

Annual Report

CCB INTERNATIONAL RMB FUND SERIES
CCB INTERNATIONAL – RMB FIXED INCOME FUND

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

For the period from 25 March 2011 (date of inception) to 31 December 2011

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ADMINISTRATION AND MANAGEMENT

MANAGER

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

DIRECTORS OF THE MANAGER

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

TRUSTEE AND REGISTRAR

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

AUDITORS

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

SOLICITORS TO THE MANAGER

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

CUSTODIAN

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

REPORT OF MANAGER

Market Review

Offshore RMB bond market has been active and volatile in 2011. The unexpected cut in the Hong Kong RMB clearing interest rate with Bank of China (Hong Kong) Ltd, the sole clearing bank for RMB in Hong Kong from 0.99% to 0.72%, by the People's Bank of China at the end of March, coupled with the 1.2% appreciation in the offshore RMB exchange rate against US\$ (from 6.5474 at the end of March to 6.4625 at the end of June) in second quarter had boosted demand for RMB and thus offshore RMB bonds from a currency as well as yield enhancement perspectives.

Compared to first quarter 2011 with a total issue size of RMB 11.1 billion, primary market activities picked up substantially in second quarter with total new issue of around RMB 44.6 billion. In addition to Chinese financial and non financial issuers, there were also multinational financial institutions and companies tapping the offshore RMB bond market for the first time. However, stronger than expected supply from the primary market, further increase in market forecast on supply of new issues going into second half of 2011, coupled with commercial banks in Hong Kong increasing the sizes of their Certificate Deposit (CD) program and were willing to pay higher yield have all begun to put pressure on performance of the market towards the end of second quarter.

Market sentiment remained weak in the beginning of third quarter with the increasing concern on possible downgrading of AAA rating of the United States government, risk of its debt ceiling not being raised and worsening in Greece debt crisis. Performance of the offshore RMB bond market began to deteriorate along side global equity & bond markets after the downgrade from AAA to AA rating of the United States government. Towards the end of third quarter, the market was aggressively sold down by deepening concern on Greece, European banks solvency problems as well as the reignited worry on the increasing risk of China going into economic hard-landing. New issue size, however, picked up substantially to reach RMB 48.9 billion as a result of the RMB 20 billion China Ministry of Finance bonds IPO during the quarter.

Sentiment in the offshore RMB bond market regained some optimism when Germany & France jointly pledged in early October to draw up a plan to recapitalize banks and to come up with a sustainable solution to Greece, followed by EU leaders, during the end of October, agreed on steps towards resolving the debt crisis which included a 50% haircut on Greek debt & bank recapitalization plan. Market recovery continued into November with the People's Bank of China cutting Required Reserve Ratio by 50 basis points while IPOs of some high quality Chinese and multi-national names being well received, before activities slowed down in December due to year end effect. Total new issue size for the quarter declined to RMB 18.3 billion.

2011 Performance

Since its launched date on 25th March 2011, the Fund took advantage of the pick up in activities, mainly in the primary market to build up exposures in fixed income instruments issued by Chinese and multi-national financial institutions and companies during second quarter 2011. The Fund had 75.95% of its NAV invested in fixed income instruments at the end of June 2011.

REPORT OF MANAGER (continued)

In view of the increasing supply of new issues, upward movements in RMB deposit rates in Hong Kong offered by banks and the increasing uncertainty in the sovereign debt situations in the United States and Europe, the Fund started to trim down exposures in 3rd quarter 2011 by reducing holdings in overvalued positions and picking up selective under valued issues, mainly via the primary market. The Fund had 51.86% of its NAV invested in fixed income instruments at the end of September 2011. The strategy allowed the Fund to outperform both the HSBC and Deutsche Bank Offshore RMB Bond Indices by around 0.48% and 1.53% respectively between launch date to the end of 3rd quarter 2011.

The Fund continued to maintain its defensive investment strategy by further reducing exposures during 4th quarter. At the end of 2011, the Fund had 42.98% of its NAV invested in fixed income instruments and the strategy widen the Funds out performance against both the HSBC and Deutsche Bank Offshore RMB Bond Indices to around 2.11% and 1.99% respectively between launch date to the end of 2011.

Market Outlook and Strategies

With China macro data pointing to slowing down money supply growth and loan growth as well as declining inflation since 4th quarter 2011, the November 2011 cut in Required Reserve Ratio was interpreted by the market as a possible early sign for more aggressive easing going forward. However, with the December 2011 Politburo meeting concluded that China would maintain a 'prudent' monetary policy and a 'proactive' fiscal policy for 2012, we believe pre-emptive and timely fiscal & monetary policies fine-tuning, as oppose to 'aggressive' loosening, would be the policy framework going forward.

Given that RMB internationalization being China's key foreign exchange policy, offshore RMB bond market is expected to continue its rapid growth and development in terms of breath, depth and sophistication. IPO activities is expected to remain busy in 2012 with Chinese & multi-national issuers coming into the offshore RMB bond market while new investment channel & product, such as the RMB Qualified Institutional Investor Scheme announced in December 2011 could accelerate the narrowing of yield gap between the onshore & offshore RMB bond markets.

The fund would continue to adopt disciplined investment approach in identifying & investing in the Offshore RMB bonds via both the primary & secondary markets to enhance investment return going forward.

CCB International Asset Management Limited
30 March 2012

REPORT OF THE TRUSTEE

We hereby confirm that, in our opinion, the Manager, CCB International Asset Management Limited, has, in all material respects, managed CCB International RMB Fund Series – CCB International – RMB Fixed Income Fund for the year ended 31 December 2011 in accordance with the provisions of the Trust Deed dated 29 December 2010, as amended.

On behalf of
BOCI-Prudential Trustee Limited, the Trustee

30 March 2012

INDEPENDENT AUDITORS' REPORT

To the Trustee and Unitholders of

CCB International RMB Fund Series – CCB International – RMB Fixed Income Fund

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

We have audited the accompanying financial statements of CCB International RMB Fund Series – CCB International – RMB Fixed Income Fund (the “Sub-Fund”) set out on pages 7 to 33, which comprise the Statement of financial position as at 31 December 2011 and the Statement of comprehensive income, Statement of changes in equity, Statement of cash flows and Statement of distribution for the period from 25 March 2011 (date of inception) to 31 December 2011, and a summary of significant accounting policies and other explanatory information.

Trustee's and Manager's responsibilities for the financial statements

The Trustee and Manager of the Sub-Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix E to the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the “Code”), 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with the disclosure requirements of Appendix E to the Code, and for no other purpose. 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, and whether the financial statements are in accordance with the disclosure requirements of Appendix E to the Code.

INDEPENDENT AUDITORS' REPORT (continued)

To the Trustee and Unitholders of

CCB International RMB Fund Series – CCB International – RMB Fixed Income Fund

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the Sub-Fund's preparation of the 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 Sub-Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee and the Manager, as well as evaluating the overall presentation of the financial statements.

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 accompanying financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2011, and of its financial performance and cash flows for the period from 25 March 2011 (date of inception) to 31 December 2011 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements of the Code.

Emst & Young
Certified Public Accountants
Hong Kong
30 March 2012

STATEMENT OF COMPREHENSIVE INCOME

For the period from 25 March 2011 (date of inception) to 31 December 2011

	Notes	RMB
INCOME		
Interest from financial assets at fair value through profit or loss		4,178,319
Interest from bank deposits		821,845
Net losses on financial assets at fair value through profit or loss	6	(7,582,098)
Net foreign exchange gains		<u>1,831</u>
		<u>(2,580,103)</u>
EXPENSES		
Management fee	4	(1,624,980)
Trustee fee	4	(410,172)
License fee		(7,558)
Custodian fee	4	(35,594)
Auditors' remuneration		(179,597)
Preliminary expenses		(959,166)
Publishing charges		(4,597)
Brokerage fees and other transaction costs		(21,100)
Other expenses		<u>(37,492)</u>
		<u>(3,280,256)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME		
FOR THE PERIOD		<u><u>(5,860,359)</u></u>

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

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	RMB
ASSETS		
Financial assets at fair value through profit or loss	6	134,512,470
Cash and cash equivalents	7	179,709,060
Interest receivable		1,067,638
Prepaid expenses		9,556
Subscription proceeds receivable		177,568
TOTAL ASSETS		<u><u>315,476,292</u></u>
LIABILITIES		
Management fee payable	4	181,363
Trustee fee payable	4	45,341
Custodian fee payable	4	6,477
Distribution payable	10	2,246,898
Accrued expenses and other payables		66,917
TOTAL LIABILITIES		<u><u>2,546,996</u></u>
EQUITY		
Capital	9	321,036,553
Accumulated losses		(8,107,257)
TOTAL EQUITY	9	<u><u>312,929,296</u></u>
TOTAL LIABILITIES AND EQUITY		<u><u>315,476,292</u></u>
NUMBER OF UNITS IN ISSUE	8	<u><u>3,209,854.97</u></u>
NET ASSET VALUE PER UNIT	9	<u><u>97.49</u></u>

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

STATEMENT OF CHANGES IN EQUITY

For the period from 25 March 2011 (date of inception) to 31 December 2011

	Notes	Capital RMB	Accumulated losses RMB	Total RMB
At 25 March 2011 (date of inception)		—	—	—
Subscription of units	8	348,464,957	—	348,464,957
Redemption of units	8	(27,428,404)	—	(27,428,404)
Total comprehensive income for the period		—	(5,860,359)	(5,860,359)
Distribution to unitholders	10	<u>—</u>	<u>(2,246,898)</u>	<u>(2,246,898)</u>
At 31 December 2011		<u>321,036,553</u>	<u>(8,107,257)</u>	<u>312,929,296</u>

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

STATEMENT OF CASH FLOWS

For the period from 25 March 2011 (date of inception) to 31 December 2011

	RMB
CASH FLOWS FROM OPERATING ACTIVITIES	
Total comprehensive income for the period	(5,860,359)
Adjustments for:	
Interest from financial assets at fair value through profit or loss	(4,178,319)
Interest from bank deposits	(821,845)
Increase in financial assets at fair value through profit or loss	(142,094,568)
Net losses on financial assets at fair value through profit or loss	7,582,098
Increase in prepaid expenses	(9,556)
Increase in management fee payable	181,363
Increase in trustee fee payable	45,341
Increase in custodian fee payable	6,477
Increase in accrued expenses and other payables	66,917
Cash used in operations	(145,082,451)
Interest received	3,932,526
Net cashflow used in operating activities	(141,149,925)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in time deposits	(20,000,000)
Net cashflow used in investing activities	(20,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of units	348,287,389
Payments for redemption of units	(27,428,404)
Net cashflow generated from financing activities	320,858,985
NET INCREASE IN CASH AND CASH EQUIVALENTS AND AT END OF PERIOD	159,709,060
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS	
Bank balances	44,460,498
Time deposits	135,248,562
Cash and cash equivalents as stated in statement of financial position	179,709,060
Time deposits with original maturity of more than three months when acquired	(20,000,000)
Cash and cash equivalents as stated in statement of cash flows	159,709,060

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

STATEMENT OF DISTRIBUTION

For the period from 25 March 2011 (date of inception) to 31 December 2011

	RMB
At 25 March 2011 (date of inception)	–
Total comprehensive income for the period	(5,860,359)
Distribution for the period	<u>(2,246,898)</u>
Undistributed loss at 31 December 2011	<u><u>(8,107,257)</u></u>

With reference to the Trust Deed, the amount available for distribution is the total net amount receivable by the fund in respect of the relevant period (“Total Income”) minus any expenses chargeable against income, subject to adjustments made in accordance with Clause 15.3. Total Income would include amount receivable by way of interests (e.g. generated from bank deposits), dividends (e.g. from coupons), or other receipts as determined by the Manager to be in the nature of income. Capital gains or losses, whether realized or unrealized, do not form part of Total Income and therefore would not impact on the amount available for distribution.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

1. THE SUB-FUND

CCB International RMB Fund Series (the “Trust”) was constituted as an open-ended unit trust established as an umbrella fund under the laws of Hong Kong pursuant to a trust deed dated 29 December 2010 (the “Trust Deed”) between CCB International Asset Management Limited (the “Manager”) and BOCI-Prudential Trustee Limited (the “Trustee”).

CCB International – RMB Fixed Income Fund (the “Sub-Fund”) was constituted as a separate sub-fund of the Trust on 25 March 2011. The Sub-Fund is an open-ended unit trust and is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”) under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the SFC (the “SFC Code”). Authorisation by the SFC does not imply official approval or recommendation. As at 31 December 2011, no other sub-fund had been established by the Trust.

The investment objective of the Sub-Fund is to achieve long-term capital return while maintaining a steady flow of income through investment primarily in a diversified portfolio of debt instruments denominated in RMB. It may also invest in other RMB denominated deposits issued outside Mainland China, such as bank certificate of deposit, bank deposits and negotiated term deposits, commercial papers and short term bills and notes.

2.1 BASIS OF PREPARATION

The financial statements of the Sub-Fund have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss, that have been measured at fair value.

The financial statements are presented in RMB and all values are rounded to the nearest RMB except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

- IFRS 9 *Financial Instruments*¹
- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*²
- IFRS 13 *Fair Value measurement*³

¹ Effective for annual periods beginning on or after 1 January 2015

² Effective for annual periods beginning on or after 1 July 2012

³ Effective for annual periods beginning on or after 1 January 2013

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Sub-Fund's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Sub-Fund will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Sub-Fund's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The Manager is in the progress of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Manager considers that these new and revised IFRSs are unlikely to have a significant impact on the Sub-Fund's results of financial performance or position for the Sub-Fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) *Classification*

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

Financial assets at fair value through profit or loss

The Sub-Fund classifies all of its investments as financial assets at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to reverse repurchase agreements, cash collateral on securities borrowed and other short-term receivables.

Other financial liabilities

This category includes all financial liabilities, other than those classified as held for trading. The Sub-Fund includes in this category amounts relating to other short-term payables.

(ii) *Recognition*

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

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

(iii) *Initial measurement*

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iv) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in '*Net gain or loss on financial assets and liabilities at fair value through profit or loss*'.

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Sub-Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(v) Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Sub-Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement; and
- Either (a) the Sub-Fund has transferred substantially all the risks and rewards of the asset, or (b) the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) *Derecognition (continued)*

When the Sub-Fund has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Sub-Fund's continuing involvement in the asset. In that case, the Sub-Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Sub-Fund has retained.

The Sub-Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same and broker quotes. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 6.

Impairment of financial assets

The Sub-Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'Credit loss expense'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Sub-Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the profit or loss.

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

Offsetting financial instruments

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

Functional and presentation currency

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

Foreign currency transactions

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

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

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in profit or loss in the statement of comprehensive income as part of the '*Net gain or loss on financial assets and liabilities at fair value through profit or loss*'. Exchange differences on other financial instruments are included in profit or loss in the statement of comprehensive income as '*Net foreign exchange gains/(losses)*'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest revenue

Interest revenue is recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

Net gain or loss on financial assets and liabilities at fair value through profit or loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as ‘at fair value through profit or loss’ and excludes interest and dividend income and expenses.

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

Realised gains and losses on disposals of financial instruments classified as ‘at fair value through profit or loss’ are calculated using weighted average cost method. They represent the difference between an instrument’s initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, demand deposits and fixed deposits. Cash equivalents are short-term, highly liquid investments, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as “cash and cash equivalents”.

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

Capital

A puttable financial instrument is classified as an equity instrument when:

- (a) It entitles the holder to a pro-rata share of the Sub-Fund’s net assets in the event of the Sub-Fund’s liquidation.
- (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments.
- (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital (continued)

- (d) The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro-rata share of the Sub-Fund's net assets.
- (e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

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

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

The Sub-Fund's redeemable Class A units meet the definition of puttable instruments classified as equity instruments under the revised IAS 32 *Financial Instruments: Presentation*.

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

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

Upon issuance of units, the consideration received is included in equity.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital (continued)

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

No gain or loss is recognized in the statement of comprehensive income on the purchase, sale, issuance or cancellation of the Sub-Fund's own equity instruments.

Distributions to unitholders

Distributions are at the discretion of the Sub-Fund. A distribution to the Sub-Fund's unitholders is accounted for as a deduction from retained earnings/accumulated losses. A proposed distribution is recognised as a liability in the period in which it is approved by the Manager. No distribution will be paid out of the Sub-Fund's capital.

Related parties

A party is considered to be related to the Sub-Fund if:

- (a) The party is a person or a close member of that person's family and that person,
 - (i) has control or joint control over, the Sub-Fund;
 - (ii) has significant influence over the Sub-Fund; or
 - (iii) is a member of the key management personnel of the Sub-Fund or of a parent of the Sub-Fund;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Sub-Fund are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Sub-Fund are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-Fund or an entity related to the Sub-Fund;
- (vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Taxes

In some jurisdiction, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in the statement of comprehensive income. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Functional currency

The primary objective of the Sub-Fund is to generate returns in RMB, its capital-rising currency. The liquidity of the Sub-Fund is managed on a day-to-day basis in RMB in order to handle the issue, acquisition and resale of the Sub-Fund's redeemable units. The Sub-Fund's performance is evaluated in RMB. Therefore, management considers RMB as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data. IFRS 7 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the Sub-Fund performs sensitivity analysis or stress testing techniques.

4. FEES

Management fee

The Manager is entitled to receive, on an annual basis, a management fee from the Sub-Fund, at a rate of 0.7% per annum with respect to the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

The management fee for the period was RMB1,624,980. As at 31 December 2011, management fee of RMB181,363 was payable to the Manager.

Trustee fee

The Trustee is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at a rate of 0.175% per annum of the net asset value of the Sub-Fund calculated, subject to a minimum monthly fee of RMB40,000, and accrued on each dealing day and is paid monthly in arrears.

The trustee fee for the period was RMB410,172. As at 31 December 2011, trustee fee of RMB45,341 was payable to the Trustee.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. FEES (continued)

Custodian fee

The Custodian is entitled to receive, on an annual basis, a trustee fee from the Sub-Fund, at a rate up to 0.025% per annum of the net asset value of the Sub-Fund calculated and accrued on each dealing day and is paid monthly in arrears.

The custodian fee for the period was RMB35,594. As at 31 December 2011, custodian fee of RMB6,477 was payable to the Custodian.

5. TAXATION

The Sub-Fund is exempt from Hong Kong profit tax on profits arising from authorised activities under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 RMB
Held for trading	
– quoted debt securities	134,512,470
Losses recognised in relation to financial assets at fair value through profit or loss:	
– realised loss	(5,630,961)
– unrealised loss	(1,951,137)
Net loss	(7,582,098)

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash at banks and short term deposits. The cash at bank of the Sub-Fund was being held in interest bearing bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. NUMBER OF UNITS IN ISSUE

The following is the subscription/(redemption) of units of the Sub-Fund during the period ended 31 December 2011:

	Number of units	RMB
Subscription of units	3,485,511.96	348,464,957
Redemption of units	<u>(275,656.99)</u>	<u>(27,428,404)</u>
At 31 December 2011	<u><u>3,209,854.97</u></u>	<u><u>321,036,553</u></u>

9. CAPITAL

The Sub-Fund's capital is represented by redeemable units. Quantitative information about the Sub-Fund's capital is provided in the statement of changes in equity.

An issue or resale of units may take place on any business day. Issuance and repurchase of redeemable units is based on NAV per unit at the date of the transaction.

The consideration received or paid for units issued or re-purchased respectively is based on the value of the Sub-Fund's net assets value per unit at the date of the transaction. The Sub-Fund's net asset value per unit is calculated by dividing the Sub-Fund's net assets with the total number of outstanding unit. The difference between the treatment on preliminary expenses as prescribed by IFRS and the methodology indicated in the Sub-Fund's Trust Deed dated 29 December 2010 results in a difference in the calculation of the Sub-Fund's net asset value of RMB807,594 as of 31 December 2011 for the purpose of calculating the net asset value per unit for processing subscription and redemptions in the Sub-Fund.

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

	2011 RMB
Net asset value as per statement of financial position	312,929,296
Adjustment on preliminary expenses (note a)	807,594
Adjustment on distribution payable (note b)	<u>2,246,898</u>
Published net asset value	<u><u>315,983,788</u></u>
Published net asset value per unit	<u><u>98.44</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. CAPITAL (continued)

Notes:

- a) The published net asset value per unit issued is calculated in accordance with the Offering Memorandum while the net asset value per unit as reported in the statement of financial position included an audit adjustment for recognition of all preliminary expenses incurred in the statement of comprehensive income.
- b) Distribution for 2011 declared by the Manager on 17 November 2011.

Capital management

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

10. DISTRIBUTION

	Distribution RMB	Distribution per unit RMB
Distribution for 2011 declared by the Manager on 17 November 2011	<u>2,246,898</u>	<u>0.7</u>

With reference to the Trust Deed, the amount available for distribution is the total net amount receivable by the fund in respect of the relevant period ("Total Income") minus any expenses chargeable against income, subject to adjustments made in accordance with Clause 15.3. Total Income would include amount receivable by way of interests (e.g. generated from bank deposits), dividends (e.g. from coupons), or other receipts as determined by the Manager to be in the nature of income. Capital gains or losses, whether realized or unrealized, do not form part of Total Income and therefore would not impact on the amount available for distribution.

11. FINANCIAL RISK AND MANAGEMENT OBJECTIVE AND POLICIES

Investment in the Sub-Fund is 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 performance of the Sub-Fund will be affected by a number of risk factors, including the following:

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Market risk

Market risk is the risk of loss arising from uncertainty concerning movements in market prices and rates, including observable variables such as interest rates, credit spreads, exchange rates, and others that may be only indirectly observable such as volatilities and correlations. Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectation etc. which may have 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 assumes market risk in trading activities. The Sub-Fund distinguishes market risk as follows:

- Price risk
- Interest rate risk
- Foreign exchange risk

Price risk

The Sub-Fund's market price risk is managed through diversification of the investment portfolio as well as investing in securities with strong fundamentals. The table below summarises the overall market exposures of the Sub-Fund by market and the impact of increases/ decreases from the Sub-Fund's financial assets at fair value through profit or loss on the Sub-Fund's net asset value as at 31 December 2011. The analysis is based on the assumption that the underlying investments in debt securities increased/decreased by a reasonable possible shift, with all other variables held constant. The Manager has used its view of what would be a "reasonable possible shift" in each key market to estimate the change in the sensitivity analysis below. However, this does not represent a prediction of the future movement in the corresponding key markets.

	Carrying value of financial assets at fair value through profit or loss RMB	% of net assets %	Reasonable possible shift in underlying securities %	Estimated possible change in net asset value RMB +/-
As at 31 December 2011				
Held for trading				
– debt securities	134,512,470	42.98	1	1,345,125

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Market risk (continued)

Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of interest-bearing assets and future cash flow.

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

The following table demonstrated the sensitivity of the Sub-Fund's profit or loss for the period to reasonably possible change in interest rate, with all other variables held constant.

	Carrying value of financial assets at fair value through profit or loss RMB	% of net assets %	Reasonable possible change in interest rate %	Estimated possible change in net asset value RMB +/-
As at 31 December 2011				
Held for trading				
– debt securities	134,512,470	42.98	0.25	1,083,908

The Sub-Fund also has interest-bearing bank and term deposits. As the bank and short term deposits have maturity dates within six months, the Manager considers the movement in interest rates will have insignificant cash flow impact on the daily net assets attributable to holders of redeemable units as at 31 December 2011 and therefore no sensitivity analysis is presented.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Market risk (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

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

Liquidity risk

Liquidity risk is the risk that the Sub-Fund may not be able to generate sufficient cash and resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous to the Sub-Fund.

The RMB debt instruments in which the Sub-Fund invests are currently not listed on a stock exchange or a securities market where trading is conducted on a regular basis. There is also no guarantee that market making arrangements will be in place to make a market and quote a price for all RMB debt instruments. In the absence of an active secondary market, the Sub-Fund may need to hold the RMB debt instruments until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such instruments. Even if a secondary market is developed, the price at which the RMB debt instruments are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates.

Further, the bid and offer spread of the price of RMB Income Instruments may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. The Manager seeks to control the liquidity risk of the investment portfolio by a series of internal management measures in order to meet unitholders' redemption requests.

The following table summarises the maturity profile of the Sub-Fund's financial liabilities based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is insignificant. The table also analyses the maturity profile of the Sub-Fund's financial assets in order to provide a complete view of the Sub-Fund's contractual commitments and liquidity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Liquidity risk (continued)

Financial liabilities

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

Financial assets

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

All financial assets and liabilities are expected to be either realised or settled, within no more than 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Liquidity risk (continued)

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	1 to 5 years RMB	Total RMB
At 31 December 2011					
<u>Assets</u>					
Cash and cash equivalents	44,460,498	115,248,562	20,000,000	–	179,709,060
Financial assets at fair value through profit or loss	–	134,512,470	–	–	134,512,470
Interest receivable	–	967,638	100,000	–	1,067,638
Subscription proceeds receivable	–	177,568	–	–	177,568
Total financial assets	<u>44,460,498</u>	<u>250,906,238</u>	<u>20,100,000</u>	<u>–</u>	<u>315,466,736</u>

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	1 to 5 years RMB	Total RMB
At 31 December 2011					

Liabilities

Management fee payable	–	181,363	–	–	181,363
Trustee fee payable	–	45,341	–	–	45,341
Custodian fee payable	–	6,477	–	–	6,477
Distribution payable	–	2,246,898	–	–	2,246,898
Accrued expenses and other payables	–	8,864	58,053	–	66,917
Total financial liabilities	<u>–</u>	<u>2,488,943</u>	<u>58,053</u>	<u>–</u>	<u>2,546,996</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Credit and counterparty risk

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

If the issuer of any of the fixed interest securities in which the Sub-Fund's assets are invested defaults, the performance of the Sub-Fund will be adversely affected.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Sub-Fund's financial assets which are potentially subject to concentrations of counterparty risk consist principally of bank deposits and assets held with the custodian. The table below summarises the Sub-Fund's assets placed with banks and the custodian:

As at 31 December 2011

	RMB	Credit rating	Source of credit rating
<u>Banks</u>			
Bank of China (Hong Kong) Limited	44,460,498	P-1	Moody's
CCB (Asia) Corporation Limited	40,055,567	P-1	Moody's
ICBC (Asia) Limited	40,045,160	P-1	Moody's
CCB HK Branch	55,147,835	P-1	Moody's
<u>Custodian</u>			
Bank of China (Hong Kong) Limited	134,512,470	P-1	Moody's

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Fair value estimation

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Sub-Fund classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

The determination of what constitutes 'observable' requires significant judgement by the Sub-Fund. The Sub-Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Sub-Fund's financial assets measured at fair value at 31 December 2011.

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Financial assets held for trading:				
– Debt securities	<u>–</u>	<u>134,512,470</u>	<u>–</u>	<u>134,512,470</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Fair value estimation (continued)

The Sub-Fund invests in listed debt securities, corporate and government bonds. When these instruments are not measured at the quoted price in an active market they are valued using observable inputs, such as recently executed transaction prices in securities of the issuer or broker quotes. To the extent that these inputs are observable, the Sub-Fund classifies the fair value of these investments as Level 2.

There are no investments classified within level 3 and no transfers between levels for the period ended 31 December 2011.

A detailed portfolio listing is set out on page 36.

12. TRANSACTIONS WITH MANAGER AND ITS CONNECTED PERSONS

Connected persons of the Manager are those as defined in the SFC Code. All transactions entered into during the period between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Sub-Fund does not have any other transactions with connected persons except for what is disclosed in Note 4.

13. SOFT COMMISSION ARRANGEMENTS

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

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

Since the inception of the Sub-Fund, the Manager had not participated in any soft dollar arrangements in respect of any transactions for the accounts of the Sub-Fund.

14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Trustee and the Manager on 30 March 2012.

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS

31 December 2011

<u>Movements in nominal value</u>		
At 25		At 31
March 2011	Additions	December 2011

LISTED DEBT SECURITIES

Denominated in RMB

Luxembourg

Air Liquide Finance 3% S/A 19Sep2016	–	5,000,000	5,000,000
Air Liquide Finance 3.95% S/A 19Sep2018	–	9,000,000	9,000,000

Singapore

Asia Pacific Ports Development 5.8% S/A 28Oct2014 Regs	–	8,500,000	8,500,000
Baosteel Group Corp Ltd 3.5% S/A 01Dec2014 Regs	–	14,000,000	14,000,000
Zhongsheng Group 4.75% S/A 21Apr2014 Ser HK	–	1,500,000	1,500,000

UNLISTED DEBT SECURITIES

Denominated in RMB

BSH Bosch Und Siemens Hausgerate 2.375% S/A 29Sep2014 Regs	–	8,000,000	8,000,000
China Development Bk/HK 3.2% S/A 23Sep2021 Fxcd	–	18,000,000	18,000,000
China Govt Bond 1.94% S/A 18Aug2018 Regs	–	4,000,000	4,000,000
China Govt Bond 2.48% S/A 01Dec2020	–	4,000,000	4,000,000
China Power New 3.75% S/A 29Apr2014 Ser HK	–	20,000,000	20,000,000
CNPC Golden Autumn Ltd 2.95% S/A 26Oct2014 Regs	–	4,000,000	4,000,000
ICBC Macau 1.45% S/A 09Feb2012 Ser HK	–	20,000,000	20,000,000
Lafarge Shui On Cement Ltd 9% S/A 14Nov2014 Regs	–	5,000,000	5,000,000
Sinotruk Hong Kong Ltd 2.95% S/A 29Oct2012 Ser HK	–	15,300,000	15,300,000

PERFORMANCE TABLE

31 December 2011

Sub-Fund	Financial period ended	Net asset value of the Sub-Fund RMB	Net asset value per unit RMB
CCB International – RMB Fixed Income Fund	31 December 2011 ¹	312,929,296	97.49

PERFORMANCE RECORD

31 December 2011

Sub-Fund	Financial period ended	Highest issue price per unit RMB	Lowest redemption price per unit RMB
CCB International – RMB Fixed Income Fund	31 December 2011 ¹	100.41	98.01

¹ Period from 25 March 2011 (date of inception) to 31 December 2011

INVESTMENT PORTFOLIO

31 December 2011

	Nominal value	Fair value	% of net assets
<u>LISTED DEBT SECURITIES</u>			
Denominated in RMB			
<u>Luxembourg</u>			
Air Liquide Finance 3% S/A 19Sep2016	5,000,000	4,862,500	1.55
Air Liquide Finance 3.95% S/A 19Sep2018	9,000,000	8,910,000	2.85
<u>Singapore</u>			
Asia Pacific Ports Development 5.8% S/A 28Oct2014 Regs	8,500,000	8,483,000	2.71
Baosteel Group Corp Ltd 3.5% S/A 01Dec2014 Regs	14,000,000	13,965,000	4.46
Zhongsheng Group 4.75% S/A 21Apr2014 Ser HK	1,500,000	1,267,500	0.41
<u>UNLISTED DEBT SECURITIES</u>			
Denominated in RMB			
BSH Bosch Und Siemens Hausgerate 2.375% S/A 29Sep2014 Regs	8,000,000	7,920,000	2.53
China Development Bk/HK 3.2% S/A 23Sep2021 Fxcd	18,000,000	17,730,000	5.67
China Govt Bond 1.94% S/A 18Aug2018 Regs	4,000,000	3,925,200	1.25
China Govt Bond 2.48% S/A 01Dec2020	4,000,000	3,960,800	1.27
China Power New 3.75% S/A 29Apr2014 Ser HK	20,000,000	19,100,000	6.10
CNPC Golden Autumn Ltd 2.95% S/A 26Oct2014 Regs	4,000,000	4,010,000	1.28
ICBC Macau 1.45% S/A 09Feb2012 Ser HK	20,000,000	19,980,000	6.38
Lafarge Shui On Cement Ltd 9% S/A 14Nov2014 Regs	5,000,000	5,100,000	1.63
Sinotruk Hong Kong Ltd 2.95% S/A 29Oct2012 Ser HK	15,300,000	15,298,470	4.89
Total investment portfolio (cost: RMB136,463,607)		134,512,470	42.98
Other net assets		178,416,826	57.02
Total net assets		312,929,296	100.00

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