

CSOP LEVERAGED AND INVERSE SERIES II

REPORTS AND FINANCIAL STATEMENTS

CSOP FTSE CHINA A50 INDEX DAILY (-1X) INVERSE PRODUCT
(Stock Code: 7348)

FOR THE PERIOD FROM 19 JANUARY 2021 (DATE OF COMMENCEMENT OF
OPERATIONS) TO 31 DECEMBER 2021

(SUB-FUND OF CSOP LEVERAGED AND INVERSE SERIES II)

CSOP FTSE CHINA A50 INDEX DAILY (-1X) INVERSE PRODUCT
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

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CSOP FTSE CHINA A50 INDEX DAILY (-1X) INVERSE PRODUCT
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, CSOP Asset Management Limited, the Manager of CSOP FTSE China A50 Index Daily (-1x) Inverse Product (the “Sub-Fund”), a sub-fund of CSOP Leveraged and Inverse Series II, has, in all material respects, managed the Sub-Fund in accordance with the provisions of the Trust Deed dated 24 April 2020 as amended by the supplemental deeds on 24 April 2020 and 19 May 2020, 10 July 2020 and 23 December 2020 (collectively, one “Trust Deed”) for the period from 19 January 2021 (date of commencement of operations) to 31 December 2021.

Cititrust Limited (the “Trustee”)
28 April 2022

Independent auditor's report

To the unitholders of CSOP FTSE China A50 Index Daily (-1x) Inverse Product (the "Trust")

(A sub-fund of CSOP Leveraged and Inverse Series II, 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 FTSE China A50 Index Daily (-1x) Inverse Product (the "Sub-Fund") of the CSOP Leveraged and Inverse Series II set out on pages 7 to 39, 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 19 January 2021 (date of commencement of operations) 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 19 January 2021 (date of commencement of operations) to 31 December 2021 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Sub-Fund in accordance with the *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 FTSE China A50 Index Daily (-1x) Inverse Product (the “Trust”)

(A sub-fund of CSOP Leveraged and Inverse Series II, 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 \$10,100,242 which represented 44.09% of the net asset value of the Sub-Fund. The financial assets at fair value through profit and loss comprised total return swaps traded over-the-counter and money market funds 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 11, 13(b)(i) and 13(e) to the financial statements.</p>	<p>We obtained independent confirmations from the custodians and the counterparties 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>For total return swaps traded over the counter, we evaluated the valuation techniques applied and validated observable inputs to external market data.</p> <p>We evaluated the adequacy and extent of disclosures made in the financial statements against the requirements of IFRSs.</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 FTSE China A50 Index Daily (-1x) Inverse Product (the "Trust")

(A sub-fund of CSOP Leveraged and Inverse Series II, 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 IFRSs, 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 24 April 2020 as amended by the supplemental deeds dated 24 April 2020, 19 May 2020, 10 July 2020 and 23 December 2020 (collectively, the "Trust Deed") 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 FTSE China A50 Index Daily (-1x) Inverse Product (the "Trust")

(A sub-fund of CSOP Leveraged and Inverse Series II, 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 FTSE China A50 Index Daily (-1x) Inverse Product (the "Trust")

(A sub-fund of CSOP Leveraged and Inverse Series II, 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

CSOP FTSE China A50 Index Daily (-1x) Inverse Product
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

STATEMENT OF NET ASSETS

As at 31 December 2021

	Note	2021 USD
ASSETS		
Financial assets at fair value through profit or loss	11	10,100,242
Interest receivable		319
Rebate receivable	5(j)	8,126
Amounts due from broker	6	55,011
Margin accounts	6	1,094,264
Cash and cash equivalents	7	11,936,968
TOTAL ASSETS		<u>23,194,930</u>
LIABILITIES		
Management fee payable	5(a)	96,094
Other payables and accruals		32,860
Cash collateral liabilities		160,000
TOTAL LIABILITIES		<u>288,954</u>
EQUITY		
Net assets attributable to unitholders	3(a)	<u>22,905,976</u>
TOTAL LIABILITIES AND EQUITY		<u><u>23,194,930</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 FTSE China A50 Index Daily (-1x) Inverse Product
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021

	Note	For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021 USD
INCOME		
Net gains on financial assets at fair value through profit or loss	4	1,729,966
Interest income from bank deposits		1,868
Interest income from margin accounts	6	104
Rebate income	5(j)	28,273
		<u>1,760,211</u>
EXPENSES		
Management fee	5(a)	(335,105)
Collateral management fee	5(k)	(10,234)
Formation fee	5(c)	(52,621)
Audit fee		(6,000)
Bank charges	5(d)	(681)
Index licensing fee		(14,221)
Brokerage and transaction fee	14	(1,257)
Interest on margin accounts	6	(201)
Legal and other professional fees		(6,099)
Other operating expenses		(27,860)
Net foreign exchange losses		(1,303)
TOTAL OPERATING EXPENSES		<u>(455,582)</u>
OPERATING PROFIT		<u>1,304,629</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>1,304,629</u></u>

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

CSOP FTSE China A50 Index Daily (-1x) Inverse Product
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021

	Note	Number of units	For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021 USD
Net assets attributable to unitholders at the beginning of the period		–	–
Issue of units	3(b)	22,400,000	22,490,001
Redemption of units	3(b)	<u>(800,000)</u>	<u>(888,654)</u>
Net issue of units		21,600,000	21,601,347
Total comprehensive income for the period			<u>1,304,629</u>
Net assets attributable to unitholders at the end of the period			<u><u>22,905,976</u></u>

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

CSOP FTSE China A50 Index Daily (-1x) Inverse Product
(A Sub-Fund of CSOP Leveraged and Inverse Series II)

STATEMENT OF CASH FLOWS

For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021

	Note	For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021 USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Total comprehensive income for the period		1,304,629
Adjustments for:		
Interest expenses on margin accounts		201
Interest income from bank deposits		(1,868)
Interest income from margin accounts		(104)
Operating cash flows before movements in working capital		<u>1,302,858</u>
Increase in financial assets at fair value through profit or loss		(10,100,242)
Increase in margin accounts		(1,094,264)
Increase in rebate receivable		(8,126)
Increase in amounts due from broker		(55,011)
Increase in management fee payable		96,094
Increase in cash collateral liabilities		160,000
Increase in other payables and accruals		<u>32,860</u>
Cash used in operations		(9,665,831)
Interest on bank deposits received		1,549
Interest paid on margin accounts		<u>(97)</u>
Net cash flows used in operating activities		<u>(9,664,379)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units		22,490,001
Payments on redemption on units		<u>(888,654)</u>
Net cash flows generated from financing activities		<u>21,601,347</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		11,936,968
Cash and cash equivalents at the beginning of the period		<u>—</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u>11,936,968</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Term deposits	7	3,073,392
Bank balances	7	<u>8,863,576</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>11,936,968</u>

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

CSOP FTSE China A50 Index Daily (-1x) Inverse Product

(A Sub-Fund of CSOP Leveraged and Inverse Series II)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

1. GENERAL INFORMATION

CSOP Leveraged and Inverse Series II (the “Trust”) is an umbrella unit trust governed by its trust deed dated 24 April 2020, as amended by the supplemental deeds on 24 April 2020, 19 May 2020, 10 July 2020 and 23 December 2020 (collectively, the “Trust Deed”) between CSOP Asset Management Limited (the “Manager”) and Cititrust 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 FTSE China A50 Index Daily (-1x) Inverse Product (the “Sub-Fund”) is one of the sub-funds of the Trust, which commenced trading under the stock code 7348 on the Stock Exchange of Hong Kong Limited (“SEHK”) on 20 January 2021.

The investment objective of the Sub-Fund is to provide investment results that, before fees and expenses, closely correspond to the inverse (-1x) the daily performance of the FTSE China A50 Index (the “Index”).

The Manager intends to adopt a Swap-based synthetic replication strategy to achieve the investment objective of the Sub-fund, pursuant to which the Sub-fund will enter into more than one partially-funded Swap (which are over-the counter financial derivative instruments entered into with more than one Swap Counterparty) whereby the Sub-fund will provide a portion of the net proceeds from subscription from the issue of the Units as initial margin (“Initial Amount”) to the Swap Counterparties which will be held by the custodian appointed by the Trustee in a segregated account and will only be transferred to the Swap Counterparties when the Sub-fund defaults and in return the Swap Counterparties will provide the Sub-fund with an exposure to the Index (net of transaction costs).

As of 31 December 2021, the Trust had eight sub-funds, namely CSOP Gold Futures Daily (2x) Leveraged Product, CSOP NASDAQ-100 Index Daily (2x) Leveraged Product, CSOP CSI 300 Index Daily (2x) Leveraged Product, CSOP CSI 300 Index Daily (-1x) Inverse Product, CSOP FTSE China A50 Index Daily (2x) Leveraged Product, CSOP FTSE China A50 Index Daily (-1x) Inverse Product, CSOP Gold Futures Daily (-1x) Inverse Product and CSOP WTI Crude Oil Futures Daily (-1x) Inverse Product, (collectively, the “Sub-Funds”).

These financial statements relate to CSOP FTSE China A50 Index Daily (-1x) Inverse Product only. The remaining Sub-Funds are being presented in separate financial statements.

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.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a)(i) Basis of preparation

The financial statements of the Sub-Fund have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB 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 United States dollars (“USD”) for the Sub-Fund. All values are rounded to the nearest USD except where otherwise indicated.

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

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

The preparation of financial statements, in conformity with IFRSs, 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 IFRSs

The Sub-Fund has not early applied any of the new and revised IFRSs 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 IFRSs, the following is expected to be relevant to the Sub-Fund's financial statements upon becoming effective:

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Fund.

CSOP FTSE China A50 Index Daily (-1x) Inverse Product
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a)(iii) Issued but not yet effective IFRSs (continued)

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Fund is currently assessing the impact of the amendments to determine the impact they will have on the Fund’s accounting policy disclosures.

(b) Financial instruments

(i) ***Classification***

In accordance with IFRS 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;
- (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; or
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

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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 amortised cost

A debt instrument 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, margin accounts, amounts due from broker, interest receivable and rebate receivable.

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 investment funds and derivative contracts in an asset position 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 management fee payable, cash collateral liabilities and other payables and accruals.

Financial liabilities measured at FVPL

This category includes derivative contracts in a liability position since they are classified as held for trading.

(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.

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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.

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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.

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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.

Derivative financial instruments

Derivative financial instruments are recorded on a mark-to-market basis. Fair values are calculated by reference to changes in specified prices of an underlying asset or otherwise a determined notional amount for swap agreements. All derivatives are carried as assets when amounts are receivable by the Sub-Fund and as liabilities when amounts are payable by the Sub-Fund.

Unrealised gains and losses arising from changes in fair value, and realised gains and losses are recognised in profit or loss.

(c) Revenue recognition

Interest income is recognised in profit or loss on a time-proportionate basis using the effective interest method.

Other income is recognised when it is probable that the economic benefits will flow to the Sub-Fund and the other income can be reliably measured. Other income is recognised when the Sub-Fund's right to receive payment has been established.

(d) Expenses

Expenses are recognised on an accrual basis.

(e) 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 IAS 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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.

(g) 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.

(h) Margin accounts and amounts due from broker

Margin accounts represent cash deposits maintained for Swap Counterparties as collateral against open swap contracts.

Amount due from broker represent sum of receivable for swap settlement (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date.

(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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Net change in unrealised gains or losses on financial assets at FVPL

This item includes changes in the fair value of financial assets as at FVPL.

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

(k) Net realised gains or losses on disposal of financial assets at FVPL

Realised gains and losses on disposal of financial assets/financial liabilities classified as at FVPL are calculated using the first-in-first-out method for derivative financial instruments and weighted average method for investment funds.

(l) 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.

(m) 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 and capital gains are subject to withholding tax deducted from the source of the income. The Sub-Fund presents the withholding tax separately from the gross investment income in profit or loss. For the purpose of the statement of cash flows, cash inflows from investments are presented net of withholding taxes, when applicable.

(n) 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.

(o) Formation fee

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

(p) Transaction fees

Transaction fees are costs incurred to acquire financial assets 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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.

(r) 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. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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 is determined.

Foreign currency translation gains and losses on financial instruments classified as at FVPL are included in profit or loss.

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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 400,000 units 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.

As stated in note 2(f), units of the Sub-Fund, which are represented by assets less liabilities, are classified as equity and accounted for in accordance with IFRSs (the "Accounting NAV"). For the purpose of determining the net asset value per unit for subscriptions and redemptions and for various fee calculations (the "Dealing NAV"), the Trustee calculates the Dealing NAV in accordance with the provisions of the Trust Deed, which may be different from the accounting policies under IFRSs.

Reconciliation between the Accounting NAV and Dealing NAV

The formation fee for establishing the Sub-Fund was USD52,621. According to the prospectus of the Sub-Fund, the formation fee is amortised over the first 5 financial periods of the Sub-Fund. However, with respect to the Sub-Fund for the purpose of financial statements preparation in compliance with IFRSs, its accounting policy is to expense the formation fee in profit or loss as incurred. As of 31 December 2021, the remaining amortisation period is 4 years.

The difference between the Accounting NAV reported in the statement of net assets and the Dealing NAV as at 31 December 2021 is reconciled as set out below:

	2021 USD
Accounting NAV as reported in the statement of net assets	22,905,976
Adjustment for the formation fee	35,832
Dealing NAV	<u>22,941,808</u>

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3. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND MOVEMENT OF UNITS
(CONTINUED)

(b) Movement of units

The table below summarises the movement of units for the period from 19 January 2021 (date of commencement of operations) to 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	22,400,000
Redeemed during the period	(800,000)
Units in issue at end of period	<u>21,600,000</u>
	2021 Net assets attributable to unitholders
	<u>USD</u>
Accounting NAV per unit at end of period	1.0605
Dealing NAV per unit at end of period	1.0621

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

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

	2021 USD
Net realised gains on sale of financial assets at FVPL	1,532,016
Net change in unrealised gains on financial assets at FVPL	197,950
	<u>1,729,966</u>

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

Related parties are those as defined in note 2(q). 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 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 3% per year of the net asset value of the Sub-Fund. The current management fee in respect of the Sub-Fund is 1.6% 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. The management fee for the period ended 31 December 2021 was USD335,105. As at 31 December 2021, a management fee of USD96,094 was payable to the Manager.

(b) Custodian, fund administration and trustee fees

The Trustee fee and Registrar's fee are included in the management fee and the Manager will pay the fees of the Trustee and Registrar out of the management fee. Refer to Note 5(a).

(c) Formation fee

During the period ended 31 December 2021, the formation fee for establishing the Sub-Fund was USD52,621. There is no formation fee payable as of 31 December 2021.

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

As at 31 December 2021, part of the interest-bearing bank balances were held with Citibank, Hong Kong, a related company of the Trustee. Refer to note 7 for details of cash and cash equivalents.

During the period ended 31 December 2021, the interest income earned from the bank balances maintained with Citibank, Hong Kong and the bank charges amounted to USD6 and USD681 respectively.

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

(e) Margin accounts, interest income and interest expense

As at 31 December 2021, margin accounts maintained for Citigroup Global Markets Limited, a related company of the Trustee, amounted to USD1,094,264 are being held with the related company of the Trustee, which are pledged as collateral against open Swap contracts.

During the period ended 31 December 2021, the interest income receivable and interest expense payable to Citigroup Global Markets Limited amounted to USD40 and USD105 respectively.

(f) Holdings of units

As at 31 December 2021, Citibank, N.A., the Trustee's affiliate of the Sub-Fund, held 8,156,396 units of the Sub-fund, as a market intermediary.

(g) Investments in other collective investment funds managed by the Manager

As at 31 December 2021, the Sub-Fund invested in investment funds managed by the Manager and the details are as follows:

	Units	Fair value USD
CSOP HKD Money Market ETF	35,000	4,639,267
CSOP US Dollar Money Market ETF	51,000	5,230,050

(h) Brokerage fees

The Sub-Fund utilises the trading services of brokers who are related to the Trustee and the Manager in the purchases and sales of investments.

For the period ended 31 December 2021, brokerage fees through Citigroup Global Markets Limited, the connected person of the Trustee, amounted to USDnil.

Aggregate value of purchases and sales of securities USD	Total commission paid USD	% of the Sub-Fund's total transactions during the year %	Average commission rate %
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31 December 2021

Citigroup Global Markets Limited	67,673,551	-	40.74%	0.00%
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NOTES TO THE FINANCIAL STATEMENTS

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

(i) Investments held by the Trustee's affiliate

The investments deposited/Swap contracts with Citibank, N.A., Hong Kong, the Trustee's affiliate as at 31 December 2021 are summarised below:

	Note	2021 USD
Financial assets measured at fair value through profit or loss		
Citibank, N.A., Hong Kong	11	9,869,317
Citigroup Global Markets Ltd	11	119,450

(j) Rebate income

Rebate income amounted to USD28,273 pertains to the management fee rebate income from CSOP HKD Money Market ETF and CSOP US Dollar Money Market ETF managed by CSOP Asset Management Limited, which is the common Manager of the Sub-Fund. According to Chapter 7.11C of the SFC Code, where a scheme invests in any underlying schemes managed by the same management company or its connected persons, all initial charges and redemption charges on the underlying schemes must be waived. The Manager did not incur any initial and redemption charges on the Sub-Fund for the period from 19 January 2021 (date of commencement of operations) to 31 December 2021.

As of 31 December 2021, the rebate receivable for the Sub-Fund was USD8,126, which is receivable from the Manager. The amount is interest-free, unsecured and receivable less than 1 month.

(k) Cash collateral liabilities and collateral management fee

As at 31 December 2021, cash collateral liabilities held by Citibank, N.A., Hong Kong Branch, the Trustee's affiliate, amounted to USD160,000.

During the period ended 31 December 2021, the collateral management fee payable to Cititrust Limited ("the Trustee") amounted to USD10,234.

(l) Other operating expenses

The Sub-Fund paid Citibank, N.A., Hong Kong Branch, a Trustee's affiliate, as the administrator, financial statement preparation fee and out-of-pocket expenses amounting USD7,501 and USD1,902 respectively for the period from 19 January 2021 (date of commencement of operations) to 31 December 2021 included in other operating expenses in the statement of profit or loss and other comprehensive income.

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6. MARGIN ACCOUNTS/AMOUNTS DUE FROM BROKER

	2021 USD
Margin accounts	<u>1,094,264</u>
Amounts due from brokers	<u>55,011</u>

As at 31 December 2021, margin account maintained are pledged as collateral against open Swap contracts. Refer to 5(e) for related balances and transactions with connected parties.

As at 31 December 2021, part of the amount due from brokers amounting USD55,011 represents receivable for swap settlement not yet settled on the reporting date. The balance is receivable less than 1 month.

7. CASH AND CASH EQUIVALENTS

	Note	2021 USD
Term deposits at banks with original maturity less than three months	(a)	3,073,392
Bank balances	(b)	<u>8,863,576</u>
		<u>11,936,968</u>

Note:

(a) As at 31 December 2021, the interest-bearing term deposits amounting to USD3,073,392 were held with Bank of Shanghai (Hong Kong) Ltd.

(b) As at 31 December 2021, the interest-bearing bank balances amounting to USD2,272,425 were held with Citibank, Hong Kong, a related company of the Trustee, USD2,709,000 were held with China Everbright Bank Co., Ltd, USD1,157,000 were held with CMB Wing Lung Bank Ltd and USD2,725,151 were held with Industrial and Commercial Bank of China.

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8. 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. Since the inception of the Sub-Fund, the Manager has not participated in any soft commission arrangements in respect of any transactions for the account of the Sub-Fund.

9. 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.

10. 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.

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11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 USD
Financial assets at fair value through profit or loss	
Investment funds	9,869,317
Total return swaps (i)	230,925
	<u>10,100,242</u>

(i) *Total return swaps*

The following total return swaps were unsettled at the date of the statement of net assets:

As at 31 December 2021

Type of contract	Position	Counterparty	Underlying investment	Expiration date	Contracts	Notional amount USD	Fair value USD
Total return swap	Short	Citigroup Global Markets Limited	FTSE China A50 Index	28 January 2022	681	10,809,795	119,450
Total return swap	Short	J.P. Morgan Securities plc	FTSE China A50 Index	28 January 2022	218	3,467,734	45,568
Total return swap	Short	Societe Generale	FTSE China A50 Index	28 January 2022	560	8,856,793	65,907

12. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE

According to Chapter 7.1 and 7.1A of the SFC Code, the aggregate value of the Sub-Funds' investments in, or exposure to, any single entity or entities within the same group, through the following may not exceed 10% or 20% of its total net asset value respectively:

- (a) investments in securities issued by that entity;
- (b) exposure to that entity through underlying assets of financial derivative instruments; and
- (c) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

Notwithstanding above limitation from Chapter 7.1, Chapter 8.6 (h) states that more than 10% of NAV of the Sub-Funds may be invested in constituent securities issued by a single entity provided that:

- (i) the investment is limited to any constituent securities that each accounts for more than 10% of the weighting of the index; and

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12. INVESTMENT LIMITATION AND PROHIBITIONS UNDER THE SFC CODE (CONTINUED)

- (ii) the index fund's holding of any such constituent securities may not exceed their respective weightings in the index, except where weightings are exceeded as a result of changes in the composition of the index and the excess is only transitional and temporary in nature.

However, according to Chapter 8.6 (h)(a)(ii), the above Chapter 8.6 (h)(i) and (ii) do not apply as the strategy to hold securities from single issuer for more than 10% of NAV is clearly disclosed in the prospectus of the Sub-Funds provide, thus requirement from Chapter 7.1 is exempted.

There were two securities that individually accounted for more than 10% of the NAV of the Sub-Fund as at 31 December 2021.

	Fair Value USD	% of net assets
As at 31 December 2021		
CSOP HKD Money Market ETF	4,639,267	20.25
CSOP US Dollar Money Market ETF	5,230,050	22.83

13. 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 fees and expenses, closely correspond to the inverse (-1x) of the daily performance of the Index. The Manager intends to adopt a Swap-based synthetic replication strategy to achieve the investment objective of the Sub-Fund. 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.

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk (continued)

(i) *Market price risk (continued)*

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, are closely aligned with the characteristics of the tracked index.

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

	As at 31 December 2021	
	Fair value USD	% of net asset value
<u>Investment funds</u>		
Hong Kong	9,869,317	43.08
Total return swaps	230,925	1.01
Total financial assets at FVPL	<u>10,100,242</u>	<u>44.09</u>

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 15% with all other variables held constant, this would decrease the net asset value by USD 3,328,000. 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*

Interest rate risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in market interest rates.

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NOTES TO THE FINANCIAL STATEMENTS

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Market risk (continued)

(ii) *Interest rate risk (continue)*

As at 31 December 2021, except for bank balances and margin accounts are subject to floating interest rates, the majority of the Sub-Funds financial assets and financial liabilities are non-interest bearing. Given that the interest arising from the bank balances is immaterial, the Manager considers the interest rate risk to be low.

(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 holds assets and liabilities denominated in Hong Kong dollar, a currency other than its functional currency, United States dollar. The Manager considers that there is no currency risk to the Hong Kong dollar which is a linked currency pegged with the United State dollar, and therefore the Sub-Fund is not exposed to significant currency risk.

(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.

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.

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.

Financial assets subject to IFRS 9's impairment requirements

The Sub-Fund's financial assets subject to the ECL model within IFRS 9 are margin accounts, interest receivable, rebate receivable and cash and cash equivalents. At 31 December 2021, the total amount of these financial assets was USD13,094,688 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.

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk (continued)

Financial assets subject to IFRS 9's impairment requirements (continued)

For financial assets measured at amortised cost, 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.

Financial assets not subject to IFRS 9's impairment requirements

The Sub-Fund is exposed to credit risk on derivative financial instruments. They are not subject to IFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets, under IFRS 9 represents the Sub-Fund's maximum exposure to credit risk on financial instruments not subject to IFRS 9's impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

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

	2021 USD	Ratings	Sources of Credit Ratings
<u>Financial assets at FVPL</u>			
Citibank, N.A., Hong Kong	9,869,317	A+	S&P
Citigroup Global Markets Limited	119,450	A+	S&P
Societe Generale SA-Paris	65,907	A	S&P
JP Morgan Securities PLC	45,568	A+	S&P
<u>Bank balances and margin accounts</u>			
Citibank, N.A., Hong Kong	2,272,425	A+	S&P
Citigroup Global Markets Limited	1,094,264	A+	S&P
CMB Wing Lung Bank Ltd	1,157,000	P-2	Moody's
China Everbright Bank Co., Ltd	2,709,000	BBB+	S&P
Industrial and Commercial Bank of China	2,725,151	A	S&P
<u>Term deposits</u>			
Bank of Shanghai (Hong Kong) Ltd	3,073,392	P-2	Moody's

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13. 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 as they are traded in an active market and can be readily disposed of. 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 on demand and less than 1 month. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

<u>As at 31 December 2021</u>	On demand USD	Less than 1 month USD	1 to 3 months USD	3 to 12 months USD	More than 12 months USD	Total USD
Financial assets						
Financial assets at fair value through profit or loss	9,869,317	230,925	–	–	–	10,100,242
Interest receivable	–	319	–	–	–	319
Rebate receivable	–	8,126	–	–	–	8,126
Amounts due from broker	–	55,011	–	–	–	55,011
Margin accounts	1,094,264	–	–	–	–	1,094,264
Cash and cash equivalents	11,936,968	–	–	–	–	11,936,968
Total	<u>22,900,549</u>	<u>294,381</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,194,930</u>
Financial liabilities						
Management fee payable	–	96,094	–	–	–	96,094
Other payables and accruals	–	32,860	–	–	–	32,860
Cash collateral liabilities	160,000	–	–	–	–	160,000
Total	<u>160,000</u>	<u>128,954</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>288,954</u>

As at 31 December 2021, there were 3 major unitholders holding 38%, 36% and 20% of the Sub-Fund's total net assets respectively.

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Fair value estimation

The fair values of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) 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.

IFRS 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:

<u>As at 31 December 2021</u>	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Financial assets at FVPL:				
Investment funds	9,869,317	–	–	9,869,317
Total return swaps	–	230,925	–	230,925
	<u>9,869,317</u>	<u>230,925</u>	<u>–</u>	<u>10,100,242</u>

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13. 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 investment funds. 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 ended 31 December 2021.

Other financial assets and financial liabilities

The management has assessed that the carrying values of interest receivable, rebate receivable, cash and cash equivalents, margin accounts, amounts due from broker, cash collateral liabilities, management fee payable and other payables and accruals 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.

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(g) Offsetting and amounts subject to master netting arrangements and similar agreements

The Sub-Fund presents the fair value of its derivative assets and liabilities on a gross basis, no such assets or liabilities have been offset in the statement of net assets. Certain derivative financial instruments are subject to enforceable master netting arrangements.

The arrangements allow for offsetting following an event of default, but not in the ordinary course of business, and the Sub-Fund does not intend to settle these transactions on a net basis or settle the assets and liabilities on a simultaneous basis.

The tables below set out the carrying amounts of recognised financial assets and liabilities that are subject to the above arrangement, together with collateral held or pledged against these assets and liabilities as at 31 December 2021:

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13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(g) Offsetting and amounts subject to master netting arrangements and similar agreements (continued)

As at 31 December 2021

	Gross amounts of recognised financial assets/liabilities US\$	Gross amounts of recognised financial assets/liabilities set-off in the statement of net assets US\$	Net amounts of financial assets/liabilities presented in the statement of net assets US\$	Related amounts not set-off in the statement of net assets		Net amounts US\$
				Financial instruments US\$	Cash collateral received US\$	
Financial assets						
Total return swaps	230,925	–	230,925	–	–	230,925
Amounts due from broker	55,011	–	55,011	–	–	55,011
Margin accounts	1,094,264	–	1,094,264	–	(160,000)	934,264
Total	<u>1,380,200</u>	<u>–</u>	<u>1,380,200</u>	<u>–</u>	<u>(160,000)</u>	<u>1,220,200</u>
Financial liabilities						
Cash collateral liabilities	160,000	–	160,000	–	(160,000)	–
Total	<u>160,000</u>	<u>–</u>	<u>160,000</u>	<u>–</u>	<u>(160,000)</u>	<u>–</u>

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

14. **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.

15. **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 considers that the Sub-Fund has a single operating segment which is investing in Swap as the Manager adopt a Swap-based synthetic replication strategy to achieve the investment objective of the Sub-Fund. The investment objective of the Sub-Fund is to provide investment results that, before fees and expenses, closely correspond to the inverse (-1x) of the daily 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. The majority of the Sub-Fund's income is derived from investments in Swap contracts of the tracked Index.

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

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.

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INVESTMENT PORTFOLIO (UNAUDITED)

As at 31 December 2021

				Holdings Units	Fair value USD	% of net assets
<u>Financial assets at fair value through profit or loss</u>						
<u>Listed investment funds</u>						
Hong Kong						
CSOP HKD MONEY MARKET ETF				35,000	4,639,267	20.25
CSOP US DOLLAR MONEY MARKET ETF				51,000	5,230,050	22.83
					<u>9,869,317</u>	<u>43.08</u>
	Position	Underlying assets	Counterparty	Contracts	Fair value USD	% of net assets
<u>Total return swap contracts</u>						
Total Return Swap (CGML)	Short	FTSE China A50 Index	Citigroup Global Markets Limited	681	119,450	0.52
Total Return Swap (JPM)	Short	FTSE China A50 Index	J.P. Morgan Securities plc	218	45,568	0.20
Total Return Swap (SocGen)	Short	FTSE China A50 Index	Societe Generale	560	65,907	0.29
					<u>230,925</u>	<u>1.01</u>
Total investments, at fair value					<u>10,100,242</u>	<u>44.09</u>
Total investments, at cost					<u>9,902,293</u>	

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STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021

	% of net assets
<u>Financial assets at fair value through profit or loss</u>	
Listed investment funds	
Hong Kong	43.08
Total return swap contracts	1.01
Total investments and derivative financial instruments	<u>44.09</u>
Other net assets	55.91
Total net assets	<u><u>100.00</u></u>

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HOLDINGS OF COLLATERAL (UNAUDITED)

As at 31 December 2021

Collateral provider	Nature of the collateral	Credit rating	Rating agencies	Maturity tenor	Currency denomination	% of net asset value covered by collateral	Value of the collateral
						%	USD
Societe Generale SA	Cash	N/A	N/A	N/A	USD	0.70	160,000
							<u>160,000</u>

Custody/safe-keeping arrangement

Collateral provider	Amount of collateral received/held 31 December 2021	Proportion of collateral posted by the sub-fund 31 December 2021
	USD	%
Custodians of collateral		
Pooled accounts		
Citibank, N.A, Hong Kong Branch	160,000	100.00

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PERFORMANCE RECORD (UNAUDITED)

NET ASSET VALUE

	Dealing net asset value USD	Dealing net asset value per unit USD
As at 31 December 2021	22,941,808	1.0621

HIGHEST ISSUE PRICE AND LOWEST REDEMPTION PRICE PER UNIT

	Highest issue price per unit USD	Lowest redemption price per unit USD
For the period from 19 January 2021 (date of commencement of operations) to 31 December 2021	1.1510	0.8901

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 19 January 2021 (date of commencement of operations) to 31 December 2021	6.05	(14.53)

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**INFORMATION ON EXPOSURE ARISING FROM FINANCIAL DERIVATIVE INSTRUMENTS
(UNAUDITED)**

	Financial period ended	Gross exposure			Net exposure		
		Highest	Lowest	Average exposure	Highest	Lowest	Average exposure
Total return swap contracts	31 December 2021	-99.21%	-104.64%	-99.89%	-99.21%	-104.64%	-99.89%

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MANAGEMENT AND ADMINISTRATION

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Xiaosong Yang
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