

**CICC-SZSE 100 INDEX TRACKER\*,  
(A SUB-FUND OF CICC INDEX TRUST\*)**

31 December 2012

**\* This is a synthetic ETF**

(Stock code: 3051)

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## **INVESTMENT MANAGER'S REPORT**

### **To the unitholders of CICC-SZSE 100 Index Tracker\* ("Fund")**

#### **(\* This is a synthetic ETF)**

The Manager has made an application to the Stock Exchange of Hong Kong Limited (the "SEHK") for the cessation of trading of the Units of the Fund on the SEHK with effect from 9:00 am (Hong Kong time) on 29 June 2012 (the "Trading Cessation Date"). The application was approved by the SEHK and the Fund has ceased trading as from the Trading Cessation Date.

Also, the Manager has applied to the Listing Committee of the SEHK for its approval for the Delisting to be completed following the Termination Date. The SEHK has on 22 June 2012 confirmed that the withdrawal of the listing of the Units of the Fund from the SEHK will be effective at or around the same time of the Deauthorisation of the Fund (the Deauthorisation is subject to the approval of the SFC), which is expected to be around one month after 31 March 2015 or an earlier date when the Fund has settled the PRC capital gain tax ("CGT") liability with the relevant PRC tax authorities. Accordingly, the Fund's listing and authorised status will be maintained until the respective Delisting and Deauthorisation.

As of 28 June 2012, i.e. the Last Trading Day, the Net Asset Value of the Fund and the Net Asset Value per Unit were HK\$5,934,599.84 and HK\$15.8256 respectively.

All Base Securities of the Fund has been liquidated effective on the Trading Cessation Date. Accordingly, from the Trading Cessation Date onwards:

- (a) the Fund will only hold cash;
- (b) the Fund will cease to track the Underlying Index, and will not be able to meet its investment objective of tracking the performance of the Underlying Index; and
- (c) the Units of the Fund will no longer be traded on the SEHK.

The Manager has paid an interim distribution of HK\$15.58 to the investors on 19 September 2012, with record date as at 4 July 2012.

Please refer to announcements published on Manager's website and the HKSE website for details.

For and on behalf of the Manager

**China International Capital Corporation Hong Kong Asset Management Limited**

29 April 2013

## **TRUSTEE'S REPORT**

### **CICC-SZSE 100 Index Tracker\* (“the Fund”), a Sub-fund of CICC Index Trust\***

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 18 December 2009, for the year ended 31 December 2012.

For and on behalf of the Trustee

**HSBC Institutional Trust Services (Asia) Limited**

29 April 2013

# **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CICC-SZSE 100 INDEX TRACKER\***

## **Report on the financial statements**

We have audited the financial statements of CICC-SZSE 100 Index Tracker\* ("the Fund") set out on page 5 to 21, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

In addition, the Manager and the Trustee also have responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code").

## **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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 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 auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2012 and of its transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CICC-SZSE 100 INDEX TRACKER\***

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to notes 1 and 2(b) to the financial statements which state that the Manager, by means of a resolution of the board of directors of the Manager dated 29 May 2012, decided to terminate the Fund and the Trust with the last trading day of the units of the Fund on the Stock Exchange of Hong Kong being 28 June 2012. The Fund liquidated all investments on 29 June 2012 and held cash only afterwards. An interim distribution, which is equal to the net asset value of the Fund as of 29 June 2012, was paid to unitholders in September 2012. The net asset value per unit of the Fund was reduced to HK\$0 after completion of the interim distribution. Accordingly, the Fund is no longer a going concern and its financial statements have been prepared on a break-up basis.

### **Report on disclosure requirements under the Code**

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

### **KPMG**

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

29 April 2013

# STATEMENT OF FINANCIAL POSITION

**as at 31 December 2012**  
(Expressed in Hong Kong Dollars)

	Note	2012	2011
<b>Assets</b>			
Investments at fair value through profit or loss	4	\$ –	\$ 9,974,324
Cash and cash equivalents	5(c)	2,104,394	1,100,131
<b>Total assets</b>		<u>\$ 2,104,394</u>	<u>\$ 11,074,455</u>
<b>Liabilities</b>			
Current taxation	3(c)	\$ 1,265,219	\$ 1,265,219
Deferred tax liabilities	3(b)	–	9,495
Accrued expenses and other payables	5(a), (b) & 6	839,175	562,473
<b>Total liabilities</b>		<u>\$ 2,104,394</u>	<u>\$ 1,837,187</u>
<b>Net assets attributable to unitholders</b>	10	<u>\$ –</u>	<u>\$ 9,237,268</u>
<b>Total equity</b>		<u>\$ –</u>	<u>\$ 9,237,268</u>
<b>Number of units in issue</b>	9	<u>375,000</u>	<u>375,000</u>
<b>Net asset value per unit</b>		<u>\$ 0.0000</u>	<u>\$ 24.6327</u>

Approved and authorised for issue by the Trustee and the Manager on 29 April 2013

The notes on pages 9 to 21 form part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

**for the year ended 31 December 2012**

(Expressed in Hong Kong Dollars)

	Note	2012	2011
Dividend income		\$ 81,081	\$ 138,477
Net gain/(loss) on investments at fair value through profit or loss		217,223	(1,277,598)
Net foreign exchange loss		(2,672)	(3,741)
<b>Net investment gain/(loss)</b>		<b>\$ 295,632</b>	<b>\$ (1,142,862)</b>
Management fees	5(a)	\$ 44,591	\$ 315,957
Trustee's fees	5(b)	439,500	840,000
Maintenance and servicing fees	6	288,405	771,882
Transaction costs		79,565	286,475
Auditor's remuneration		123,900	189,600
Legal fee		1,940,440	151,818
Other operating expenses		41,548	100,450
Provision for termination related expense and ongoing maintenance	7	699,851	—
<b>Operating expenses</b>		<b>\$ 3,657,800</b>	<b>\$ 2,656,182</b>
<b>Loss before taxation</b>		<b>\$ (3,362,168)</b>	<b>\$ (3,799,044)</b>
Taxation (charged)/credited	3(a)	(32,600)	481,256
<b>Loss and total comprehensive income for the year</b>		<b>\$ (3,394,768)</b>	<b>\$ (3,317,788)</b>

The notes on pages 9 to 21 form part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

**for the year ended 31 December 2012**

(Expressed in Hong Kong Dollars)

	Note	Share capital	Retained earnings	Total
<b>As at 1 January 2011</b>		\$ 165,760,625	\$ 5,663,942	\$ 171,424,567
Redemption of units		(168,795,886)	—	(168,795,886)
Subscription of units		9,926,375	—	9,926,375
Loss for the year		—	(3,317,788)	(3,317,788)
		<hr/>	<hr/>	<hr/>
<b>As at 31 December 2011</b>		<u>\$ 6,891,114</u>	<u>\$ 2,346,154</u>	<u>\$ 9,237,268</u>
<b>As at 1 January 2012</b>		\$ 6,891,114	\$ 2,346,154	\$ 9,237,268
Redemption of units		—	—	—
Subscription of units		—	—	—
Interim distribution	11	—	(5,842,500)	(5,842,500)
Loss for the year		—	(3,394,768)	(3,394,768)
		<hr/>	<hr/>	<hr/>
<b>As at 31 December 2012</b>		<u>\$ 6,891,114</u>	<u>\$ (6,891,114)</u>	<u>\$ —</u>

The notes on pages 9 to 21 form part of these financial statements.

## CASH FLOW STATEMENT

**for the year ended 31 December 2012**

(Expressed in Hong Kong Dollars)

	2012	2011
<b>Operating activities</b>		
Payment on purchase of investments	\$ –	\$ (4,664,594)
Proceeds from sale of investments, net of withholding tax	10,158,647	4,919,333
Dividend income received, net of withholding tax	71,886	121,659
Maintenance and servicing fees paid	(398,022)	(1,310,690)
Management fee paid	(52,736)	(600,057)
Trustee's fees paid	(509,500)	(840,000)
Transaction costs paid	(80,925)	(293,715)
Other operating expenses paid	(2,342,587)	(366,794)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) operating activities</b>	\$ 6,846,763	\$ (3,034,858)
	<hr/>	<hr/>
<b>Financing activities</b>		
Interim distribution to unitholders	\$ (5,842,500)	\$ –
Payment on redemption of units	–	(679,536)
Proceeds from issue of units	–	574,736
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	\$ (5,842,500)	\$ (104,800)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	\$ 1,004,263	\$ (3,139,658)
	<hr/>	<hr/>
<b>Cash and cash equivalents at the beginning of the year</b>	1,100,131	4,239,789
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	\$ 2,104,394	\$ 1,100,131
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The notes on pages 9 to 21 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

## 1 BACKGROUND

CICC-SZSE 100 Index Tracker (“the Fund”) is a sub-fund of CICC Index Trust (“the Trust”). It is an open-ended unit trust governed by its Trust Deed dated 18 December 2009 (“the Trust Deed”), entered into between China International Capital Corporation Hong Kong Asset Management Limited (“the Manager”) and HSBC Institutional Trust Services (Asia) Limited (“the Trustee”). The Fund is authorised by the Hong Kong Securities and Futures Commission (“the SFC”) under Section 104(1) of the Hong Kong Securities and Futures Ordinance (“HKSFO”). The Fund is also listed on The Stock Exchange of Hong Kong Limited (“the SEHK”).

The Fund is an index-tracking collective investment scheme which seeks to track the performance of SZSE 100 Index, which is a diversified index consisting of 100 constituent index shares compiled and managed by the Shenzhen Securities Information Company Limited. The Fund aims to achieve its investment objective by investing in financial derivatives which track the performance of SZSE 100 Index by adopting “synthetic representative” strategy or “synthetic replication” strategy.

Under the prevailing regulations in the People’s Republic of China (“PRC”), foreign investors can invest in the PRC A-shares market through investing in A-share related participatory notes issued by financial institutions which have obtained qualified foreign institutional investor (“QFII”) status.

The Manager, by means of a resolution of the board of directors of the Manager dated 29 May 2012, decided to terminate the Fund and the Trust with the last trading day of the units of the Fund on the SEHK being 28 June 2012. No creation of units in the primary market through a participating dealer was allowed from 29 May 2012 onwards.

The Fund liquidated all investments on 29 June 2012 and held cash only afterwards. An interim distribution, which is equal to the net asset value of the Fund as of 29 June 2012, was paid to unitholders in September 2012. The net asset value per unit of the Fund was reduced to \$0 after completion of the interim distribution.

Under the current general provisions of the PRC Corporate Income Tax Law and published tax circulars, the Fund would be subject to PRC withholding tax at the rate of 10% in respect of its PRC sourced income earned, including capital gains realised on the sales of PRC listed company shares and dividend income derived from PRC listed companies. The Fund has provided PRC taxation rate of 10% on realised gains and dividend income from A-shares participatory notes given that such tax liability payable by QFII would be passed to the Fund.

However the PRC tax authorities have not been reported to have sought to collect such PRC withholding tax on capital gains realised by QFII on the selling of A-shares. The Fund and the Trust will be terminated when the Manager and the Trustee form an opinion that the Fund and Trust cease to have any contingent or actual assets or liabilities (which the Manager and the Trustee expect to take place as soon as practicable after the Long Stop Date when the treatment of the capital gain tax provision has been finalised and settled). Long Stop Date refers to the date falling on or around 31 March 2015 or, if earlier, the date on which final tax decision on the withholding tax is made by the relevant PRC tax authorities and the treatment of capital gain tax has been finalised and settled.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### *(a) Statement of compliance*

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. There have been no significant changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current accounting period in these financial statements.

The Fund has not applied any new standards or Interpretation that is not yet effective for the current accounting period (see note 15).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(b) Basis of preparation of the financial statements*

The financial statements are presented in Hong Kong dollars as the subscription and redemption are conducted in Hong Kong dollars. It is rounded to the nearest dollar.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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 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.

Accordingly to clause 24.03(a) of the trust deed dated 18 December 2009 governing the Trust and the Fund, at any time one year after the establishment of the Trust and/or any sub-fund, where the aggregate net asset value of all units outstanding under the Trust shall be less than \$500,000,000, or in relation to any sub-fund shall be less than \$500,000,000, the Manager may in its absolute discretion terminate the Trust and/or the sub-fund. The Manager, by means of a resolution of the board of directors of the Manager dated 29 May 2012, decided to terminate the Fund and the Trust with last trading day of the units of the Fund on 28 June 2012 on the SEHK.

The Fund liquidated all investments on 29 June 2012 and held cash only afterwards. An interim distribution, which is equal to the net asset value of the Fund as of 29 June 2012, was paid to unitholders in September 2012. The net asset value per unit of the Fund was reduced to \$0 after completion of the interim distribution.

Accordingly, the Fund is no longer a going concern and the financial statements of the Fund have been prepared on a break-up basis.

In addition, if the provision for termination related expense is insufficient to cover any future costs or any unforeseen expenses if applicable, any shortfall will be borne by the Manager.

#### *(c) Financial instruments*

##### *(i) Classification*

Investments at fair value through profit or loss are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in profit or loss.

Financial liabilities that are not at fair value through profit or loss include accrued expenses and other payables.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) *Financial instruments (continued)*

##### (ii) **Recognition**

The Fund recognises financial assets and financial liabilities on the date they become a party to the contractual provisions of the instruments.

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 its obligations under the contract or the contract is a derivative contract not exempted from the scope of International Accounting Standards 39, Financial instrument: Recognition and measurement.

##### (iii) **Measurement**

Financial instruments are measured initially at fair value (transaction price). Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

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

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

##### (iv) **Fair value measurement principles**

The fair value of the investments is based on their quoted market prices at the date of statement of financial position. Financial assets are priced at current bid prices while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

##### (v) **Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial asset, the difference between the carrying value of the asset and the consideration received is recognised in profit or loss.

#### (d) *Cash and cash equivalents*

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

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(e) Revenue and expense recognition*

Dividend income is recognised when the share price of the underlying securities go ex-dividend. Dividend is presented gross of any non-recoverable withholding taxes, which are disclosed separately in profit or loss.

All expenses, including investment management and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

#### *(f) Translation of foreign currency*

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of financial position. Exchange gains and losses are recognised in profit or loss.

#### *(g) Related parties*

- (1) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (2) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is controlled or jointly controlled by a person identified in (1).
  - (vi) A person identified in (1)(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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(h) Units in issue*

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

The Fund has only one class of redeemable units in issue and they are the most subordinate class of financial instrument in the Fund. The redeemable units provide investors with the right to require redemption for 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 Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of 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; and
- 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 Fund over the life of the instrument.

The Fund's units in issue meet these conditions and are classified as equity.

#### *(i) Taxation*

Taxation for the year comprises current tax and movements in deferred tax assets and liabilities.

Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of statement of financial position. Current tax also includes non-recoverable withholding taxes on investment income and capital gains.

Deferred tax liabilities arise from taxable temporary differences, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amounts of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the date of statement of financial position. Deferred tax liabilities are not discounted.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 3 TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Fund is exempted from taxation under section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

Under the current general provisions of the PRC Corporate Income Tax Law and published tax circulars, the Fund would be subject to PRC withholding tax at the rate of 10% in respect of its PRC sourced income earned, including capital gains realised on the sale of PRC listed companies and dividend income derived from PRC listed companies.

On the basis of the available information, the Manager has determined that it is appropriate to provide for PRC taxation at the withholding tax rate of 10% on realised gains and dividend income from A-share related participatory notes, and deferred tax arising from unrealised gains on A-share related participatory notes at the end of the year.

**(a) Taxation in the statement of comprehensive income represents:**

	2012	2011
<b>Current tax – overseas</b>		
PRC withholding tax charged	\$ 42,095	\$ 2,495,646
<b>Deferred tax – overseas</b>		
PRC withholding tax credited	(9,495)	(2,976,902)
Taxation charged/(credited)	<u>\$ 32,600</u>	<u>\$ (481,256)</u>

**(b) Deferred tax liabilities in the statement of financial position represent:**

	2012	2011
<b>Deferred tax liabilities arising from PRC withholding tax on unrealised gain on investments:</b>		
Balance at the beginning of the year	\$ 9,495	\$ 2,986,397
Credited to profit or loss	(9,495)	(2,976,902)
Balance at the end of the year	<u>\$ –</u>	<u>\$ 9,495</u>

**(c) Current taxation in the statement of financial position represent:**

	2012	2011
<b>Current taxation arising from PRC withholding tax:</b>		
Balance at the beginning of the year	\$ 1,265,219	\$ –
Charged to profit or loss	42,095	2,495,646
PRC withholding tax withheld by participatory note issuers:		
– Capital gain	(32,900)	(1,213,609)
Payment of PRC withholding tax for dividend income	(9,195)	(16,818)
Balance at the end of the year	<u>\$ 1,265,219</u>	<u>\$ 1,265,219</u>

### 4 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
A-share related participatory notes	<u>\$ –</u>	<u>\$ 9,974,324</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 5 RELATED PARTY 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 fees payable to the Manager is calculated at the rate of 0.99% per annum of the net asset value of the Fund and is accrued daily and calculated as at each Dealing Day and payable monthly in arrears. The management fees charged by the Manager in respect of the year and payable at the end of the year amounted to \$44,591 and \$Nil (2011: \$315,957 and \$8,144) respectively.

#### (b) *Trustee's fees*

The fees payable to the Trustee is calculated at the rate of 0.14% per annum for the first \$800 million of the net asset value, 0.12% per annum for the next \$800 million of the net asset value, and 0.1% per annum for the remaining balance of the net asset value. The trustee fees are subject to a monthly minimum of \$70,000. The trustee fees are accrued daily and calculated as at each Dealing Day and payable in arrears on a monthly basis. After 29 June 2012, the Trustee's fee is revised to \$3,900 per month. The trustee fees charged by the Trustee in respect of the year and payable at the end of the year amounted to \$439,500 and \$113,100 (2011: \$840,000 and \$70,000) respectively.

#### (c) *Bank balances*

Bank balances are maintained with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). The bank balances held as at 31 December 2012 amounted to \$2,104,394 (2011: \$1,100,131).

### 6 MAINTENANCE AND SERVICING FEES

	2012	2011
Maintenance fees	\$ 106,540	\$ 310,974
Servicing fees	181,865	460,908
	<u>\$ 288,405</u>	<u>\$ 771,882</u>

Maintenance fees are payable to participatory note issuers, calculated at 1.0% to 2.0% per annum of the daily mark-to-market value of all participatory notes held by the Fund. The fees are accrued daily and payable to participatory note issuers quarterly.

Servicing fees are payable to participatory note issuers for managing the participatory notes so issued. The fees are calculated at the range from 1.5% to 3-month LIBOR plus 3.5% per annum of the daily market value of the loaned securities lent to the participatory note issuers. The fees are accrued daily and payable to participatory note issuers monthly.

### 7 PROVISION FOR TERMINATION RELATED EXPENSE AND ONGOING MAINTENANCE

As of 31 December 2012, the provision for termination related expense and ongoing maintenance is analyzed as follows:

	2012
Trustee's fees	\$ 113,100
Audit fees	281,000
Legal fees	202,494
Others	103,257
	<u>\$ 699,851</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 8 SOFT DOLLAR COMMISSION

As regards to the Fund, the Manager has not entered into any soft dollar commission arrangements during the year.

### 9 UNITS IN ISSUE

	2012 Units	2011 Units
Balance at the beginning of the year	375,000	4,250,000
Units issued during the year	–	250,000
Units redeemed during the year	–	(4,125,000)
	<hr/>	<hr/>
Balance at the end of the year	375,000	375,000
	<hr/>	<hr/>

### 10 RECONCILIATION OF NET ASSET VALUES

The net assets attributable to unitholders as reported in the financial statements are different from the adjusted total net assets for valuation purposes at the date of financial position. The reconciliation between the net assets attributable to unitholders as reported in the financial statements and the adjusted total net assets for valuation purposes is as follows:

	2012	2011
Net assets attributable to unitholders as reported in the financial statements	\$ –	\$ 9,237,268
Adjustment for different principles adopted by the Fund in arising at the adjusted total net assets for valuation purposes:		
– Adjustment made for deferred tax liabilities	–	9,495
	<hr/>	<hr/>
Adjusted total net assets for valuation purposes	\$ –	\$ 9,246,763
	<hr/>	<hr/>
Total number of units in issue	375,000	375,000
	<hr/>	<hr/>
Net asset value per unit for valuation purposes	\$ 0.0000	\$ 24.6580
	<hr/>	<hr/>

The Fund set aside a provision of approximately \$1,500,000 on 30 May 2012 for discharging any future costs, charges, expenses claims and demands that the Trustee and the Manager may incur in connection with or arising out of, among others, the on-going maintenance of the Fund and the Trust until the termination date. An interim distribution, which is equal to the net asset value of the Fund as of 29 June 2012, was paid to unitholders in September 2012. The net asset value per unit of the Fund was reduced to \$0 after completion of the interim distribution.

### 11 INTERIM DISTRIBUTION

An interim distribution of \$15.58 per unit was paid on 19 September 2012 due to the termination of the Fund.

### 12 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Fund invests in PRC A-shares through the purchase of participatory notes. The Fund held only cash and did not hold any investments as at 31 December 2012.

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager has set out below the most important types of financial risks inherent in each type of financial instruments. The 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 12 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

During the year, the Manager invested in financial instruments which the Manager considered are commensurate with the risk level of the Fund in accordance with its investment objective.

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

#### (a) Market risk

##### (i) Market price risk

Market price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Fund is designated to track the performance of SZSE 100 Index, and therefore the exposures to market risk in the Fund will be substantially the same as the tracked index. The Manager manages the Fund's exposures to market risk by ensuring that the key characteristics of the portfolio such as security weight and industry weight are closely aligned to the characteristics of the tracked index.

##### *Price sensitivity*

As at 31 December 2012, the Fund was not exposed to market price risk as all the Fund's investments had been disposed of. The Manager considers sensitivity analysis is not necessary.

As at 31 December 2011, net assets attributable to unitholders would increase by \$488,845 (decrease by \$498,716) if there was 5% increase (decrease) in SZSE 100 Index, with all other variables held constant.

##### (ii) Currency risk

The Fund may invest in financial investments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Hong Kong dollars ("HKD"). The fluctuations in the rate of exchange between the currency in which the asset or liability is denominated and the functional currency could result in an appreciation or depreciation in the fair value of that asset or liability. The Manager may attempt to mitigate this risk by using financial derivative instruments.

In accordance with the Fund's policy, the Manager monitors the Fund's currency exposure on an ongoing basis. At the date of the statement of financial position, the Fund had the following exposure:

	Assets	Liabilities	Net exposures
<b>31 December 2012</b>			
United States dollar	\$ —	\$ —	\$ —
<b>31 December 2011</b>			
United States dollar	\$ 9,974,324	\$ (1,360)	\$ 9,972,964

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 12 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

#### (a) *Market risk (continued)*

##### (ii) **Currency risk (continued)**

###### *Currency sensitivity*

The Fund's investments in participatory notes were denominated in United States dollars ("USD"), while the underlying investments of these participatory notes were denominated in Chinese Renminbi.

At 31 December 2012, the fund did not have any foreign currency exposures. The Manager considers sensitivity analysis is not necessary.

At 31 December 2011, net assets attributable to unitholders would increase by \$498,716 (decrease by \$498,716) if there was 5% appreciation (depreciation) in the foreign currency, with all other variables held constant.

As the HKD is pegged to the USD, the impact on changes in exchange rate would be minimal. Therefore, no sensitivity analysis has been prepared.

##### (iii) **Interest rate risk**

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows.

As at 31 December 2012, the Fund had no interest bearing assets and liabilities. The Manager considers that the impact of interest rate risk would be minimal. Therefore, no sensitivity analysis has been prepared.

#### (b) *Credit risk*

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund resulting in a financial loss to the Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis. At 31 December 2012, the Fund only held cash at bank and was exposed to credit risk of the bank.

The Fund invests in A-share related participatory notes. In the event of liquidation or default of a participatory note issuer and that a replacement cannot be appointed, dealing of the units of the Fund may be suspended and the Fund may ultimately be terminated.

As part of its risk management process, the Manager closely monitors the credit risk of the Fund. In the event of any substantial downgrading of credit rating or other material adverse factors concerning the participatory note issuers, the Manager will take appropriate actions such as seeking additional collateral, additional participatory notes issuers and/or dispose the relevant participatory notes.

The Manager will also from time to time implement measures including, but not limited to, obtaining collateral or seeking the provision of other credit support from issuers (for example, by way of a securities borrowing and lending arrangement, or putting a charge on assets or appointing additional issuers) to mitigate the credit risk.

Starting from 31 October 2011, in order to mitigate the potential counterparty risk in relation to the participatory note issuers, the Manager has entered into collateral or credit support arrangement with participatory note issuers for the provision of collateral such that:

- collateral held by the Fund must represent at least 100% of the Fund's gross total counterparty risk exposure and be maintained, marked to market on a daily basis with a view to ensuring that there is no uncollateralised counterparty risk exposure; and
- where collateral taken is in the nature of equity securities, such collateral shall be subject to an additional requirement such that the market value of such equity collateral represents at least 120% of the related gross counterparty risk exposure.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 12 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

#### *(b) Credit risk (continued)*

All of the assets of the Fund are held by HSBC and the participatory note issuers. Bankruptcy or insolvency of HSBC or the participatory note issuers may cause the Fund's rights with respect to the assets to be delayed or limited. The counterparties have Standard and Poor's credit ratings of A or above and the Manager monitors their ratings on an ongoing basis.

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

#### *(c) Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund's policy to manage liquidity is to have sufficient liquidity to meet its liability without incurring undue losses or risking damage to the Fund's reputation.

The Fund's majority of financial assets are the A-share related participatory notes which are considered to be readily realisable as they can be sold back to the issuers. As a result, the Fund is able to liquidate quickly some of its investments in order to meet its liquidity requirements.

The Fund's prospectus provides for the subscription and redemption of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions.

All financial liabilities are repayable on demand or have contractual maturities of less than one year. There were no significant exposures to liquidity risk for the Fund at the end of the reporting period.

At 31 December 2012, the Fund had a capital of \$0 (2011: \$9,237,268) classified as equity.

The Fund's objective in managing the capital is to ensure a stable and strong base to maximise returns to all investors. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives and policies stated in the Trust Deed.

There were no changes in the policies and procedures during the year with respect to the Fund's approach to its capital management.

The Fund does not have any internally and externally imposed capital requirement and therefore the Fund is not subject to significant capital risk.

### 13 FAIR VALUE INFORMATION

The Fund's financial instruments are measured at fair value on the date of statement of financial position. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including dividend and other receivables, taxation, amounts payable on purchase of investments, accrued expenses and other payables, the carrying amounts approximate fair values due to the immediate or short-term nature of these financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 13 FAIR VALUE INFORMATION (CONTINUED)

#### *Valuation of financial instruments*

The Fund's accounting policy on fair value measurements is detailed in significant accounting policy in note 2(c)(iv).

The Fund measures fair values using the three levels of fair value hierarchy defined in IFRS 7, *Financial instruments: Disclosures*, with 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: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs.

All investments held by the Fund are A-share related participatory notes. The fair values of A-shares are based on quoted market price in active markets.

The following analyses financial instruments measured at fair value at 31 December 2011 by the level in the fair value hierarchy into which the fair value measurement is categorised. The Fund did not hold any investments as at 31 December 2012.

	2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments at fair value through profit or loss	\$ –	\$ –	\$ –	\$ –
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments at fair value through profit or loss	\$ –	\$ 9,974,324	\$ –	\$ 9,974,324
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

There were no transfers of financial instruments between fair value hierarchy levels during the year.

### 14 MAJOR NON-CASH TRANSACTIONS

During the year, unitholders redeemed units from the Fund by obtaining a basket of the constituent stocks of SZSE 100 Index with a market value of \$Nil (2011: \$168,116,350).

During the year, unitholders subscribed for the Fund by tendering a basket of the constituent stocks of SZSE 100 Index with a market value of \$Nil (2011: \$9,351,639).

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong Dollars)

### 15 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statement</i> – <i>Presentation of items of other comprehensive income</i>	1 July 2012
IFRS 13, <i>Fair value measurement</i>	1 January 2013
<i>Annual improvements to IFRSs 2009-2011 Cycle</i>	1 January 2013

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

## **INVESTMENT PORTFOLIO (UNAUDITED)**

as at 31 December 2012

The Fund did not hold any investments as at 31 December 2012.



**STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	<b>Holdings as at 31 December 2010 Units</b>	<b>Additions Units</b>	<b>Disposals Units</b>	<b>Holdings as at 31 December 2011 Units</b>
Participatory notes	9,531,866	824,624	9,551,583	804,907
	<u>9,531,866</u>	<u>824,624</u>	<u>9,551,583</u>	<u>804,907</u>
	<b>Holdings as at 31 December 2011 Units</b>	<b>Additions Units</b>	<b>Disposals Units</b>	<b>Holdings as at 31 December 2012 Units</b>
Participatory notes	804,907	–	804,907	–
	<u>804,907</u>	<u>–</u>	<u>804,907</u>	<u>–</u>

## **HOLDINGS OF COLLATERAL (UNAUDITED)**

as at 31 December 2012

The Fund did not hold any collateral as at 31 December 2012.

## PERFORMANCE RECORD (UNAUDITED)

**(a) Net asset value**

**As at financial year ended**

31 December 2012	\$	—
31 December 2011	\$	9,237,268
31 December 2010	\$	171,424,567

**(b) Net asset value per unit**

**As at financial year ended**

31 December 2012	\$	0.0000
31 December 2011	\$	24.6327
31 December 2010	\$	40.3352

**(c) Highest and lowest net asset value per unit**

Financial year ended	Highest net asset value per unit	Lowest net asset value per unit
31 December 2012	\$ 27.8867	\$ 0.0000
31 December 2011	\$ 41.7643	\$ 24.1119
31 December 2010 (since inception)	\$ 44.8900	\$ 29.3985

## **SZSE 100 INDEX CONSTITUENT STOCK DISCLOSURE (UNAUDITED)**

The Fund did not hold any investments at 31 December 2012 and there was no index constituent stock of the SZSE 100 Index that accounted for more than 10% of the weighting of the Index at 31 December 2011.

**PERFORMANCE OF CICC-SZSE 100 INDEX TRACKER \*  
AND SZSE 100 INDEX (UNAUDITED)  
FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>Fund/Index</b>	<b>Performance in Hong Kong dollars (based on NAV for valuation purposes)</b>	
	<b>For the period from 1 January 2012 to 29 June 2012 (Note)</b>	<b>For the year ended 31 December 2011</b>
CICC-SZSE100 Index Tracker *	(36.73)%	(39.91)%
SZSE 100 Index	7.03%	(30.99)%

Performance is calculated in base currency with unit price to unit price.

Source: China International Capital Corporation Hong Kong Asset Management Limited.

Investors should note that investment involves risks and not all investment risks are predictable. Prices of fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should refer to the Fund's prospectus (including the full text of the risk factors stated therein) before making any investment decision.

Note: The Fund ceased to track the SZSE 100 Index on 28 June 2012. The Fund set aside a provision of approximately \$1,500,000 on 30 May 2012 for discharging any future costs, charges, expenses claims and demands that the Trustee and the Manager may incur in connection with or arising out of, among others, the on-going maintenance of the Fund and the Trust until the termination date and this contributed to the deviation of the Fund's performance from the SZSE 100 Index performance.

## ADMINISTRATION AND MANAGEMENT

### Manager

China International Capital Corporation  
Hong Kong Asset Management Limited  
25th, 29th Floor, One International Finance Centre,  
1 Harbour View Street, Central,  
Hong Kong

### Directors of the Manager

Mr. Yao Lei  
Ms. Miu Hung Lucy  
Ms. Yu Xiao Mei (resigned on 16 May 2012)  
Ms. Luo Liu Yi  
Ms. Cui Chun (appointed on 17 May 2012)

### Trustee and Registrar

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

### Service Agent

HK Conversion Agency Services Limited  
2nd Floor,  
Vicwood Plaza,  
199 Des Voeux Road Central,  
Hong Kong

### Listing Agent

China International Capital Corporation  
Hong Kong Securities Limited  
29th Floor, One International Finance Centre,  
1 Harbour View Street, Central,  
Hong Kong

### Legal Adviser to the Manager

Baker & McKenzie  
23rd Floor, One Pacific Place,  
88 Queensway,  
Hong Kong

### Auditor

KPMG  
8th Floor, Prince's Building,  
10 Chater Road, Central,  
Hong Kong