

REPORTS AND AUDITED FINANCIAL STATEMENTS

CSI ALPHA FUND SERIES - CSI RMB INCOME FUND
(A sub-fund of an open-ended umbrella unit trust established under
the laws of Hong Kong)

For the period from 20 February 2012 (date of inception) to 31
December 2012

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CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

CONTENTS

	Pages
REPORT OF THE MANAGER	1
REPORT OF THE TRUSTEE	2
ADMINISTRATION AND MANAGEMENT	3
INDEPENDENT AUDITORS' REPORT	4 - 5
AUDITED FINANCIAL STATEMENTS	
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Statement of distribution	10
Notes to financial statements	11 - 31
STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS	32 - 34
PERFORMANCE TABLE	35
INVESTMENT PORTFOLIO	36 - 37

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

REPORT OF THE MANAGER

To our Investors and Friends,

The CSI RMB Income Fund (the "Sub-Fund") under the CSI Alpha Fund Series (the "Trust") was launched in February 2012 with the investment objectives to achieve long-term appreciation of the unit price through capital growth and income appreciation by investing primarily in a diversified portfolio of RMB denominated and settled debt instruments and RMB denominated and settled equities or equity related securities, subject to the investment restrictions applicable to the Fund. The full details of our Investment Objectives and Investment Policy are available in the Trust Prospectus and Fund Specific Prospectus which you will need to read and understand before you consider making any investment in our Sub-Fund.

We are pleased to report that by early 2013 we have 15 distribution agreements in place for the Sub-Fund.

We thank you for your continued interest and support.

Sincerely yours,

.....
CITIC Securities International Investment Management (HK) Limited
12 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 Trust Prospectus and Fund Specific Prospectus for details including the risk factors. CITIC Securities International Investment Management (HK) Limited is the issuer of this report. This document has not been reviewed by the Securities and Futures Commission.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

REPORT OF THE TRUSTEE

We hereby confirm that, in our opinion, the Manager, CITIC Securities International Investment Management (HK) Limited, has, in all material respects, managed CSI RMB Income Fund for the period from 20 February 2012 (date of inception) to 31 December 2012 in accordance with the provisions of the Trust Deed dated 25 June 2009 and its supplemental deeds.

.....
BOCI-Prudential Trustee Limited
12 April 2013

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

ADMINISTRATION AND MANAGEMENT

MANAGER

CITIC Securities International Investment
Management (HK) Limited
17/F, Chuang's Tower
30-32 Connaught Road Central
Central
Hong Kong

LEGAL ADVISERS

Clifford Chance
28th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

TRUSTEE AND REGISTRAR

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

AUDITORS

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

CUSTODIAN

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

RQFII LOCAL CUSTODIAN

Bank of China Limited
No. 1 Fuxingmen Nei Dajie
Beijing, 100818
China

Independent auditors' report**To the Trustee and Manager of****CSI Alpha Fund Series - CSI RMB Income 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 CSI Alpha Fund Series - CSI RMB Income Fund (a sub-fund of CSI Alpha Fund Series (the "Trust") and referred to as the "Sub-Fund") set out on pages 6 to 31, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity, the statement of cash flows and statement of distribution for the period from 20 February 2012 (date of inception) 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 are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the constitutional documents of the Trust and of the Sub-Fund ("Constitutional Documents") 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"), 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.

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 are in accordance with disclosure requirements specified in 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

CSI Alpha Fund Series - CSI RMB Income 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 state of affairs of the Sub-Fund as at 31 December 2012, and of its profit and cash flows for the period from 20 February 2012 (date of inception) 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 its Constitutional Documents and the disclosure requirements of the SFC Code.

Certified Public Accountants
Hong Kong
12 April 2013

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME

For the period from 20 February 2012 (date of inception) to 31 December 2012

		Period from 20 February 2012 (date of inception) to 31 December 2012
	Notes	RMB
INCOME		
Interest income		14,672,557
Net realised gain on financial assets		
at fair value through profit or loss	8	744,597
Net change in unrealised gains/(losses) on financial assets		
at fair value through profit or loss	8	(2,570,780)
Other income	5	<u>850,206</u>
		<u>13,696,580</u>
EXPENSES		
Management fee	5	(3,291,597)
Trustee and registrar fee	5	(553,781)
Custodian fee	5	(275,482)
Auditors' remuneration		(174,999)
Legal and professional fees		(193,367)
Preliminary expenses		(1,500,000)
Publishing charges		(7,799)
Commission expenses		(100,162)
Handling and transaction fees		(97,522)
Other general expenses		<u>(7,327)</u>
		<u>(6,202,036)</u>
PROFIT BEFORE TAX		7,494,544
Withholding tax expenses	6	<u>(2,077,457)</u>
PROFIT AFTER TAX AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>5,417,087</u></u>

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB
ASSETS		
Cash at banks	10	21,821,158
Financial assets at fair value through profit or loss	8	351,302,654
Interest receivables		10,676,187
Deposits		<u>252,000</u>
TOTAL ASSETS		<u><u>384,051,999</u></u>
LIABILITIES		
Redemptions payable		60,387
Distribution payable to unitholders		7,521,377
Management fee payable	5	332,052
Trustee and registrar fee payable	5	56,160
Withholding tax payable	6	1,826,926
Other payables		<u>278,961</u>
TOTAL LIABILITIES		<u>10,075,863</u>
EQUITY		
Units in issue		376,080,426
Reserves		<u>(2,104,290)</u>
TOTAL EQUITY		<u>373,976,136</u>
TOTAL LIABILITIES AND EQUITY		<u><u>384,051,999</u></u>
NET ASSET VALUE (calculated in accordance with IFRSs)	12	373,976,136
Adjustment from bid-ask market prices to last traded market prices	12	1,860,945
Adjustment for distribution payable to unitholders	12	<u>7,521,377</u>
NET ASSET VALUE (calculated in accordance with Trust Prospectus - Fund Specific Prospectus)		<u><u>383,358,458</u></u>
NUMBER OF UNITS IN ISSUE	11	<u><u>37,606,883</u></u>
NET ASSET VALUE PER UNIT (calculated in accordance with IFRSs)	12	<u><u>9.94</u></u>

Trustee

Manager

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENT OF CHANGES IN EQUITY

For the period from 20 February 2012 (date of inception) to 31 December 2012

	Note	Number of units outstanding	RMB
At 20 February 2012 (date of inception)		-	-
Subscription of units	11	51,520,672	517,618,515
Redemption of units	11	(13,913,789)	(141,538,089)
Total comprehensive income for the period		-	5,417,087
Distribution		<u>-</u>	<u>(7,521,377)</u>
At 31 December 2012		<u>37,606,883</u>	<u>373,976,136</u>

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENT OF CASH FLOWS

For the period from 20 February 2012 (date of inception) to 31 December 2012

	Notes	RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		7,494,544
Adjustments for:		
Interest income		(14,672,557)
Net realised gain on financial assets at fair value through profit or loss	8	(744,597)
Net change in unrealised gains/(losses) on financial assets at fair value through profit or loss	8	2,570,780
Purchase of financial assets at fair value through profit or loss		(849,260,414)
Proceeds from sales of financial assets at fair value through profit or loss		<u>496,131,577</u>
		(358,480,667)
Increase in deposits		(252,000)
Increase in management fee payable		332,052
Increase in trustee and registrar fee payable		56,160
Increase in other payables		<u>278,961</u>
Net cash used in operations		(358,065,494)
Interest received		3,996,370
Withholding tax paid		<u>(250,531)</u>
Net cash outflows from operating activities		<u>(354,319,655)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issue of units		517,618,515
Payments on redemption of units		<u>(141,477,702)</u>
Net cash flow provided by financing activities		<u>376,140,813</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		21,821,158
Cash and cash equivalents at beginning of period		<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u><u>21,821,158</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at banks	10	<u><u>21,821,158</u></u>

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENT OF DISTRIBUTION

For the period from February 2012 (date of inception) to 31 December 2012

	Note	RMB
At 20 February 2012 (date of inception)		-
Total comprehensive income for the period		5,417,087
Add:		
Net change in unrealised gains/(losses) on financial assets at fair value through profit or loss		2,570,780
Final cash dividend distribution (RMB0.20 per unit)	7	(7,521,377)
Transfer to reserves		<u>(466,490)</u>
Undistributed income at 31 December 2012		<u><u>-</u></u>

The amount available for distribution is the total net amount receivable by the Sub-Fund in respect of the relevant period ("Total Income") minus any expenses chargeable against income, subject to adjustments made in accordance with the Trust Deed. Total Income includes amount receivable by way of interests (e.g. generated from bank deposits and debt securities), realised capital gains or losses, or other receipts as determined by the Manager to be in the nature of income. Unrealised capital gains or losses do not form part of Total Income and therefore would not impact on the amount available for distribution.

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

1. THE SUB-FUND

CSI Alpha Fund Series (the "Trust") was constituted as an umbrella unit trust established under the laws of Hong Kong pursuant to a trust deed dated 25 June 2009 (the "Trust Deed") entered into between CITIC Securities International Investment Management (HK) Limited (the "Manager") and BOCI-Prudential Trustee Limited (the "Trustee").

CSI RMB Income Fund (the "Sub-Fund") was constituted as a separate sub-fund of the Trust on 20 February 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 can be issued. During the period ended 31 December 2012, another sub-fund, CSI Alpha Fund Series - China-Hong Kong Leaders Fund, existed.

The assets of each sub-fund shall form part of that sub-fund and be segregated from the assets of all other sub-funds, and such assets shall not be used to discharge directly or indirectly the liabilities of or any claim against or amount payable out of any other sub-fund.

The Sub-Fund invests in debt securities issued within the People's Republic of China (the "PRC") and the PRC equity securities by using Renminbi Qualified Foreign Institutional Investors ("RQFII") quota of CITIC Securities International Limited, the holding company of the Manager. The available RQFII quota is RMB900 million with remaining quota of RMB530 million as at 31 December 2012.

As at 31 December 2012, 25.62% of the redeemable units of the Sub-Fund were held by companies related to the Manager, which are considered as related parties of the Sub-Fund.

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") and the relevant disclosure provisions specified in the SFC Code.

The financial statements have been prepared on a historical basis, except for financial assets at fair value through profit or loss that have been measured at fair value. The financial statements are presented in Renminbi ("RMB").

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

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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.

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 9 Mandatory 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.

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

2.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 and IFRS 12. The Sub-Fund expects to adopt IFRS 10, IFRS 11 *Joint Arrangements*, 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.

IFRS 13 Fair Value Measurement

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 Sub-Fund expects to adopt IFRS 13 prospectively from 1 January 2013.

Annual Improvements May 2012

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

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.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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 and liabilities held for trading

A financial asset 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 included interest receivables in this category.

Other financial liabilities

The Sub-Fund includes in this category amounts relating to redemptions payable, distribution payable to unitholders, management fee payable, trustee and registrar fee payable, and other 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 are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(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". Interest income elements of such instruments are recorded separately in interest 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, 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.

(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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Distributions

Distributions are at the discretion of the Manager of the Sub-Fund. A distribution to the Sub-Fund's unitholders is included statement of changes in equity. When these distribution have been approved by the Manager and declared, they are recognised as a liability.

Functional and presentation currency

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 determined.

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 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).

Classification of redeemable units

Redeemable units are classified as equity instruments when:

- 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.
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments.
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features.
- 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.
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund over the life of the instrument.

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

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Sub-Fund; and
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of redeemable units (continued)

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 and acquisition of redeemable units are accounted for as equity transactions. Upon issuance of units, the consideration received is included in equity. Transaction costs incurred by the Sub-Fund in issuing or acquiring 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. Own equity instruments which are acquired 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 the statement of comprehensive income on the purchase, sale, issuance or cancellation of Sub-Fund's own equity instruments.

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at banks.

Interest income

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

Taxation

In some jurisdiction, investment income and capital gains are subject to withholding tax deducted at the source of income. The Sub-Fund presents the withholding tax separately from the gross investment income in profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 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 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); 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 (or of a parent 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.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 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 described 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 recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk 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. The Sub-Fund establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdictions in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the investments.

5. OTHER INCOME/ FEES

Fiscal and redemption fee income

The Sub-Fund is entitled to charge fiscal and redemption fee up to 2% of the issue price of each Unit (in case of subscription) or up to 2% of the redemption price of each unit (in case of redemption) and may be chargeable only to compensate the Sub-Fund for any dilution in the Sub-Fund's net asset value as a result of a large volume of applications/redemptions by unitholders, or a large application/redemption request from any unitholder, on any dealing day and in the Manager's opinion the continuing unitholders might otherwise materially be adversely affected. During the period, the Sub-Fund had recognised a redemption fee income of RMB850,206 following a large volume redemption by a unitholder.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

5. OTHER INCOME/ FEES (continued)

Management fee

The Manager is entitled to receive a management fee from the Sub-Fund, at a rate of up to 2% per annum 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. During the period, the manager has charged management fee at 1% per annum.

The management fee for the period was RMB3,291,597. As at 31 December 2012, the management fee of RMB332,052 was payable to the Manager.

Trustee and registrar fee

The Trustee is entitled to receive a combined trustee and registrar fee as follow:

- (i) 0.175% per annum on the first RMB300 million of the net asset value
- (ii) 0.15% per annum on the next RMB300 million of the net asset value
- (iii) 0.125% per annum on the next RMB300 million of the net asset value
- (iv) 0.11% per annum on the remaining balance of the net asset value

A minimum monthly fee of RMB40,000 applies for in respect of the trustee and registrar fee. The trustee and registrar fee is calculated and accrued on each dealing day and is paid monthly in arrears.

The trustee and registrar fee for the period was RMB553,781. As at 31 December 2012, the trustee and registrar fee of RMB56,160 was payable to the Trustee.

Custodian fee

The Custodian and RQFII Local Custodian are affiliates of the Trustee. A custodian fee comprises of sub-custodian fees charged by the Trustee ranging from RMB100 to RMB300 per transaction and monthly safekeeping fees, ranging from 3 b.p. to 4 b.p. per annum based on month-end valuation portfolio. The Trustee will also charge out-of-pocket expenses include, but not limited to stamp duty. The fees and charges payable to the RQFII Local Custodian are borne by the Custodian.

The custodian fee for the period was RMB275,482 and no custodian fee was payable to the custodians.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 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

Under PRC laws and regulations, foreign investors (such as the Sub-Fund) may be subject to a 10% withholding tax on income (such as interest and capital gains) imposed on securities issued by PRC tax resident enterprises.

Capital gains Tax

Specific rules governing taxes on RQFII capital gains derived from trading of PRC securities have yet to be announced. In the absence of such specific rules, the PRC income tax treatment is governed by the general tax provisions of the Corporate Income Tax Law, which stipulates a 10% tax on a withholding basis for capital gains derived on disposal of PRC securities by non-PRC residents such as the Sub-Fund. The Sub-Fund has elected to make a 10% tax provision on both capital gain realised and unrealised on the PRC securities.

Distribution Tax

A 10% PRC withholding tax has been levied on interest payments from PRC companies to foreign investors. As such, the issuer will pass on this tax liability to the Sub-Fund in the form of a distribution tax and therefore, the Sub-Fund is subject to a distribution tax of 10%. The Sub-Fund has elected to make a 10% tax provision on distribution receivable from PRC securities.

For the current period, the PRC capital gains tax and distribution tax amounted to RMB2,077,457, of which RMB1,826,926 was payable at the reporting date.

7. DISTRIBUTION

	2012 RMB
Final cash dividend distribution (RMB0.20 per unit)	<u>7,521,377</u>

On 10 December 2012, the Manager declared on behalf of the Sub-Fund to make final cash dividend distribution to unitholders based on the distributable profit for the period ended 31 December 2012. The final cash dividend distribution of RMB0.20 per unit amounted to RMB7,521,377 was announced on 2 January 2013, upon the finalisation of 31 December 2012 net asset value. The ex-dividend date was 4 January 2013 and the payment date was 10 January 2013.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 RMB
<u>Financial assets at fair value through profit or loss</u>	
Held for trading	
- quoted bonds	<u>351,302,654</u>
Net gains/(losses) on financial assets at fair value through profit or loss:	
- realised	744,597
- unrealised	<u>(2,570,780)</u>
Net losses	<u>(1,826,183)</u>

9. FAIR VALUE 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 RMB351,302,654. All of them were classified as Level 2 fair value measurements.

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

When fair values of investments at the reporting date are based on quoted market prices or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

10. CASH AT BANKS

The cash at bank of the Sub-Fund is being held in an interest bearing account with Bank of China (Hong Kong) Limited and Bank of China Limited, Shenzhen branch. The banks are affiliates to the Trustee.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

11. NUMBER OF UNITS IN ISSUE

The following is the issuance/(redemption) of units of the Sub-Fund:

	2012
Units outstanding at 20 February 2012 (date of inception)	-
Units issued	51,520,672
Units redeemed	<u>(13,913,789)</u>
Units outstanding at the end of the period	<u><u>37,606,883</u></u>

12. CAPITAL

The consideration received or paid for units issued or redeemed respectively is based on the value of the Sub-Fund's net asset value per unit at the date of the transaction.

In accordance with the provisions of the Trust Deed, the Sub-Fund's investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions. According to the requirements of IAS 39, for the purpose of the statement of financial position as at 31 December 2012, fair value of listed equities and managed funds as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. The difference between the valuation of investment position as prescribed by IAS 39 and the methodology indicated in the Trust Deed results in a difference in the calculation of the Sub-Fund's net asset value of RMB1,860,945 as at 31 December 2012 for the purpose of calculating the net asset value per unit for processing subscriptions and redemptions in the Sub-Fund.

At the discretion of the Manager, a cash distribution dividend was declared on 10 December 2012. In accordance with IAS 37 *Provision, Contingent Liabilities and Contingent Assets*, a liability should be recognised when there are present obligations and an outflow of resources embodying economic benefits will be required to settle the obligations. The Manager had announced in its notice to unitholders dated 10 December 2012 that a cash dividend for 2012 will be made based on the distributable profit for the period ended 31 December 2012. The difference between the recognition of liability as prescribed by IAS 37 and the methodology indicated in the Trust Deed results in a difference in the calculation of the Sub-Fund's net asset value by RMB7,521,377 as at 31 December 2012 for the purpose of calculating the net asset value per unit for processing subscriptions and redemptions in the Sub-Fund. Further details of the distribution are set out in note 7 to the financial statements.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

12. CAPITAL (continued)

A reconciliation of the Sub-Fund's net asset value as determined for the purposes of processing subscriptions and redemptions of the redeemable units to the net asset value as reported in the statement of financial position is as follows.

	2012 RMB
Net asset value (calculated in accordance with Trust Prospectus - Fund Specific Prospectus)	383,358,458
Adjustment from last traded market prices to bid-ask market prices	(1,860,945)
Adjustment for distribution payable to unitholders (a)	<u>(7,521,377)</u>
Net asset value (calculated in accordance with IFRSs)	<u>373,976,136</u>

(a) The distribution to unitholders in 2012 was notified on 10 December 2012 based on the distributable profits for the period ended 31 December 2012 and was not included in the net asset value published as at 31 December 2012.

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 RMB
Net asset value (calculated in accordance with Trust Prospectus - Fund Specific Prospectus)	10.19
Adjustment for from last traded market prices to bid-ask market prices	(0.05)
Adjustment for distribution payable to unitholders	<u>(0.20)</u>
Net asset value (calculated in accordance with IFRSs)	<u>9.94</u>

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.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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 <u>Financial assets</u>	Held for trading RMB	Loans and receivables RMB	Total RMB
Cash at banks	-	21,821,158	21,821,158
Financial assets at fair value through profit or loss	351,302,654	-	351,302,654
Interest receivables	<u>-</u>	<u>10,676,187</u>	<u>10,676,187</u>
	<u>351,302,654</u>	<u>32,497,345</u>	<u>383,799,999</u>
 <u>Financial liabilities</u>			At amortised cost RMB
Redemptions payable			60,387
Distribution payable to unitholders			7,521,377
Management fee payable			332,052
Trustee and registrar fee payable			56,160
Other payables			<u>278,961</u>
			<u>8,248,937</u>

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 debt securities. 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.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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

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 interest rates and foreign exchange rates. The maximum risk resulting from the investments equals their fair value.

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:

- Interest rate risk
- Foreign exchange risk

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.

The majority of interest rate exposure arises on investments in debt securities in the PRC that are denominated in RMB. All of the Sub-Fund's investments in debt securities carry fixed interest rates and with maturity ranging 1 to 10 years.

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

The sensitivity of both the net assets attributable to unitholders and the change in net assets attributable to unitholders from operations is the effect of the assumed changes in interest rates on changes in fair value of investments for the period, based on revaluing fixed rate financial assets at the end of the reporting period.

In practice, the actual trading results may differ from the sensitivity analysis below and the difference could be significant.

	Financial assets at fair value through profit or loss RMB	Change in basis points	Sensitivity of interest income Increase/(decrease) RMB	Sensitivity of changes in fair value of investments Increase/(decrease) RMB
As at 31 December 2012				
Interbank bond	188,931,860	±50	±33,756	±944,659
Exchange traded bonds	162,370,794	±50	±19,614	±811,854

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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

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 debt securities that are denominated in RMB, 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.

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.

	On demand RMB	Trading instrument* RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
<u>Financial assets</u>					
Cash at banks	21,821,158	-	-	-	21,821,158
Financial assets at fair value through profit or loss	-	351,302,654	-	-	351,302,654
Interest receivables	-	-	611,739	10,064,448	10,676,187
Total financial assets	<u>21,821,158</u>	<u>351,302,654</u>	<u>611,739</u>	<u>10,064,448</u>	<u>383,799,999</u>

* *Trading instruments represents the Sub-Fund's investments in debt securities which are held for trading.*

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

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

Liquidity risk (continued)

	On demand RMB	Less than 1 month RMB	Less than 1 year RMB	Total RMB
<u>Financial liabilities</u>				
Redemptions payable	-	60,387	-	60,387
Distribution payable to unitholders	-	7,521,377	-	7,521,377
Management fee payable	-	332,052	-	332,052
Trustee and registrar fee payable	-	56,160	-	56,160
Other payables	-	-	278,961	278,961
Total financial liabilities	-	7,969,976	278,961	8,248,937

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 and other transactions.

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

The Sub-Fund invests only in debt securities with at least "AA" grade credit rating as rated by recognised credit rating agencies in the PRC.

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 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, interest receivables and assets held by the custodian. The table below summarises the Sub-Fund's assets placed with the bank and the custodian:

As at 31 December 2012

	RMB	Credit rating	Source of credit rating
Bank of China (Hong Kong) Limited	1,439,301	P-1	Moody's
Bank of China Limited	20,381,857	P-1	Moody's

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 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:

	Units outstanding at 20 February 2012 (date of inception)	Units subscribed during the period	Units redeemed during the period	Units outstanding at 31 December 2012
A fund managed by the Manager				
- CITIC Securities Alpha Leaders Limited	-	6,300,000.00	-	6,300,000.00
Related company to the Manager				
- Dragon Stream Investments Limited	-	2,900,000.00	-	2,900,000.00
Intermediate holding company of the Manager				
- CITIC Securities International Company Limited	-	833,883.43	398,473.89	435,409.54

(b) Investment transactions with connected persons of the Manager

	Aggregate value of purchase and sales of securities RMB	Total commission paid RMB	% of Sub-Fund's total transactions during the period RMB	Average commission rate %
<u>2012</u>				
CS Securities Co., Ltd.	586,405,380	100,162	58.67	0.02

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

The Sub-Fund's bank deposits and investments were held by the Trustee's affiliates, Bank of China (Hong Kong) Limited and Bank of China Limited. Further details of the balances held are described in note 10 to the financial statements. During the period, interest income received on these bank balances amounted to RMB377,622.

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

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

NOTES TO FINANCIAL STATEMENTS

For the period from 20 February 2012 (date of inception) to 31 December 2012

16. SOFT COMMISSION ARRANGEMENTS

Neither the Manager nor any of its connected persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them. The Manager and any of its connected persons may effect transactions by or through the agency of another person with whom the Manager or any of its connected persons have 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: for example, research and advisory services, computer hardware associated with specialised software or research services and performance measures etc., 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 Sub-Fund's performance and that of the Manager or any of its connected persons in providing services to the Sub-Fund and for which no direct payment is made but in consideration of which the Manager or any of its connected persons will direct transactions to that party. Such transactions would only be executed on a basis which is consistent with best-execution standards and where the brokerage rates are not in excess of customary institutional full service brokerage rates.

The goods and services 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

On 10 January 2013, the final cash dividend distribution for 2012 of RMB7,521,377 was paid.

Subsequent to the period ended and up to the date of this report, 10,076,779.921 units were issued and 1,550,790.579 units were redeemed.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Trustee and the Manager on 12 April 2013.

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENTS OF MOVEMENT IN PORTFOLIO HOLDINGS

31 December 2012

	20 February 2012 (date of inception)	Additions	Disposals	31 December 2012
ANHUI CONCH CEMENT CO LTD 5.08% A 23MAY2016	-	17,280	(17,280)	-
BAILIAN GROUP CO LTD 4.15% A 26MAR2012	-	93,840	(93,840)	-
BEIJING URBAN CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 6.8% A 28SEP2016	-	500	-	500
CHINA COMMUNICATIONS CONSTRUCTION CO LTD 4.7% A 21AUG2014	-	55,000	-	55,000
CHINA GEZHOUBA GROUP CO LTD 0.6% A 26JUN2014	-	20,000	-	20,000
CHINA MERCHANTS GROUP LTD 3.85% A 06DEC2012	-	100,000	(100,000)	-
CHINA MINISTRY OF RAILWAYS 4.6% A 23FEB2017	-	100,000	-	100,000
CHINA NATIONAL PETROLEUM CORP 3.9% A 19JUL2016	-	100,000	(100,000)	-
CHINA NATIONAL PETROLEUM CORP 4.35% A 17MAY2017	-	200,000	-	200,000
CHINA NATIONAL PETROLEUM CORP 4.8% A 15MAR2022	-	100,000	-	100,000
CHINA NATIONAL TRAVEL SERVICE HK GROUP CORP 4.85% A 24MAY2019	-	100,000	-	100,000
CHINA PETROLEUM & CHEMICAL CORP 0.8% A 20FEB2014	-	5,580	-	5,580
CHINA PETROLEUM & CHEMICAL CORP 4.26% A 01JUN2017	-	110,500	-	110,500
CHINA PETROLEUM & CHEMICAL CORP 4.9% A 01JUN2022	-	102,880	-	102,880
CHINA RAILWAY GROUP LTD 4.48% A 27JAN2015	-	100,000	-	100,000
CHINA SOUTH INDUSTRIES GROUP CORP 4.78% A 01MAR2017	-	300,000	-	300,000
CHINA STATE GRID CORP 5.14% A 08DEC2021	-	200,000	(200,000)	-
CHINA VANKE CO LTD 7% A 05SEP2013	-	253,112	(220)	252,892
CITIC GUOAN INFORMATION INDUSTRY CO LTD 1.2% A 14SEP2013 WW	-	133,075	-	133,075
CSG HLDG CO LTD 5.33% A 20OCT2015	-	300,000	(300,000)	-
DAQIN RAILWAY CO LTD 5.48% A 18AUG2013	-	45,530	(22,830)	22,700
FUJIAN EXPRESSWAY DEVELOPMENT CO LTD 5.8% A 08MAR2017	-	37,420	-	37,420
FUJIAN PROVINCIAL EXPRESSWAY CO LTD 5.17% A 02APR2015	-	300,000	-	300,000
GD POWER DEVELOPMENT CO LTD 1% A 07MAY2014	-	300,000	(300,000)	-
GD POWER DEVELOPMENT CO LTD 4.35% A 15JUN2017	-	114,860	-	114,860
GEMDALE CORP 5.5% A 10MAR2016	-	30,000	-	30,000

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

STATEMENTS OF MOVEMENT IN PORTFOLIO HOLDINGS (continued)

31 December 2012

	20 February 2012 (date of inception)	Additions	Disposals	31 December 2012
GUANGDONG ELECTRIC POWER DEVELOPMENT CO LTD 5.5% A 10MAR2015	-	50,000	-	50,000
HUANENG POWER INTERNATIONAL INC 4.41% A 18APR2013	-	200,000	(200,000)	-
HUANENG POWER INTL INC 5.2% A 08MAY2018	-	10,000	-	10,000
HUBEI YIHUA CHEMICAL 5.75% A 17DEC2019	-	300,000	(300,000)	-
JIANGXI COPPER CO LTD 1% A 22SEP2016 WW	-	179,370	(13,800)	165,570
NINGBO SHANSHAN CO LTD 5.96% A 26MAR2017	-	300,000	(300,000)	-
NORTHEAST PHARMACEUTICAL GROUP CO LTD 7.05% A 02NOV2014	-	20,000	-	20,000
OVERSEAS CHINESE TOWN ENTERPRISES CO 4.41% A 18APR2013	-	200,000	(200,000)	-
PANGANG GROUP STEEL VANADIUM & TITANIUM CO LTD 1.6% A 27NOV2012	-	300,000	(300,000)	-
PEOPLE'S BANK OF CHINA 0% A 07DEC2012	-	300,000	(300,000)	-
POLY REAL ESTATE GROUP CO LTD 7% A 11JUL2013	-	152,720	(130,000)	22,720
SHANGHAI DAZHONG PUBLIC UTILITIES GROUP 1W SHIF+ 6.98% S/A 06JAN2018	-	410,260	(350,160)	60,100
SHANGHAI ZHANGJIANG GROUP CO LTD 3.87% A 10JUN2012	-	10,000	(10,000)	-
SHANGHAI ZHENHUA HEAVY INDUSTRIES CO LTD 5.85% A 25FEB2016	-	300,000	(300,000)	-
SHANXI XISHAN COAL & ELECTRICITY POWER CO LTD 5.38% A 19OCT2014	-	50,000	-	50,000
SHENHUA GROUP CORP LTD 4.71% A 04MAY2017	-	200,000	-	200,000
SHENZHEN EXPRESSWAY CO LTD 6% A 27JUL2016	-	31,150	-	31,150
SUZHOU NEW DISTRICT HI-TECH INDUSTRIAL CO LTD 6.3% A 09NOV2014	-	116,960	(58,480)	58,480
TIANJIN INFRASTRUCTURE CONSTRUCTION & INVESTMENT 5% A 02APR2015	-	300,000	-	300,000
TIANJIN PORT GROUP CO LTD 4.95% A 30MAR2017	-	200,000	-	200,000
TSINGHUA HLDGS CO LTD 4.93% A 24MAR2015	-	300,000	(300,000)	-
TSINGTAO BREWERY CO LTD 0.8% A 02APR2014	-	59,140	-	59,140
WUHAN IRON & STEEL 1.2% A 26MAR2012 WW	-	291,760	(291,760)	-
WUHAN IRON & STEEL CO LTD 4.75% A 02MAR2015	-	390	-	390
WUHAN URBAN CONSTRUCTION INVESTMENT & DEVELOPMENT 5.68% A 29MAR2016	-	100,000	-	100,000
XINJIANG GOLDWIND SCIENCE & TECHNOLOGY CO LTD 6.63% A 23FEB2015	-	60,000	-	60,000

CSI ALPHA FUND SERIES
 - CSI RMB INCOME FUND

STATEMENTS OF MOVEMENT IN PORTFOLIO HOLDINGS (continued)

31 December 2012

	20 February 2012 (date of inception)	Additions	Disposals	31 December 2012
XINJIANG ZHONGTAI CHEMICAL GROUP CO LTD 7.3% A 03NOV2018	-	300,000	(300,000)	-
YANGQUAN COAL INDUSTRY GROUP CO LTD 5.04% A 08DEC2016	-	200,000	(200,000)	-
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO 6.5% A 21APR2016	-	91,560	-	91,560
ZTE CORP 0.8% A 30JAN2013	-	43,584	(43,584)	-

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

PERFORMANCE TABLE

31 December 2012

Net asset value

(calculated in accordance with Trust Prospectus - Fund Specific Prospectus)

	Net asset value per unit RMB	Total net asset value RMB
As at 31 December 2012 ¹	10.19	383,358,458

¹ *Year of inception*

Highest issue price and lowest redemption price per unit

(calculated in accordance with Trust Prospectus - Fund Specific Prospectus)

	Highest issue price per unit RMB	Lowest redemption price per unit RMB
Period from 20 February 2012 (date of inception) to 31 December 2012	10.27	9.98

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

INVESTMENT PORTFOLIO

31 December 2012

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Quoted debt securities

China

	Holdings	Fair value RMB	% of NAV
BEIJING URBAN CONSTRUCTION INVESTMENT & DEVELOPMENT CO LTD 6.8% A 28SEP2016	500	48,650	0.14%
CHINA COMMUNICATIONS CONSTRUCTION CO LTD 4.7% A 21AUG2014	55,000	5,500,000	1.57%
CHINA GEZHOUBA GROUP CO LTD 0.6% A 26JUN2014	20,000	1,880,400	0.54%
CHINA MINISTRY OF RAILWAYS 4.6% A 23FEB2017	100,000	9,921,580	2.82%
CHINA NATIONAL PETROLEUM CORP 4.35% A 17MAY2017	200,000	19,719,560	5.61%
CHINA NATIONAL PETROLEUM CORP 4.8% A 15MAR2022	100,000	9,814,770	2.79%
CHINA NATIONAL TRAVEL SERVICE HK GROUP CORP 4.85% A 24MAY2019	100,000	9,859,280	2.81%
CHINA PETROLEUM & CHEMICAL CORP 0.8% A 20FEB2014	5,580	535,513	0.15%
CHINA PETROLEUM & CHEMICAL CORP 4.26% A 01JUN2017	110,500	10,812,425	3.08%
CHINA PETROLEUM & CHEMICAL CORP 4.9% A 01JUN2022	102,880	10,082,240	2.87%
CHINA RAILWAY GROUP LTD 4.48% A 27JAN2015	100,000	9,585,000	2.73%
CHINA SOUTH INDUSTRIES GROUP CORP 4.78% A 01MAR2017	300,000	29,897,790	8.51%
CHINA VANKE CO LTD 7% A 05SEP2013	252,892	25,668,538	7.31%
CITIC GUOAN INFORMATION INDUSTRY CO LTD 1.2% A 14SEP2013 WW	133,075	12,964,166	3.69%
DAQIN RAILWAY CO LTD 5.48% A 18AUG2013	22,700	2,280,215	0.65%
FUJIAN EXPRESSWAY DEVELOPMENT CO LTD 5.8% A 08MAR2017	37,420	3,809,356	1.08%
FUJIAN PROVINCIAL EXPRESSWAY CO LTD 5.17% A 02APR2015	300,000	29,967,630	8.53%
GD POWER DEVELOPMENT CO LTD 4.35% A 15JUN2017	114,860	11,198,850	3.19%
GEMDALE CORP 5.5% A 10MAR2016	30,000	2,760,000	0.79%
GUANGDONG ELECTRIC POWER DEVELOPMENT CO LTD 5.5% A 10MAR2015	50,000	4,821,000	1.37%
HUANENG POWER INTL INC 5.2% A 08MAY2018	10,000	954,500	0.27%
JIANGXI COPPER CO LTD 1% A 22SEP2016 WW	165,570	14,326,772	4.08%
NORTHEAST PHARMACEUTICAL GROUP CO LTD 7.05% A 02NOV2014	20,000	2,021,600	0.58%

CSI ALPHA FUND SERIES
- CSI RMB INCOME FUND

INVESTMENT PORTFOLIO (continued)

31 December 2012

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Quoted debt securities (continued)

China (continued)

	Holdings	Fair value RMB	% of NAV
POLY REAL ESTATE GROUP CO LTD 7% A 11JUL2013	22,720	2,295,174	0.65%
SHANGHAI DAZHONG PUBLIC UTILITIES GROUP 1W SHIF+ 6.98% S/A 06JAN2018	60,100	6,154,240	1.75%
SHANXI XISHAN COAL & ELECTRICITY POWER CO LTD 5.38% A 19OCT2014	50,000	4,770,100	1.36%
SHENHUA GROUP CORP LTD 4.71% A 04MAY2017	200,000	20,002,000	5.69%
SHENZHEN EXPRESSWAY CO LTD 6% A 27JUL2016	31,150	2,990,400	0.85%
SUZHOU NEW DISTRICT HI-TECH INDUSTRIAL CO LTD 6.3% A 09NOV2014	58,480	5,790,690	1.65%
TIANJIN INFRASTRUCTURE CONSTRUCTION & INVESTMENT 5% A 02APR2015	300,000	29,775,000	8.48%
TIANJIN PORT GROUP CO LTD 4.95% A 30MAR2017	200,000	19,964,980	5.68%
TSINGTAO BREWERY CO LTD 0.8% A 02APR2014	59,410	5,563,747	1.58%
WUHAN URBAN CONSTRUCTION INVESTMENT & DEVELOPMENT 5.68% A 29MAR2016	100,000	10,009,270	2.85%
WUHAN IRON & STEEL CO LTD 4.75% A 02MAR2015	390	37,830	0.01%
XINJIANG GOLDWIND SCIENCE & TECHNOLOGY CO LTD 6.63% A 23FEB2015	60,000	6,088,800	1.73%
ZOOMLION HEAVY INDUSTRY SCIENCE AND TECHNOLOGY CO 6.5% A 21APR2016	91,560	9,430,588	2.68%
Total quoted debt securities, at fair value		351,302,654	100%
TOTAL INVESTMENTS, AT COST		353,873,434	