

#### REPORTS AND AUDITED FINANCIAL STATEMENTS

#### SWS STRATEGIC INVESTMENT FUNDS

 SHENYIN WANGUO CHINA POLICY FOCUS FUND
 (A sub-fund of an open-ended umbrella unit trust established under the laws of Hong Kong)

For the period from 6 January 2012 (date of establishment) to 31 December 2012

Ernst & Young

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#### REPORT OF THE MANAGER

#### Market Review

The global equities market in general had a strong year in 2012. Global markets switched to a 'risk on' mode in the 1Q12, with investors taking the optimism from ECB's launch of the 3-year Long Term Refinancing Operation program ("LTRO") as well as the US job market which continued to deliver employment numbers that beat consensus expectations. However, most of the returns in the first quarter were given back in the second quarter and market swung back to a 'risk off' mode. In the second half of 2012, the equities market turned very strong again, on ECB's president-Draghi vowed strongly to protect Euro and the US Fed launch QE3 in September and expanded the size of purchases again in December.

In China, the domestic economy continued to decelerate in the first three quarters of 2012 but moderately recovered in the 4<sup>th</sup> quarter, as evident from its quarterly GDP: 8.9% (4Q2011) to 8.1% (1Q2012), to 7.6% (2Q2012), to 7.4%(3Q2012), while recovered to 7.9%(4Q2012). This is consistent with its PMI which also indicated a slowing down trend: 50.5 (January) to 53.1(March) to 50.2 (June) to 49.8(September), and back to 50.6(December). CPI also came down sharply from Jan's 4.5% to June's 2.2% and hovered around 2% for most of the second half of 2012.

The rapidly slowing GDP, PMI and benign inflation, set the tone for People's Bank of China ("PBOC") to begin their interest rate liberalisation process and prime-pump the domestic economy. In the 2012, PBOC reduced the reserve required ratio ("RRR") twice by 50bps each time in February 24 and May 18. PBOC also cut the interest rate twice by 25bps each time on June 8 and July 6. The benchmark 1 year deposit rate now stands at 3.0% and the 1 year lending rate at 6.0%.

In terms of market action for 2012, two particular industries and themes stood out: Real Estate and Defensive sectors. Real estate industry recorded a strong 80% gain in the 2012. The last few years of high asset inflation, tight monetary and fiscal policy, hawkish PBOC stance, saw the embattled real estate sector languishing. However into 2012 with a slowing GDP, controlled, benign inflation and possible easing of monetary policy; investors have higher affordability (low financing rates) and we saw higher demand (take-up) for property. This reflected in the improved finances of most Property counters which translated to good stock price performances.

Defensive sectors also attracted significant attention from investors. In 2012, the Utilities sector was up 31.7%, whilst Healthcare up 31.5%. In comparison the broader general market HSCEI Index is up 15.1% and HSI Index up 22.9%.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

REPORT OF THE MANAGER (continued)

#### Market Review (continued)

At the end of the spectrum of market under-performers, suffering the brunt of market doldrums is Consumer Stables and Consumer Discretionary only recording a modest gain of 6.9% and 4.5% respectively, suffering a double whammy of declining sales volume as well as compressing margins. To combat the slow sales, stores resorted to offer promotions which hurt average selling price ("ASP") and same store sales growth ("SSSG").

#### Portfolio Review

SYWG China Policy Focus Fund (referred to as "CPF") commenced in March 2012. From March Fund's inception to the end of 2012, CPF fund was up by 9.5%. In that comparative period, HSI was up by 5.1% whilst the HSCEI dropped by 2.5%. Hence the CPF out-performed HSI by 4.5% and HSCEI by wider margin 12.0%.

CPF's out-performance is largely attributed to our astute, accurate asset allocation (top-down) coupled with good stock selection (bottom-up). We avoided the market carnage by largely going into a conservative capital preservation and low exposure mode from March to June; in addition we also invested largely in the defensive sectors. While in the second half of the year, we correctly identified the market's recovery and switched our exposure from low-beta defensive to high-beta cyclical sectors, in order to ride on the market rally.

By the end of 2012, CPF overweighted three sectors: Real Estate (10.2%), Materials (10.0%) and Insurance (9.8%). We avoided or have very low weighting in the highly underperforming sectors like Consumer Durables (3.9%) and Retailing (5.4%).

CPF is well diversified with 30 names. Our top 10 holdings make up 40% of our portfolio. Some of our winning picks which registered good returns (from cost to year end) include: China Minsheng Bank (+45%), China Citic Securities (+33%).

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REPORT OF THE MANAGER (continued)

Market Outlook and Portfolio Strategy

PBOC's previous hawkish stance turned dovish in the 4<sup>th</sup> quarter of 2012 as growth takes priority with the

anemic ensuing GDP numbers, we then saw PBOC shifted its tone back to a prudent stance in 2013.

Though the CPI has been subdued within PBOC's acceptable 3.5% range, the central government is still

keeping a watchful eye on asset bubble and over capacity in China.

We do not envisage another large fiscal stimulus package like the previous 4-trillion boost in 2009. However

we are convinced that government can and will stimulate the economy via nationwide infrastructure

construction. This is evident that NDRC has accelerated its infrastructure approval since the second half in

2012. We believe this structural prime pumping will see the Capital Goods sector being a prime beneficiary,

which we are convicted and will continue to overweight.

We are also positive on the Real Estate on both a policy stance as well as on fundamental valuation grounds.

With inflation being a spectre of the past, PBOC will ease off interest rates to make property more

affordable. Property prices have also fallen to more affordable levels from its dizzy heights a few years ago.

In addition with such undemanding current valuation (on average 35% discount to NAV), we find the sector

compelling.

As investor sentiment is fickle and fragile, we would prefer to invest in sectors with higher earnings

visibility, avoid those with poor earnings visibility or corporate governance.

Sincerely yours,

Shenyin Wanguo Asset Management (Asia) Limited

22 April 2013

Investments are subject to investment risks, fund value may go up as well as down and past performance is not indicative of future performance. Please refer to the Explanatory Memorandum for details including the risk factors. Shenyin Wanguo Asset Management (Asia) Limited is the issuer of this report. This document has not been reviewed by the Securities and Futures Commission.

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#### REPORT OF THE TRUSTEE

#### To the unitholders of SWS Strategic Investment Funds

We hereby confirm that, in our opinion, the Manager has, in all material respects, managed the SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund in accordance with the provisions of the Trust Deed dated 6 January 2012 and its supplemental deed for the period ended 31 December 2012.

Bank of Communications Trustee Limited

22 April 2013

#### ADMINISTRATION AND MANAGEMENT

#### MANAGER

Shenyin Wanguo Asset Management (Asia) Limited 28/F Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong

#### TRUSTEE AND REGISTRAR

Bank of Communications Trustee Limited 1/F, Far East Consortium Building 121 Des Voeux Road Central Hong Kong

#### DIRECTORS OF THE MANAGER

Chu Xiaoming Lu Wenqing Lee Man Chun Tony Guo Chun Bai Youge Fu Xingyi

#### **AUDITORS**

Ernst & Young 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong

#### **LEGAL ADVISERS**

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#### Independent auditors' report

To the Trustee and Manager of SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund (A sub-fund of an open-ended umbrella unit trust established under the laws of Hong Kong)

We have audited the financial statements of SWS Strategic Investment Funds – Shenyin Wanguo China Policy Focus Fund (a sub-fund of SWS Strategic Investment Funds (the "Trust") and referred to as the "Sub-Fund") set out on pages 8 to 31, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in net assets attributable to holders of redeemable units, the statement of cash flows and the statement of distribution for the period from 6 January 2012 (date of establishment) to 31 December 2012, and a summary of significant accounting policies and other explanatory information.

#### Trustee's and Manager's responsibility for the financial statements

The Trustee and the Manager of the Sub-Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Trustee and the Manager also have a responsibility to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed of the Sub-Fund dated 6 January 2012 ("Trust Deed") and the disclosure requirements specified in Appendix E to the Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the "SFC Code"),

#### Auditors' responsibility

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee and the Manager, as well as evaluating the overall presentation of the financial statements.

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



#### Independent auditors' report (continued)

To the Trustee and Manager of SWS Strategic Investment Funds - Shenyin Wanguo China Policy Focus Fund (A sub-fund of an open-ended umbrella unit trust established under the laws of Hong Kong)

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Sub-Fund as at 31 December 2012, and of its financial position and cash flows for the period from 6 January 2012 (date of establishment) to 31 December 2012 in accordance with International Financial Reporting Standards.

#### Report on Other Legal and Regulatory Requirements

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

Enry Lourf Certified Public Accountants

Hong Kong 22 April 2013

#### STATEMENT OF COMPREHENSIVE INCOME

For the period from 6 January 2012 (date of establishment) to 31 December 2012

		Period from 6 January 2012 (date of establishment) to 31 December 2012
	Notes	HK\$
INCOME		
Dividend income		894,454
Interest income		1,006
Net realised gains on financial assets at fair value through profit or loss Net change in unrealised gains on financial assets	8	1,563,886
at fair value through profit or loss	8	6,064,974
		8,524,320
EXPENSES		
Management fee	5	380,090
Trustee fee	5	562,623
Auditors' remuneration		116,556
Bank Charges		1,155
Publishing charges		13,984
Commission expenses		9,537
Set up fee		647,387 631,767
Handling and transaction fees		
		2,363,099
PROFIT BEFORE TAX		6,161,221
Withholding tax expenses	6	(55,270)
INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS		
OF REDEEMABLE UNITS DURING THE PERIOD		6,105,951

#### STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK\$
ASSETS Cash and cash equivalents Financial assets at fair value through profit or loss Amounts due from broker Prepayments	10 8 11	7,192,457 48,770,200 1,694,613 3,077
TOTAL ASSETS		57,660,347
LIABILITIES Management fee payable Trustee fee payable Audit fee payable	5 5	37,174 63,423 116,556
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		217,153
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	S	57,443,194
TOTAL LIABILITIES		57,660,347
Represented by:  Net asset attributable to holders of redeemable units  (calculated in accordance with the Sub-Fund's explanatory memorandum)  Adjustment for preliminary expenses recognised  Net assets attributable to holders of redeemable units  (calculated in accordance with IFRSs)	12 12	57,986,284 (543,090) 57,443,194
NUMBER OF UNITS IN ISSUE Class A Class I		142,002.000 5,133,674.068 5,275,676.068
NET ASSET VALUE PER UNIT (calculated in accordance with IFRSs) Class A	12	10.848
Class I	12	10.889

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

Manager

# STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the period from 6 January 2012 (date of establishment) to 31 December 2012

			Class A			Class I		TOTAL
	Notes	Number of units Units	Net assets attributable to holders of redeemable units HK\$	Net asset value per unit HK\$	Number of units Units	Net assets attributable to holders of redeemable units HK\$	Net asset value per unit HK\$	Net assets attributable to holders of redeemable units HK\$
As at 6 January 2012 (date of establishment)		1	ī		ı	ı		i
Issuance of units during the period		639,002.000	6,390,000		5,514,699.025	54,000,000		60,390,000
Redemption of units during the period		(497,000.000)	(5,052,757)		(381,024.957)	(4,000,000)		(9,052,757)
Increase in net assets attributable to holders of redeemable units from operations for the period	·	,	203,222			5,902,729		6,105,951
As at 31 December 2012	12	142,002.000	1,540,465	10.848	5,133,674.068	55,902,729	10.889	57,443,194

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

#### STATEMENT OF CASH FLOWS

For the period from 6 January 2012 (date of establishment) to 31 December 2012

	NI-4-	Period from 6 January 2012 (date of establishment) to 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES	Note	HK\$
Increase in net assets attributable to holders of redeemable		
units during the period		6,105,951
Adjustments for:		
Dividend income		(894,454)
Interest income		(1,006)
Withholding tax expense		55,270
Net change in unrealised gains on financial assets		(6.064.074)
at fair value through profit or loss  Net realised gain on financial assets at fair value through profit or loss		(6,064,974)
Purchase of financial assets at fair value through profit or loss		(1,563,886) (172,592,271)
Proceeds from sale of financial assets at fair value through profit or loss		131,450,931
1 10000 das from suite of financial assets at lan value amough profit of 1055		(43,504,439)
Increase in amounts due from broker		(1,694,613)
Increase in prepayments		(3,077)
Increase in management fee payable		37,174
Increase in trustee fee payable		63,423
Increase in audit fee payable		116,556
Net cash used in operations		(44,984,976)
Dividend received		894,454
Interest received		1,006
Withholding tax paid		(55,270)
Net cash used in operating activities		(44,144,786)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issue of units		60,390,000
Payments on redemption of units		(9,052,757)
Net cash flow from financing activities		51,337,243
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,192,457
Cash and cash equivalents at beginning of period		
CASH AND CASH EQUIVALENTS AT END OF PERIOD		7,192,457
ANALYSIS OF BALANCES OF CASH AND CASH		
EQUIVALENTS		
Cash at bank	10	7,192,457

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

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 1. THE SUB-FUND

SWS Strategic Investment Funds (the "Trust") was constituted as an umbrella unit trust established under the laws of Hong Kong pursuant to a trust deed dated 6 January 2012 (the "Trust Deed") and supplemental deed dated 6 January 2012 and 10 January 2012 (the "Supplemental Deed") entered into between Shenyin Wanguo Asset Management (Asia) Limited (the "Manager") and Bank of Communications Trustee Limited (the "Trustee").

Shenyin Wanguo China Policy Focus Fund (the "Sub-Fund") was constituted as a separate sub-fund of the Trust on 6 January 2012. The Sub-Fund is an open-ended unit trust and is authorised by the Securities and Futures Commission of Hong Kong under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code").

A separate sub-fund can be created and established to which assets and liabilities attributable to the relevant sub-fund applied. A separate class of units relating exclusively to each sub-fund will be issued. As at 31 December 2012, another sub-fund, SWS Strategic Investment Funds — Shenyin Wanguo RMB Mainland Investment Fund, existed. The assets and liabilities of each sub-fund of the Trust are separate and distinct from the assets and liabilities of the sub-fund of the Trust.

The investment objectives of the Sub-Fund is to achieve long-term capital appreciation by investing primarily in securities issued by companies operating in sectors and industries that in the Manager's view, are likely to benefit from the macroeconomic policies of the People's Republic of China's government. These include, but are not limited to, China B-shares, shares of PRC enterprises which are listed in Hong Kong, China Red Chips, IPO stocks, ADRs and GDRs listed on international stock exchanges, rights issues and warrants, subject to the investment restrictions applicable to the Sub-Fund.

As at 31 December 2012, 57.16% of the redeemable units of the Sub-Fund were held by a fellow subsidiary of the Manager.

#### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB").

The financial statements have been prepared on a historical basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value. The financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest dollars, except when otherwise indicated.

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

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 2.1 BASIS OF PREPARATION (continued)

The Sub-Fund had elected to early adopt IFRS 13 Fair Value Measurement which was issued in May 2011 and is effective for annual period beginning on or after 1 January 2013. The standard is early adopted by the Sub-Fund from 6 January 2012 (date of establishment). IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Sub-Fund is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The standards states that if an asset or a liability measured at fair value has a bid price and an ask price (eg an input from a dealer market), the price within the bid-ask price spread that is most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within the bid-ask price spread.

#### 2.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Sub-Fund's financial statements are disclosed below. The Sub-Fund intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Sub-Fund's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012 and the Sub-Fund expects to adopt the amendments from 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Sub-Fund's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Sub-Fund's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 2.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Sub-Fund's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Sub-Fund will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

#### IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 Disclosure of Interest in Other Entities and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12. The Sub-Fund expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011), IAS 28 (2011), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Sub-Fund.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 2.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### Annual Improvements May 2012

These improvements will not have an impact on the Sub-Fund, but include:

#### IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

#### IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

#### IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

These improvements are effective for annual periods beginning on or after 1 January 2013.

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial instruments

#### (a) Classification

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

#### Financial assets held for trading

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing in the near term; or (ii) part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or a derivative (except for a derivative that is a designated and effective hedging instrument). The Sub-Fund does not apply hedge accounting.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Sub-Fund includes in this category amounts relating to amounts due from brokers and other short-term receivables.

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Other financial liabilities

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

#### (b) Recognition

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

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

#### (c) Initial measurement

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

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

#### (d) Subsequent measurement

After initial measurement, the Sub-Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in "Net change in unrealised gains/(losses) on financial assets at fair value through profit or loss". Dividend income elements of such instruments are recorded separately in dividend income.

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

Financial liabilities, other than those classified as held for trading, 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.

- SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

#### (e) Derecognition

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

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

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.

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

#### Determination of fair value

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 for financial instruments traded in active markets at the reporting date are based on their quoted market price or binding dealer price quotations for an identical asset or liability, without any deduction for transaction costs. An active market is a market in which transactions for the asset or liabilities takes place with sufficient frequency and volume to provide pricing information on an ongoing basis

#### Impairment of financial assets

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

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

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

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

#### Offsetting financial instruments

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

#### Functional and presentation currency

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

#### 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 retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 measured.

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

#### Balances with brokers

Amounts due from brokers include margin accounts and receivables for securities sold (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date.

Amount due to a broker includes payables for securities purchased (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Net assets attributable to holders of redeemable units

The Sub-Fund issues redeemable units, namely Class A units and Class I units, which are redeemable at the unitholder's option and are classified as financial liabilities.

The holder of redeemable units can redeem the units on each Hong Kong business day but excluding 24<sup>th</sup> and 31<sup>st</sup> of December and the Lunar New Year's Eve of each year or such other day or days determined by the Manager and Trustee may agree from time to time for cash equal to a proportionate share of the Sub-Fund's net assets attributable to holders of redeemable units of the relevant classes.

Redeemable units are issued and redeemed at the holder's option at prices based on the Sub-Fund's net assets attributable to holders of redeemable units per unit at the time of issue or redemption. The Sub-Fund's net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders by the number of units in issue.

#### Distributions to unitholders

The Manager does not intend to make distribution in respect of the Sub-Fund and any income earned by the Sub-Fund will be reinvested in that Sub-Fund and reflected in the value of units of the relevant classes of that Sub-Fund.

#### Proceeds and payments on issue and redemption of units

The net asset value of the Sub-Fund is computed daily. Prices for issues and redemptions are based on the latest available valuation. Proceeds and payments for units issued and redeemed are shown as movements in the statement of changes in equity.

#### Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise demand deposits, short-term deposits in banks and short-term highly liquid investments that are readily convertible to known amounts of cash and which 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 at bank, excluding amounts which have been pledged as collateral.

#### Interest income

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

#### Dividend income

Dividend income is recognised when the Sub-Fund's right to receive the payment is established. Dividend income is presented net of any non-recoverable withholding taxes.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 join 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); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management of the entity.

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

#### Judgements

In the process of applying the Sub-Fund's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

#### Going concern

The Sub-Fund's management has made an assessment of the Sub-Fund's ability to continue as a going concern and is satisfied that the Sub-Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Sub-Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Sub-Fund based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Sub-Fund. Such changes are reflected in the assumptions when they occur.

#### Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is measured using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy.

#### Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax expense already recorded.

#### 5. FEES

#### Management fee

The Manager is entitled to receive a management fee from the Sub-Fund, at a rate of 1.5% per annum for Class A and 1% per annum for Class I with respect to the units of the net asset value of the Sub-Fund calculated and accrued on each dealing day and are paid monthly in arrears.

The management fee for the period was HK\$380,090. As at 31 December 2012, the management fee of HK\$37,174 was payable to the Manager.

#### Trustee fee

The Trustee is entitled to receive a trustee fee from the Sub-Fund, at a rate of 0.11% per annum for both Class A and Class I of the net asset value of the Sub-Fund and subject to a minimum monthly fee of USD4,000 for each class of units calculated and accrued on each dealing day and are paid monthly in arrears.

The trustee fee for the period was HK\$562,623. As at 31 December 2012, the trustee fee of HK\$63,423 was payable to the Trustee.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 6. **TAXATION**

#### Hong Kong

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

#### People's Republic of China ("PRC") tax

The Sub-Fund is subject to PRC withholding tax of 10% on dividends and interests paid by PRC corporations, which are listed on the Hong Kong Stock Exchange.

#### 7. DISTRIBUTION

According to the distribution policy as stated in the Sub-Fund's explanatory memorandum, no distribution will be paid out of income and/or capital of the Sub-Fund.

#### FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT 8. OR LOSS

2012 HK\$

7,628,860

#### Financial assets at fair value through profit or loss

#### I

Net gains

Held for trading - listed equity securities - listed exchange traded funds ("ETF")	46,568,700 2,201,500
Net gains on financial assets and financial liabilities	48,770,200
at fair value through profit or loss: - realised - unrealised	1,563,886 6,064,974

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 9. FAIR VALUE OF FINANCIAL HIERARCHY

The following shows financial instruments measured at fair value, analysed between those whose fair value is based on:

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

As at 31 December 2012, the Sub-Fund's financial assets at fair value through profit or loss was HK\$48,770,200. All of them were classified as Level 1 fair value measurements.

During the period ended 31 December 2012, there were no transfers between Level 1 and Level 2 of fair value measurements, and no transfers into and out of Level 3.

When fair values of listed equity securities as well as listed ETF at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

#### 10. CASH AND CASH EQUIVALENTS

At 31 December 2012, cash and cash equivalents are solely comprised of cash at a bank. The cash at bank of the Sub-Fund are being held with the following banks:

2012 HK\$

Interest bearing:

Bank of Communications Co., Ltd., Hong Kong branch

143,004

Interest bearing:

Citibank N.A., Hong Kong Branch

7,049,453

7,192,457

Bank of Communications Co., Ltd., Hong Kong branch is a bank under the same group as the Trustee.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 11. BALANCES WITH BROKERS

2012 HK\$

Amount due from a broker - margin account held by broker

1,694,613

Amount due from a broker represents margin account held by Shenyin Wanguo Futures (H.K.) Limited, a fellow subsidiary of the Manager and does not bear any interest.

#### 12. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

A reconciliation of the net assets attributable to holders of redeemable units as reported in the statement of financial position to the net assets attributable to holders of redeemable units as determined for the purposes of processing unit subscriptions and redemptions is provided below:

HK\$

Published net assets attributable to holders of redeemable units Adjustment to preliminary expense (a) 57,986,284 543,090)

Net assets attributable to holders of redeemable units (calculated in accordance with IFRSs)

57,443,194

#### Notes:

(a) The explanatory memorandum provides for the amortisation of preliminary expense over the first 5 years of operation of the Sub-Fund, instead of those amounts being expensed as incurred during the current period, as required under IFRSs.

The Sub-Fund's net asset value per unit is calculated by dividing the Sub-Fund's net assets with the total number of outstanding units.

2012

	40	14
		Calculated in
		accordance with
	Calculated in	Sub-Fund's
	accordance	explanatory
	with IFRSs	memorandum
	HK\$	HK\$
Net asset value		
Class A	1,540,465	1,555,083
Class I	55,902,729	56,431,201
	HK\$	HK\$
Net asset value per unit		
Class A	10.848	10.951
Class I	10.889	10.992

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 12. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (continued)

Capital management

The Sub-Fund's objectives for managing capital are:

- a) To invest the capital in investments for achieving its investment objectives;
- b) To achieve consistent returns while safeguarding capital by investing in diversified portfolio, by participating in derivatives and other capital markets and by using various investment strategies and hedging techniques; and
- c) To maintain sufficient liquidity to meet the expenses of the Sub-Fund and redemption requests as they arise.

#### 13. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012

Financial assets	Held for trading HK\$	Loans and receivables HK\$	Total HK\$
Financial assets at fair value through profit or loss Amounts due from brokers Cash and cash equivalents	48,770,200	1,694,613 7,192,457	48,770,200 1,694,613 7,192,457
	48,770,200	8,887,070	57,657,270
Financial liabilities			At amortised cost HK\$
Management fee payable Trustee fee payable Audit fee payable			37,174 63,423 116,556
			217,153

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

The Sub-Fund's objective in managing risk is the creation and protection of unitholder value. Risk is inherent in the Sub-Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to relevant controls. The process of risk management is critical to the Sub-Fund's continuing profitability.

The investments in the Sub-Fund are subject to normal market fluctuations and other risks inherent in trading in securities and derivatives. There can be no assurance that any appreciation in value will occur. The value of investments may fluctuate and therefore the value of the units can fall as well as rise.

The performance of the Sub-Fund could be affected by a number of risk factors, including the following:

#### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, and foreign exchange rates. The maximum risk resulting from the equity securities equals their fair value. The use of derivatives in the Sub-Fund may also expose the Sub-Fund significantly to the fluctuations in the market.

Market movement may therefore result in substantial fluctuation in the net asset value per unit of the Sub-Fund.

The Sub-Fund assumes market risk in trading activities as follows:

- Equity price risk
- Interest rate risk
- Foreign exchange risk

- SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

#### Equity price risk

The Sub-Fund's market price risk is managed through diversification of the investment portfolio as well as investing in securities with strong fundamentals. The table below summarises the overall market exposures of the Sub-Fund by market and the impact of increases/ decreases from the Sub-Fund's financial assets at fair value through profit or loss on the Sub-Fund's net asset value as at 31 December 2012. The analysis is based on the assumption that the underlying investments in debt securities increased/decreased by a reasonable possible shift, with all other variables held constant. The Manager has used its view of what would be a "reasonable possible shift" in each key market to estimate the change in the sensitivity analysis below. However, this does not represent a prediction of the future movement in the corresponding key markets.

	Carrying value of		Reasonable	Estimated
	financial assets at		possible shift	possible
	fair value through	% of	in underlying	change in net
	profit or loss	net assets	securities	asset value
	HK\$	%	%	HK\$
			+/-	+/-
As at 31 December 2012				
Held for trading				
- listed equity securities	46,568,700	81%	5%	2,212,013
- listed ETF	2,201,500	4%	5%	104,571

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

As at 31 December 2012, the Sub-Fund's exposure to interest rate risk is considered to be minimal as only the Sub-Fund's cash at bank bears interest. Interest income from cash at bank is considered as immaterial.

#### Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Sub-Fund mainly invests in securities and other investments that are denominated in HK\$, the functional currency of the Sub-Fund. Accordingly, the Manager considers that the Sub-Fund is not exposed to significant currency risk and therefore no sensitivity analysis is presented.

#### - SHENYIN WANGUO CHINA POLICY FOCUS FUND

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Liquidity risk

Liquidity risk is defined as the risk that the Sub-Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Sub-Fund could be required to pay its liabilities or redeem its units earlier than expected. The Sub-Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the holder's option based on the Sub-Fund's net asset value per unit at the time of redemption calculated in accordance with the Sub-Fund's Trust Deed.

The Manager monitors the Sub-Fund's liquidity position on a daily basis. The Manager may limit the aggregate number of units relating to the Sub-Fund redeemed on any dealing day to 10% of the total value of the units in issue of the Sub-Fund. In this event, the limitation will apply pro rata so that all unitholders wishing to redeem units on that dealing day will redeem the same proportion by value of those units, and units not redeemed are carried forward for redemption, subject to the same limitation, on the next dealing day.

The table below analyses the Sub-Fund's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

At 31 December 2012	On demand HK\$	Less than 1 month HK\$	Total HK\$
Financial assets at fair value through profit or loss Amounts due from brokers Cash and cash equivalents	7,192,457	48,770,200 1,694,613	48,770,200 1,694,613 7,192,457
Total financial assets	7,192,457	50,464,813	57,657,270
Management fee payable Trustee fee payable Audit fee payable Net assets attributable to holders of redeemable units	-	37,174 63,423 116,556 57,443,194	37,174 63,423 116,556 57,443,194
Total financial liabilities	:-	57,660,347	57,660,347

#### NOTES TO FINANCIAL STATEMENTS

#### 31 December 2012

#### 14. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Sub-Fund by failing to discharge an obligation.

The Sub-Fund is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within financing relationships, derivatives and other transactions.

It is the Sub-Fund's policy to enter into financial instruments with reputable counterparties.

The Manager closely monitors the creditworthiness of the Sub-Fund's counterparties (e.g. brokers, custodian and banks) by reviewing their credit ratings and financial statements on a regular basis.

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

The Sub-Fund's financial assets which are potentially subject to concentrations of credit risk consist principally of bank deposits, amounts due from the brokers and assets held with the custodian. The table below summarises the Sub-Fund's assets placed with the bank, the broker and the custodian:

#### As at 31 December 2012

	HK\$	Credit rating	Source of credit rating
Bank of Communications Co., Ltd., Hong Kong Branch*	143,004	A3	Moody's
Bank and custodian Citibank, N.A.	55,819,653	A3	Moody's
Broker Shenyin Wanguo Futures (H.K.) Limited	1,694,613	Not rated	Not rated

<sup>\*</sup> It is one of the branches of Bank of Communications Co., Ltd.

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 15. TRANSACTIONS WITH MANAGER AND ITS CONNECTED PERSONS

Connected persons are those as defined in the SFC Code and are related parties of the Manager and the Sub-Fund. All transactions entered into during the period between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, in addition to the transactions detailed in note 5, the Sub-Fund had the following transactions with connected persons during the period:

#### (a) Holdings in the Sub-Fund

The Sub-Fund allows the Manager, its connected persons and other funds managed by the Manager to subscribe for, and redeem, units in the Sub-Fund. The holdings in the Sub-Fund by the Manager and its connected persons at the reporting date were as follows.

Details of Class I units held by a fellow subsidiary of the Manager, are as follows:

<u>2012</u>				
	Units	Units	Units	Units
	outstanding	subscribed	redeemed	outstanding
	at 6 January 2012	during the	during the	at 31 December
	(date of establishment)	period	period	2012
Shenyin Wanguo Trading				
(H.K.) Limited	-	3,015,378,429	-	3,015,378.429

#### (b) Investment transactions with connected persons of the Manager for the period ended:

Shenyin Wanguo Futures (HK) Limited	Aggregate value of purchases and sales of securities HK\$ 81,450,450	Total commission paid HK\$ 9,537	% of Sub-Fund's total transactions during the period % 26.78	Average Commission Rate % 0.01
Shenyin Wanguo Securities (HK) Limited	159,890,987	239,777	52.57	0.15

#### (c) Bank deposits held by the Trustee's affiliates

The Sub-Fund's maintained a bank account with, Bank of Communications Co., Ltd. Hong Kong branch, a bank under the same group as the Trustee. Further details of the balances held are described in Note 10 to the financial statements. During the period, interest income on these bank balances was HK\$293.

#### NOTES TO FINANCIAL STATEMENTS

31 December 2012

#### 15. TRANSACTIONS WITH MANAGER AND ITS CONNECTED PERSONS (continued)

All transactions entered into during the period between the Sub-Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms.

#### 16. SOFT COMMISSION ARRANGEMENTS

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

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

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

#### 17. EVENTS AFTER THE REPORTING PERIOD

During the period between the end of the reporting period and the date of authorisation of these financial statements, the Sub-Fund had issued 52,743.893 Class A redeemable units and redeemed 1,000 Class A redeemable units.

#### 18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Trustee and the Manager on 22 April 2013.

#### STATEMENTS OF MOVEMENT IN PORTFOLIO HOLDINGS

For the period from 6 January 2012 (date of establishment) to 31 December 2012

	Holdings as at 31.12.2012	Holdings as at 6.1.2012 (date of
Industry Sector		establishment)
Basic Materials	9.96%	Nil
Communications	6.09%	Nil
Consumer, Cyclical	10.86%	Nil
Consumer, Non-Cyclical	2.38%	Nil
Energy	5.76%	Nil
Financial	31.42%	Nil
Funds	3.80%	Nil
Industrial	10.57%	Nil
Technology	3.27%	Nil
Total investment portfolio	84.11%	Nil
Other net assets	15.89%	Nil
Net assets	100.00%	Nil

#### PERFORMANCE TABLE

31 December 2012

#### Net asset value

	Net asset value per unit HK\$	Total net asset value HK\$
As at 31 December 2012 <sup>1</sup> (calculated in accordance with the Sub-Fund's explanatory memorandum)		
CLASS A CLASS I	10.951 10.992	1,555,083 56,431,201
<sup>1</sup> Year of establishment		
Highest issue price and lowest redemption price per unit (calculated in accordance with the Sub-Fund's explanatory memorandum)		
	Highest issue price per unit HK\$	Lowest redemption price per unit HK\$
Period from 6 January 2012 (date of establishment) to 31 December 2012		
CLASS A CLASS I	10.904 10.945	9.054 9.074

#### INVESTMENT PORTFOLIO (UNAUDITED)

#### 31 December 2012

#### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Holding Unit	Fair value HK\$	% of NAV
Listed Equity Securities			
Hong Kong			
AAC Technologies Holdings Inc	80,000	2,168,000	3.74%
Baoxin Auto Group Limited	58,000	363,660	0.63%
China Construction Bank Corporation	200,000	1,244,000	2.15%
China Life Insurance Corporation Limited	95,000	2,403,500	4.14%
China Machinery Engineering Corporation	100,000	636,000	1.10%
China Medical System Holding Limited	230,000	1,380,000	2.38%
China Minsheng Banking Corporation Limited	200,000	1,792,000	3.09%
China Overseas Land & Invest Limited	100,000	2,310,000	3.98%
China Pacific Insurance Group Limited	70,000	2,005,500	3.46%
China Railway Construction Corporation Limited	200,000	1,762,000	3.04%
China Resources Land Limited	50,000	1,055,000	1.82%
China Shenhua Energy Corporation Limited	40,000	1,358,000	2.34%
China State Construction International Holding Limited	168,000	1,562,400	2.69%
China Telecom Corporation Limited	300,000	1,293,000	2.23%
Citic Securities Corporation Limited CNOOC Limited	100,000	1,960,000	3.38%
Haier Electronics Group Corporation Limited	118,000	1,980,040	3.42%
Haitong Securities Corporation Limited	200,000	2,268,000	3.91%
Intime Department Store Group Corporation Limited	120,000 240,000	1,596,000 2,193,600	2.75%
Jiangxi Copper Corporation Limited	30,000	612,000	3.78%
Lenovo Group Limited	270,000	1,895,400	1.06% 3.27%
Longfor Properties Corporation Limited	120,000	1,893,400	3.14%
Ping An Insurance Group Corporation of China Limited	20,000	1,298,000	2.24%
Shimao Property Holdings Limited	50,000	731,000	1.26%
Sinotruk Hong Kong Limited	150,000	888,000	1.53%
Tencent Holdings Limited	9,000	2,241,000	3.87%
Zhaojin Mining Industry Corporation Limited	200,000	2,420,000	4.17%
Zhongsheng Group Holdings Limited	50,000	586,000	1.01%
Zijin Mining Group Corporation Limited	900,000	2,745,000	4.73%
Listed Exchange Traded Funds ("ETF") Hong Kong			
ChinaAMC CSI 300 Index ETF	70,000	2,201,500	3.80%
Total investment portfolio, at fair value		48,770,200	84.11%
Other net assets		9,216,084	15.89%
Net assets value as at 31 December 2012 (calculated in			
accordance with the Sub-Fund's explanatory memorandum)		<u>57,986,284</u>	100.00%
Total investment at cost		42,825,750	

