

TraHK

Tracker Fund of Hong Kong

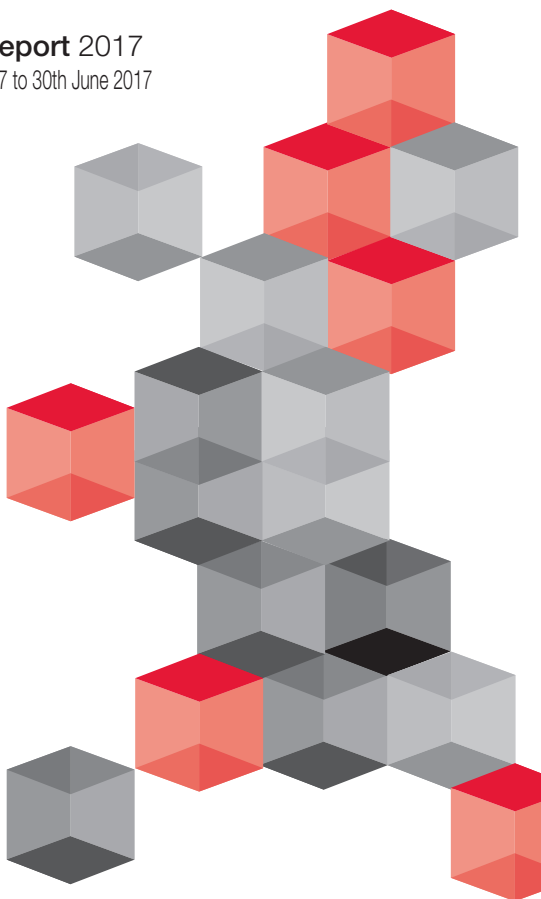
Tracker Fund of Hong Kong

Stock Code : 2800

Website : www.trahk.com.hk

Interim Report 2017

1st January 2017 to 30th June 2017



STATE STREET
GLOBAL ADVISORS®



Contents

| | |
|---|----|
| Condensed Statement of Net Assets (unaudited) | 1 |
| Condensed Statement of Comprehensive Income (unaudited) | 2 |
| Condensed Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (unaudited) | 3 |
| Condensed Statement of Cash Flows (unaudited) | 4 |
| Notes to the Unaudited Condensed Financial Statements | 5 |
| Investment Portfolio (unaudited) | 16 |
| Statement of Movements in Investment Portfolio (unaudited) | 18 |
| Performance Record (unaudited) | 20 |
| Administration and Management | 21 |



CONDENSED STATEMENT OF NET ASSETS (UNAUDITED)

AS AT 30TH JUNE 2017

| | | (UNAUDITED) 30.06.2017 | (AUDITED) 31.12.2016 |
|---|-------|------------------------------|------------------------------|
| | Notes | HK\$ | HK\$ |
| Assets | | | |
| Current assets | | | |
| Investments | | 90,669,306,946 | 80,326,608,461 |
| Dividend receivable | | 868,255,387 | – |
| Other accounts receivable and prepayments | | 1,073,265 | 198,465 |
| Bank balances | 7(d) | 595,963,938 | 198,445,374 |
| Total assets | | <u>92,134,599,536</u> | <u>80,525,252,300</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Management fee payable | 7(b) | 7,265,600 | 6,967,036 |
| Trustee fee payable | 7(c) | 7,265,600 | 13,784,331 |
| Index license fee payable | 8(c) | 3,251,269 | 3,057,428 |
| Registrar fee payable | 8(a) | 484,685 | 289,913 |
| Professional fee payable | | 60,000 | 40,000 |
| Amounts payable on redemption of units | | 7,783,284 | – |
| Withholding tax payable | | 61,486,438 | – |
| Other accounts payable and accruals | | 1,627,842 | 1,615,302 |
| Liabilities (excluding net assets attributable to holders of redeemable units) | | <u>89,224,718</u> | <u>25,754,010</u> |
| Net assets attributable to holders of redeemable units | 5 | <u><u>92,045,374,818</u></u> | <u><u>80,499,498,290</u></u> |

The notes on pages 5 to 15 form part of these condensed financial statements.



CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2017

| | | (UNAUDITED) | |
|--|-------|-----------------------|------------------------|
| | | 01.01.2017 | 01.01.2016 |
| | | to | to |
| | | 30.06.2017 | 30.06.2016 |
| | Notes | HK\$ | HK\$ |
| Income | | | |
| Dividends | | 1,775,876,418 | 1,975,996,450 |
| Bank interest | 7(d) | 424,635 | 321,302 |
| Transaction fee | 4(a) | 765,000 | 895,082 |
| Other income | 4(b) | 1,850,508 | 2,214,256 |
| Net gain/(loss) on investments | 3 | <u>13,251,647,788</u> | <u>(3,348,117,442)</u> |
| Total investment income/(loss) | | <u>15,030,564,349</u> | <u>(1,368,690,352)</u> |
| Expenses | | | |
| Management fee | 7(b) | 14,329,467 | 12,515,929 |
| Trustee fee | 7(c) | 14,460,506 | 12,515,929 |
| Index license fee | 8(c) | 6,325,765 | 5,286,376 |
| Transaction costs on investments | | 8,180,267 | 7,912,065 |
| Registrar fee | 8(a) | 910,453 | 911,707 |
| Publication and printing expenses | | 1,186,913 | 626,777 |
| Conversion agent fee | 8(b) | 743,995 | 858,605 |
| Audit fee | | 226,186 | 240,901 |
| Bank charges | | 115,619 | 340,036 |
| Legal and other professional fees | | 254,999 | 120,600 |
| Other operating expenses | | <u>236,434</u> | <u>608,384</u> |
| Total operating expenses | | <u>46,970,604</u> | <u>41,937,309</u> |
| Operating profit/(loss) | | 14,983,593,745 | (1,410,627,661) |
| Finance costs | | | |
| Distributions to holders of redeemable units | 13 | <u>(517,798,875)</u> | <u>(555,358,800)</u> |
| Profit/(loss) after distributions and before tax | | 14,465,794,870 | (1,965,986,461) |
| Withholding tax | 6 | <u>(69,350,507)</u> | <u>(94,994,172)</u> |
| Increase/(decrease) in net assets attributable to holders of redeemable units from operations | | <u>14,396,444,363</u> | <u>(2,060,980,633)</u> |

The notes on pages 5 to 15 form part of these condensed financial statements.



**CONDENSED STATEMENT OF CHANGES IN NET ASSETS
ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (UNAUDITED)**

FOR THE PERIOD ENDED 30TH JUNE 2017

| | | (UNAUDITED) | |
|---|-------|------------------------------|------------------------------|
| | | 01.01.2017 | 01.01.2016 |
| | | to | to |
| | | 30.06.2017 | 30.06.2016 |
| | Notes | HK\$ | HK\$ |
| Net assets attributable to holders of redeemable units at 1st January | | 80,499,498,290 | 72,386,721,042 |
| Issue of units | | | |
| – In-kind | 9 | 14,013,700,646 | 10,490,257,345 |
| – Cash component | 9 | 89,445,213 | 52,412,553 |
| | | <u>14,103,145,859</u> | <u>10,542,669,898</u> |
| Redemption of units | | | |
| – In-kind | 9 | (16,874,166,907) | (5,657,579,237) |
| – Cash component | 9 | (79,546,787) | (26,905,115) |
| | | <u>(16,953,713,694)</u> | <u>(5,684,484,352)</u> |
| Net issue/(redemption) of units | | <u>(2,850,567,835)</u> | 4,858,185,546 |
| Increase/(decrease) in net assets attributable to holders of redeemable units from operations | | <u>14,396,444,363</u> | <u>(2,060,980,633)</u> |
| Net assets attributable to holders of redeemable units at 30th June | | <u><u>92,045,374,818</u></u> | <u><u>75,183,925,955</u></u> |

The notes on pages 5 to 15 form part of these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2017

| | | (UNAUDITED) | |
|---|----------|-----------------|-----------------|
| | | 01.01.2017 | 01.01.2016 |
| | | to | to |
| | | 30.06.2017 | 30.06.2016 |
| Notes | | HK\$ | HK\$ |
| Cash flows from operating activities | | | |
| | | 3,429,913,504 | 2,682,174,376 |
| | 9 | (3,125,862,526) | (2,624,642,366) |
| | | 644,189,027 | 861,771,992 |
| | | 431,363 | 297,219 |
| | | 720,000 | 780,001 |
| | | – | 323,597 |
| | | (14,030,903) | (6,451,766) |
| | | (20,979,237) | (6,451,766) |
| | | (6,131,924) | (5,298,238) |
| | | (715,681) | (932,463) |
| | | (621,443) | (563,429) |
| | | (8,180,267) | (7,912,065) |
| | | (816,000) | (524,000) |
| | | (499,120) | (171,848) |
| | | (234,999) | (300,984) |
| | | (1,396,572) | (679,391) |
| Net cash generated from operating activities | | 895,785,222 | 891,418,869 |
| Cash flows from financing activities | | | |
| | 9 | 89,445,213 | 52,412,553 |
| | 9 | (71,763,504) | (26,905,115) |
| | 4(b), 13 | (515,948,367) | (553,468,141) |
| Net cash used in financing activities | | (498,266,658) | (527,960,703) |
| Net increase/(decrease) in cash and cash equivalents | | 397,518,564 | 363,458,166 |
| Cash and cash equivalents at the beginning of the period | | 198,445,374 | 256,943,653 |
| Cash and cash equivalents at the end of the period | | 595,963,938 | 620,401,819 |
| Analysis of balances of cash and cash equivalents: | | | |
| | 7(d) | 595,963,938 | 620,401,819 |

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

The notes on pages 5 to 15 form part of these condensed financial statements.



NOTES TO THE UNAUDITED CONDENSED 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 Basis of preparation and accounting policies

These unaudited condensed interim financial statements for the six months ended 30th June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting". The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2016. Other amendments to HKFRS effective for the financial year ending 31st December 2017 are not expected to have a material impact on the Fund.

3 Net gain/(loss) on investments

| | (UNAUDITED) | |
|---|-----------------------|------------------------|
| | 01.01.2017 | 01.01.2016 |
| | to | to |
| | 30.06.2017 | 30.06.2016 |
| | HK\$ | HK\$ |
| Change in unrealized gain/(loss) on investments | 12,814,203,774 | (2,746,482,422) |
| Realized gain/(loss) on sale of investments | 437,444,014 | (601,635,020) |
| | <u>13,251,647,788</u> | <u>(3,348,117,442)</u> |



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

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 period are shown on the Condensed Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the objectives and risk management policies, 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.

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



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

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

| | (UNAUDITED) Number of units | | |
|--|--------------------------------|--------------------------------|--------------------------------|
| | 01.01.2017 to 30.06.2017 | 01.07.2016 to 31.12.2016 | 01.01.2016 to 30.06.2016 |
| Units in issue at the beginning of the period | 3,631,992,500 | 3,521,992,500 | 3,273,992,500 |
| Issue of units | 565,000,000 | 748,000,000 | 528,000,000 |
| Redemption of units | (695,000,000) | (638,000,000) | (280,000,000) |
| Units in issue at the end of the period | <u>3,501,992,500</u> | <u>3,631,992,500</u> | <u>3,521,992,500</u> |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Net assets attributable to holders of redeemable units | <u>92,045,374,818</u> | <u>80,499,498,290</u> | <u>75,183,925,955</u> |
| Net assets attributable to holders of redeemable units (per unit) | <u>26.28</u> | <u>22.16</u> | <u>21.35</u> |
| Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units) | <u>26,283,716</u> | <u>22,164,005</u> | <u>21,346,986</u> |

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 periods ended 30th June 2017 and 2016.



NOTES TO THE UNAUDITED CONDENSED 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 period 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 30th June 2017, the directors and officers of the Manager together held 14,360 units in the Fund (as at 31st December 2016: 26,860 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.



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

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

(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\$37,218,744 as at 30th June 2017 (as at 31st December 2016: HK\$3,930,740). Effective from 6th June 2016, interest calculated at a rate of 0.01% p.a. Interest income amounting to HK\$470 was accrued and received for the period ended to 30th June 2017 with respect to the bank balance held with the Trustee (period from 6th June 2016 to 30th June 2016: HK\$103).

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.

| | HK\$ (per month) |
|--|---------------------|
| 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.



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

8 Other fees (Continued)

(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 period ended 30th June 2017, the Fund issued 565,000,000 units (for the period ended 30th June 2016: 528,000,000 units), totaling HK\$14,103,145,859 (for the period ended 30th June 2016: HK\$10,542,669,898) in exchange for Index Baskets consisting of investments valued at HK\$14,013,700,646 (for the period ended 30th June 2016: HK\$10,490,257,345) plus the relevant cash component of HK\$89,445,213 (for the period ended 30th June 2016: HK\$52,412,553).

In accordance with the Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the period ended 30th June 2017, the Fund redeemed 695,000,000 units (for the period ended 30th June 2016: 280,000,000 units), totaling HK\$16,953,713,694 (for the period ended 30th June 2016: HK\$5,684,484,352) in exchange for Index Baskets consisting of investments valued at HK\$16,874,166,907 (for the period ended 30th June 2016: HK\$5,657,579,237) plus the relevant cash component of HK\$79,546,787 (for the period ended 30th June 2016: HK\$26,905,115).



NOTES TO THE UNAUDITED CONDENSED 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 period ended 30th June 2017 and the year ended 31st December 2016.

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).



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

11 Investment limitations and prohibitions under the SFC Code (Continued)

Constituent securities that account for more than 10% of the net asset value of the Fund as at 30th June 2017 were as follows:

| | Respective weighting in the Index (%) | | % of net asset value | |
|----------------------|--|-------------|----------------------|-------------|
| | 30.06.2017 | 31.12.2016 | 30.06.2017 | 31.12.2016 |
| HSBC Holdings plc | 10.7 | 10.6 | 10.5 | 10.6 |
| Tencent Holdings Ltd | 10.3 | 10.2 | 10.2 | 10.1 |
| Total | <u>21.0</u> | <u>20.8</u> | <u>20.7</u> | <u>20.7</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 30th June 2017 and 31st December 2016.

During the period ended 30th June 2017, the Hang Seng Index increased by 17.11% (for the period ended 30th June 2016: decreased by 5.11%), while the net asset value per unit of the Fund increased by 18.59% (for the period ended 30th June 2016: decreased by 3.45%).

12 Financial risk management

(a) 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 period 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.



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(a) Fair value estimation (Continued)

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.

The following table analyses within the fair value hierarchy the Fund’s investments (by class) measured at fair value at 30th June 2017 and 31st December 2016.

All fair value measurements disclosed are recurring fair value measurements.

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total HK\$ |
|------------------------------------|-----------------|-----------------|-----------------|----------------|
| At 30th June 2017 | | | | |
| Assets | | | | |
| Financial assets held for trading: | | | | |
| - Equity securities | 90,669,306,946 | - | - | 90,669,306,946 |



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(a) Fair value estimation (Continued)

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total HK\$ |
|------------------------------------|-----------------|-----------------|-----------------|----------------|
| At 31st December 2016 | | | | |
| Assets | | | | |
| Financial assets held for trading: | | | | |
| - Equity securities | 80,326,608,461 | - | - | 80,326,608,461 |

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 30th June 2017 and 31st December 2016, 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 30th June 2017 and 31st December 2016, the Fund did not hold any investments classified in level 3.

For the period ended 30th June 2017 and the year ended 31st December 2016, there were no transfers of financial instruments between levels.

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

13 Distributions

| | (UNAUDITED) | |
|---|--|--|
| | 01.01.2017 to 30.06.2017 HK\$ | 01.01.2016 to 30.06.2016 HK\$ |
| Interim distribution | | |
| - HK\$0.16 on 3,470,992,500 units paid on 30th May 2016 | - | 555,358,800 |
| - HK\$0.15 on 3,451,992,500 units paid on 31st May 2017 | 517,798,875 | - |



NOTES TO THE UNAUDITED CONDENSED 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 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 period.

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 30th June 2017 and 31st December 2016, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 89.07% as at 30th June 2017 and 89.24% as at 31st December 2016.



INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 30TH JUNE 2017

| | Holdings | Fair value HK\$ | % of net assets |
|--|-------------|-----------------------|--------------------|
| Hong Kong | | | |
| Listed investments (99.11%) | | | |
| Equities (98.50%) | | | |
| Commerce and Industry (35.32%) | | | |
| AAC Technologies Holding Ltd. | 8,149,504 | 795,391,590 | 0.86 |
| Belle International Holdings Ltd. | 74,630,222 | 459,722,167 | 0.50 |
| Cathay Pacific Airways Ltd. | 8,702,405 | 105,473,149 | 0.11 |
| China Mengniu Dairy Co. Ltd. | 30,389,503 | 464,959,396 | 0.50 |
| China Merchants Port Holdings Co. Ltd. | 14,521,155 | 314,383,006 | 0.34 |
| China Mobile Ltd. | 67,941,680 | 5,628,968,188 | 6.12 |
| China Petroleum & Chemical Corporation | 282,196,169 | 1,718,574,669 | 1.87 |
| China Shenhua Energy Co. Ltd. | 37,590,410 | 653,321,326 | 0.71 |
| China Unicom (Hong Kong) Ltd. | 66,216,965 | 768,116,794 | 0.83 |
| CITIC Ltd. | 64,351,836 | 755,490,555 | 0.82 |
| CK Hutchison Holdings Ltd. | 29,868,128 | 2,927,076,544 | 3.18 |
| CNOOC Ltd. | 197,532,541 | 1,688,903,226 | 1.83 |
| Galaxy Entertainment Group Ltd. | 26,009,581 | 1,232,854,139 | 1.34 |
| Geely Automobile Holdings Ltd. | 59,076,328 | 994,845,363 | 1.08 |
| Hengan International Group Co. Ltd. | 7,996,217 | 460,582,099 | 0.50 |
| Kunlun Energy Co. Ltd. | 35,714,322 | 236,428,812 | 0.26 |
| Lenovo Group Ltd. | 79,864,349 | 393,731,241 | 0.43 |
| MTR Corporation Ltd. | 16,330,142 | 717,709,741 | 0.78 |
| PetroChina Co. Ltd. | 233,367,248 | 1,115,495,445 | 1.21 |
| Sands China Ltd. | 26,783,205 | 957,499,579 | 1.04 |
| Swire Pacific Ltd. 'A' | 5,506,961 | 419,905,776 | 0.46 |
| Tencent Holdings Ltd. | 33,448,383 | 9,338,788,534 | 10.15 |
| Want Want China Holding Ltd. | 69,207,285 | 364,722,392 | 0.40 |
| | | <u>32,512,943,731</u> | <u>35.32</u> |
| Finance (47.48%) | | | |
| AIA Group Ltd. | 133,373,979 | 7,608,985,502 | 8.27 |
| Bank of China Ltd. | 878,672,510 | 3,365,315,713 | 3.66 |
| Bank of Communications Co. Ltd. | 96,813,904 | 533,444,611 | 0.58 |
| Bank of East Asia Ltd. | 16,444,004 | 551,696,334 | 0.60 |
| BOC Hong Kong (Holdings) Ltd. | 40,929,611 | 1,528,720,971 | 1.66 |



INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30TH JUNE 2017

| | Holdings | Fair value HK\$ | % of net assets |
|--|---------------|-----------------------|--------------------|
| China Construction Bank Corporation | 1,196,629,439 | 7,239,608,106 | 7.86 |
| China Life Insurance Co. Ltd. | 82,304,415 | 1,962,960,298 | 2.13 |
| Hang Seng Bank Ltd. | 8,458,466 | 1,381,267,498 | 1.50 |
| Hong Kong Exchanges and Clearing Ltd. | 12,864,816 | 2,596,119,869 | 2.82 |
| HSBC Holdings Plc | 133,111,850 | 9,670,575,902 | 10.51 |
| Industrial and Commercial Bank of China Ltd. | 815,999,681 | 4,300,318,319 | 4.67 |
| Ping An Insurance (Group) Co. of China Ltd. | 57,662,775 | 2,966,749,774 | 3.22 |
| | | <u>43,705,762,897</u> | <u>47.48</u> |
| Properties (10.31%) | | | |
| Cheung Kong Property Holdings Ltd. | 29,422,732 | 1,799,200,062 | 1.96 |
| China Overseas Land & Investment Ltd. | 42,413,157 | 969,140,637 | 1.05 |
| China Resources Land Ltd. | 30,663,353 | 697,591,281 | 0.76 |
| Hang Lung Properties Ltd. | 22,386,262 | 436,532,109 | 0.47 |
| Henderson Land Development Co. Ltd. | 13,276,060 | 578,172,413 | 0.63 |
| New World Development Co. Ltd. | 64,289,733 | 637,111,254 | 0.69 |
| Sino Land Co. Ltd. | 31,163,371 | 398,891,149 | 0.43 |
| Sun Hung Kai Properties Ltd. | 14,412,087 | 1,653,066,379 | 1.80 |
| The Link Real Estate Investment Trust | 24,477,357 | 1,453,955,006 | 1.58 |
| Wharf (Holdings) Ltd. | 13,420,114 | 868,281,376 | 0.94 |
| | | <u>9,491,941,666</u> | <u>10.31</u> |
| Utilities (5.39%) | | | |
| China Resources Power Holdings Co. Ltd. | 21,273,329 | 325,907,400 | 0.36 |
| CK Infrastructure Holdings Ltd. | 7,329,324 | 480,803,654 | 0.52 |
| CLP Holdings Ltd. | 20,958,138 | 1,731,142,199 | 1.88 |
| Hong Kong and China Gas Co. Ltd. | 92,834,989 | 1,362,817,638 | 1.48 |
| Power Assets Holdings Ltd. | 15,344,275 | 1,057,987,761 | 1.15 |
| | | <u>4,958,658,652</u> | <u>5.39</u> |
| Total Listed Equities | | <u>90,669,306,946</u> | <u>98.50</u> |
| Total investments, at cost | | <u>81,902,112,067</u> | |



STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2017

| | (UNAUDITED) | | | 30.06.2017 |
|---|-------------|-------------|---------------|-------------|
| | 31.12.2016 | Additions | Disposals | |
| | | | Holdings | |
| Hong Kong | | | | |
| Listed investments | | | | |
| Equities | | | | |
| Commerce and Industry | | | | |
| AAC Technologies Holdings Ltd. | 8,217,308 | 1,509,000 | (1,576,804) | 8,149,504 |
| Belle International Holdings Ltd. | 76,484,727 | 13,778,587 | (15,633,092) | 74,630,222 |
| Cathay Pacific Airways Ltd. | 13,284,294 | 1,665,223 | (6,247,112) | 8,702,405 |
| China Mengniu Dairy Co. Ltd. | 30,603,829 | 33,908,351 | (34,122,677) | 30,389,503 |
| China Merchants Port Holdings Co. Ltd. | 14,839,502 | 2,680,851 | (2,999,198) | 14,521,155 |
| China Mobile Ltd. | 68,679,060 | 12,543,631 | (13,281,011) | 67,941,680 |
| China Petroleum & Chemical Corporation | 285,037,357 | 52,100,472 | (54,941,660) | 282,196,169 |
| China Shenhua Energy Co. Ltd. | 37,908,276 | 6,954,297 | (7,272,163) | 37,590,410 |
| China Unicom (Hong Kong) Ltd. | 66,768,404 | 12,259,037 | (12,810,476) | 66,216,965 |
| CITIC Ltd. | 65,415,876 | 11,881,476 | (12,945,516) | 64,351,836 |
| CK Hutchison Holdings Ltd. | 30,199,058 | 5,514,937 | (5,845,867) | 29,868,128 |
| CNOOC Ltd. | 199,567,618 | 36,469,606 | (38,504,683) | 197,532,541 |
| Galaxy Entertainment Group Ltd. | 26,215,628 | 4,820,000 | (5,026,047) | 26,009,581 |
| Geely Automobile Holdings Ltd. | - | 66,262,162 | (7,185,834) | 59,076,328 |
| Hengan International Group Co. Ltd. | 8,171,250 | 1,477,720 | (1,652,753) | 7,996,217 |
| Kunlun Energy Co. Ltd. | 36,348,425 | 6,593,303 | (7,227,406) | 35,714,322 |
| Lenovo Group Ltd. | 81,848,315 | 14,744,769 | (16,728,735) | 79,864,349 |
| Li & Fung Ltd. | 67,355,709 | 1,433,534 | (68,789,243) | - |
| MTR Corporation Ltd. | 16,601,802 | 3,016,661 | (3,288,321) | 16,330,142 |
| PetroChina Co. Ltd. | 235,660,716 | 43,084,008 | (45,377,476) | 233,367,248 |
| Sands China Ltd. | 27,034,576 | 4,929,404 | (5,180,775) | 26,783,205 |
| Swire Pacific Ltd. 'A' | 5,587,517 | 1,016,746 | (1,097,302) | 5,506,961 |
| Tencent Holdings Ltd. | 42,988,389 | 6,205,830 | (15,745,836) | 33,448,383 |
| Want Want China Holding Ltd. | 77,741,989 | 12,772,329 | (21,307,033) | 69,207,285 |
| Finance | | | | |
| AIA Group Ltd. | 134,780,702 | 24,641,488 | (26,048,211) | 133,373,979 |
| Bank of China Ltd. | 887,994,123 | 162,225,698 | (171,547,311) | 878,672,510 |
| Bank of Communications Co. Ltd. | 97,618,057 | 17,925,485 | (18,729,638) | 96,813,904 |
| Bank of East Asia Ltd. | 15,056,891 | 4,585,268 | (3,198,155) | 16,444,004 |



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

FOR THE PERIOD ENDED 30TH JUNE 2017

| | (UNAUDITED) | | | 30.06.2017 |
|--|---------------|-------------|---------------|---------------|
| | 31.12.2016 | Additions | Disposals | |
| Holdings | | | | |
| BOC Hong Kong (Holdings) Ltd. | 41,328,950 | 7,518,865 | (7,918,204) | 40,929,611 |
| China Construction Bank Corporation | 1,208,262,156 | 220,927,729 | (232,560,446) | 1,196,629,439 |
| China Life Insurance Co. Ltd. | 83,147,819 | 15,195,210 | (16,038,614) | 82,304,415 |
| Hang Seng Bank Ltd. | 8,541,507 | 1,561,730 | (1,644,771) | 8,458,466 |
| Hong Kong Exchanges and Clearing Ltd. | 13,023,292 | 2,510,482 | (2,668,958) | 12,864,816 |
| HSBC Holdings Plc | 137,107,624 | 26,389,608 | (30,385,382) | 133,111,850 |
| Industrial and Commercial Bank of China Ltd. | 824,748,072 | 150,653,285 | (159,401,676) | 815,999,681 |
| Ping An Insurance (Group) Co. of China Ltd. | 58,266,849 | 10,645,857 | (11,249,931) | 57,662,775 |
| Properties | | | | |
| Cheung Kong Property Holdings Ltd. | 30,073,774 | 5,284,596 | (5,935,638) | 29,422,732 |
| China Overseas Land & Investment Ltd. | 42,826,124 | 7,792,483 | (8,205,450) | 42,413,157 |
| China Resources Land Ltd. | 30,918,376 | 5,677,279 | (5,932,302) | 30,663,353 |
| Hang Lung Properties Ltd. | 22,944,933 | 4,132,982 | (4,691,653) | 22,386,262 |
| Henderson Land Development Co. Ltd. | 12,259,044 | 3,442,249 | (2,425,233) | 13,276,060 |
| New World Development Co. Ltd. | 63,082,923 | 14,297,811 | (13,091,001) | 64,289,733 |
| Sino Land Co. Ltd. | 34,896,860 | 5,630,056 | (9,363,545) | 31,163,371 |
| Sun Hung Kai Properties Ltd. | 14,554,175 | 2,660,837 | (2,802,925) | 14,412,087 |
| The Link Real Estate Investment Trust | 24,925,520 | 4,433,755 | (4,881,918) | 24,477,357 |
| Wharf (Holdings) Ltd. | 15,210,361 | 2,519,035 | (4,309,282) | 13,420,114 |
| Utilities | | | | |
| Cheung Kong Infrastructure Holdings Ltd. | 7,386,204 | 1,361,081 | (8,747,285) | – |
| CK Infrastructure Holdings Ltd. | – | 7,373,319 | (43,995) | 7,329,324 |
| China Resources Power Holdings Co. Ltd. | 21,796,892 | 3,929,472 | (4,453,035) | 21,273,329 |
| CLP Holdings Ltd. | 21,170,338 | 3,869,307 | (4,081,507) | 20,958,138 |
| Hong Kong and China Gas Co. Ltd. | 85,222,479 | 24,071,298 | (16,458,788) | 92,834,989 |
| Power Assets Holdings Ltd. | 15,492,792 | 2,819,941 | (2,968,458) | 15,344,275 |



PERFORMANCE RECORD (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2017

Fund Performance

During the period ended 30th June 2017, the Hang Seng Index increased by 17.11%, while the net asset value per unit of the Fund increased by 18.59%.



ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Lochiel Cameron Crafter
Mr. James Keith MacNevin
Mr. Kevin David Anderson
Ms. June Wong
Mr. Louis Boscia

Members of the Supervisory Committee

Mr. Romnesh Lamba
Mr. George Hongchoy
Mr. Blair Pickerell
Mr. Stephen Law
Prof. Chan Kalok
Dr. Kam Pok-man

Trustee and custodian

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Investor Services Limited
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