2009 (the “Trust Deed”), as amended and the relevant financial statements disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the “SFC Code”), and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion 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.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF CCB INTERNATIONAL – CHINA POLICY DRIVEN FUND (THE
“FUND”) (CONTINUED)**

Auditor's Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Disclosure Requirements

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the relevant financial statements disclosure provisions specified in the SFC Code.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 April 2012

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	2011 HK\$	2010 HK\$
Assets			
Current assets			
Investments	5	230,652,259	536,420,480
Amounts due from brokers		1,248,830	8,404,606
Amounts due from unitholders on subscription of units		3,222,599	-
Margin deposits	6 (b)	24,567,700	-
Cash and cash equivalents	6 (b)	46,326,042	9,964,013
Total assets		<u>306,017,430</u>	<u>554,789,099</u>
Liabilities			
Current liabilities			
Amounts due to unitholders on redemption of units		58,231	56,012
Other payables		725,143	1,068,054
Total liabilities		<u>783,374</u>	<u>1,124,066</u>
Net assets attributable to unitholders (bid prices)	10	<u>305,234,056</u>	<u>553,665,033</u>
Total number of units in issue	8	<u>32,202,803</u>	<u>30,225,246</u>
Net asset value per unit at bid price		<u>9.48</u>	<u>18.32</u>

Approved by the Trustee and the Manager on 2 April 2012

.....
For and on behalf of
HSBC Institutional Trust
Services (Asia) Limited

.....
For and on behalf of
CCB International Asset
Management Limited

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

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 HK\$	2010 HK\$
Dividend income		8,313,130	7,395,212
Net (loss)/gain on investments	3	(256,837,883)	40,618,291
Net foreign exchange loss		(339)	(900)
Net investment (loss)/income		<u>(248,525,092)</u>	<u>48,012,603</u>
Brokerage commission and other transaction costs		14,824,206	17,510,659
Management fees	6(a)	7,998,451	8,436,696
Trustee's fees	6(c)	897,601	929,505
Transaction fees	6(c)	249,369	405,977
Auditors' remuneration		224,600	188,000
Legal and professional fees		47,758	44,133
Safe custody and bank charges		123,532	137,443
Miscellaneous expenses		83,489	75,924
Operating expenses		<u>24,449,006</u>	<u>27,728,337</u>
(Loss)/profit before taxation		<u>(272,974,098)</u>	<u>20,284,266</u>
Taxation	4	(206,973)	(83,695)
Total comprehensive (loss)/income for the year		<u><u>(273,181,071)</u></u>	<u><u>20,200,571</u></u>

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

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 HK\$	2010 HK\$
Balance at beginning of 1 January		553,665,033	412,204,167
		-----	-----
Total comprehensive (loss)/income for the year		(273,181,071)	20,200,571
		-----	-----
Transactions with unitholders recorded directly in equity			
Proceeds from issue of units		64,506,408	163,077,765
Payments on redemption of units		(39,756,314)	(41,817,470)
		-----	-----
Total transactions with unitholders		24,750,094	121,260,295
		-----	-----
Balance at end of 31 December	10	305,234,056	553,665,033
		=====	=====

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

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 HK\$	2010 HK\$
Operating activities		
Dividend received	8,313,130	7,395,212
Margin deposits paid	(24,567,700)	-
Payments on purchase of investments	(2,214,092,000)	(2,539,477,656)
Proceeds from sale of investments	2,287,838,695	2,444,970,737
Payments on derivative financial instruments	(17,640,585)	(6,040,050)
Brokerage commission and other transaction costs paid	(14,844,202)	(17,578,219)
Management fees paid	(8,343,687)	(8,227,239)
Trustee's fees paid	(918,413)	(918,232)
Transaction fee paid to Trustee	(258,532)	(411,863)
Auditor's remuneration paid	(192,300)	(188,000)
Legal and professional fees paid	(47,758)	(44,133)
Safe custody and bank. charges paid	(123,532)	(158,010)
Miscellaneous expenses paid	(83,828)	(77,267)
Tax paid	(206,973)	(83,695)
Net cash generated from/(used in) operating activities	14,832,315	(120,838,415)
Financing activities		
Proceeds from issue of units	61,283,809	163,077,765
Payments on redemption of units	(39,754,095)	(41,761,458)
Net cash generated from financing activities	21,529,714	121,316,307
Net increase in cash and cash equivalents	36,362,029	477,892
Cash and cash equivalents at 1 January	9,964,013	9,486,121
Cash and cash equivalents at 31 December	46,326,042	9,964,013

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

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 HK\$	2010 HK\$
Amount available for distribution brought forward	553,665,033	412,204,167
Net subscriptions and redemptions of units	24,750,094	121,260,295
Total comprehensive (loss)/income for the year	(273,181,071)	20,200,571
Amount available for distribution carried forward	<u>305,234,056</u>	<u>553,665,033</u>

Distribution policy

The Manager does not presently intend to make cash distributions in respect of the Fund. Income earned by the Fund will be reinvested in the Fund and reflected in the value of its units.

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

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

1 General information

CCB International - China Policy Driven Fund ("the Fund") is an open-ended unit trust established under a Trust Deed dated 12 January 2009, which was amended on 6 May 2010 ("the Trust Deed") and is governed by the Hong Kong law. The purpose of the Fund is to achieve capital growth over the long-term for the unitholders through investing in a broad range of companies listed primarily on Hong Kong stock exchange and/or any international securities exchanges and to benefit from the policies in place and/or to be made by the government and/or statutory bodies of Mainland China, Hong Kong, Macau and Taiwan.

The Fund is authorised by the Hong Kong Securities and Futures Commission under section 104 of the Hong Kong Securities and Futures Ordinance and is governed by the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission. The Fund is also a collective investment scheme which is included as permissible investment under the Capital Investment Entrant Scheme.

CCB International Asset Management Limited is the Manager of the Fund and HSBC Institutional Trust Services (Asia) Limited is the Trustee of the Fund.

2 Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), the relevant disclosures provisions of the Trust Deed, and the relevant disclosure requirements of the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission. A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Fund is the Hong Kong dollar.

The financial statements have been prepared on the historical cost basis except for financial assets and liabilities at fair value through profit or loss which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(c) Standards and amendments to existing standards effective 1 January 2011

The amendment to IAS 24, 'Related party disclosures', clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Fund.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Fund's financial statements.

(d) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Fund's financial position or performance, as it is expected that the Fund's will continue to classify its financial assets as being at fair value through profit or loss.

IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Fund's financial position or performance.

IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1 January 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. If the Fund adopts the standard, the Fund may change its valuation inputs for listed financial assets and liabilities to last traded prices to be consistent with the inputs prescribed in the Fund's offering document for the calculation of its per share trading value for subscriptions and redemptions. The use of last traded prices is recognised as a standard pricing convention within the industry. This year, the Fund utilised bid and ask prices for its listed financial assets and liabilities in accordance with IAS 39. The change in valuation inputs will be considered to be a change in estimate in accordance with IAS 8.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(e) Foreign currency

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are re-translated into Hong Kong dollars at the foreign currency exchange rates ruling at the dates that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the transaction date.

Foreign currency exchange differences relating to financial instruments at fair value through profit or loss are recognised in profit or loss in the “gains/losses on investments” line. All other foreign currency exchange differences relating to monetary items are recognised in profit or loss in the “net foreign exchange gain/loss” line.

(f) Financial assets and financial liabilities

(i) Classification

All of the Fund's investments are classified as financial assets at fair value through profit or loss. This category comprises financial instruments held for trading, which are instruments that the Fund has acquired principally for the purpose of short-term profit-taking. These investments include investments in equity securities and derivatives financial instruments.

Financial assets that are classified as receivables include amounts due from brokers and amounts due from unitholders on subscription of units.

Financial liabilities that are not at fair value through profit or loss include amounts due to unitholders on redemption of units and other payables.

(ii) Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(iii) Measurement (Continued)

Financial assets classified as receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities other than those at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the date of the statement of financial position without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

(v) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or when it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharge, cancelled or expires.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously, e.g. through a market clearing mechanism.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(f) Financial assets and financial liabilities (Continued)

(viii) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, have three months of maturity at acquisition, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Fund and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the statement of comprehensive income as follows:

(i) Dividends

Dividend income from listed investments is recognised in profit or loss when the share price of the investment is quoted ex-dividend. Dividend income from other investments is recognised when declared.

(ii) Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest rate method. Interest income on bank deposits is disclosed separately in profit or loss.

(h) Expenses

All expenses are recognised in statement of comprehensive income on an accrual basis.

(i) Income tax expense

Under the section 26A(IA) of the Hong Kong Inland Revenue Ordinance, the Fund is exempt from paying income taxes.

Dividend and interest income received by the Fund may be subject to withholding tax imposed in the country of origin. Investment income is recorded gross of such taxes and the corresponding withholding tax is recognised as tax expense.

(j) Related parties

For the purposes of these financial statements, a party is considered to be related to the Fund if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Fund or exercise significant influence over the Fund in making financial and operating policy decisions, or has joint control over the Fund;
- (ii) the Fund and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Fund or a joint venture in which the Fund is a venturer;

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(j) Related parties (Continued)

- (iv) the party is a member of key management personnel of the Fund or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Fund.

(k) Subscriptions and redemptions

The Fund recognises unitholders' subscriptions and allots units upon receipt of a valid subscription application and derecognises them upon receipt of a valid redemption application.

(l) Units in issue

The Fund classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has one class of redeemable units in issue. This is the most subordinate class of financial instruments in the Fund and ranks *pari passu* in all material respects and has identical terms and conditions. The redeemable units provide investors with the right to require redemption of cash at a value proportionate to the investor's share in the Fund's net assets at each redemption date and also in the event of the Fund's liquidation.

A puttable financial instrument that includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset is classified as equity instruments if it meets the following conditions:

- it entitles the holder to a pro rata share of the entity's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability;
- the total expected cash flows attributable to the instrument over its life 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 Funds over the life of the instrument.

The Fund's redeemable units meet all of these conditions and are classified as equity. The Fund's distributions are recognised in the statement of changes in net assets attributable to unitholders.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

2 Significant accounting policies (Continued)

(m) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which they may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Funds is identified as the Manager, CCB International Asset Management Limited.

(n) Comparatives

Where necessary, comparative figures have been reclassified to conform with the current year's presentation.

3 Net (loss)/gain on investments

	2011 HK\$	2010 HK\$
Net changes in fair value of		
- Equities securities	(239,197,298)	46,658,341
- Derivative financial instruments	(17,640,585)	(6,040,050)
	<hr/>	<hr/>
Total designated at fair value through profit or loss at inception	(256,837,883)	40,618,291
	<hr/>	<hr/>
Net changes in fair value on financial assets at fair value through profit or loss		
- Realised (losses)/gains	(197,603,611)	87,512,890
- Change in unrealized gains or losses	(59,234,272)	(46,894,599)
	<hr/>	<hr/>
Total net (losses)/gains	(256,837,883)	40,618,291
	<hr/>	<hr/>

4 Taxation

Taxation in the statement of comprehensive income represents:

	2011 HK\$	2010 HK\$
Overseas withholding tax	206,973	83,695
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No provision for Hong Kong profits tax has been made in the financial statements as the Fund is exempt from taxation under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Certain dividend income received by the Fund is subject to withholding tax imposed in the People's Republic of China which is charged at 10% of dividends received.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

5 Investments

	2011 HK\$	2010 HK\$
Designated at fair value through profit or loss at inception		
- Equity securities	227,419,759	536,420,480
- Derivative financial instruments	3,232,500	-
Total financial assets at fair value through profit or loss	230,652,259	536,420,480
Equity securities listed in Hong Kong	227,271,930	536,420,480
Equity securities listed in Korea	147,829	-
Derivative financial instruments	3,232,500	-
Total	230,652,259	536,420,480
Investments, at cost	259,601,124	506,135,073
Net unrealised (depreciation)/appreciation in value of investments	(28,948,865)	30,285,407
Investments, at market value	230,652,259	536,420,480

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities; changes in the futures contracts' value are settled daily with the exchange. Futures are settled on a net basis.

6 Related parties transactions

The following is a summary of transactions with related parties for the year. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

(a) Management fees

The Manager receives a management fee, payable monthly in arrears, equivalent to 1.75% per annum of the net asset value of the Fund accrued on each dealing day, which is defined in the Fund's prospectus as every business day. The management fees charged and payable for the year are as follows:

	2011 HK\$	2010 HK\$
Management fees charged for the year	7,998,451	8,436,696
Management fees payable at year end	461,992	807,228

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

6 Related parties transactions (Continued)

(b) Bank balances and margin deposits

The Fund maintains bank accounts and margin deposits with The Hongkong and Shanghai Banking Corporation Limited and HSBC Futures (S) Pte Ltd respectively, which are fellow subsidiaries of the Trustee. The balances of the bank accounts amounted to HK\$46,326,042 as at 31 December 2011 (2010: HK\$9,964,013) and the balances of margin deposits amounted to HK\$24,567,700 (2010: nil). No interest income was earned from these bank balances during the year (2010: nil).

(c) Trustee, custodian and administration fees

The Trustee receives a fee equivalent to 0.125% per annum for the first USD50 million of the net asset value of the Fund and 0.10% per annum thereafter. It is accrued on each dealing day, payable monthly in arrears, subject to a minimum fee of US\$40,000 per annum. In addition, the Trustee provides valuation services to the Fund for a fee of US\$130 per working day. The trustee fees charged and payable for the year are as follows:

	2011 HK\$	2010 HK\$
Trustee's fees charged for the year	897,601	929,505
Trustee's fees payable at year end	62,022	82,835

The Trustee also receives a charge of US\$50, US\$30 and US\$25 for each investment buy/sell transaction of the Fund in the PRC market, South Korea market and Hong Kong market respectively. The transaction fees charged and payable for the year are as follows:

	2011 HK\$	2010 HK\$
Transaction fees charged for the year	249,369	405,977
Transaction payable at year end	21,257	30,420

(d) Brokerage services

The Fund uses the brokerage services of a fellow subsidiary of the Manager to buy and sell investments. Details of transactions executed are as follows:

	2011 HK\$	2010 HK\$
Total aggregate value of transactions executed during the year	1,234,818,645	1,790,859,921
Commission paid during the year	3,087,047	4,431,695
Average rate of commission	0.25%	0.25%
Percentage of these transactions in value to total transactions of the year	27.47%	35.97%

(e) Investment in the Fund

As at 31 December 2011 and 2010, the Manager and a related company of the Manager, CCB International (Holdings) Limited, holds 2,338,270 and 19,999,999 shares of the Fund respectively.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

7 Soft commission arrangements

The Manager has entered into soft commission arrangements with brokers under which certain goods and services used to support investment decision making are received by the Manager. The Manager does not make direct payment for these services but transacts an agreed amount of business with the brokers on behalf of the Fund. Commission is paid from the Fund on these transactions.

The goods and services utilised for the Fund include the following:

- research and advisory services;
- economic and political analysis;
- portfolio analysis, including valuation and performance measurement;
- market analysis, data and quotation services;
- computer hardware and software incidental to the above goods and services; and
- clearing and custodian services and investment - related publications.

8 Units in issue

	2011	2010
Number of units in issue brought forward	30,225,246	23,292,418
Units issued during the year	4,442,807	9,279,709
Units redeemed during the year	(2,465,250)	(2,346,881)
	<hr/>	<hr/>
Number of units in issue as at 31 December	<u>32,202,803</u>	<u>30,225,246</u>

The Fund does not have any externally imposed capital requirements.

9 Financial instruments and associated risks

The Fund maintains an investment portfolio comprising equity instruments and derivative financial instruments. Details of such investments held as at 31 December 2011 are shown in the portfolio statement.

The Fund's investing activities expose them to various types of risks that are associated with the financial instruments and markets in which they invest. The Manager and the Trustee have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund. Unitholders should note that additional information in respect of risks associated with investment in the Fund can be found in the Fund's offering document.

The nature and extent of the financial instruments outstanding at the date of statement of assets and liabilities and the risk management policies employed by the Fund are discussed below.

(a) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. The Fund is exposed to price risk as changes in market prices of its investments will affect the valuation of the Fund. Price risk can be mitigated by constructing a diversified portfolio of investments across different issuers, different sectors, or traded in different markets in accordance with the investment objective of the Fund.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

9 Financial instruments and associated risks (Continued)

(a) Price risk (Continued)

Price sensitivity

The impact on a 5% increase in value of the investments at 31 December 2011, with all other variables held constant, is shown below. An equal change in the opposite direction would have reduced the net asset value by an equal but opposite amount.

As at 31 December 2011	HK\$
Market exposure	
- Listed equity securities	227,419,759
- Derivative financial instruments	3,232,500
Change in net assets if equity price increased by 5%	1,396,988

As at 31 December 2010	HK\$
Market exposure	
- Listed equity securities	536,420,480
- Derivative financial instruments	-
Change in net assets if equity price increased by 5%	26,821,024

(b) Interest rate risk

The Fund is exposed to interest rate risk to the extent that it earns bank interest on cash and deposits.

The Fund's financial assets and liabilities are non-interest bearing except for cash and cash equivalents amounted to HK\$46,326,042 as at 31 December 2011 (2010: HK\$9,941,581). At the date of statement of financial position, assuming all other factors unchanged, it is estimated that an increase in interest rates of 50 basis points would result in an increase in the net assets attributable to unitholders and the profit and total comprehensive income of the Fund by HK\$231,630 (2010: HK\$49,708).

(c) Currency risk

As the majority of the Fund's financial instruments at 31 December 2011 are denominated in Hong Kong dollars, the Fund is exposed to minimal foreign currency risk.

(d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument fails to discharge an obligation or commitment that it has entered into with the Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis.

At 31 December 2011, all of the Fund's financial assets were exposed to credit risk. As all of the cash and margin deposits are deposited with HSBC Group and investments are under custody of the Trustee's fellow subsidiaries, which belong to HSBC Group, credit risk is considered to be low. The credit rating of HSBC Holdings PLC is A+ under Standard & Poor's Rating.

Credit risk arising from transaction with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered low due to the short settlement period involved and the high credit quality of the brokers used.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

9 Financial instruments and associated risks (Continued)

(d) Credit risk (Continued)

The carrying amounts of financial assets represent the maximum credit risk exposure at the date of statement of assets and liabilities.

(e) Liquidity risk

Liquidity risk arises from the risk that the Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner. The Fund is exposed to daily liquidity risk on redemption of units.

The Fund's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

The Fund's listed investments are considered to have insignificant exposure to liquidity risk as they are all readily realisable under normal condition.

As at 31 December 2011, the Fund's financial assets and liabilities are due within three months.

(f) Fair value estimation

The methods used in estimating the fair values of financial instruments were disclosed in note 2(f)(iv).

The carrying amounts of all the financial assets and financial liabilities at the date of statement of assets and liabilities approximated their fair values. For listed investments, the fair values were determined directly by reference to published price quotations. For other financial instruments, including amounts due from/to brokers, amounts due from/to unitholders, margin deposits and other payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

The amendments to IFRS 7, Financial Instruments: Disclosures, require disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 31 December 2011, the financial instruments of the Fund carried at fair value include equity investments of HK\$227,419,759 (2010: HK\$536,420,480) listed on the Stock Exchange of Hong Kong and Korea Exchange and derivative financial instruments of HK\$3,232,500 quoted in the Stock Exchange of Hong Kong (see note 5). These instruments fall into Level 1 of the fair value hierarchy described above.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

NOTES ON THE FINANCIAL STATEMENTS

9 Financial instruments and associated risks (Continued)

(g) Concentration risk

At 31 December 2011, one of the unitholders contributed around 62% (2010: 66%) of the Fund's net assets attributable to unitholders.

10 Reconciliation of net assets values

The net asset value ("NAV") presented in the financial statements and that quoted for pricing purposes at the year end ("Dealing NAV") are different as the principles for calculating the Dealing NAV as set out in the prospectus are different from that required for financial reporting purposes under IFRSs. The following reconciliation provides details of these differences:

	2011 HK\$	2010 HK\$
NAV as reported in the financial statements as at 31 December	305,234,056	553,665,033
Adjustments for different bases adopted by the Fund in arriving at the Dealing NAV:		
- Use of last traded pricing instead of bid pricing in valuing investments	1,012,410	946,500
Dealing NAV as at 31 December	<u>306,246,466</u>	<u>554,611,533</u>

11 Segment information

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

The Manager considers that the Fund has a single operating segment which is investing in companies listed primarily on Hong Kong Stock exchange and/or international securities exchanges with the objective to benefit from the policies in place and/or to be made by the government and/or statutory bodies of Mainland China, Hong Kong, Macau and Taiwan. There were no changes in the operating segment during the year.

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of financial position.

The Fund is domiciled in Hong Kong. Majority of the Fund's income from investments is from entities listed in Hong Kong.

The Fund has no assets classified as non-current assets. The Fund has a diversified portfolio of investments. Please refer to portfolio statement on page 23 for investment holdings.

The Fund regards its unitholders as customers, as it relies on their funding for continuing operations and meeting its objectives. The Fund's unitholding structure is exposed to a significant unitholders concentration. The Fund's largest unitholder as at 31 December 2011 represents 62.11% (2010: 66.17%) of the Fund's net asset value attributable to unitholders.

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

**PORTFOLIO STATEMENT (UNAUDITED)
AS AT 31 DECEMBER 2011**

	Holdings	Market value	% of NAV
Listed equities			
Hong Kong			
China Eastern Airlines Corporation Ltd. - H Shares	1,058,000	2,909,500	0.95%
China High Speed Transmission Equipment Group Co., Ltd.	2,000,000	6,800,000	2.23%
China Railway Construction Corporation Ltd. - H Shares	4,000,000	17,040,000	5.58%
China State Construction International Holdings Ltd.	4,000,000	22,040,000	7.22%
CL Group (Holdings) Ltd.	7,600,000	2,964,000	0.97%
CSR Corporation Ltd. - H Shares	5,457,000	24,174,510	7.92%
Dongyue Group Ltd.	5,000,000	25,600,000	8.39%
I.T Ltd.	2,000,000	8,500,000	2.79%
Intime Department Store (Group) Co. Ltd.	1,126,000	8,895,400	2.91%
Kingworld Medicines Group Ltd.	4,900,000	6,419,000	2.10%
Larry Jewelry International Co. Ltd.	13,400,000	10,050,000	3.29%
Luk Fook Holdings (International) Ltd.	800,000	21,640,000	7.09%
Noble House (China) Holdings Ltd.	6,948,000	6,878,520	2.26%
Oriental Watch Holdings Ltd.	4,500,000	16,020,000	5.25%
SJM Holdings Ltd.	1,800,000	22,680,000	7.43%
Tianneng Power International Ltd.	7,046,000	24,661,000	8.08%
Korea			
East Asia Sports International Ltd.	8,091	147,829	0.05%
Total listed equities		227,419,759	74.51%
Derivative financial instruments			
H-shares Index Futures January 2012	(400)	3,232,500	1.06%
Other net assets		74,581,797	24.43%
Total net assets		305,234,056	100.00%
Total cost of investments		259,601,124	

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 2011**

	% of net assets	
	2011	2010
Listed shares		
Hong Kong	74.46	96.89
Korea	0.05	-
Derivative financial instruments		
Hong Kong	1.06	-
Total investments	<u>75.57</u>	<u>96.89</u>
Other net assets	<u>24.43</u>	<u>3.11</u>
Total net assets	<u><u>100.00</u></u>	<u><u>100.00</u></u>

CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

PERFORMANCE RECORD (UNAUDITED)

(a) Price record (Dealing NAV)

Year	Lowest	Highest
2011	9.46	19.05
2010	14.85	19.22
2009	<u>9.94</u>	<u>17.79</u>

Total net asset value (at bid prices)

	2011 HK\$	2010 HK\$	2009 HK\$
Total net asset value	<u>305,234,056</u>	<u>553,665,033</u>	<u>412,204,167</u>

Net asset value per unit (at bid prices)

Net asset value per unit	<u>9.48</u>	<u>18.32</u>	<u>17.70</u>
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CCB INTERNATIONAL - CHINA POLICY DRIVEN FUND

ADMINISTRATION

Manager

CCB International Asset Management Limited
34/F, Two Pacific Place
88 Queensway
Admiralty
Hong Kong

Directors of the Manager

Ho Siu Kee David	(resigned on 16 March 2012)
Li Ngai	
Liu Bin	(resigned on 16 March 2012)
Lo Chak Bong Alfred Bing	
Rattiwat Samson	
Song Yi	(resigned on 8 April 2011)
Xu Xiaolin	(resigned on 16 March 2012)
Yang Feng	
Bai Yue	(appointed on 17 January 2011)
Wang Xiaojun	(appointed on 8 June 2011 and resigned on 1 December 2011)
Yang Ning	(appointed on 21 September 2011)
Li Yuezhong	(appointed on 16 March 2012)

Trustee and registrar

HSBC Institutional Trust Services (Asia) Limited
1 Queen's Road Central
Hong Kong

Legal Advisers

Clifford Chance
28/F, Jardine House
One Connaught Place
Hong Kong

Auditors

PricewaterhouseCoopers
21/F Edinburgh Tower
15 Queen's Road Central
Hong Kong