



Tracker Fund of Hong Kong

Stock Code : 2800

Website : www.trahk.com.hk

Annual Report 2011

1st January 2011 to 31st December 2011

STATE STREET
GLOBAL ADVISORS.

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STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

The Manager of Tracker Fund of Hong Kong (the "Fund") is required by the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code") and the Trust Deed dated 23rd October 1999 (the "Trust Deed") to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Fund at the end of that year and of the transactions for the year then ended. In respect of these financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are prudent and reasonable; and
- prepare or arrange for the preparation of the financial statements on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the Fund in accordance with the Trust Deed and take reasonable steps for the prevention and detection of fraud and other irregularities.

Trustee's responsibilities

The Trustee of the Fund is required to:

- ensure that the Fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Fund and rights attaching thereto; and
- report to the Unitholders for each annual accounting year on the conduct of the Manager in the management of the Fund.

**REPORT OF THE TRUSTEE TO THE UNITHOLDERS OF
TRACKER FUND OF HONG KONG**

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed, dated 23rd October 1999 for the year ended 31st December 2011.

State Street Bank and Trust Company

23 April 2012

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF TRACKER FUND OF HONG KONG (THE "FUND")

Report on the Financial Statements

We have audited the financial statements of the Fund set out on pages 6 to 26, which comprise the Statement of Net Assets as at 31st December 2011, and the Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Trustee and the Manager (the "Management") of the Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and are responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 23rd October 1999 (the "Trust Deed"), and the relevant financial statements disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"), and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, 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 AUDITOR'S REPORT

TO THE UNITHOLDERS OF TRACKER FUND OF HONG KONG (THE "FUND") (Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December 2011, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on Other Legal and Regulatory Disclosure Requirements

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 April 2012

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STATEMENT OF NET ASSETS

As at 31st December 2011

	Notes	2011 HK\$	2010 HK\$
Assets			
Current assets			
Investments	12(b)	48,124,059,608	53,152,791,728
Dividends receivable		112,703,918	57,356,296
Amounts receivable on issue of units		–	262,557
Other accounts receivable and prepayments		62,340	44,998
Bank balances	7(d)	<u>83,388,658</u>	<u>89,961,441</u>
Total assets		<u>48,320,214,524</u>	<u>53,300,417,020</u>
Liabilities			
Current liabilities			
Management fee payable	7(b)	5,140,261	5,139,723
Trustee fee payable	7(c)	5,140,261	5,139,723
Index license fee payable	8(c)	1,843,199	1,949,588
Registrar fee payable	8(a)	134,711	145,041
Amounts payable on redemption of units		945,854	–
Other accounts payable and accruals		<u>1,320,800</u>	<u>728,284</u>
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>14,525,086</u>	<u>13,102,359</u>
Net assets attributable to holders of redeemable units (at bid market prices)		48,305,689,438	53,287,314,661
Adjustments from bid market prices to last traded market prices	5	<u>57,072,678</u>	<u>89,888,106</u>
Net assets attributable to holders of redeemable units (at last traded market prices)	5	<u><u>48,362,762,116</u></u>	<u><u>53,377,202,767</u></u>

State Street Bank and Trust Company

State Street Global Advisors Asia Limited

The notes on pages 10 to 26 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2011

	Notes	2011 HK\$	2010 HK\$
Income			
Dividends		1,705,982,752	1,251,571,921
Transaction fee	4(a)	1,230,000	825,000
Other income	4(b)	4,254,810	4,360,760
Net (loss)/gain on investments	3	(11,622,010,061)	2,593,575,204
Total net (loss)/income		<u>(9,910,542,499)</u>	<u>3,850,332,885</u>
Expenses			
Management fee	7(b)	20,751,708	19,055,661
Trustee fee	7(c)	20,751,708	19,055,661
Index license fee	8(c)	7,951,230	6,585,747
Transaction costs on investments		13,342,735	9,288,932
Registrar fee	8(a)	1,592,601	1,649,200
Publication and printing expenses		1,679,078	1,248,164
Conversion agent fee	8(b)	1,139,998	888,006
Audit fee		390,000	250,000
Legal and other professional fees		352,426	480,217
Bank charges		393,208	265,954
Other operating expenses		1,116,430	691,862
Total operating expenses		<u>69,461,122</u>	<u>59,459,404</u>
Operating (loss)/profit		<u>(9,980,003,621)</u>	<u>3,790,873,481</u>
Finance costs			
Distributions to holders of redeemable units	13	(1,606,275,275)	(1,191,075,650)
(Loss)/profit after distributions and before tax		(11,586,278,896)	2,599,797,831
Withholding tax	6	(82,657,400)	(61,735,522)
(Loss)/profit after distributions and tax		(11,668,936,296)	2,538,062,309
Adjustments from bid market prices to last traded market prices	5	(32,815,428)	83,086,182
(Decrease)/increase in net assets attributable to holders of redeemable units from operations		<u>(11,701,751,724)</u>	<u>2,621,148,491</u>

The notes on pages 10 to 26 form part of these financial statements.

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

For the year ended 31st December 2011

	Notes	2011 HK\$	2010 HK\$
Net assets attributable to holders of redeemable units at 1st January (at last traded market prices)		<u>53,377,202,767</u>	<u>39,127,011,685</u>
Issue of units			
– In-kind	9	20,967,865,604	16,871,437,800
– Cash component	9	<u>221,582,882</u>	<u>115,637,079</u>
		<u>21,189,448,486</u>	<u>16,987,074,879</u>
Redemption of units			
– In-kind	9	(14,357,661,412)	(5,314,847,703)
– Cash component	9	<u>(144,476,001)</u>	<u>(43,184,585)</u>
		<u>(14,502,137,413)</u>	<u>(5,358,032,288)</u>
Net issue of units		<u>6,687,311,073</u>	<u>11,629,042,591</u>
(Decrease)/increase in net assets attributable to holders of redeemable units from operations		<u>(11,701,751,724)</u>	<u>2,621,148,491</u>
Net assets attributable to holders of redeemable units at 31st December (at last traded market prices)		<u><u>48,362,762,116</u></u>	<u><u>53,377,202,767</u></u>

The notes on pages 10 to 26 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st December 2011

	Notes	2011 HK\$	2010 HK\$
Cash flows from operating activities			
Proceeds from sale of investments		6,176,377,157	4,379,401,545
Payments for purchase of investments		(6,159,450,906)	(4,356,141,930)
Dividends received		1,567,977,730	1,181,355,043
Transaction fee received		1,290,000	825,000
Management fee paid		(20,751,170)	(17,986,779)
Trustee fee paid		(20,751,170)	(17,986,779)
Index license fee paid		(8,057,619)	(6,123,954)
Registrar fee paid		(1,602,931)	(1,653,566)
Publication and printing expenses paid		(1,369,490)	(1,401,067)
Transaction costs on investments paid		(13,342,735)	(9,288,932)
Conversion agent fee paid		(1,176,000)	(852,000)
Bank charges paid		(357,520)	(266,944)
Legal and other professional fees paid		(208,812)	(480,217)
Other operating expenses paid		(1,444,144)	(1,089,107)
		<u>1,517,132,390</u>	<u>1,148,310,313</u>
Net cash generated from operating activities			
Cash flows from financing activities			
Cash received on issue of units	9	221,845,439	115,374,522
Cash paid on redemption of units	9	(143,530,147)	(43,184,585)
Interim distribution paid	4(b), 13	(310,661,558)	(224,741,944)
Final distribution paid	4(b), 13	(1,291,358,907)	(961,972,946)
		<u>(1,523,705,173)</u>	<u>(1,114,524,953)</u>
Net cash used in financing activities			
Net (decrease)/increase in cash and cash equivalents			
		(6,572,783)	33,785,360
Cash and cash equivalents at the beginning of the year		<u>89,961,441</u>	<u>56,176,081</u>
Cash and cash equivalents at the end of the year		<u><u>83,388,658</u></u>	<u><u>89,961,441</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances	7(d)	<u><u>83,388,658</u></u>	<u><u>89,961,441</u></u>

Please refer to notes 4(b) and 9 for details of major non-cash transactions. The notes on pages 10 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Tracker Fund of Hong Kong (the "Fund") is a unit trust which is governed by its Trust Deed dated 23rd October 1999 (the "Trust Deed"). The Fund is authorized by the Securities and Futures Commission of Hong Kong under Section 104(1) of the Hong Kong Securities and Futures Ordinance. The Fund is also listed on the Stock Exchange of Hong Kong Limited (a subsidiary of The Hong Kong Exchanges and Clearing Limited).

The manager and the trustee of the Fund are State Street Global Advisors Asia Limited (the "Manager") and State Street Bank and Trust Company (the "Trustee") respectively.

The Fund's objective is to provide investment results that closely correspond to the performance of the Hang Seng Index (the "Index").

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

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

All references to net assets throughout the financial statements refer to net assets attributable to holders of redeemable units unless otherwise stated.

Standards and amendments to existing standards effective 1st January 2011

HKFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the HKICPA's annual improvement project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Standards and amendments to existing standards effective 1st January 2011 (Continued)

'Improvements to HKFRS' were issued in May 2010 and contain several amendments to HKFRS, which the HKICPA considers non-urgent but necessary. 'Improvements to HKFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1st January 2011. No material changes to accounting policies are expected as a result of these amendments.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1st January 2011 and not early adopted

HKFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1st January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of HKAS 39. Most of the requirements in HKAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in HKAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Fund's financial position or performance, as it is expected that the Fund will continue to classify its financial assets and financial liabilities (both long and short) as being at fair value through profit or loss.

HKFRS 13, 'Fair value measurement', effective for annual periods beginning on or after 1st January 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and 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 a bid-ask spread. On adoption of the standard, the Fund would change its valuation inputs for listed financial assets and liabilities to last traded prices to be consistent with the inputs prescribed in the Fund's offering document for the calculation of its per unit trading value for subscriptions and redemptions. The use of last traded prices is recognized as a standard pricing convention within the industry. The Trustee and the Manager are currently assessing the impact on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(b) Investments

All investments have been classified as “financial assets at fair value through profit or loss”.

Purchases and sales of investments are accounted for on the trade date basis. Investments are initially recognized at fair value, excluding transaction costs which are expensed as incurred, and are subsequently re-measured at fair value. Realized and unrealized gains and losses on investments are included in the Statement of Comprehensive Income in the period in which they arise. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Investments that are listed or traded on an exchange are fair valued based on quoted bid market prices.

(c) Income

Dividend income on equity securities is recorded on the ex-dividend date. Dividend income on equity securities where no ex-dividend date is quoted is accounted for when the Fund’s right to receive payment is established.

Other income is recognized on an accruals basis.

(d) Expenses

Expenses are accounted for on an accruals basis.

(e) Distributions payable to holders of redeemable units

Proposed distributions to holders of redeemable units are recognized in the Statement of Comprehensive Income when they are approved by the Trustee. The distribution on these redeemable units is recognized in the Statement of Comprehensive Income as finance costs.

(f) Cash component

Cash component represents the amount included in the issue price or redemption proceeds (as the case may be) of the units issued or redeemed, representing the difference between the net asset value per Creation Unit as calculated by the Manager as of that date and the value of the Index Basket (based on the nominal closing prices as of that date), plus the dividend equivalent amount per Creation Unit.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(h) Translation of foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The performance of the Fund is measured and reported to the holders of redeemable units in Hong Kong dollar. The Manager considers the Hong Kong dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Hong Kong dollar, which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the year end date.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Statement of Comprehensive Income within 'net foreign currency gains/losses on cash and cash equivalents'.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'net gain/(loss) on investments'.

(i) Redeemable units

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as financial liabilities. Redeemable units can only be redeemed in-kind equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the year end date if the holder exercises the right to put the unit back to the Fund. In accordance with the Fund's Trust Deed, the minimum redemption units are 1,000,000 units.

Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of redeemable units with the total number of outstanding redeemable units. In accordance with the provisions of the Fund's Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for creations and redemptions.

(j) Segmental reporting

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Net (loss)/gain on investments

	2011 HK\$	2010 HK\$
Change in unrealized gain/loss on investments	(17,247,807,536)	1,754,860,600
Realized gain on sale of investments	5,625,797,475	838,714,604
	<u>(11,622,010,061)</u>	<u>2,593,575,204</u>

4 Income

(a) Transaction fee

Applications to create or redeem units are only made through brokers or dealers (acting either as principal or on behalf of clients) (the "Participating Dealers") which have executed a participation agreement with the Manager, the Trustee, HK Conversion Agency Services Limited (the "Conversion Agent") and Hong Kong Securities Clearing Company ("HKSCC"). The Fund is entitled to receive a transaction fee of HK\$15,000 per total aggregate creation and redemption orders per day per Participating Dealer.

(b) Other income

Other income represents registrar charges levied on unitholders (other than HKSCC nominees) who hold units registered in their own names as at each record date for the relevant distribution. Currently, these charges amount to the lower of HK\$80 per year per unitholder and the unitholder's actual distribution entitlement. Such charges are deducted on a half-yearly basis from the half-yearly distributions payable to the relevant unitholders.

5 Number of units in issue and net assets attributable to holders of redeemable units

The Fund's capital is represented by the net assets attributable to holders of redeemable units. Units are issued through an in-kind creation of an Index Basket with the remaining balances in cash, and are redeemed in-kind with the remaining balances in cash. Subscriptions and redemptions of units during the year are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the objectives and risk management policies outlined in note 12, the Fund endeavours to invest in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of listed securities where necessary.

In accordance with the provisions of the Fund's Trust Deed, listed investments are stated at the last traded price on the valuation day for the purpose of determining net asset value per unit for creations and redemptions and for various fee calculations. However, the accounting policy of the Fund for the purpose of compliance with HKAS 39 and for reporting purpose is to value its investments at the relevant bid market prices on the year end date. The difference between the valuation of these investments as stated in the financial statements and the valuation methodology indicated in the Fund's Trust Deed, results in a decrease in value of investments by HK\$57,072,678 (2010: HK\$89,888,106). The amount of the adjustment recognized in the Statement of Comprehensive Income is a decrease of HK\$32,815,428 (2010: increase of HK\$83,086,182).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 Number of units in issue and net assets attributable to holders of redeemable units (Continued)

Net assets attributable to holders of redeemable units at last traded market prices represent a liability in the Statement of Net Assets, carried at the redemption amount that would be payable at the year end date if the unitholders exercised the right to redeem the units in the Fund.

	Number of units	
	2011	2010
Units in issue at the beginning of the year	2,301,992,500	1,776,992,500
Creation of units	959,000,000	764,000,000
Redemption of units	(658,000,000)	(239,000,000)
	<u>2,602,992,500</u>	<u>2,301,992,500</u>
	<i>HK\$</i>	<i>HK\$</i>
Net assets attributable to holders of redeemable units	<u>48,362,762,116</u>	<u>53,377,202,767</u>
Net assets attributable to holders of redeemable units (per unit)	<u>18.58</u>	<u>23.19</u>
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	<u>18,579,678</u>	<u>23,187,392</u>

6 Taxation

No provision for Hong Kong profits tax has been made as the Fund was authorized as collective investments scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempted from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

The Fund invests in shares of companies in People's Republic of China ("PRC") listed on the Hong Kong Stock Exchange ("H-shares"). Under the PRC Corporate Income Tax Law, the Fund may be liable to pay PRC tax on the capital gains realized in the trading of H-shares. However, no provision was made for taxation from such gains in the financial statements as the Trustee and Manager believe that the Fund can sustain a position for not filing a tax return based on the existing tax regulations and that the enforcement of China tax on capital gains is not probable.

Withholding tax was charged on dividend income received from H-shares during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 Transactions with the related parties/Manager and its Connected Persons

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties of the Fund also include the Manager of the Fund and its connected persons. Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the year between the Fund and its related parties, including the Manager and its Connected Persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with its related parties, including the Manager and its Connected Persons except for those disclosed below.

(a) Manager's holding in the Fund

The directors and officers of the Manager may transact in the units of the Fund as principal provided that prior written notice is provided to the Trustee. As of 31st December 2011, the directors and officers of the Manager together held 25,980 units in the Fund (2010: 23,500 units).

(b) Management fee

The fee payable to the Manager is calculated at the following annual rates of the net asset value of the Fund on the last dealing day in the relevant quarter:

For the first HK\$15 billion of the net asset value	0.050%
For the next HK\$15 billion of the net asset value	0.045%
For the next HK\$15 billion of the net asset value	0.030%
Any amount by which the net asset value exceeds HK\$45 billion	0.025%

The management fee is accrued daily and is payable quarterly in arrears.

(c) Trustee fee

The fee payable to the Trustee is calculated at the following annual rates of the net asset value of the Fund of the last dealing day in the relevant quarter:

For the first HK\$15 billion of the net asset value	0.050%
For the next HK\$15 billion of the net asset value	0.045%
For the next HK\$15 billion of the net asset value	0.030%
Any amount by which the net asset value exceeds HK\$45 billion	0.025%

The trustee fee is accrued daily and payable quarterly in arrears.

(d) Bank balances

Bank balances are maintained with the Trustee. Bank balances held with the Trustee as at 31st December 2011 was HK\$83,388,658 (2010: HK\$89,961,441). No interest was earned on these bank balances during the years ended 31st December 2011 and 2010 as they were placed in a non-interest bearing current account.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**8 Other fees****(a) Registrar fee**

The fee payable to Computershare Hong Kong Investor Services Limited (the "Registrar"), is calculated based on the number of unitholders on the register on the first business day of the relevant month at the following fee scale, subject to a monthly maximum aggregate registrar fee of HK\$1,000,000.

	<i>HK\$ (per month)</i>
For the first 2,000 Unitholders	10,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	2,200
For every additional 1,000 Unitholders up to 200,000 Unitholders	1,800
For every additional 1,000 Unitholders up to 300,000 Unitholders	1,500
For every additional 1,000 Unitholders above 300,000 Unitholders	1,200

In addition, the Registrar is reimbursed for all of its out-of-pocket expenses incurred in connection with performing its services.

The registrar fee is accrued daily and is payable monthly in advance.

(b) Conversion agent fee

The Conversion Agent received a monthly retainer fee of HK\$16,000 plus a transaction fee of HK\$12,000 on total aggregate creation and redemption orders per day per Participating Dealer.

The conversion agent fee is accrued daily and payable monthly in arrears.

(c) Index license fee

The index license fee is calculated at the rate of 0.015% per annum on the daily average net asset value of the Fund, subject to a minimum of US\$10,000 per annum.

The index license fee is accrued daily and is payable quarterly in arrears.

9 Major non-cash transactions

In accordance with the Fund's Trust Deed, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash. For each Creation Unit (of 1,000,000 units), the Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the year, the Fund issued 959,000,000 units (2010: 764,000,000 units), totaling HK\$21,189,448,486 (2010: HK\$16,987,074,879) in exchange for Index Baskets consisting of investments valued at HK\$20,967,865,604 (2010: HK\$16,871,437,800) by the Manager with remaining balances in cash of HK\$221,582,882 (2010: HK\$115,637,079).

In accordance with the Fund's Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the year, the Fund redeemed 658,000,000 units (2010: 239,000,000 units), totaling HK\$14,502,137,413 (2010: HK\$5,358,032,288) in exchange for Index Baskets consisting of investments valued at HK\$14,357,661,412 (2010: HK\$5,314,847,703) by the Manager with remaining balances in cash of HK\$144,476,001 (2010: HK\$43,184,585).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Soft dollar practices

The Manager may effect transactions, provided that any such transaction is consistent with standards of “best execution”, by or through the agency of another person for the account of the Fund 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 (such as research and advisory services, computer hardware associated with specialized software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund. For the avoidance of doubt, such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employees’ salaries or direct money payments.

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

11 Investment limitations and prohibitions under the SFC Code

The SFC Code allows the Fund to invest in constituent securities issued by a single issuer for more than 10% of the Fund’s net asset value provided that the investment is limited to any constituent securities that each accounts for more than 10% of the weighting of the Index and the Fund’s holding of any such constituent securities may not exceed their respective weightings in the Index (except as a result of changes in the composition of the Index and the excess is transitional and temporary in nature).

Constituent securities that account for more than 10% of the net asset value of the Fund as at year end were as follows:

	Respective weighting in the Index (%)		% of net asset value	
	2011	2010	2011	2010
HSBC Holdings plc	14.9	15.1	14.9	15.0

During the year, the Hang Seng Index decreased by 19.97% (2010: increased by 5.32%), while the net asset value per unit of the Fund decreased by 19.88% (2010: increased by 5.31%).

12 Financial risk management

(a) Strategy in using financial instruments

Investment objectives

The Fund’s investment objective is to provide investment results that closely correspond to the performance of the Index. The Manager will seek to achieve the investment objective by investing all, or substantially all, of the Fund’s assets in Index Shares in substantially the same weightings as they appear in the Index. The Manager may also invest in certain other permitted investments in seeking to meet the investment objective. The Manager will rebalance the Fund’s portfolio of investments from time to time to reflect any changes to the composition of, or the weighting of shares in, the Index.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(a) Strategy in using financial instruments (Continued)***Investment policies*

The responsibility of the Manager is to reflect changes in the Index by replicating changes to the weightings and composition of the constituent shares in the Index in the portfolio of shares which make up the portfolio.

Since the investment objective is to provide investment results that closely correspond with the performance of the Index, the Manager is required to ensure, insofar as practicable and subject to the Trust Deed, that the assets comprised in the portfolio comprise only, or substantially only, interest in Index Shares and in the relative weightings such Index Shares appear in the Index. Other than cash held for distribution and to meet the fees, expenses and other liabilities, it is unlikely that cash or any other form of securities will form a substantial part of the assets.

The risks and the respective risk management policies employed by the Fund to manage these risks are discussed below.

(b) Market price risk

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

All securities investments present a risk of loss of capital. The Fund's market price risk is managed through diversification of investment portfolio. The Manager monitors the investments on a daily basis and rebalances the portfolio of investments from time to time to reflect any changes to the composition of, or the weighting of shares in, the Index.

As at year end, the overall market exposure of the Fund was as follows:

	At 31st December			
	2011		2010	
	Fair value HK\$	% of net assets	Fair value HK\$	% of net assets
Held for trading:				
Listed investments				
Equities				
– Hong Kong	<u>48,124,059,608</u>	<u>99.51</u>	<u>53,152,791,728</u>	<u>99.58</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(b) Market price risk (Continued)

Net market exposures

The following table shows the net market exposures of the Fund by industry:

	2011 % of net assets	2010 % of net assets
By industry		
– Commerce and industry	39.82	38.66
– Finance	45.67	45.89
– Properties	8.35	10.27
– Utilities	5.67	4.76
	<u>99.51</u>	<u>99.58</u>

All the Fund's equity securities are listed on the Hong Kong Stock Exchange. As the Fund is a Hang Seng Index tracking fund, movements in the Index would cause substantially the same percentage change in the Fund's net asset value.

	2011		2010	
	Change in index %	Impact HK\$	Change in index %	Impact HK\$
Hong Kong				
– Hang Seng Index	<u>19.97%</u>	<u>9,610,374,704</u>	<u>5.32%</u>	<u>2,827,728,520</u>

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

(c) Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(d) Credit risk**

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

The Fund's financial assets which are potentially subject to credit risk consist principally of securities and bank balances. The Fund limits its exposure to credit risk by transacting with well established broker-dealers and banks with high credit ratings.

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

At 31st December 2011, bank balances of HK\$83,388,658 (2010: HK\$89,961,441) were placed with State Street Bank and Trust Company, the Fund's Trustee and Custodian. The credit rating of the Trustee and Custodian issued by Standard and Poor's was as follows:

	2011	2010
State Street Bank and Trust Company ¹	A+	A+

Accordingly, the Fund has no significant credit risk.

The maximum exposure to credit risk at year end is the carrying amount of the financial assets as shown on the Statement of Net Assets.

None of the assets is impaired nor past due but not impaired.

¹ Long-term credit rating of State Street Corporation, the holding company of State Street Bank and Trust Company.

(e) Currency risk

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

The Fund has no significant currency risk as substantially all assets and liabilities are denominated in Hong Kong dollars, the Fund's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in settling a liability, including a redemption request.

The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund's securities are considered readily realizable, as they are listed on the Hong Kong Stock Exchange. It is the intent of the Manager to monitor the Fund's liquidity position on a daily basis.

The following table gives the undiscounted cash-flow projection of the Fund's financial liabilities. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Maturity analysis

	Less than 1 month	1-3 months	Total
At 31st December 2011			
Management fee payable	–	5,140,261	5,140,261
Trustee fee payable	–	5,140,261	5,140,261
Index license fee payable	1,843,199	–	1,843,199
Registrar fee payable	134,711	–	134,711
Amounts payable on redemption of units	945,854	–	945,854
Other accounts payable and accruals	43,208	1,277,592	1,320,800
Net assets attributable to holders of redeemable units (at last traded market prices)	<u>48,362,762,116</u>	<u>–</u>	<u>48,362,762,116</u>
Total financial liabilities	<u>48,365,729,088</u>	<u>11,558,114</u>	<u>48,377,287,202</u>
At 31st December 2010			
Management fee payable	–	5,139,723	5,139,723
Trustee fee payable	–	5,139,723	5,139,723
Index license fee payable	1,949,588	–	1,949,588
Registrar fee payable	145,041	–	145,041
Other accounts payable and accruals	49,300	678,984	728,284
Net assets attributable to holders of redeemable units (at last traded market prices)	<u>53,377,202,767</u>	<u>–</u>	<u>53,377,202,767</u>
Total financial liabilities	<u>53,379,346,696</u>	<u>10,958,430</u>	<u>53,390,305,126</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk (Continued)

Units are redeemed on demand at the unitholder's option. However, the Trustee and Manager do not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as unitholders typically retain the units for the medium to long term.

The Fund manages its liquidity risk by investing in securities that it expects to be able to liquidate within 7 days or less. The following table illustrates the expected liquidity of assets held at 31st December:

	Less than 7 days	7 days to less than 1 month	1-12 months	Total
2011	<u>48,207,448,266</u>	<u>112,703,918</u>	–	<u>48,320,152,184</u>
2010	<u>53,243,031,008</u>	<u>57,372,264</u>	13,748	<u>53,300,417,020</u>

(g) Capital risk management

The Fund's objective is to provide investment results that closely correspond to the performance of the Hang Seng Index. The Manager may:

- Redeem and issue new units in accordance with the constitutive documents of the Fund, which include the ability to amend the Creation Unit and Redemption Unit size upon the approval of the Trustee and Supervisory Committee;
- Exercise discretion when determining the amount of distributions of the Fund to holders of redeemable units; and
- Suspend the creation and redemption of units under certain circumstances stipulated in the prospectus.

Units are issued through an in-kind creation of an Index Basket with the remaining balances in cash and are not through a cash subscription only. Units are redeemed in-kind with the remaining balances in cash and are not redeemable for cash only.

(h) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(h) Fair value estimation (Continued)

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

HKFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's investments (by class) measured at fair value at 31st December 2011 and 2010:

	Level 1	Level 2	Level 3	Total balance
At 31st December 2011				
Assets				
Financial assets held for trading				
– Equity securities	48,124,059,608	–	–	48,124,059,608
	<u>48,124,059,608</u>	<u>–</u>	<u>–</u>	<u>48,124,059,608</u>
At 31st December 2010				
Assets				
Financial assets held for trading				
– Equity securities	53,152,791,728	–	–	53,152,791,728
	<u>53,152,791,728</u>	<u>–</u>	<u>–</u>	<u>53,152,791,728</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(h) Fair value estimation (Continued)**

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As of 31st December 2011 and 2010, the Fund did not hold any investments classified in level 2.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As of 31st December 2011 and 2010, the Fund did not hold any investments classified in level 3.

13 Distributions

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Interim distribution		
– HK\$0.12 on 1,890,992,500 units paid on 28th May 2010	–	226,919,100
– HK\$0.13 on 2,405,992,500 units paid on 1st June 2011	312,779,025	–
Final distribution		
– HK\$0.46 on 2,095,992,500 units paid on 3rd December 2010	–	964,156,550
– HK\$0.50 on 2,586,992,500 units paid on 2nd December 2011	1,293,496,250	–
Total distributions	<u>1,606,275,275</u>	<u>1,191,075,650</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Segment information

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

The Manager is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The Manager's asset allocation decisions are based on a single, integrated investment strategy and the Fund's performance is evaluated on an overall basis.

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

The internal reporting provided to the Manager for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of HKFRS.

There were no changes in the reportable segment during the year.

The Fund is domiciled in Hong Kong. All of the Fund's income is from investments in entities listed in Hong Kong.

The Fund has no assets classified as non-current assets. The Fund has a diversified portfolio of investments. During the year ended 31st December 2011, there was one investment which accounted for more than 10% of the Fund's income (2010: nil). Please refer to note 11 for investment holdings account for more than 10% of the Fund's net assets.

The Fund also has a diversified unitholder population. However, as at 31st December 2011 and 2010, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 82.87% as at 31st December 2011 and 80.14% as at 31st December 2010.

15 Approval of financial statements

The financial statements were approved by the Trustee and the Manager on 23 April 2012.

INVESTMENT PORTFOLIO (UNAUDITED)

As at 31st December 2011

	Holdings	Fair value HK\$	% of net assets
Hong Kong			
Listed investments (99.51%)			
Equities (99.51%)			
Properties (8.35%)			
Cheung Kong (Holdings) Ltd.	12,220,068	1,126,690,270	2.33
China Overseas Land & Investment Ltd.	35,930,802	464,944,578	0.96
China Resources Land Ltd.	16,582,525	206,286,611	0.43
Hang Lung Properties Ltd.	19,662,115	432,566,530	0.90
Henderson Land Development Co. Ltd.	8,330,571	319,893,926	0.66
Sino Land Co. Ltd.	25,506,564	280,572,204	0.58
Sun Hung Kai Properties Ltd.	12,429,138	1,205,626,386	2.49
		<u>4,036,580,505</u>	<u>8.35</u>
Finance (45.67%)			
AIA Group Ltd.	74,132,254	1,794,000,547	3.71
Bank of China Ltd.	623,864,399	1,784,252,181	3.69
BOC Hong Kong (Holdings) Ltd.	32,538,505	598,708,492	1.24
Bank of Communications Co. Ltd.	64,137,914	348,268,873	0.72
Bank of East Asia Ltd.	13,690,680	401,136,924	0.83
China Construction Bank Corporation	632,279,467	3,414,309,122	7.06
China Life Insurance Co. Ltd.	65,430,075	1,254,948,839	2.60
Hang Seng Bank Ltd.	6,724,362	618,641,304	1.28
Hong Kong Exchanges and Clearing Ltd.	9,014,429	1,124,099,296	2.32
HSBC Holdings plc	121,999,806	7,197,988,553	14.88
Industrial and Commercial Bank of China Ltd.	572,386,767	2,638,702,996	5.46
Ping An Insurance (Group) Co. of China Ltd.	17,838,659	911,555,475	1.88
		<u>22,086,612,602</u>	<u>45.67</u>
Utilities (5.67%)			
China Resources Power Holdings Co. Ltd.	16,671,780	248,409,522	0.51
CLP Holdings Ltd.	15,867,819	1,046,482,663	2.16
Hong Kong and China Gas Co. Ltd.	41,681,493	746,932,355	1.55
Power Assets Holdings Ltd.	12,198,491	698,973,534	1.45
		<u>2,740,798,074</u>	<u>5.67</u>

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INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

As at 31st December 2011

	Holdings	Fair value HK\$	% of net assets
Commerce and Industry (39.82%)			
Aluminum Corporation of China Ltd.	34,680,011	116,524,837	0.24
Belle International Holdings Ltd.	40,788,881	550,649,894	1.14
Cathay Pacific Airways Ltd.	10,376,698	138,010,083	0.29
China Coal Energy Co. Ltd.	34,304,866	286,788,680	0.59
China Merchants Holdings (International) Co. Ltd.	10,866,350	245,036,193	0.51
China Mobile Ltd.	52,944,396	4,015,832,437	8.30
China Petroleum & Chemical Corporation	147,551,551	1,205,496,172	2.49
China Resources Enterprise, Ltd.	10,547,571	279,510,632	0.58
China Shenhua Energy Co. Ltd.	29,883,642	1,004,090,371	2.08
China Unicom (Hong Kong) Ltd.	41,440,569	677,967,709	1.40
CITIC Pacific Ltd.	11,231,684	156,345,041	0.32
CNOOC Ltd.	157,111,003	2,133,567,421	4.41
COSCO Pacific Ltd.	14,306,840	129,619,970	0.27
Esprit Holdings Ltd.	11,346,877	113,468,770	0.23
Hengan International Group Co. Ltd.	7,024,088	508,192,767	1.05
Hutchison Whampoa Ltd.	18,743,682	1,221,150,882	2.52
Li & Fung Ltd.	49,868,719	715,117,430	1.48
MTR Corporation Ltd.	12,715,852	318,532,093	0.66
New World Development Co. Ltd.	31,576,662	197,354,138	0.41
PetroChina Co. Ltd.	185,522,740	1,794,004,896	3.71
Swire Pacific Ltd. 'A'	6,370,291	596,896,267	1.23
Tencent Holdings Ltd.	9,684,904	1,510,845,024	3.12
Tingyi (Cayman Islands) Holding Corporation	16,796,484	396,397,022	0.82
Want Want China Holdings Ltd.	62,418,686	481,872,256	1.00
Wharf (Holdings) Ltd.	13,318,044	466,797,442	0.97
		<u>19,260,068,427</u>	<u>39.82</u>
Total listed investments		<u>48,124,059,608</u>	<u>99.51</u>
Total investments, at cost		<u>53,546,271,050</u>	

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)*For the year ended 31st December 2011*

	(UNAUDITED) Holdings			31.12.2011
	31.12.2010	Additions	Disposals	
Hong Kong				
Listed investments				
Equities				
Properties				
Cheung Kong (Holdings) Ltd.	12,281,887	4,926,142	(4,987,961)	12,220,068
China Overseas Land & Investment Ltd.	36,099,568	14,484,023	(14,652,789)	35,930,802
China Resources Land Ltd.	17,804,349	6,725,578	(7,947,402)	16,582,525
China Resources Land Ltd., Right	–	1,335,564	(1,335,564)	–
Hang Lung Properties Ltd.	18,412,944	11,680,667	(10,431,496)	19,662,115
Henderson Land Development Co. Ltd.	9,568,302	3,641,437	(4,879,168)	8,330,571
Newton Resources Ltd., Right	–	125,998	(125,998)	–
Sino Land Co. Ltd.	21,648,359	13,250,161	(9,391,956)	25,506,564
Sun Hung Kai Properties Ltd.	13,624,833	5,447,800	(6,643,495)	12,429,138
Finance				
AIA Group Ltd.	–	89,553,411	(15,421,157)	74,132,254
Bank of China Ltd.	554,145,624	270,013,133	(200,294,358)	623,864,399
BOC Hong Kong (Holdings) Ltd.	32,693,349	13,116,535	(13,271,379)	32,538,505
Bank of Communications Co. Ltd.	58,586,601	30,538,210	(24,986,897)	64,137,914
Bank of East Asia Ltd.	14,426,075	5,623,826	(6,359,221)	13,690,680
China Construction Bank Corporation	531,060,640	293,388,945	(192,170,118)	632,279,467
China Life Insurance Co. Ltd	65,745,873	26,376,130	(26,691,928)	65,430,075
Hang Seng Bank Ltd.	6,759,502	2,710,938	(2,746,078)	6,724,362
Hong Kong Exchanges and Clearing Ltd.	9,047,618	3,630,888	(3,664,077)	9,014,429
HSBC Holdings plc	100,651,300	55,989,578	(34,641,072)	121,999,806
Industrial and Commercial Bank of China Ltd.	498,472,631	284,604,362	(210,690,226)	572,386,767
Ping An Insurance (Group) Co. of China Ltd.	15,153,535	8,123,306	(5,438,182)	17,838,659
Utilities				
China Resources Power Holdings Co. Ltd.	16,639,413	6,694,413	(6,662,046)	16,671,780
CLP Holdings Ltd.	15,949,011	6,396,744	(6,477,936)	15,867,819
Hong Kong and China Gas Co. Ltd.	38,073,766	20,102,582	(16,494,855)	41,681,493
Power Assets Holdings Ltd.	12,254,450	4,917,208	(4,973,167)	12,198,491

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STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

For the year ended 31st December 2011

	(UNAUDITED)			
	Holdings			
	31.12.2010	Additions	Disposals	31.12.2011
Commerce and Industry				
Aluminum Corporation of China Ltd.	34,847,658	13,979,841	(14,147,488)	34,680,011
Belle International Holdings Ltd.	40,810,023	16,442,864	(16,464,006)	40,788,881
Cathay Pacific Airways Ltd.	10,426,375	4,183,035	(4,232,712)	10,376,698
China Coal Energy Co. Ltd.	36,291,812	14,413,272	(16,400,218)	34,304,866
China Merchants Holdings (International) Co. Ltd.	9,699,702	4,933,368	(3,766,720)	10,866,350
China Mobile Ltd.	53,181,803	21,337,672	(21,575,079)	52,944,396
China Petroleum & Chemical Corporation	148,268,538	59,480,111	(60,197,098)	147,551,551
China Resources Enterprise, Ltd.	10,595,014	4,250,553	(4,297,996)	10,547,571
China Shenhua Energy Co. Ltd.	30,033,553	12,046,802	(12,196,713)	29,883,642
China Unicom (Hong Kong) Ltd.	41,638,207	16,704,025	(16,901,663)	41,440,569
CITIC Pacific Ltd.	11,283,163	4,526,829	(4,578,308)	11,231,684
CNOOC Ltd.	157,875,502	63,334,118	(64,098,617)	157,111,003
COSCO Pacific Ltd.	14,378,775	5,767,061	(5,838,996)	14,306,840
Esprit Holdings Ltd.	10,815,859	4,455,724	(3,924,706)	11,346,877
Foxconn International Holdings Ltd.	18,938,395	3,837,689	(22,776,084)	–
Hengan International Group Co. Ltd.	–	8,434,472	(1,410,384)	7,024,088
Hutchison Whampoa Ltd.	18,837,323	7,556,010	(7,649,651)	18,743,682
Hutchison Port Holdings Trust, Right	–	1,828,800	(1,828,800)	–
Li & Fung Ltd.	21,975,302	69,846,592	(41,953,175)	49,868,719
Li & Fung Ltd., Temp Trading	–	52,946,026	(52,946,026)	–
MTR Corporation Ltd.	12,741,984	5,116,878	(5,143,010)	12,715,852
New World Development Co. Ltd.	20,772,380	21,938,681	(11,134,399)	31,576,662
New World Development Co. Ltd., Right	–	10,906,301	(10,906,301)	–
PetroChina Co. Ltd.	186,423,411	74,787,418	(75,688,089)	185,522,740
Swire Pacific Ltd. 'A'	6,397,216	2,567,624	(2,594,549)	6,370,291
Tencent Holdings Ltd.	8,879,985	4,343,256	(3,538,337)	9,684,904
Tingyi (Cayman Islands) Holding Corporation	–	16,981,452	(184,968)	16,796,484
Want Want China Holdings Ltd.	–	63,106,058	(687,372)	62,418,686
Wharf (Holdings) Ltd.	12,167,482	6,521,121	(5,370,559)	13,318,044
Wharf (Holdings) Ltd., Right	–	1,173,427	(1,173,427)	–

PERFORMANCE RECORD (UNAUDITED)

Net asset values

	Net asset value per unit <i>HK\$</i>	Net asset value of the Fund <i>HK\$</i>
At end of financial year dated		
31st December 2009	22.02	39,127,011,685
31st December 2010	23.19	53,377,202,767
31st December 2011	18.58	48,362,762,116

Highest and lowest net asset value per unit for the past 10 years

Financial period ended	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
31st December 2002	12.07	9.06
31st December 2003	12.70	8.62
31st December 2004	14.39	11.08
31st December 2005	15.80	13.50
31st December 2006	20.16	15.07
31st December 2007	32.17	18.82
31st December 2008	27.78	11.51
31st December 2009	23.07	11.49
31st December 2010	25.08	19.28
31st December 2011	24.62	16.83

Fund Performance

During the year, the Hang Seng Index decreased by 19.97% (2010: increased by 5.32%), while the net asset value per unit of the Fund decreased by 19.88% (2010: increased by 5.31%).

Tracker Fund of Hong Kong

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ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Bernard Patrick Reilly
Ms. Kelly Quinn Driscoll
(resigned on 19th December 2011)
Ms. Ting Li
Ms. Susana Yeong
(appointed on 25th November 2011)

Members of the Supervisory Committee

Mr. Fong Hup
Mr. Lawrence Fok
Mr. Marvin Cheung
Mr. Stephen Law
Prof. Chan Yuk-shee

Trustee and Custodian

State Street Bank and Trust Company
68th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Registrar

Computershare Hong Kong
Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Manager

State Street Global Advisors Asia Limited
68th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Promoter

Exchange Fund Investment Limited
87th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Conversion Agent

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

Auditor

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong