

CSOP ETF SERIES III
(An umbrella unit trust established in Hong Kong)

CSOP HANG SENG INDEX ETF
Stock Code: 3037
(A sub-fund of CSOP ETF Series)

Reports and Financial Statements
FOR THE PERIOD FROM 5 MAY 2021 (DATE OF INCEPTION) TO
31 DECEMBER 2021

CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

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CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, CSOP Asset Management Limited, the Manager of CSOP Hang Seng Index ETF (the “Sub-Fund”), a sub-fund of CSOP ETF Series III, has, in all material respects, managed the Sub-Fund in accordance with the provisions of the Trust Deed dated 16 March 2021 for the period from 5 May 2021 (date of inception) to 31 December 2021.

BOCI-Prudential Trustee Limited (the “Trustee”)

28 April 2022

Independent auditor's report (continued)

To the unitholders of CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of CSOP Hang Seng Index ETF (a sub-fund of CSOP ETF Series III (the "Trust"), and hereafter referred to as the "Sub-Fund") set out on pages 7 to 33, which comprise the statement of net assets as at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the period from 5 May 2021 (date of inception) to 31 December 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2021, and of its financial transactions and its cash flows for the period from 5 May 2021 (date of inception) to 31 December 2021 in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Sub-Fund in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent auditor's report (continued)

To the unitholders of CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Existence and valuation of financial assets at fair value through profit or loss</i>	
<p>As at 31 December 2021, the financial assets at fair value through profit or loss were valued at \$826,919,250 which represented 99.91% of the net asset value of the Sub-Fund. The financial assets at fair value through profit and loss comprised equity securities traded on the Hong Kong Stock Exchange. We focused on this area because the financial assets at fair value through profit or loss represented the principal element of the financial statements.</p> <p>Disclosures in respect of the financial assets at fair value through profit or loss are set out in the summary of significant accounting policies and notes 10, 12(b)(i) and 12(e) to the financial statements.</p>	<p>We obtained independent confirmations from the custodians of the investments of the Sub-Fund at 31 December 2021 and checked if the quantities held agreed with the accounting records.</p> <p>We obtained an understanding of the valuation process of financial assets by performing walkthroughs and testing the design and operating effectiveness of controls. In addition, we tested the valuation of the financial assets at fair value through profit or loss that were quoted in active markets by agreeing the valuation of financial assets to independent third party sources at 31 December 2021.</p> <p>We evaluated the adequacy and extent of disclosures made in the financial statements against the requirements of HKFRSs.</p>

Other information included in the Annual Report

The Manager and the Trustee of the Sub-Fund are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report (continued)

To the unitholders of CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

Responsibilities of the Manager and the Trustee for the financial statements

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

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

In addition, the Manager and the Trustee of the Sub-Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 16 March 2021 and the relevant disclosure provisions of Appendix E of the *Code on Unit Trusts and Mutual Funds* (the "SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Sub-Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

Independent auditor's report (continued)

To the unitholders of CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee.
- Conclude on the appropriateness of the Manager and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Sub-Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager and the Trustee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Manager and the Trustee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report (continued)

To the unitholders of CSOP Hang Seng Index ETF (the "Trust")

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Christine Lin.

Certified Public Accountants

Hong Kong

28 April 2022

CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

STATEMENT OF NET ASSETS

As at 31 December 2021

	Note	2021 HK\$
ASSETS		
Financial assets at fair value through profit or loss	10	826,919,250
Dividend receivable from financial assets		68,822
Cash and cash equivalents	5(d), 6	<u>724,099</u>
TOTAL ASSETS		<u>827,712,171</u>
LIABILITIES		
Management fee payable	5(a)	<u>70,410</u>
TOTAL LIABILITIES		<u>70,410</u>
EQUITY		
Net assets attributable to unitholders	3(a)	<u>827,641,761</u>
TOTAL LIABILITIES AND EQUITY		<u><u>827,712,171</u></u>

For and on behalf of

CSOP Asset Management Limited
as the Manager

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

CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period from 5 May 2021 (date of inception) to 31 December 2021

	Note	For the period from 5 May 2021 (date of inception) to 31 December 2021 HK\$
INCOME		
Interest income from bank deposits	5(d)	14
Dividend income		4,426,439
		<u>4,426,453</u>
EXPENSES		
Net losses on financial assets at fair value through profit or loss	4	(62,676,518)
Management fee	5(a)	(294,963)
Brokerage and transaction fee	13	(214,486)
Bank charges	5(d)	(170)
TOTAL OPERATING EXPENSES		<u>(63,186,137)</u>
OPERATING LOSS BEFORE TAX		(58,759,684)
Withholding income tax expenses	8	(206,355)
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>(58,966,039)</u></u>

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

CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the period from 5 May 2021 (date of inception) to 31 December 2021

	Note	Number of units	For the period from 5 May 2021 (date of inception) to 31 December 2021 HK\$
Net assets attributable to unitholders at the beginning of the period		–	–
Issue of units	3(b)	34,700,000	
- In-kind	15		716,184,306
- Cash component and cash creation	15		170,423,494
Net issue of units		<u>34,700,000</u>	<u>886,607,800</u>
Loss and total comprehensive income for the period			<u>(58,966,039)</u>
Net assets attributable to unitholders at the end of the period			<u>827,641,761</u>

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

CSOP Hang Seng Index ETF

(A Sub-Fund of CSOP ETF Series III, an umbrella unit trust established under the laws of Hong Kong)

STATEMENT OF CASH FLOWS

For the period from 5 May 2021 (date of inception) to 31 December 2021

	Note	For the period from 5 May 2021 (date of inception) to 31 December 2021 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss before tax		(58,759,684)
Adjustments for:		
Dividend income		(4,426,439)
Interest income from bank deposits		(14)
Operating cash flows before movements in working capital		<u>(63,186,137)</u>
Increase in financial assets at fair value through profit or loss		(110,734,944)
Increase in management fee payable		70,410
Cash used in operations		(173,850,671)
Interest on bank deposits received		14
Dividends received, net of withholding tax		4,151,262
Net cash flows used in operating activities		<u>(169,699,395)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash component and cash creation received on issue of units	15	<u>170,423,494</u>
Net cash flows generated from financing activities		<u>170,423,494</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		724,099
Cash and cash equivalents at the beginning of the period		<u>–</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>724,099</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances	6	<u>724,099</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>724,099</u>

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

CSOP Hang Seng Index ETF
(A Sub-Fund of CSOP ETF Series III)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

1. GENERAL INFORMATION

CSOP ETF Series III (the “Trust”) is an umbrella unit trust governed by its trust deed dated 16 March 2021, between CSOP Asset Management Limited (the “Manager”) and BOCI-Prudential Trustee Limited (the “Trustee”). It is authorised by the Securities and Futures Commission of Hong Kong (the “SFC”) pursuant to Section 104(1) of the Securities and Futures Ordinance of Hong Kong.

CSOP Hang Seng Index ETF (the “Sub-Fund”) is the only sub-fund of the Trust, which commenced trading under the stock code 3037 on the Stock Exchange of Hong Kong Limited (“SEHK”) on 6 May 2021.

The investment objective of the Sub-Fund is to provide investment results that, before deduction of fees and expenses, closely correspond to the performance of the Underlying Index, namely, Hang Seng Index (the “Index”). There is no assurance that the Sub-Fund will achieve its investment objective. In order to achieve the investment objective of the Sub-Fund, the Sub-Fund will adopt a full replication strategy by directly investing all, or substantially all, of the Sub-Fund’s assets in Index Securities constituting the Underlying Index in substantially the same weightings as these Index Securities have in the Underlying Index. The Manager will not use a representative sampling strategy other than in exceptional circumstances.

Under exceptional circumstances (i.e. due to restrictions, suspensions of trading, limited availability of certain Index Securities, corporate events, or as the Manager believes there is significant market mispricing or foreseeable market turbulence), where it is not feasible or not in the best interest of investors to acquire certain securities which are constituents of the Underlying Index due to restrictions or limited availability and/or it is not cost efficient, by reference to the Sub-Fund’s Net Asset Value, to use a full replication strategy, the Manager may also use a representative sampling strategy to invest in:

- i. A representative sample whose performance is closely correlated with the Underlying Index, but whose constituents may or may not themselves be constituents of the Underlying Index; and/or
- ii. Other collective investment schemes (CIS). “CIS” means an exchange traded fund and/or an unlisted index tracking fund which tracks an index that has a high correlation with the Underlying Index. The Sub-Fund’s ability to invest in other CIS may not exceed 10% of its Net Asset Value and the Sub-Fund will not hold more than 10% of any units issued by any single CIS; and/or
- iii. Financial derivative instruments (the “FDIs”) (mainly swaps with one or more counterparties) with no more than 10% of the Sub-Fund’s Net Asset Value for investment and hedging purposes, where the Manager believes such investments will help the Sub-Fund achieve its investment objective and are beneficial to the Sub-Fund.

In pursuing a representative sampling strategy, the Manager may cause the Sub-Fund to deviate from the index weighting on condition that the maximum deviation from the index weighting of any constituent will not exceed 3% or such other percentage as determined by the Manager after consultation with the SFC.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

1. GENERAL INFORMATION (Continued)

If any non-constituent of the Index is held in the portfolio, for reasons other than Underlying Index rebalancing and Index related corporate action, to enhance transparency the Manager will disclose the name and weighting of such non-constituent securities and other CIS on the Manager's website immediately after the purchase and it will be reported daily until its disposal.

The Manager reviews the Index Securities held in the Sub-Fund's portfolio each Business Day. In order to minimize tracking error, the Manager closely monitors factors such as any changes in the weighting of each Index Security in the Underlying Index, suspension, dividend distributions and the liquidity of the Sub-Fund's portfolio. The Manager will also conduct adjustment on the portfolio of the Sub-Fund regularly, taking into account tracking error reports, the index methodology and any rebalance notification of the Underlying Index.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a)(i) Basis of preparation

The financial statements of the Sub-Fund have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions specified in Appendix E of the *Code on Unit Trusts and Mutual Funds* of the SFC (the "SFC Code").

The financial statements have been prepared under the historical cost convention, except for financial assets and liabilities classified as at fair value through profit or loss ("FVPL") that have been measured at fair value. The financial statements are presented in Hong Kong dollar ("HK\$") for the Sub-Fund. All values are rounded to the nearest HK\$ except where otherwise indicated.

The Sub-Fund has adopted for the first time all applicable and effective HKFRSs.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a)(ii) Significant accounting judgements, estimates and assumptions

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

(a)(iii) Issued but not yet effective HFRS

The Sub-Fund has not early applied any of the new and revised HKFRS that have been issued but are not yet effective for the accounting period ended 31 December 2021 in these financial statements. Among the new and revised HKFRSs, the following is expected to be relevant to the Sub-Fund's financial statements upon becoming effective:

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current¹

¹Effective for annual periods beginning on or after 1 January 2023

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Sub-Fund's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments

(i) ***Classification***

In accordance with HKFRS 9, the Sub-Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing in the near term; or
- (b) On initial recognition, it is 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.

Financial assets

The Sub-Fund classifies its financial assets as subsequently measured at amortised cost or measured at FVPL on the basis of both:

- The entity's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets

Financial assets measured at amortised cost

A financial assets is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. The Sub-Fund includes in this category short-term non-financing receivables including cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(i) **Classification** (continued)

Financial assets measured at FVPL

A financial asset is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal amount outstanding;
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Sub-Fund includes in this category equity instruments held for trading.

Financial liabilities

Financial liabilities measured at amortised cost

This category includes all financial liabilities other than those measured at FVPL. The Sub-Fund includes in this category amounts management fee payable.

(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 and sales of financial assets at FVPL are accounted for on the trade date basis.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(iii) ***Initial measurement***

Financial assets at FVPL are recorded in the statement of net assets at fair value. All transaction fees for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

(iv) ***Subsequent measurement***

After initial measurement, the Sub-Fund measures financial instruments which are classified as at FVPL at fair value. Subsequent changes in the fair values of those financial instruments are recorded in “Net change in unrealised gain/loss on financial assets at FVPL”. Interest earned on these instruments is recorded separately in “interest income” in the statement of profit or loss and other comprehensive income.

Financial assets, other than those classified as at FVPL, are measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the financial assets are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at FVPL, 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 asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the 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 expected 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(v) ***Derecognition***

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired, or where the Sub-Fund has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either the Sub-Fund has transferred substantially all the risks and rewards of the asset or the Sub-Fund has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

When the Sub-Fund has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all 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 or cancelled, or expires.

Fair value measurement

The Sub-Fund measures its investments in financial instruments at fair value at the end of each reporting period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Sub-Fund.

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

The fair value for financial instruments that are listed or traded on an exchange is based on quoted last traded market prices, that are within the bid-ask spread.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Fair value measurement (continued)

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Sub-Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(c) Dividend income

Dividend income is recognised on the date when the Sub-Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of profit or loss.

(d) Interest income

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

(e) Expenses

Expenses are recognised in the statement of profit or loss on an accrual basis.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of net assets comprise short-term deposits in banks which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, with original maturities of three months or less.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Redeemable units

Redeemable units are classified as an equity instrument when:

- i. The redeemable units entitle the holder to a pro-rata share of the Sub-Fund's net assets in the event of the Sub-Fund's liquidation;
- ii. The redeemable units are in the class of instruments that is subordinate to all other classes of instruments;
- iii. All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features;
- iv. The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro-rata share of the Sub-Fund's net assets; or
- v. The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

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

- i. Total cash flows based substantially on 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
- ii. The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Sub-Fund's redeemable units meet the definition of puttable instruments classified as equity instruments under the revised HKAS 32 and are classified as equity.

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

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. Upon issuance of redeemable units, the consideration received is included in equity.

Transaction costs incurred by the Sub-Fund in issuing 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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Redeemable units (continued)

The Sub-Fund's 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 recognised in profit or loss on the purchase, sale, issuance or cancellation of the Sub-Fund's own equity instruments.

Redeemable units can be redeemed in cash equal to a proportionate share of the Sub-Fund's net asset value. The Sub-Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units of the Sub-Fund.

(h) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Manager, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

(i) Impairment of financial assets

For financial assets measured at amortised cost, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Sub-Fund is required to provide for credit losses that result from possible default events within the next 12 months (stage 1). For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default (stage 2).

The Sub-Fund considers a default has occurred when a financial asset is more than 90 days past due unless the Sub-Fund has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

NOTES TO THE FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Net gain or loss on financial assets at fair value through profit or loss

Net gains or losses on financial assets at FVPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVPL and exclude 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 the 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 FVPL are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount.

(k) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of net assets 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 assets and settle the liabilities simultaneously.

(l) Taxes

The Sub-Fund is exempt from all forms of taxation in Hong Kong, including income, capital gains and withholding taxes. However, in some jurisdictions, investment income is subject to withholding tax deducted at the source of the income. Withholding tax is a generic term used for the amount of withholding tax deducted at the source of the income and is not significant for the Sub-Fund. 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 gross of withholding taxes, when applicable.

(m) Distributions to unitholders

Distributions are at the discretion of the Manager. A distribution to the Sub-Fund's unitholders is accounted for as a deduction from net assets attributable to unitholders. 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.

(n) Formation fee

The formation fee is recognised as an expense in the period in which it is incurred.

(o) Transaction fees

Transaction fees are costs incurred to acquire financial assets/liabilities at FVPL. They include fees and commissions paid to agents, brokers and dealers. Transaction fees, when incurred, are immediately recognised in profit or loss as an expense.

NOTES TO THE FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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 the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Sub-Fund or an entity related to the Sub-Fund;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Sub-Fund or the parent of the Sub-Fund.

(q) Foreign currency translations

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 translated at the functional currency rates of exchange ruling at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency translation gains and losses on financial instruments classified as at FVPL are included in profit or loss as part of the 'net gain or loss on financial assets and liabilities at fair value through profit or loss'.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

3. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND MOVEMENT OF UNITS

(a) Net assets attributable to unitholders

The creation and redemption of units of the Sub-Fund can only be facilitated by or through participating dealers. Investors other than the participating dealers make a request to create or redeem units through a participating dealer, and if the investor is a retail investor, such request must be made through a stockbroker which has opened an account with a participating dealer. Units are created or redeemed at a minimum of 1,000,000 shares or in multiples thereof for the Sub-Fund.

The Trustee shall receive subscription proceeds from the participating dealers for the creation of units and pay redemption proceeds for the redemption of units to the relevant participating dealer in such form and manner as prescribed by the Trust Deed. Subscriptions and redemptions of units during the period are shown on the statement of changes in net assets attributable to unitholders.

(b) Movement of units

The table below summarises the movement of units for the period ended 31 December 2021, and the Accounting NAV per unit and the Dealing NAV per unit of the Sub-Fund as at 31 December 2021.

	2021 Number of units
Units in issue at beginning of period	–
Issued during the period	34,700,000
Units in issue at end of period	34,700,000

	2021 Net assets attributable to unitholders HK\$
NAV per unit at end of period	23.8513

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4. NET LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following is a breakdown of the net losses on financial assets at FVPL:

	2021 HK\$
Net realised losses on sale of financial assets at FVPL	(2,191,792)
Net change in unrealised losses on financial assets at FVPL	(60,484,726)
	<u>(62,676,518)</u>

5. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND ITS CONNECTED PERSONS

Related parties are those as defined in note 2(p). Related parties of the Sub-Fund also include the Manager of the Sub-Fund and its connected persons. Connected persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the period between the Sub-Fund and its related parties, including 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 its related parties, including the Manager and its connected persons except for those disclosed below.

(a) Management fee

CSOP Asset Management Limited (the "Manager") is entitled to receive a management fee of up to 2% per year of the net asset value of the Sub-Fund. The current management fee in respect of the Sub-Fund is 0.1% of the net asset value and is accrued daily and calculated as at each dealing day and payable monthly in arrears with no fixed terms.

(b) Custodian, fund administration and trustee fees

The Trustee fee and Registrar's fee were included in the management fee and the Manager paid the fees to the Trustee and Registrar out of the management fee.

(c) Formation costs

The formation costs of the Sub-Fund were paid out of the management fee of the Sub-Fund.

(d) Cash and cash equivalents, interest income, interest expense and bank charges

As at 31 December 2021, the interest-bearing bank balance were held with Bank of China (Hong Kong) Ltd, an affiliate of the Trustee. Refer to note 6 for details of cash and cash equivalents.

During the period ended 31 December 2021, the interest income earned from the bank balances maintained with Bank of China (Hong Kong) Ltd. and bank charges amounted to HK\$14, and HK\$170 respectively.

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5. TRANSACTIONS WITH THE TRUSTEE, MANAGER AND ITS CONNECTED PERSONS
(CONTINUED)

(e) Holdings of units

As at 31 December 2021, 4 unitholders held more than 10% of the Sub-Fund's total net assets. 5,490,700 units of the Sub-Fund were held by Bank of China (Hong Kong) Ltd, an affiliate of the Trustee, as a market intermediary.

(f) Brokerage fee

The Sub-Fund do not utilise the trading services of brokers who are related to the Trustee and the Manager in the purchases and sales of investments.

(g) Investments held by the Trustee's affiliate

The investments deposited with Bank of China (Hong Kong) Ltd., the Trustee's affiliate as at 31 December 2021 are summarised below:

	2021 HK\$
Financial assets measured at fair value through profit or loss	<u>826,919,250</u>

6. CASH AND CASH EQUIVALENTS

	2021 HK\$
Bank balances	<u>724,099</u>

As at 31 December 2021, the interest-bearing bank balances were held with Bank of China (Hong Kong) Ltd, a connected company of the Trustee.

7. SOFT COMMISSION ARRANGEMENTS

The Manager may effect transactions, provided that any such transaction is consistent with standards of "best execution", by or through the agency of another person for the account of the Sub-Fund with whom the Manager or any of its connected persons has an arrangement under which that party will from time to time provide to or procure for the Manager or any of its connected persons goods, services or other benefits (such as advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Sub-Fund as a whole and may contribute to an improvement in the performance of the Sub-Fund. For the avoidance of doubt, such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employees' salaries or direct money payments. During the period from 5 May 2021 (date of inception) to 31 December 2021, the Manager obtained the services through soft dollar arrangements on transactions amounting to HK\$1,031,836,053. Commission which amounted to HK\$67,290 was paid from the Sub-Fund on these transactions.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

8. TAXATION

No provision for Hong Kong profits tax has been made for the Sub-Fund as it is authorised as collective investment schemes under section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempt from Hong Kong profits tax under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

PRC tax

The Sub-Fund has investments in shares of companies in People's Republic of China ("PRC") listed on the Hong Kong Stock Exchange ("H-shares") and stocks that are based in mainland China and controlled, either directly or indirectly, by the central, provincial or municipal governments of the PRC but listed in Hong Kong to allow overseas investment in ("Red Chips"). Under general taxing provisions of the Corporate Income Tax Law ("CIT Law"), a fund could be technically subject to 10% withholding income tax ("WIT") on the PRC sourced capital gains, unless exempt or reduced under relevant double tax treaties. However, there may be practical difficulty for the PRC tax authorities to impose and collect WIT on such capital gains. The 10% WIT has not been strictly enforced by local tax bureau on capital gains derived by non-tax resident enterprises of the PRC from the trading of H-Shares and Red Chips. Where capital gains are derived from trading of H-Shares and Red Chips, Value added tax ("VAT") in general is not imposed as the purchase and disposal are often concluded and completed outside the PRC.

No provision was made for taxation from such gains in the financial statements as the Manager believes that the taxation on capital gains derived from H-Shares and Red Chips is not probable under the current enforcement environment.

Withholding tax of 10% was charged on dividend income received from H-shares and Red Chips during the period from 5 May 2021 (date of inception) to 31 December 2021 amounted to HK\$206,355.

9. DISTRIBUTIONS TO UNITHOLDERS

The Manager may in its absolute discretion distribute income to unitholders annually (usually in December of each financial year) or determine that no distribution shall be made in any financial year. Distributions may not be paid if the cost of the Sub-Fund's operations is higher than the yield from management of the Sub-Fund's cash and holdings of investments. The Sub-Fund did not make any distribution for the period.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK\$
Financial assets at fair value through profit or loss	
Listed equities	<u>826,919,250</u>

11. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

The SFC code states that not more than 10% of the NAV of the Sub-Fund may be invested in securities issued by any single issuer, subject to certain provisions of the SFC code. There were no securities that individually accounted for more than 10% of the NAV of the Sub-Fund as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

- (a) Strategy in using financial instruments
Investment objective and investment policies

The investment objective of the Sub-Fund is to provide investment results that, before deduction of fees and expenses, closely correspond to the performance of the underlying index relevant to the Sub-Fund by adopting a replication strategy and investing all, or substantially all, of the assets of such Sub-Fund in Index Securities constituting the Underlying Index in substantially the same weightings as constituted in the underlying index. Refer to note 1 for details.

The Sub-Fund itself is subject to various risks. The main risks associated with the investments, assets and liabilities of the Sub-Fund are set out below:

- (b) Market risk
(i) *Market price risk*

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

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

The Sub-Fund's financial assets and financial liabilities at FVPL were concentrated in the following countries/jurisdictions:

	As at 31 December 2021	
	Fair value HK\$	% of net asset value
<u>Listed equities</u>		
Hong Kong	826,919,250	99.91
Total financial assets at FVPL	<u>826,919,250</u>	<u>99.91</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk (continued)

(i) *Market price risk (continued)*

Sensitivity analysis in the event of a possible change in the tracked index by sensitivity threshold as estimated by the Manager

As at 31 December 2021, if the Index increases by 10% with all other variables held constant, this would increase the net asset value by HK\$82,691,925. Conversely, if the tracked index decreases by the same sensitivity threshold, this would decrease the net asset value by approximately equal amounts.

The Manager has used the view of what would be a “reasonable shift” in each key market to estimate the change for use in the market sensitivity analysis above. The disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in the market index % are revised annually depending on the Manager’s current view of market volatility and other relevant factors.

(ii) *Interest rate risk*

The majority of the Sub-Fund’s financial assets and liabilities are non-interest bearing. As a result, the Sub-Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates

(iii) *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Sub-Fund currently holds assets and liabilities denominated in Hong Kong dollar, a currency the same with its functional currency. The Manager considers that there is no currency risk and therefore the Sub-Fund is not exposed to significant currency risk.

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NOTES TO THE FINANCIAL STATEMENTS

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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due.

All transactions in securities are settled or paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal as delivery of securities sold 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 credit risk consist principally of securities and cash and cash equivalents. The Sub-Fund limits its exposure to credit risk by transacting with well-established broker-dealers and banks with high credit ratings.

The tables below summarise the Sub-Fund's assets placed with banks and their related credit ratings from Standard & Poor's ("S&P"):

	2021 HK\$	Ratings
<u>Financial assets at FVPL</u>		
Bank of China (Hong Kong) Ltd.	826,919,250	A+
<u>Bank balances</u>		
Bank of China (Hong Kong) Ltd.	724,099	A+

Accordingly, the Manager considers the Sub-Fund has no significant credit risk.

Financial assets subject to HKFRS 9's impairment requirements

The Sub-Fund's financial assets subject to the ECL model within HKFRS 9 are dividend receivable from financial assets and cash and cash equivalents. At 31 December 2021, the total amount of these financial assets was HK\$792,921 for the Sub-Fund, on which no loss allowance had been provided. No assets are considered impaired and no amounts have been written off during the period.

The Sub-Fund applies the general approach for impairment, and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. The financial assets therefore are still classified as stage 1 and presented in gross carrying amount.

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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in settling a liability, including a redemption request. The Sub-Fund's securities are considered readily realisable, as they are listed. It is the intent of the Manager to monitor the Sub-Fund's liquidity position on a daily basis. The following table illustrates the expected liquidity of financial assets held and gives the contractual undiscounted cash-flow projection of the Sub-Fund's financial liabilities as at 31 December 2021. The Sub-Fund manages its liquidity risk by investing in securities that it expects to be able to liquidate within 1 month or less. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

As at 31 December 2021

	On demand HK\$	Less than 1 month HK\$	Total HK\$
Financial assets			
Financial assets at fair value through profit or loss	826,919,250	–	826,919,250
Dividend receivable from financial assets	–	68,822	68,822
Cash and cash equivalents	724,099	–	724,099
Total	<u>827,643,349</u>	<u>68,822</u>	<u>827,712,171</u>
Financial liabilities			
Management fee payable	–	70,410	70,410
Total	<u>–</u>	<u>70,410</u>	<u>70,410</u>

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NOTES TO THE FINANCIAL STATEMENTS

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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Fair value estimation

The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the period end date. The Sub-Fund uses the last traded market prices as its fair valuation inputs for financial assets.

An active market is a market in which transactions for the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

HKFRS 13 requires the Sub-Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the assets or liabilities.

The determination of what constitutes "observable" requires significant judgement by the Sub-Fund. The Sub-Fund considers observable data to be the 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 markets.

Financial assets carried at fair value

The following tables analyse the fair value hierarchy within the Sub-Fund's financial assets measured at fair value:

As at 31 December 2021

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at FVPL:				
Listed equities	826,919,250	—	—	826,919,250
	<u>826,919,250</u>	<u>—</u>	<u>—</u>	<u>826,919,250</u>

NOTES TO THE FINANCIAL STATEMENTS

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12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Fair value estimation (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include listed equity securities. The Sub-Fund does not adjust the quoted price for these instruments.

Financial instruments that are traded in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Investments classified within Level 3 have significant unobservable inputs, as they are traded infrequently.

There were no transfers between levels during the period from 5 May 2021 (date of inception) to December 31, 2021.

Other financial assets and financial liabilities

The management has assessed that the carrying values of cash and cash equivalents, management fee payable approximate to their fair values largely due to the short term maturities of these instruments.

(f) Capital risk management

The Sub-Fund's capital is represented by the net assets attributable to unitholders. The Sub-Fund's objective is to provide investment results that correspond generally to the performance of the Index.

The Manager may:

- redeem and issue new units in accordance with the constitutive documents of the Sub-Fund;
- exercise discretion when determining the amount of distributions of the Sub-Fund to the unitholders; and
- suspend the creation and redemption of units under certain circumstances stipulated in the Trust Deed.

NOTES TO THE FINANCIAL STATEMENTS

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13. BROKERAGE AND TRANSACTION FEE

Broker commission pertains to the broker commission for every transaction made through the broker at the average market rate based on the transaction value. Transaction fee pertains to fees such as trading fee and transaction levy for every transaction made on the exchange.

14. SEGMENT INFORMATION

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

The Manager is responsible for the Sub-Fund's entire portfolio and considers the business to have a single operating segment. The objective of the Sub-Fund is to track the performance of its index and invests in substantially all the index constituents with security weight and industry weight that are closely aligned with the characteristics of the Index.

The Sub-Fund trades in the constituent shares of the Hang Seng Index with the objective to provide investment results that closely correspond to the performance of the Index.

The internal financial information used by the Manager for the Sub-Fund's assets, liabilities and performance is the same as that disclosed in the statement of net assets and the statement of profit or loss and other comprehensive income.

The Sub-Fund is domiciled in Hong Kong. All of the Sub-Fund's income is generated in Hong Kong. Majority of such income is from investments in entities listed in Hong Kong.

The Sub-Fund has no assets and no liabilities classified as non-current.

15. MAJOR NON-CASH TRANSACTIONS

In accordance with the Trust Deed, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash. For each Creation Unit (of 1,000,000 units), the Sub-Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the period from 5 May 2021 (date of inception) to 31 December 2021, the Sub-Fund issued 34,700,000 units, totalling HK\$886,607,800 in exchange for Index Baskets consisting of investments valued at HK\$716,184,306 plus the relevant cash component.

16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Manager and the Trustee on 28 April 2022.

CSOP Hang Seng Index ETF
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INVESTMENT PORTFOLIO (UNAUDITED)

As at 31 December 2021

	Holdings Units	Fair value HK\$	% of net assets
<u>Listed equities</u>			
Hong Kong			
AAC TECHNOLOGIES HLDGS INC	47,640	1,467,312	0.18
AIA GROUP LTD	794,653	62,459,725	7.55
ALIBABA GROUP HLDG LTD	497,412	59,142,286	7.15
ALIBABA HEALTH INFORMATION TECHNOLOGY LTD	309,171	2,037,437	0.25
ANTA SPORTS PRODUCTS LTD	70,712	8,266,233	1.00
BANK OF CHINA LTD-H	5,206,283	14,629,655	1.77
BOC HONG KONG (HLDGS) LTD	240,074	6,133,891	0.74
BUDWEISER BREWING CO APAC LTD	130,306	2,664,758	0.32
BYD CO LTD-H	55,163	14,706,456	1.78
CHINA CONSTRUCTION BANK CORP-H	7,115,586	38,424,163	4.64
CHINA LIFE INSURANCE CO LTD-H	483,442	6,246,071	0.75
CHINA MENGNIU DAIRY CO LTD	180,768	7,989,946	0.97
CHINA MERCHANTS BANK CO LTD-H	255,660	15,480,213	1.87
CHINA MOBILE LTD	403,356	18,877,061	2.28
CHINA OVERSEAS LAND & INVESTMENT LTD	248,036	4,578,745	0.55
CHINA PETROLEUM & CHEMICAL CORP-H	1,574,280	5,714,636	0.69
CHINA RESOURCES BEER HLDGS CO LTD	106,000	6,768,100	0.82
CHINA RESOURCES LAND LTD	210,329	6,898,791	0.83
CHINA UNICOM (HONG KONG) LTD	401,507	1,565,877	0.19
CITIC LTD	476,752	3,670,990	0.44
CK ASSET HLDGS LTD	130,211	6,399,871	0.77
CK HUTCHISON HLDGS LTD	175,550	8,830,165	1.07
CK INFRASTRUCTURE HLDGS LTD	50,674	2,515,964	0.30
CLP HLDGS LTD	132,092	10,402,245	1.26
CNOOC LTD	1,166,863	9,369,910	1.13
COUNTRY GARDEN HLDGS CO LTD	516,270	3,572,588	0.43
COUNTRY GARDEN SERVICES HLDGS CO LTD	114,835	5,362,795	0.65
CSPC PHARMACEUTICAL GROUP LTD	581,840	4,928,185	0.60
ENN ENERGY HLDGS LTD	51,600	7,574,880	0.92
GALAXY ENTERTAINMENT GROUP LTD	142,004	5,736,962	0.69
GEELY AUTOMOBILE HLDGS LTD	384,480	8,189,424	0.99
H Aidilao Intl Hldg Ltd	71,891	1,265,282	0.15
HANG LUNG PROPERTIES LTD	132,292	2,121,964	0.26
HANG SENG BANK LTD	49,734	7,097,042	0.86
HENDERSON LAND DEVELOPMENT CO LTD	95,422	3,168,010	0.38
HENGAN INTL GROUP CO LTD	46,093	1,850,634	0.22

CSOP Hang Seng Index ETF
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INVESTMENT PORTFOLIO (UNAUDITED)

As at 31 December 2021

	Holdings Units	Fair value HK\$	% of net assets
<u>Listed equities (continued)</u>			
Hong Kong (continued)			
HONG KONG & CHINA GAS CO LTD	731,280	8,877,739	1.07
HONG KONG EXCHANGES & CLEARING LTD	79,194	36,064,948	4.36
HSBC HLDGS PLC	1,363,612	63,953,402	7.72
INDUSTRIAL & COMMERCIAL BK OF CHINA- H	4,843,819	21,312,804	2.58
JD.COM INC	40,500	11,097,000	1.34
LINK REAL ESTATE INVESTMENT TRUST	136,578	9,376,080	1.13
LI NING CO LTD	146,928	12,540,305	1.52
LONGFOR GROUP HLDGS LTD	119,524	4,386,531	0.53
MEITUAN-CLASS B	280,313	63,182,549	7.63
MTR CORP LTD	120,557	5,045,310	0.61
NETEASE INC	33,300	5,244,750	0.63
NEW WORLD DEVELOPMENT CO LTD	88,607	2,733,526	0.33
PETROCHINA CO LTD-H	1,365,958	4,739,874	0.57
PING AN INSURANCE GROUP CO OF CHINA LTD-H	415,630	23,337,625	2.82
POWER ASSETS HLDGS LTD	89,678	4,358,351	0.53
SANDS CHINA LTD	181,915	3,303,576	0.40
SHENZHOU INTL GROUP HLDGS LTD	58,902	8,829,410	1.07
SINO BIOPHARMACEUTICAL LTD	731,067	3,991,626	0.48
SUN HUNG KAI PROPERTIES LTD	85,408	8,079,597	0.98
SUNNY OPTICAL TECHNOLOGY GROUP CO LTD	46,644	11,502,410	1.39
TECHTRONIC INDUSTRIES CO LTD	96,258	14,939,242	1.81
TENCENT HLDGS LTD	145,145	66,302,235	8.00
WH GROUP LTD	462,722	2,262,711	0.27
WHARF REAL ESTATE INVESTMENT CO LTD	118,648	4,698,461	0.57
WUXI BIOLOGICS CAYMAN INC	236,392	21,878,080	2.64
XIAOMI CORP-CLASS B SHARE	1,153,513	21,801,396	2.63
XINYI GLASS HLDG CO LTD	143,026	2,789,007	0.34
XINYI SOLAR HLDGS LTD	316,372	4,182,438	0.51
Total investments, at fair value		<u>826,919,250</u>	<u>99.91</u>
Total investments, at cost		<u>887,403,976</u>	

CSOP Hang Seng Index ETF
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STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

For the period from 5 May 2021 (date of inception) to 31 December 2021

	Holdings			As at 31 December 2021 Units
	5 May 2021 (date of inception) Units	Additions Units	Disposals Units	
Listed equities				
Hong Kong				
AAC TECHNOLOGIES HLDGS INC	-	54,640	7,000	47,640
AIA GROUP LTD	-	828,053	33,400	794,653
ALIBABA GROUP HLDG LTD	-	506,112	8,700	497,412
ALIBABA HEALTH INFORMATION TECHNOLOGY LTD	-	343,171	34,000	309,171
ANTA SPORTS PRODUCTS LTD	-	79,512	8,800	70,712
BANK OF CHINA LTD-H	-	5,725,283	519,000	5,206,283
BOC HONG KONG (HLDGS) LTD	-	266,074	26,000	240,074
BUDWEISER BREWING CO APAC LTD	-	146,706	16,400	130,306
BYD CO LTD-H	-	60,163	5,000	55,163
CHINA CONSTRUCTION BANK CORP-H	-	7,796,586	681,000	7,115,586
CHINA LIFE INSURANCE CO LTD-H	-	535,442	52,000	483,442
CHINA MENGNIU DAIRY CO LTD	-	199,768	19,000	180,768
CHINA MERCHANTS BANK CO LTD-H	-	272,660	17,000	255,660
CHINA MOBILE LTD	-	443,856	40,500	403,356
CHINA OVERSEAS LAND & INVESTMENT LTD	-	275,536	27,500	248,036
CHINA PETROLEUM & CHEMICAL CORP-H	-	1,746,280	172,000	1,574,280
CHINA RESOURCES BEER HLDGS CO LTD	-	106,000	-	106,000
CHINA RESOURCES LAND LTD	-	234,329	24,000	210,329
CHINA UNICOM (HONG KONG) LTD	-	455,507	54,000	401,507
CITIC LTD	-	531,752	55,000	476,752
CK ASSET HLDGS LTD	-	149,711	19,500	130,211
CK HUTCHISON HLDGS LTD	-	195,050	19,500	175,550
CK INFRASTRUCTURE HLDGS LTD	-	56,674	6,000	50,674
CLP HLDGS LTD	-	143,592	11,500	132,092
CNOOC LTD	-	1,290,863	124,000	1,166,863
COUNTRY GARDEN HLDGS CO LTD	-	565,270	49,000	516,270
COUNTRY GARDEN SERVICES HLDGS CO LTD	-	125,835	11,000	114,835
CSPC PHARMACEUTICAL GROUP LTD	-	645,840	64,000	581,840
ENN ENERGY HLDGS LTD	-	51,600	-	51,600
GALAXY ENTERTAINMENT GROUP LTD	-	157,004	15,000	142,004
GEELY AUTOMOBILE HLDGS LTD	-	424,480	40,000	384,480
HAIDILAO INTL HLDG LTD	-	79,891	8,000	71,891
HANG LUNG PROPERTIES LTD	-	150,292	18,000	132,292
HANG SENG BANK LTD	-	55,034	5,300	49,734
HENDERSON LAND DEVELOPMENT CO LTD	-	108,422	13,000	95,422
HENGAN INTL GROUP CO LTD	-	52,093	6,000	46,093

CSOP Hang Seng Index ETF
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STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

For the period from 5 May 2021 (date of inception) to 31 December 2021

	5 May 2021 (date of inception) Units	Holdings			As at 31 December 2021 Units
		Additions Units	Stock dividend Units	Disposals Units	
Listed equities (continued)					
Hong Kong (continued)					
HONG KONG & CHINA GAS CO LTD	-	799,130	7,150	75,000	731,280
HONG KONG EXCHANGES & CLEARING LTD	-	86,894	-	7,700	79,194
HSBC HLDGS PLC	-	1,492,412	-	128,800	1,363,612
INDUSTRIAL & COMMERCIAL BK OF CHINA-H	-	5,312,819	-	469,000	4,843,819
JD.COM INC	-	40,500	-	-	40,500
LI NING CO LTD	-	156,928	-	10,000	146,928
LONGFOR GROUP HLDGS LTD	-	133,024	-	13,500	119,524
MEITUAN-CLASS B	-	296,313	-	16,000	280,313
MTR CORP LTD	-	133,557	-	13,000	120,557
NETEASE INC	-	33,300	-	-	33,300
NEW WORLD DEVELOPMENT CO LTD	-	110,607	-	22,000	88,607
PETROCHINA CO LTD-H	-	1,517,958	-	152,000	1,365,958
PING AN INSURANCE GROUP CO OF CHINA LTD-H	-	451,130	-	35,500	415,630
POWER ASSETS HLDGS LTD	-	100,178	-	10,500	89,678
SANDS CHINA LTD	-	203,915	-	22,000	181,915
SHENZHOU INTL GROUP HLDGS LTD	-	64,302	-	5,400	58,902
SINO BIOPHARMACEUTICAL LTD	-	815,067	-	84,000	731,067
SUN HUNG KAI PROPERTIES LTD	-	95,408	-	10,000	85,408
SUNNY OPTICAL TECHNOLOGY GROUP CO LTD	-	51,644	-	5,000	46,644
TECHTRONIC INDUSTRIES CO LTD	-	107,258	-	11,000	96,258
TENCENT HLDGS LTD	-	157,045	-	11,900	145,145
WH GROUP LTD	-	644,222	-	181,500	462,722
WHARF REAL ESTATE INVESTMENT CO LTD	-	129,648	-	11,000	118,648
WUXI BIOLOGICS CAYMAN INC	-	255,392	-	19,000	236,392
XIAOMI CORP-CLASS B SHARE	-	1,189,713	-	36,200	1,153,513
XINYI GLASS HLDG CO LTD	-	155,026	-	12,000	143,026
XINYI SOLAR HLDGS LTD	-	344,372	-	28,000	316,372
LINK REAL ESTATE INVESTMENT TRUST	-	150,278	-	13,700	136,578

CSOP Hang Seng Index ETF
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PERFORMANCE RECORD (UNAUDITED)

NET ASSET VALUE

	Dealing net asset value HK\$	Dealing net asset value per unit HK\$
As at 31 December 2021	827,641,761	23.8513

HIGHEST ISSUE PRICE AND LOWEST REDEMPTION PRICE PER UNIT

	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$
For the period from 5 May 2021 (date of inception) to 31 December 2021	29.6047	23.1871

COMPARISON OF THE SCHEME PERFORMANCE AND THE ACTUAL INDEX PERFORMANCE

The table below illustrates the comparison between the Sub-Fund's performance (market-to-market) and that of the Index:

	Sub-Fund performance %	Index performance %
For the period from 5 May 2021 (date of inception) to 31 December 2021	-16.07%	-16.03%

CSOP Hang Seng Index ETF
(A Sub-Fund of CSOP ETF Series III)

MANAGEMENT AND ADMINISTRATION

Manager

CSOP Asset Management Limited
2801-2803 & 3303-3304
Two Exchange Square
8 Connaught Place
Central
Hong Kong

Directors of the Manager

Yi Zhou
Chen Ding
Gaobo Zhang
Xiaosong Yang
Zhongping Cai
Xiuyan Liu

Auditors

27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Trustee, Custodian and Registrar

BOCI-Prudential Trustee Limited
Suites 1501-1507 & 1513-1516, 15/F,
1111 King's Road,
Taikoo Shing, Hong Kong

Legal Counsel to the Manager

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

Listing Agent

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong