

TraHK

Tracker Fund of Hong Kong

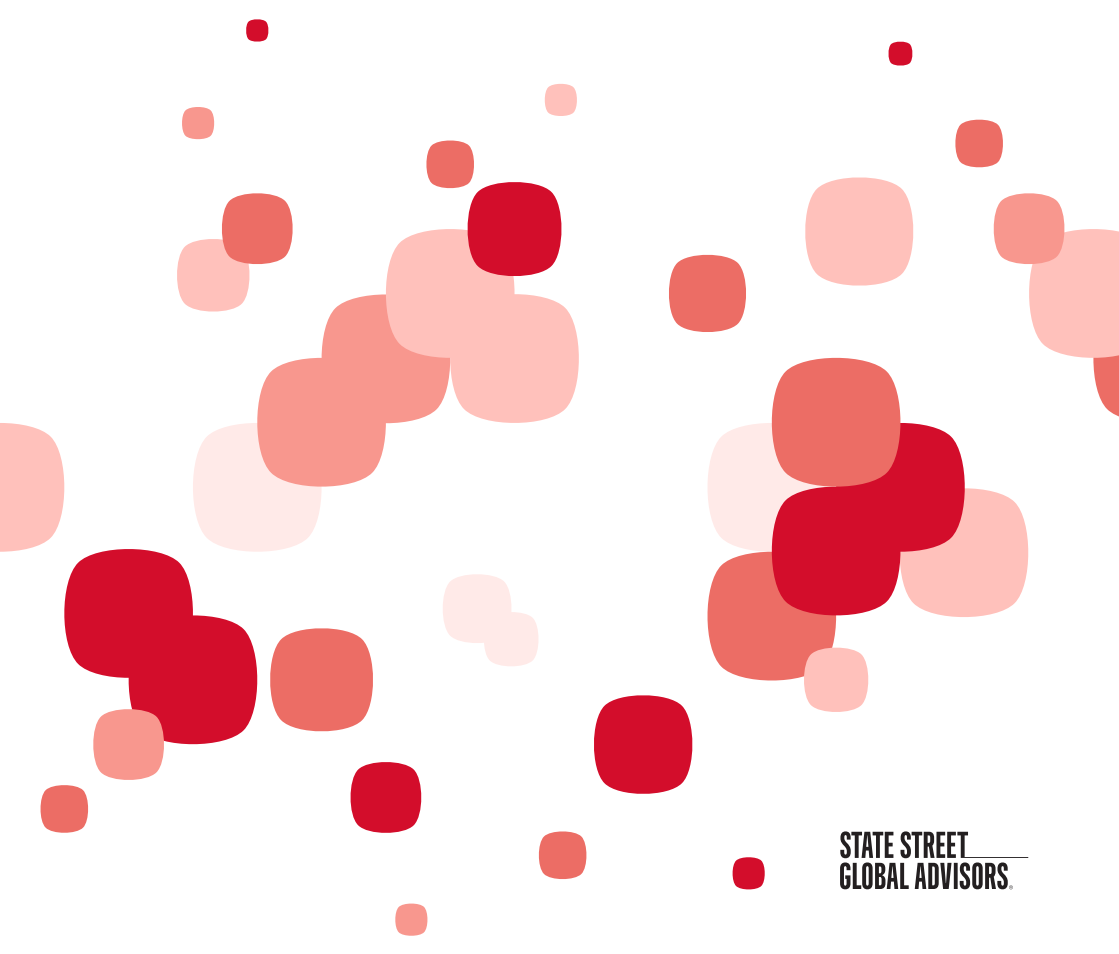
Tracker Fund of Hong Kong

Stock Code : 2800

Website : www.trahk.com.hk

Annual Report 2016

1st January 2016 to 31st December 2016



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, as amended or supplemented from time to time (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:

- take reasonable care 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 accounting and other related records have been maintained;
- safeguard the assets of the Fund; 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 has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed for the year ended 31st December 2016.

For and on behalf of
State Street Bank and Trust Company, the Trustee

(authorized signature(s))
18th April 2017

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Tracker Fund of Hong Kong (the "Fund")

Report on the Audit of the Financial Statements

Opinion

What we have audited

The financial statements of Tracker Fund of Hong Kong (the "Fund") set out on pages 8 to 28, which comprise:

- the Statement of Net Assets as at 31st December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December 2016, and of its financial transactions and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Tracker Fund of Hong Kong (the "Fund") (Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to valuation and existence of investments.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation and existence of investments Listed investments The investments as at 31st December 2016 comprised listed equities valued at HK\$80,326,608,461. We focused on the valuation and existence of listed investments because they represent the principal element of the net asset value as disclosed on the Statement of Net Assets in the financial statements. The disclosure of the valuation of listed investments is detailed in note 12 to the financial statements.	Valuation of listed investments We tested the valuation of all listed equities by agreeing the prices used in the valuation to independent third party sources. We found no material exceptions from our testing. Existence of investments We tested the existence of the holdings of all investments by obtaining independent confirmation from the Fund's custodian. Based on the procedures we performed, we found the Fund's holdings of investments to be in agreement with the confirmation received.

Other Information

The other information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon. The manager of the Fund (the "Manager") is responsible for the other information, except the report of the trustee to the unitholders, which the trustee of the Fund (the "Trustee") is responsible to issue.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Tracker Fund of Hong Kong (the "Fund") (Continued)

Responsibilities of Manager for the Financial Statements

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

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

In addition, the Manager of the Fund is required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 23rd October 1999, as amended or supplemented from time to time (the "Trust Deed") and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (the "SFC Code").

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Tracker Fund of Hong Kong (the "Fund") (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Amy Y.K. Yeung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th April 2017

Tracker Fund of Hong Kong

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STATEMENT OF NET ASSETS

AS AT 31ST DECEMBER 2016

	Notes	2016 HK\$	2015 HK\$
Assets			
Current assets			
Investments	12(b)	80,326,608,461	72,147,175,736
Other accounts receivable and prepayments		198,465	114,651
Bank balances	7(d)	198,445,374	256,943,653
Total assets		<u>80,525,252,300</u>	<u>72,404,234,040</u>
Liabilities			
Current liabilities			
Management fee payable	7(b)	6,967,036	6,442,788
Trustee fee payable	7(c)	13,784,331	6,442,788
Index license fee payable	8(c)	3,057,428	2,731,426
Registrar fee payable	8(a)	289,913	281,776
Professional fee payable	8(a)	40,000	240,384
Other accounts payable and accruals		1,615,302	1,373,836
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>25,754,010</u>	<u>17,512,998</u>
Net assets attributable to holders of redeemable units	5	<u><u>80,499,498,290</u></u>	<u><u>72,386,721,042</u></u>

For and on behalf of
State Street Bank and Trust Company,
the Trustee

For and on behalf of
State Street Global Advisors Asia Limited,
the Manager

(authorized signature(s))

(authorized signature(s))

The notes on pages 12 to 28 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Notes	2016 HK\$	2015 HK\$
Income			
Dividends		2,789,077,273	2,499,265,094
Bank interest		1,641,539	1,341,178
Transaction fee	4(a)	1,965,000	1,800,000
Other income	4(b), 7(d)	4,116,961	3,862,158
Net gain/(loss) on investments	3	708,711,663	(6,232,622,014)
Total investment income/(loss)		<u>3,505,512,436</u>	<u>(3,726,353,584)</u>
Expenses			
Management fee	7(b)	26,874,257	25,360,675
Trustee fee	7(c)	26,743,218	25,360,675
Index license fee	8(c)	11,311,061	10,707,179
Transaction costs on investments		16,161,961	12,185,591
Registrar fee	8(a)	1,838,271	1,822,392
Publication and printing expenses		1,263,218	1,716,691
Conversion agent fee	8(b)	1,727,774	1,658,258
Audit fee		484,448	501,488
Legal and other professional fees	8(a)	413,905	860,384
Bank charges		477,033	618,090
Other operating expenses		1,198,054	1,072,978
Total operating expenses		<u>88,493,200</u>	<u>81,864,401</u>
Operating profit/(loss)		<u>3,417,019,236</u>	<u>(3,808,217,985)</u>
Finance costs			
Distributions to holders of redeemable units	13	(2,661,494,150)	(2,479,133,925)
Profit/(loss) after distributions and before tax		<u>755,525,086</u>	<u>(6,287,351,910)</u>
Withholding tax	6	(113,284,432)	(111,378,319)
Increase/(decrease) in net assets attributable to holders of redeemable units from operations		<u><u>642,240,654</u></u>	<u><u>(6,398,730,229)</u></u>

The notes on pages 12 to 28 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 2016

	Notes	2016 HK\$	2015 HK\$
Net assets attributable to holders of redeemable units at 1st January		<u>72,386,721,042</u>	<u>62,418,500,671</u>
Issue of units			
– In-kind	9	27,771,239,767	45,218,273,332
– Cash component	9	<u>273,917,178</u>	<u>612,431,187</u>
		<u>28,045,156,945</u>	<u>45,830,704,519</u>
Redemption of units			
– In-kind	9	(20,285,234,450)	(29,171,962,981)
– Cash component	9	<u>(289,385,901)</u>	<u>(291,790,938)</u>
		<u>(20,574,620,351)</u>	<u>(29,463,753,919)</u>
Net issue/(redemption) of units		<u><u>7,470,536,594</u></u>	<u><u>16,366,950,600</u></u>
Increase/(decrease) in net assets attributable to holders of redeemable units from operations		<u><u>642,240,654</u></u>	<u><u>(6,398,730,229)</u></u>
Net assets attributable to holders of redeemable units at 31st December		<u><u>80,499,498,290</u></u>	<u><u>72,386,721,042</u></u>

The notes on pages 12 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Notes	2016 HK\$	2015 HK\$
Cash flows from operating activities			
Proceeds from sale of investments	9	5,574,165,835	4,456,252,315
Payments for purchase of investments	9	(5,227,014,370)	(4,373,073,169)
Dividends received		2,343,925,631	2,195,420,989
Bank interest received		1,561,044	1,341,178
Transaction fee received		1,965,000	1,845,000
Management fee paid		(26,350,009)	(24,598,024)
Trustee fee paid		(19,401,675)	(24,598,024)
Index license fee paid		(10,985,059)	(10,249,589)
Registrar fee paid		(1,830,134)	(1,680,736)
Publication and printing expenses paid		(1,425,660)	(1,714,572)
Transaction costs on investments paid		(16,161,961)	(12,185,591)
Conversion agent fee paid		(1,528,000)	(1,692,000)
Other income received	7(d)	323,597	–
Bank charges paid		(93,532)	(590,405)
Legal and other professional fees paid		(614,289)	(620,000)
Other operating expenses paid		(1,865,188)	(1,489,311)
		<u>2,614,671,230</u>	<u>2,202,368,061</u>
Net cash generated from operating activities			
Cash flows from financing activities			
Cash component received on issue of units	9	273,917,178	612,431,187
Cash component paid on redemption of units	9	(289,385,901)	(294,519,391)
Interim distribution paid	4(b), 13	(553,468,141)	(488,927,862)
Final distributions paid	4(b), 13	(2,104,232,645)	(1,986,343,905)
		<u>(2,673,169,509)</u>	<u>(2,157,359,971)</u>
Net cash used in financing activities			
Net increase/(decrease) in cash and cash equivalents			
		(58,498,279)	45,008,090
Cash and cash equivalents at the beginning of the year		<u>256,943,653</u>	<u>211,935,563</u>
Cash and cash equivalents at the end of the year			
		<u><u>198,445,374</u></u>	<u><u>256,943,653</u></u>
Analysis of balances of cash and cash equivalents:			
Bank balances	7(d)	<u><u>198,445,374</u></u>	<u><u>256,943,653</u></u>

Please refer to note 9 for details of major non-cash transactions.

The notes on pages 12 to 28 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, as amended or supplemented from time to time (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 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 2016

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1st January 2016 that would be expected to have a material impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

New standards and amendments to standards that are relevant to the Fund but are not yet effective and have not been early adopted by the Fund

Amendments to HKAS 7, this amendment is effective for annual periods beginning on or after 1st January 2017. Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowing(s) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for examples by providing a “net debt” reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated. The amendment is not expected to have any significant impact on the Fund’s financial position or performance.

HKFRS 9, “Financial instruments” addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedged ratio” to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted. HKFRS 9 is not expected to have any significant impact on the Fund’s financial position or performance.

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(b) Investments (Continued)

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

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Net Assets where the Fund currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

(d) 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.

Interest income on bank deposit and from bank balances is recognized on a time-proportionate basis using the effective interest method.

Other income is accounted for in the Statement of Comprehensive Income on an accrual basis.

(e) Expenses

Expenses are accounted for in the Statement of Comprehensive Income on an accrual basis.

(f) 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 Supervisory Committee. The distribution on these redeemable units is recognized in the Statement of Comprehensive Income as finance costs.

(g) 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 (as defined in the Prospectus of the Fund and based on the nominal closing prices as of that date), including the dividend equivalent amount per Creation Unit.

(h) 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)

(i) 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 carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within “net gain/(loss) on investments”.

(j) 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 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 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.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Net gain/(loss) on investments

	2016 HK\$	2015 HK\$
Change in unrealized gain/(loss) on investments	2,427,340,211	(9,907,468,976)
Realized gain/(loss) on sale of investments	(1,718,628,548)	3,674,846,962
	<u>708,711,663</u>	<u>(6,232,622,014)</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 participation agreements 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(a), the Manager endeavors 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 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.

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	
	2016	2015
Units in issue at the beginning of the year	3,273,992,500	2,617,992,500
Issue of units	1,276,000,000	1,809,000,000
Redemptions of units	(918,000,000)	(1,153,000,000)
Units in issue at the end of the year	3,631,992,500	3,273,992,500
	<i>HK\$</i>	<i>HK\$</i>
Net assets attributable to holders of redeemable units	80,499,498,290	72,386,721,042
Net assets attributable to holders of redeemable units (per unit)	22.16	22.11
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	22,164,005	22,109,617

6 Taxation

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

The Fund invests in H-shares and Red Chips shares of companies in the People's Republic of China ("PRC") listed on the Hong Kong Stock Exchange. 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 Red Chips which are determined as PRC Tax Resident Enterprises and H-shares. However, no provision was made for taxation from such gains in the financial statements as the Manager believes that the Fund can sustain a position for not filing a tax return based on the existing tax regulations and that the prevailing enforcement of China tax on capital gains is not probable.

Withholding tax was charged on dividend income received from H-shares and Red Chips during the years ended 31st December 2016 and 2015.

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. As at 31st December 2016, the directors and officers of the Manager together held 26,860 units in the Fund (2015: 29,000 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 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 held with the Trustee amounted to HK\$3,930,740 as at 31st December 2016 (2015: HK\$7,763,527). Effective from 6th June 2016, interest calculated at a rate of 0.01% p.a. Interest income amounting to HK\$744 was accrued and received for the period from 6th June 2016 to 31st December 2016 with respect to the bank balance held with the Trustee (2015: Nil).

After a finding against the Manager by the Securities and Futures Commission dated 15th June 2016, the Manager has made voluntary payments totaling HK\$323,597 into the Fund, such amounts were calculated by applying an interest rate of 0.01% p.a. to the Fund's daily cash balances in Trustee's demand deposit account for the period from 1st December 2008 to 5th June 2016.

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\$</i> <i>(per month)</i>
For the first 2,000 Unitholders	12,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	2,650
For every additional 1,000 Unitholders above 100,000 Unitholders	2,250

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

The Registrar is also reimbursed for all of its out-of-pocket expenses incurred in connection with performing its services.

(b) Conversion agent fee

The Conversion Agent, HK Conversion Agency Services Limited, 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 payable quarterly in arrears.

9 Major non-cash transactions

In accordance with the Trust Deed, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash. For each Creation Unit (of 1,000,000 units), the Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the year, the Fund issued 1,276,000,000 units (2015: 1,809,000,000 units), totaling HK\$28,045,156,945 (2015: HK\$45,830,704,519) in exchange for Index Baskets consisting of investments valued at HK\$27,771,239,767 (2015: HK\$45,218,273,332) plus the relevant cash component of HK\$273,917,178 (2015: HK\$612,431,187).

In accordance with the Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the year, the Fund redeemed 918,000,000 units (2015: 1,153,000,000 units), totaling HK\$20,574,620,351 (2015: HK\$29,463,753,919) in exchange for Index Baskets consisting of investments valued at HK\$20,285,234,450 (2015: HK\$29,171,962,981) plus the relevant cash component of HK\$289,385,901 (2015: HK\$291,790,938).

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

Pursuant to the SFC’s Guidelines for Regulating Index Tracking Exchange Traded Funds (the “ETF Guidelines”), the Manager is permitted to overweight the holdings of the Fund relative to its respective weightings in the underlying index, on the condition that the maximum extra weighting in any constituent securities will not exceed the maximum limit reasonably determined by the Fund and after consultation with the SFC. The maximum limit for each of the Fund has been disclosed in its respective prospectus.

The Manager has confirmed that the Fund has complied with this limit during the years ended 31st December 2016 and 2015.

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	
	2016	2015	2016	2015
HSBC Holdings plc	10.6	10.1	10.6	10.1
Tencent Holdings Ltd.	10.1	10.1	10.1	10.1
Total	<u>20.7</u>	<u>20.2</u>	<u>20.7</u>	<u>20.2</u>

Except as disclosed above, there were no other securities that individually accounted for more than 10% of the net asset value of the Fund as at 31st December 2016 and 2015.

During the year ended 31st December 2016, the Hang Seng Index increased by 0.39% (2015: decreased 7.16%), while the net asset value per unit of the Fund increased by 0.25% (2015: decreased 7.26%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 shares in the constituent companies of the Index ("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.

Investment policies

The responsibility of the Manager is to reflect changes in the Index, insofar as practicable and subject to the Trust Deed, 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			
	2016		2015	
	Fair Value HK\$	% of net assets	Fair Value HK\$	% of net assets
Held for trading:				
Listed investments				
Equities				
– Hong Kong	80,326,608,461	99.79	72,147,175,736	99.67

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:

	2016	2015
	% of net assets	% of net assets
By industry		
– Commerce and industry	36.66	37.98
– Financials	47.50	45.92
– Properties	10.09	10.75
– Utilities	5.54	5.02
	<u>99.79</u>	<u>99.67</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.

	2016		2015	
	Change in index	Impact	Change in index	Impact
	%	HK\$	%	HK\$
	+/-	+/-	+/-	+/-
Hong Kong				
– Hang Seng Index	<u>0.39%</u>	<u>313,273,773</u>	<u>7.16%</u>	<u>5,165,737,783</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 and counterparty risk

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

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

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

At 31st December 2016, investments and bank balances of HK\$80,330,539,201, HK\$4, HK\$145,925,189 and HK\$48,589,441 were placed with the custodian, the Hongkong and Shanghai Banking Corporation Limited, Standard Chartered (Hong Kong) Limited Bank and Australia and New Zealand Bank respectively (2015: HK\$72,154,939,263, HK\$151,868,715, HK\$97,311,411 and HK\$0 respectively). The credit rating of the counterparties issued by Moody's was as follows:

	2016	2015
Investment and Cash held with State Street Bank and Trust Company	Aa1	Aa2
Cash held with The Hongkong and Shanghai Banking Corporation Limited	Aa2	Aa2
Cash held with Standard Chartered Bank (Hong Kong) Limited	Aa3	Aa3
Cash held with Australia and New Zealand Banking Group Limited	Aa2	Aa2

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

The maximum exposure to credit risk as at 31st December 2016 and 2015 is the carrying amount of the financial assets as shown on the Statement of Net Assets.

The Manager considers none of the assets is impaired nor past due but not impaired.

(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 contractual 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 HK\$	1-3 months HK\$	Total HK\$
At 31st December 2016			
Management fee payable	–	6,967,036	6,967,036
Trustee fee payable	–	13,784,331	13,784,331
Index license fee payable	3,057,428	–	3,057,428
Registrar fee payable	289,913	–	289,913
Professional fee payable	–	40,000	40,000
Other accounts payable and accruals	–	1,615,302	1,615,302
Net assets attributable to holders of redeemable units	80,499,498,290	–	80,499,498,290
Total financial liabilities	80,502,845,631	22,406,669	80,525,252,300

	Less than 1 month HK\$	1-3 months HK\$	Total HK\$
At 31st December 2015			
Management fee payable	–	6,442,788	6,442,788
Trustee fee payable	–	6,442,788	6,442,788
Index license fee payable	2,731,426	–	2,731,426
Registrar fee payable	281,776	–	281,776
Professional fee payable	–	240,384	240,384
Other accounts payable and accruals	385,500	988,336	1,373,836
Net assets attributable to holders of redeemable units	72,386,721,042	–	72,386,721,042
Total financial liabilities	72,390,119,744	14,114,296	72,404,234,040

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk (Continued)

Refer to note 2(j), units are redeemed on demand at the unitholder's option. However, the 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 Manager manages the liquidity risk of the Fund 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 HK\$	7 days to less than 1 month HK\$	Total HK\$
2016	<u>66,279,027,515</u>	<u>14,246,026,320</u>	<u>80,525,053,835</u>
2015	<u>72,404,119,389</u>	<u>–</u>	<u>72,404,119,389</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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(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.

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.

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 13 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(h) Fair value estimation (Continued)

The following table analyses within the fair value hierarchy the Fund's investments (by class) measured at fair value at 31st December 2016 and 2015.

All fair value measurements disclosed are recurring fair value measurements.

	Level 1 <i>HK\$</i>	Level 2 <i>HK\$</i>	Level 3 <i>HK\$</i>	Total <i>HK\$</i>
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At 31st December 2016

Assets

Financial assets held for trading:

– Equity securities	<u>80,326,608,461</u>	<u>–</u>	<u>–</u>	<u>80,326,608,461</u>
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	Level 1 <i>HK\$</i>	Level 2 <i>HK\$</i>	Level 3 <i>HK\$</i>	Total <i>HK\$</i>
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At 31st December 2015

Assets

Financial assets held for trading:

– Equity securities	<u>72,147,175,736</u>	<u>–</u>	<u>–</u>	<u>72,147,175,736</u>
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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 2016 and 2015, 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 2016 and 2015, the Fund did not hold any investments classified in level 3.

For the years ended 31st December 2016 and 2015, there were no transfers of financial instruments between levels.

The assets and liabilities included in the Statement of Net Assets except investments are carried at amortized cost; their carrying values are a reasonable approximation of fair value.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Distributions

	2016 HK\$	2015 HK\$
Interim distribution		
– HK\$0.18 on 2,726,992,500 units paid on 29th May 2015	–	490,858,650
– HK\$0.16 on 3,470,992,500 units paid on 30th May 2016	555,358,800	–
Final distribution		
– HK\$0.63 on 3,155,992,500 units paid on 27th November 2015	–	1,988,275,275
– HK\$0.62 on 3,396,992,500 units paid on 30th November 2016	2,106,135,350	–
Total distributions	<u>2,661,494,150</u>	<u>2,479,133,925</u>

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 objective of the Fund is to track the performance of its index and invests in substantially all the index constituents with security weight and industry weight that are closely aligned with the characteristics of the tracked index.

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 years ended 31st December 2016 and 2015.

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

The Fund has no assets classified as non-current assets. The Fund has portfolios that closely correspond to the security weight and industry weight of the relevant tracked index. 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 2016 and 2015, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 89.24% as at 31st December 2016 and 87.87% as at 31st December 2015.

15 Approval of financial statements

The financial statements were approved by the Trustee and the Manager on 18th April 2017.

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31ST DECEMBER 2016

	Holdings	Fair value HK\$	% of net assets
Hong Kong			
Listed investments (99.79%)			
Equities (99.79%)			
Commerce and Industry (36.66%)			
AAC Technologies Holding Ltd.	8,217,308	578,909,349	0.72
Belle International Holdings Ltd.	76,484,727	333,473,410	0.41
Cathay Pacific Airways Ltd.	13,284,294	135,499,799	0.17
China Mengniu Dairy Co. Ltd.	30,603,829	457,221,205	0.57
China Merchants Port Holdings Co. Ltd.	14,839,502	285,512,018	0.35
China Mobile Ltd.	68,679,060	5,645,418,732	7.01
China Petroleum & Chemical Corporation	285,037,357	1,567,705,463	1.96
China Shenhua Energy Co. Ltd.	37,908,276	553,460,830	0.69
China Unicom (Hong Kong) Ltd.	66,768,404	602,918,688	0.75
CITIC Ltd.	65,415,876	726,116,224	0.90
CK Hutchison Holdings Ltd.	30,199,058	2,654,497,198	3.30
CNOOC Ltd.	199,567,618	1,935,805,895	2.40
Galaxy Entertainment Group Ltd.	26,215,628	886,088,226	1.10
Hengan International Group Co. Ltd.	8,171,250	465,352,688	0.58
Kunlun Energy Co. Ltd.	36,348,425	210,820,865	0.26
Lenovo Group Ltd.	81,848,315	384,687,081	0.48
Li & Fung Ltd.	67,355,709	229,682,968	0.29
MTR Corporation Ltd.	16,601,802	625,887,935	0.78
PetroChina Co. Ltd.	235,660,716	1,362,118,938	1.69
Sands China Ltd.	27,034,576	911,065,211	1.13
Swire Pacific Ltd. 'A'	5,587,517	413,755,634	0.51
Tencent Holdings Ltd.	42,988,389	8,154,897,393	10.13
Want Want China Holding Ltd.	77,741,989	386,377,685	0.48
		<u>29,507,273,435</u>	<u>36.66</u>

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INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31ST DECEMBER 2016

	Holdings	Fair value HK\$	% of net assets
Finance (47.50%)			
AIA Group Ltd.	134,780,702	5,896,655,712	7.33
Bank of China Ltd.	887,994,123	3,054,699,783	3.79
Bank of Communications Co. Ltd.	97,618,057	547,637,300	0.68
Bank of East Asia Ltd.	15,056,891	447,189,663	0.56
BOC Hong Kong (Holdings) Ltd.	41,328,950	1,146,878,363	1.43
China Construction Bank Corporation	1,208,262,156	7,213,325,071	8.96
China Life Insurance Co. Ltd.	83,147,819	1,679,585,944	2.09
Hang Seng Bank Ltd.	8,541,507	1,232,539,460	1.53
Hong Kong Exchanges and Clearing Ltd.	13,023,292	2,385,867,094	2.96
HSBC Holdings Plc	137,107,624	8,534,949,594	10.60
Industrial and Commercial Bank of China Ltd.	824,748,072	3,835,078,535	4.76
Ping An Insurance (Group) Co. of China Ltd.	58,266,849	2,260,753,741	2.81
		<u>38,235,160,260</u>	<u>47.50</u>
Properties (10.09%)			
Cheung Kong Property Holdings Ltd.	30,073,774	1,430,007,954	1.78
China Overseas Land & Investment Ltd.	42,826,124	880,076,848	1.09
China Resources Land Ltd.	30,918,376	539,216,477	0.67
Hang Lung Properties Ltd.	22,944,933	377,214,698	0.47
Henderson Land Development Co. Ltd.	12,259,044	505,685,565	0.63
New World Development Co. Ltd.	63,082,923	517,279,969	0.64
Sino Land Co. Ltd.	34,896,860	405,501,513	0.50
Sun Hung Kai Properties Ltd.	14,554,175	1,426,309,150	1.77
The Link Real Estate Investment Trust	24,925,520	1,256,246,208	1.56
Wharf (Holdings) Ltd.	15,210,361	784,094,110	0.98
		<u>8,121,632,492</u>	<u>10.09</u>
Utilities (5.54%)			
Cheung Kong Infrastructure Holdings Ltd.	7,386,204	455,728,787	0.57
China Resources Power Holdings Co. Ltd.	21,796,892	268,537,709	0.33
CLP Holdings Ltd.	21,170,338	1,508,386,583	1.87
Hong Kong and China Gas Co. Ltd.	85,222,479	1,170,956,862	1.45
Power Assets Holdings Ltd.	15,492,792	1,058,932,333	1.32
		<u>4,462,542,274</u>	<u>5.54</u>
Total Listed Equities		<u><u>80,326,608,461</u></u>	<u><u>99.79</u></u>
Total investments, at cost		<u><u>84,373,617,356</u></u>	

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

FOR THE YEAR ENDED 31ST DECEMBER 2016

	(UNAUDITED) Holdings			
	31.12.2015	Additions	Disposals	31.12.2016
Hong Kong				
Listed investments				
Equities				
Commerce and Industry				
AAC Technologies Holdings Ltd.	–	9,168,032	(950,724)	8,217,308
Belle International Holdings Ltd.	68,500,654	28,139,781	(20,155,708)	76,484,727
Cathay Pacific Airways Ltd.	11,980,669	4,663,146	(3,359,521)	13,284,294
China Mengniu Dairy Co. Ltd.	27,876,243	11,422,329	(8,694,743)	30,603,829
China Merchants Port Holdings Co. Ltd.	13,131,782	5,408,032	(3,700,312)	14,839,502
China Mobile Ltd.	62,360,142	25,667,479	(19,348,561)	68,679,060
China Petroleum & Chemical Corporation	259,018,012	106,402,324	(80,382,979)	285,037,357
China Resources Beer Holdings Company Ltd.	12,248,126	1,151,307	(13,399,433)	–
China Shenhua Energy Co. Ltd.	34,503,139	14,173,337	(10,768,200)	37,908,276
China Unicom (Hong Kong) Ltd.	60,779,448	24,967,453	(18,978,497)	66,768,404
CITIC Ltd.	73,832,441	25,153,369	(33,569,934)	65,415,876
CK Hutchison Holdings Ltd.	27,428,885	11,267,296	(8,497,123)	30,199,058
CNOOC Ltd.	181,308,078	74,478,543	(56,219,003)	199,567,618
Galaxy Entertainment Group Ltd.	23,775,625	9,785,759	(7,345,756)	26,215,628
Hengan International Group Co. Ltd.	8,079,686	11,826,742	(11,735,178)	8,171,250
Kunlun Energy Co. Ltd.	32,781,820	12,758,335	(9,191,730)	36,348,425
Lenovo Group Ltd.	73,304,539	30,112,518	(21,568,742)	81,848,315
Li & Fung Ltd.	59,804,794	25,148,190	(17,597,275)	67,355,709
MTR Corporation Ltd.	14,845,157	6,477,977	(4,721,332)	16,601,802
PetroChina Co. Ltd.	214,201,564	87,991,364	(66,532,212)	235,660,716
Qinqin Foodstuffs Group Cayman Co. Ltd.	–	1,736,910	(1,736,910)	–
Sands China Ltd.	24,575,778	10,096,757	(7,637,959)	27,034,576
Swire Pacific Ltd. 'A'	5,973,560	2,207,594	(2,593,637)	5,587,517
Tencent Holdings Ltd.	47,743,667	17,974,307	(22,729,585)	42,988,389
Tingyi (Cayman Islands) Holding Corporation	19,763,077	4,269,986	(24,033,063)	–
Want Want China Holding Ltd.	73,080,884	28,988,995	(24,327,890)	77,741,989

Tracker Fund of Hong Kong

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

FOR THE YEAR ENDED 31ST DECEMBER 2016

	(UNAUDITED)			31.12.2016
	31.12.2015	Additions	Disposals	
			Holdings	
Finance				
AIA Group Ltd.	122,311,159	50,348,053	(37,878,510)	134,780,702
Bank of China Ltd.	806,505,003	331,302,006	(249,812,886)	887,994,123
Bank of Communications Co. Ltd.	88,861,810	36,503,337	(27,747,090)	97,618,057
Bank of East Asia Ltd.	14,746,206	6,249,652	(5,938,967)	15,056,891
BOC Hong Kong (Holdings) Ltd.	37,568,096	15,432,353	(11,671,499)	41,328,950
China Construction Bank Corporation	854,270,441	623,492,749	(269,501,034)	1,208,262,156
China Life Insurance Co. Ltd.	75,544,486	31,033,215	(23,429,882)	83,147,819
Hang Seng Bank Ltd.	7,763,819	3,189,466	(2,411,778)	8,541,507
Hong Kong Exchanges and Clearing Ltd.	11,655,829	5,154,159	(3,786,696)	13,023,292
HSBC Holdings Plc	117,587,180	72,409,697	(52,889,253)	137,107,624
Industrial and Commercial Bank of China Ltd.	748,979,609	307,672,319	(231,903,856)	824,748,072
Ping An Insurance (Group) Co. of China Ltd.	52,926,859	21,741,799	(16,401,809)	58,266,849
Properties				
Cheung Kong Property Holdings Ltd.	27,428,926	11,245,740	(8,600,892)	30,073,774
China Overseas Land & Investment Ltd.	40,042,497	16,404,662	(13,621,035)	42,826,124
China Resources Land Ltd.	28,145,905	11,562,536	(8,790,065)	30,918,376
Hang Lung Properties Ltd.	22,739,297	8,330,959	(8,125,323)	22,944,933
Henderson Land Development Co. Ltd.	10,066,594	6,661,495	(4,469,045)	12,259,044
New World Development Co. Ltd.	54,803,974	27,521,118	(19,242,169)	63,082,923
Sino Land Co. Ltd.	30,884,149	13,107,838	(9,095,127)	34,896,860
Sun Hung Kai Properties Ltd.	14,602,698	5,713,902	(5,762,425)	14,554,175
The Link Real Estate Investment Trust	22,899,111	9,295,604	(7,269,195)	24,925,520
Wharf (Holdings) Ltd.	13,847,714	7,008,984	(5,646,337)	15,210,361
Utilities				
Cheung Kong Infrastructure Holdings Ltd.	–	9,173,372	(1,787,168)	7,386,204
China Resources Power Holdings Co. Ltd.	19,490,745	8,017,201	(5,711,054)	21,796,892
CLP Holdings Ltd.	19,236,787	7,902,673	(5,969,122)	21,170,338
Hong Kong and China Gas Co. Ltd.	70,427,343	38,240,810	(23,445,674)	85,222,479
Power Assets Holdings Ltd.	14,084,061	5,785,563	(4,376,832)	15,492,792

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 2014	23.84	62,418,500,671
31st December 2015	22.11	72,386,721,042
31st December 2016	22.16	80,499,498,290

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

	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
Financial period ended		
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
31st December 2012	22.86	18.50
31st December 2013	24.23	20.34
31st December 2014	26.11	21.44
31st December 2015	28.83	21.24
31st December 2016	24.80	18.50

Fund Performance

During the year ended 31st December 2016, the Hang Seng Index increased by 0.39% (2015: decrease 7.16%), while the net asset value per unit of the Fund increased by 0.25% (2015: decrease 7.26%).

Ongoing charge

Financial year ended	
31st December 2016	0.10%*

* The ongoing charges figure is calculated by adding the applicable charges and payments deducted from the assets of Tracker Fund of Hong Kong ("TraHK") and then dividing by TraHK's average net asset value for the financial year.

Tracker Fund of Hong Kong

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ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Lochiel Cameron Crafter
Mr. James Keith MacNevin
Mr. Kevin David Anderson
Ms. June Wong
(Appointed on 17th August 2016)
Mr. Louis Boscia
(Appointed on 28th December 2016)

Members of the Supervisory Committee

Mr. Romnesh Lamba
Mr. Fong Hup
(Resigned on 8th April 2016)
Mr. George Hongchoy
Mr. Blair Pickerell
Mr. Stephen Law
Prof. Chan Kalok
Dr. Kam Pok-man
(Appointed on 8th April 2016)

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
1/F One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

Auditor

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong