

TraHK

Tracker Fund of Hong Kong

Tracker Fund of Hong Kong

Stock Code: 2800

Website: www.trahk.com.hk

ANNUAL REPORT **2019**

1st January 2019 to 31st December 2019

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 2019.

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

(authorized signature(s))
23 April 2020

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 9 to 32, which comprise:

- the Statement of Net Assets as at 31st December 2019;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Net Assets Attributable to Unitholders 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 2019, 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 |
|--|--|
| <p>Valuation and existence of investments</p> <p>Listed investments</p> <p>The investments as at 31st December 2019 comprised listed equities valued at HK\$89,521,415,060. We focused on the valuation and existence of listed investments because they represented the principal element of the Fund's net asset value as disclosed on the Statement of Net Assets in the financial statements.</p> <p>Refer to note 12 to the financial statements.</p> | <p>Valuation of listed investments</p> <p>We agreed the valuation of the Fund's investments by comparing the pricing used by the Fund to external pricing sources as at 31st December 2019. No material exceptions were identified from our testing.</p> <p>Existence of investments</p> <p>We tested the existence of investments by obtaining a direct confirmation from the custodian and agreeing the Fund's holdings of investments to the confirmation. No material exceptions were identified from our testing.</p> |

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

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

Other Information (Continued)

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.

Responsibilities of the Manager for the Financial Statements

The Manager of the Fund is responsible for the preparation of 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 has 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 disclosure 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 HKSA's 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 disclosure provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

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)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism 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.
- 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.

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)

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 Disclosure Provisions of the Trust Deed and the SFC Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure 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 Marie-Anne Sew Youne Kong Yao Fah.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 April 2020

STATEMENT OF NET ASSETS*AS AT 31ST DECEMBER 2019*

| | | 31.12.2019 | 31.12.2018 |
|---|--------------|-----------------------|-----------------------|
| | <i>Notes</i> | <i>HK\$</i> | <i>HK\$</i> |
| Assets | | | |
| Current assets | | | |
| Investments | <i>12(b)</i> | 89,521,415,060 | 81,964,264,535 |
| Dividend receivable | | – | 687,178 |
| Amounts receivable on creation of units | | 1,553,446 | – |
| Other accounts receivable and prepayments | | 40,515 | 678,233 |
| Bank balances | <i>7(d)</i> | 167,477,563 | 232,321,948 |
| | | <u>89,690,486,584</u> | <u>82,197,951,894</u> |
| Total assets | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Management fee payable | <i>7(b)</i> | 7,160,664 | 13,773,831 |
| Trustee fee payable | <i>7(c)</i> | 7,160,664 | 7,028,525 |
| Index license fee payable | <i>8(c)</i> | 3,161,724 | 3,082,441 |
| Registrar fee payable | <i>8(a)</i> | 451,828 | 491,436 |
| Professional fee payable | | 238,000 | 357,000 |
| Amounts payable on redemption of units | | 271,846 | – |
| Other accounts payable and accruals | | 1,299,618 | 1,627,130 |
| | | <u>19,744,344</u> | <u>26,360,363</u> |
| Liabilities (excluding net assets attributable to unitholders of redeemable units) | | | |
| | | <u>19,744,344</u> | <u>26,360,363</u> |
| Net assets attributable to unitholders of redeemable units | | | |
| | <i>5</i> | <u>89,670,742,240</u> | <u>82,171,591,531</u> |

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

(authorized signature(s))

The notes on pages 13 to 32 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2019

| | Notes | For the year ended 31.12.2019 HK\$ | For the year ended 31.12.2018 HK\$ |
|--|-------|--|--|
| Income | | | |
| Dividends | | 2,969,832,242 | 3,224,514,982 |
| Bank interest | 7(d) | 17,306,434 | 11,123,875 |
| Transaction fee | 4(a) | 2,400,000 | 2,295,000 |
| Other income | 4(b) | 3,447,121 | 3,528,476 |
| Net gain/(loss) on investments | 3 | 7,619,719,156 | (12,442,977,762) |
| Total investment income/(loss) | | 10,612,704,953 | (9,201,515,429) |
| Expenses | | | |
| Management fee | 7(b) | 29,431,072 | 29,423,328 |
| Trustee fee | 7(c) | 28,920,301 | 29,934,098 |
| Index license fee | 8(c) | 12,824,184 | 13,855,376 |
| Transaction costs on investments | | 10,138,010 | 19,899,262 |
| Registrar fee | 8(a) | 2,003,755 | 1,754,330 |
| Publication and printing expenses | | 3,229,576 | 1,404,927 |
| Conversion agent fee | 8(b) | 2,156,000 | 1,983,211 |
| Audit fee | | 945,210 | 281,058 |
| Bank charges | | 579,509 | 653,670 |
| Legal and other professional fees | | 1,321,070 | 2,153,244 |
| Other operating expenses | | 287,006 | 993,704 |
| Total operating expenses | | 91,835,693 | 102,336,208 |
| Operating profit/(loss) | | 10,520,869,260 | (9,303,851,637) |
| Finance costs | | | |
| Distributions to unitholders of redeemable units | 13 | (2,864,783,025) | (3,028,362,875) |
| Profit/(loss) after distributions and before tax | | 7,656,086,235 | (12,332,214,512) |
| Withholding tax | 6 | (129,547,470) | (146,698,748) |
| Increase/(decrease) in net assets attributable to unitholders of redeemable units from operations | | 7,526,538,765 | (12,478,913,260) |

The notes on pages 13 to 32 form part of these financial statements.

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

FOR THE YEAR ENDED 31ST DECEMBER 2019

| | | For the year ended 31.12.2019 | For the year ended 31.12.2018 |
|---|-------|----------------------------------|----------------------------------|
| | Notes | HK\$ | HK\$ |
| Net assets attributable to unitholders of redeemable units at 1st January | | <u>82,171,591,531</u> | <u>99,223,794,799</u> |
| Issue of units | | | |
| – In-kind | 9 | 69,267,376,198 | 47,562,973,427 |
| – Cash component | 9 | <u>585,939,094</u> | <u>762,452,022</u> |
| | | <u>69,853,315,292</u> | <u>48,325,425,449</u> |
| Redemption of units | | | |
| – In-kind | 9 | (69,355,920,249) | (52,143,664,079) |
| – Cash component | 9 | <u>(524,783,099)</u> | <u>(755,051,378)</u> |
| | | <u>(69,880,703,348)</u> | <u>(52,898,715,457)</u> |
| Net redemption of units | | <u>(27,388,056)</u> | <u>(4,573,290,008)</u> |
| Increase/(decrease) in net assets attributable to unitholders of redeemable units from operations | | <u>7,526,538,765</u> | <u>(12,478,913,260)</u> |
| Net assets attributable to unitholders of redeemable units at 31st December | | <u><u>89,670,742,240</u></u> | <u><u>82,171,591,531</u></u> |

The notes on pages 13 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2019

| | Notes | For the year ended 31.12.2019 HK\$ | For the year ended 31.12.2018 HK\$ |
|---|----------|--|--|
| Cash flows from operating activities | | | |
| Proceeds from sale of investments | 9 | 4,358,701,545 | 7,254,371,381 |
| Payments for purchase of investments | 9 | (4,216,048,704) | (7,048,797,544) |
| Dividends received | | 2,672,343,689 | 2,923,123,699 |
| Bank interest received | | 17,265,919 | 11,189,387 |
| Transaction fee received | | 2,400,000 | 2,310,000 |
| Management fee paid | | (36,044,239) | (23,529,613) |
| Trustee fee paid | | (28,788,162) | (30,785,689) |
| Index license fee paid | | (12,744,901) | (14,366,758) |
| Registrar fee paid | | (2,043,363) | (1,552,269) |
| Publication and printing expenses paid | | (2,587,954) | (1,562,987) |
| Transaction costs on investments paid | | (10,138,010) | (19,899,262) |
| Conversion agent fee paid | | (2,380,000) | (1,796,000) |
| Bank charges paid | | (579,509) | (653,670) |
| Legal and other professional fees paid | | (1,440,070) | (1,836,244) |
| Other operating expenses paid | | (1,299,117) | (1,019,754) |
| Net cash generated from operating activities | | 2,736,617,124 | 3,045,194,677 |
| Cash flows from financing activities | | | |
| Cash component received on issue of units | 9 | 584,385,648 | 762,452,022 |
| Cash component paid on redemption of units | 9 | (524,511,253) | (755,379,984) |
| Interim distribution paid | 4(b), 13 | (462,232,078) | (515,200,879) |
| Final distributions paid | 4(b), 13 | (2,399,103,826) | (2,509,633,520) |
| Net cash used in financing activities | | (2,801,461,509) | (3,017,762,361) |
| Net (decrease)/increase in cash and cash equivalents | | | |
| | | (64,844,385) | 27,432,316 |
| Cash and cash equivalents at the beginning of the year | | 232,321,948 | 204,889,632 |
| Cash and cash equivalents at the end of the year | | 167,477,563 | 232,321,948 |
| Analysis of balances of cash and cash equivalents: | | | |
| Bank balances | 7(d) | 167,477,563 | 232,321,948 |

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

The notes on pages 13 to 32 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 unitholders of redeemable units unless otherwise stated.

Standards and amendments to existing standards effective 1st January 2019

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1st January 2019 that have a material effect on the financial statements of the Fund.

New standards, amendments and interpretations effective after 1st January 2019 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1st January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(b) Investments

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. Consequently, all investments are measured at fair value through profit or loss.

The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Purchases and sales of investments are accounted for on the trade date basis – the date on which the Fund commits to purchase or sell the investments. 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value 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 reporting date. The Fund utilises the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of fair value.

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent ordinary transactions between market participants, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

Realized gains and losses on sale of investments classified as financial assets at fair value through profit or loss are calculated using first in first out (FIFO) method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(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. Refer to Note 4(b).

(e) Expenses

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

(f) Distributions payable to unitholders of redeemable units

Proposed distributions to unitholders 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(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.

(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 unitholders 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 monetary assets and liabilities are translated into the functional currency using the exchange rate prevailing at the year end date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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 unitholder's option and represent puttable financial instruments of the Fund. The Fund classifies its puttable financial instruments as financial liabilities in accordance with HKAS 32 (Amendment), "Financial instruments: Presentation" as those puttable financial instruments does not meet all the following criteria:

- the puttable financial instruments entitle the holder to a pro-rata share of net asset value;
- the puttable financial instruments are the most subordinated shares in issue and share features are identical;
- there are no contractual obligations to deliver cash or another financial asset; and
- the total expected cash flows from the puttable financial instrument over its life are based substantially on the profit or loss of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(j) Redeemable units (Continued)

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 amortised cost which correspond to the redemption amount that is payable at the year end date if the unitholder 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 unitholder'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 unitholders 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.

3 Net gain/(loss) on investments

| | For the year ended 31.12.2019 <i>HK\$</i> | For the year ended 31.12.2018 <i>HK\$</i> |
|---|---|---|
| Change in unrealized gain/(loss) on investments | 7,143,154,308 | (24,163,411,715) |
| Realized gain on sale of investments | 476,564,848 | 11,720,433,953 |
| | <u>7,619,719,156</u> | <u>(12,442,977,762)</u> |

4 Income

(a) Transaction fee

Applications to create or redeem units are only made through brokers or dealers (who itself or its agent is a participant in Central Clearing and Settlement System ("CCASS") and to whose or whose agent's account any units are for the time being credited by Hong Kong Securities Clearing Company ("HKSCC")) (the "Participating Dealers") which have executed participation agreements with the Manager, the Trustee, HK Conversion Agency Services Limited (the "Conversion Agent") and 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 Income (Continued)

(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\$40 per distribution 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 unitholders of redeemable units

The Fund's capital is represented by the net assets attributable to unitholders 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. Creations and redemptions of units during the year are shown on the Statement of Changes in Net Assets Attributable to Unitholders 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.

Net assets attributable to unitholders 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.

| | For the year ended 31.12.2019 <i>Number of units</i> | For the year ended 31.12.2018 <i>Number of units</i> |
|---|--|--|
| Units in issue at the beginning of the year | 3,155,992,500 | 3,292,992,500 |
| Issue of units | 2,475,000,000 | 1,673,000,000 |
| Redemptions of units | <u>(2,472,000,000)</u> | <u>(1,810,000,000)</u> |
| Units in issue at the end of the year | <u>3,158,992,500</u> | <u>3,155,992,500</u> |
| | <i>HK\$</i> | <i>HK\$</i> |
| Net assets attributable to unitholders of redeemable units | <u>89,670,742,240</u> | <u>82,171,591,531</u> |
| Net assets attributable to unitholders of redeemable units (per unit) | <u>28.39</u> | <u>26.04</u> |
| Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units) | <u>28,385,867</u> | <u>26,036,688</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 of 10% was charged on dividend income received from H-shares and Red Chips during the years ended 31st December 2019 and 2018.

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 2019, the directors and officers of the Manager together held 11,000 units in the Fund (2018: 13,000 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.

NOTES TO THE 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 balance held with the Trustee amounted to HK\$2,416,281 as at 31st December 2019 (2018: HK\$7,913,757). Such account is interest bearing. Interest income amounting to HK\$14,594 was accrued and received for the year ended to 31st December 2019 with respect to the bank balance held with the Trustee (2018: HK\$3,506).

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 Other fees (Continued)

(c) Index license fee

Prior to 1 April 2019, 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. With effect from 1 April 2019, the index license fee is calculated at the following annual rates of the net asset value of the Fund, subject to a minimum fee of US\$10,000:

| | |
|---|---------|
| For the first HK\$100 billion of the net asset value | 0.015% |
| For the next HK\$100 billion of the net asset value | 0.0135% |
| Any amount by which the net asset value exceeds HK\$200 billion | 0.012% |

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 ended 31st December 2019, the Fund issued 2,475,000,000 units (2018: 1,673,000,000 units), totaling HK\$69,853,315,292 (2018: HK\$48,325,425,449) in exchange for Index Baskets consisting of investments valued at HK\$69,267,376,198 (2018: HK\$47,562,973,427) plus the relevant cash component of HK\$585,939,094 (2018: HK\$762,452,022).

In accordance with the Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the year ended 31st December 2019, the Fund redeemed 2,472,000,000 units (2018: 1,810,000,000 units), totaling HK\$69,880,703,348 (2018: HK\$52,898,715,457) in exchange for Index Baskets consisting of investments valued at HK\$69,355,920,249 (2018: HK\$52,143,664,079) plus the relevant cash component of HK\$524,783,099 (2018: HK\$755,051,378).

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 year ended 31st December 2019 and 2018.

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 and 31st December 2018 were as follows:

| | Respective weighting in the Index (%) | | % of net asset value | |
|----------------------|---------------------------------------|-------------|----------------------|-------------|
| | 31.12.2019 | 31.12.2018 | 31.12.2019 | 31.12.2018 |
| Tencent Holdings Ltd | 10.6 | 10.1 | 10.6 | 10.1 |
| HSBC Holdings plc | 9.8 | 10.0 | 9.8 | 10.0 |
| Total | <u>20.4</u> | <u>20.1</u> | <u>20.4</u> | <u>20.1</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 2019 and 31st December 2018.

During the year ended 31st December 2019, the Hang Seng Index increased by 9.07% (2018: decreased by 13.61%), while the net asset value per unit of the Fund increased by 9.02% (2018: decreased by 13.59%).

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 is designated to track the performance of the Index, therefore the exposure to market risk in the Fund will be substantially the same as the tracked Index. The Manager manages the Fund's exposures to market risk by ensuring the key characteristics of the portfolio, are closely aligned with the characteristics of the tracked index. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(b) Market price risk (Continued)

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

| | 2019 | | 2018 | |
|--------------------|-----------------------|-----------------|-----------------------|-----------------|
| | Fair Value HK\$ | % of net assets | Fair Value HK\$ | % of net assets |
| Held for trading: | | | | |
| Listed investments | | | | |
| Equities | | | | |
| – Hong Kong | <u>89,521,415,060</u> | <u>99.83</u> | <u>81,964,264,535</u> | <u>99.75</u> |

Net market exposures

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

| | 2019 % of net assets | 2018 % of net assets |
|-------------------------|-------------------------|-------------------------|
| By industry | | |
| – Commerce and industry | 35.97 | 35.12 |
| – Financials | 48.25 | 48.10 |
| – Properties | 10.97 | 11.12 |
| – Utilities | 4.64 | 5.41 |
| | <u>99.83</u> | <u>99.75</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.

| | 2019 | | 2018 | |
|-------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
| | Change in index % +/- | Impact HK\$ +/- | Change in index % +/- | Impact HK\$ +/- |
| Hong Kong | | | | |
| – Hang Seng Index | <u>9.07%</u> | <u>8,119,592,346</u> | <u>13.61%</u> | <u>11,155,336,403</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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(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.

(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.

The table below summarises the net exposure to the custodian and bank at 31st December 2019 and 2018 together with their credit rating issued by Moody's.

As at 31.12.2019

| | <i>HK\$</i> | Credit rating |
|---|----------------|---------------|
| Investments held with Custodian | | |
| State Street Bank and Trust Company | 89,521,415,060 | Aa1 |
| Cash at Bank | | |
| State Street Bank and Trust Company | 2,416,281 | Aa1 |
| United Overseas Bank Limited | 17,125 | Aa1 |
| Industrial Bank of Korea | 123,334,264 | Aa2 |
| The Hongkong and Shanghai Banking Corporation Limited | 588,456 | Aa2 |
| Australia and New Zealand Banking Group Limited | 41,121,437 | Aa3 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(d) Credit and counterparty risk (Continued)

As at 31.12.2018

| | <i>HK\$</i> | Credit rating |
|--|----------------|---------------|
| Investments held with Custodian State Street Bank and Trust Company | 81,964,264,535 | Aa1 |
| Cash at Bank | | |
| State Street Bank and Trust Company | 7,913,757 | Aa1 |
| United Overseas Bank Limited | 168,022,161 | Aa1 |
| Industrial Bank of Korea | 2,032 | Aa2 |
| The Hongkong and Shanghai Banking Corporation Limited | 56,368,192 | Aa2 |
| Australia and New Zealand Banking Group Limited | 15,806 | Aa3 |

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

The maximum exposure to credit risk as at 31st December 2019 and 2018 is the carrying amount of the financial assets as shown on the Statement of Net Assets.

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. The Manager considers both historical analysis and forward looking information in determining any expected credit loss. At 31st December 2019 and 31st December 2018, all dividend receivables, other receivables and bank balances are held with counterparties with high credit rating and are due to be settled within 1 month. The Manager considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

(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 <i>HK\$</i> | 1-3 months <i>HK\$</i> | Total <i>HK\$</i> |
|--|----------------------------------|---------------------------|------------------------------|
| As at 31.12.2019 | | | |
| Management fee payable | – | 7,160,664 | 7,160,664 |
| Trustee fee payable | – | 7,160,664 | 7,160,664 |
| Index license fee payable | 3,161,724 | – | 3,161,724 |
| Registrar fee payable | 451,828 | – | 451,828 |
| Professional fee payable | – | 238,000 | 238,000 |
| Amounts payable on redemption of units | 271,846 | – | 271,846 |
| Other accounts payable and accruals | – | 1,299,618 | 1,299,618 |
| Net assets attributable to unitholders of redeemable units | <u>89,670,742,240</u> | <u>–</u> | <u>89,670,742,240</u> |
| Total financial liabilities | <u><u>89,674,627,638</u></u> | <u><u>15,858,946</u></u> | <u><u>89,690,486,584</u></u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk

Maturity analysis (Continued)

| | Less than 1 month <i>HK\$</i> | 1-3 months <i>HK\$</i> | Total <i>HK\$</i> |
|--|----------------------------------|---------------------------|------------------------------|
| As at 31.12.2018 | | | |
| Management fee payable | – | 13,773,831 | 13,773,831 |
| Trustee fee payable | – | 7,028,525 | 7,028,525 |
| Index license fee payable | 3,082,441 | – | 3,082,441 |
| Registrar fee payable | 491,436 | – | 491,436 |
| Professional fee payable | – | 357,000 | 357,000 |
| Other accounts payable and accruals | – | 1,627,130 | 1,627,130 |
| Net assets attributable to unitholders of redeemable units | <u>82,171,591,531</u> | <u>–</u> | <u>82,171,591,531</u> |
| Total financial liabilities | <u><u>82,175,165,408</u></u> | <u><u>22,786,486</u></u> | <u><u>82,197,951,894</u></u> |

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 <i>HK\$</i> | 7 days to less than 1 month <i>HK\$</i> | Total <i>HK\$</i> |
|-------------------------|---------------------------------|---|------------------------------|
| As at 31.12.2019 | <u><u>89,688,892,623</u></u> | <u><u>–</u></u> | <u><u>89,688,892,623</u></u> |
| | Less than 7 days <i>HK\$</i> | 7 days to less than 1 month <i>HK\$</i> | Total <i>HK\$</i> |
| As at 31.12.2018 | <u><u>70,172,205,732</u></u> | <u><u>12,024,380,751</u></u> | <u><u>82,196,586,483</u></u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(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 unitholders 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 creation only. Units are redeemed in-kind with the remaining balances in cash and are not redeemable for cash only.

(h) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date.

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 that the Fund can access at the measurement date (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).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(h) Fair value estimation (Continued)

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

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

The following table analyses within the fair value hierarchy the Fund’s investments (by class) measured at fair value at 31st December 2019 and 2018.

All fair value measurements disclosed are recurring fair value measurements.

| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total HK\$ |
|--|-----------------|-----------------|-----------------|----------------|
| As at 31.12.2019 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| – Equity securities | 89,521,415,060 | – | – | 89,521,415,060 |
| | Level 1 HK\$ | Level 2 HK\$ | Level 3 HK\$ | Total HK\$ |
| As at 31.12.2018 | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| – Equity securities | 81,964,264,535 | – | – | 81,964,264,535 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(h) Fair value estimation (Continued)

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As of 31st December 2019 and 2018, 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 2019 and 2018, the Fund did not hold any investments classified in level 3.

For the years ended 31st December 2019 and 2018, 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.

13 Distributions

| | 2019 <i>HK\$</i> | 2018 <i>HK\$</i> |
|--|----------------------|----------------------|
| Interim distribution | | |
| – HK\$0.16 on 3,230,992,500 units paid on 30th May 2018 | – | 516,958,800 |
| – HK\$0.15 on 3,092,992,500 units paid on 31st May 2019 | 463,948,875 | – |
| Final distribution | | |
| – HK\$0.79 on 3,178,992,500 units paid on 30th November 2018 | – | 2,511,404,075 |
| – HK\$0.78 on 3,077,992,500 units paid on 29th November 2019 | 2,400,834,150 | – |
| Total distributions | <u>2,864,783,025</u> | <u>3,028,362,875</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Segment information

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

The Manager is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The 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 2019 and 2018.

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 2019 and 2018, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 88.89% as at 31st December 2019 and 88.73% as at 31st December 2018.

15 Approval of financial statements

The financial statements were approved by the Manager on 23 April 2020.

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31ST DECEMBER 2019

| | Holdings | Fair value HK\$ | % of net assets |
|--|-------------|-----------------------|--------------------|
| Hong Kong | | | |
| Listed investments (99.83%) | | | |
| Equities (99.83%) | | | |
| Commence and Industry (35.97%) | | | |
| AAC Technologies Holdings Ltd. | 6,355,885 | 432,200,180 | 0.48 |
| China Mengniu Dairy Co. Ltd. | 26,459,292 | 833,467,698 | 0.93 |
| China Mobile Ltd. | 58,979,170 | 3,863,135,635 | 4.31 |
| China Petroleum & Chemical Corporation | 232,408,260 | 1,089,994,739 | 1.22 |
| China Shenhua Energy Co. Ltd. | 32,703,602 | 532,414,641 | 0.59 |
| China Unicom (Hong Kong) Ltd. | 58,887,293 | 432,232,731 | 0.48 |
| CITIC Ltd. | 69,754,322 | 726,840,035 | 0.81 |
| CK Hutchison Holdings Ltd. | 25,907,429 | 1,924,921,975 | 2.15 |
| CNOOC Ltd. | 171,410,833 | 2,221,484,396 | 2.48 |
| CSPC Pharmaceutical Group Ltd. | 45,007,597 | 836,241,152 | 0.93 |
| Galaxy Entertainment Group Ltd. | 20,778,285 | 1,192,673,559 | 1.33 |
| Geely Automobile Holdings Ltd. | 52,446,272 | 799,281,185 | 0.89 |
| Hengan International Group Co. Ltd. | 6,869,374 | 381,250,257 | 0.42 |
| MTR Corporation Ltd. | 14,786,134 | 680,901,471 | 0.76 |
| PetroChina Co. Ltd. | 203,029,631 | 793,845,857 | 0.88 |
| Sands China Ltd. | 27,291,290 | 1,136,682,228 | 1.27 |
| Shenzhou International Group Holdings Ltd. | 7,929,646 | 903,186,679 | 1.01 |
| Sino Biopharmaceutical Ltd. | 66,625,618 | 726,219,236 | 0.81 |
| Sunny Optical Tech Co. Ltd. | 6,860,700 | 925,508,430 | 1.03 |
| Swire Pacific Ltd. | 4,790,972 | 346,866,373 | 0.39 |
| Techtronic Industries Co. Ltd. | 14,060,558 | 893,548,461 | 1.00 |
| Tencent Holdings Ltd. | 25,316,938 | 9,509,041,913 | 10.60 |
| Want Want China Holding Ltd. | 53,901,021 | 392,399,433 | 0.44 |
| WH Group Co. Ltd. | 84,747,472 | 682,217,150 | 0.76 |
| | | <u>32,256,555,414</u> | <u>35.97</u> |

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31ST DECEMBER 2019

| | Holdings | Fair value HK\$ | % of net assets |
|--|---------------|-----------------------|--------------------|
| Finance (48.25%) | | | |
| AIA Group Ltd. | 106,054,760 | 8,675,279,368 | 9.68 |
| Bank of China Ltd. | 762,593,458 | 2,539,436,215 | 2.83 |
| Bank of Communications Co Ltd. | 84,228,224 | 466,624,361 | 0.52 |
| BOC Hong Kong (Holdings) Ltd. | 35,608,800 | 963,218,040 | 1.07 |
| China Construction Bank Corporation | 1,038,993,698 | 6,992,427,588 | 7.80 |
| China Life Insurance Co. Ltd. | 71,398,869 | 1,545,785,514 | 1.72 |
| Hang Seng Bank Ltd. | 7,358,897 | 1,184,782,417 | 1.32 |
| Hong Kong Exchanges and Clearing Ltd. | 11,502,854 | 2,910,222,062 | 3.25 |
| HSBC Holdings Plc | 144,588,770 | 8,798,226,654 | 9.81 |
| Industrial and Commercial Bank of China Ltd. | 708,390,785 | 4,250,344,710 | 4.74 |
| Ping An Insurance (Group) Co. of China Ltd. | 53,638,141 | 4,940,072,786 | 5.51 |
| | | <u>43,266,419,715</u> | <u>48.25</u> |
| Properties (10.97%) | | | |
| China Overseas Land & Investment Ltd. | 36,899,454 | 1,119,898,429 | 1.25 |
| China Resources Land Ltd. | 26,677,641 | 1,035,092,471 | 1.15 |
| CK Asset Holdings Ltd. | 24,878,522 | 1,399,416,862 | 1.56 |
| Country Garden Holdings Co. Ltd. | 72,912,361 | 909,946,265 | 1.01 |
| Hang Lung Properties Ltd. | 19,476,168 | 333,042,473 | 0.37 |
| Henderson Land Development Co. Ltd. | 13,976,420 | 534,598,065 | 0.60 |
| Link Real Estate Investment Trust | 20,120,846 | 1,659,969,795 | 1.85 |
| New World Development Co. Ltd. | 58,993,819 | 630,053,987 | 0.70 |
| Sino Land Co. Ltd. | 29,769,716 | 336,993,185 | 0.38 |
| Sun Hung Kai Properties Ltd. | 11,120,424 | 1,326,666,583 | 1.48 |
| Wharf Real Estate Investment Co. Ltd | 11,687,167 | 555,724,791 | 0.62 |
| | | <u>9,841,402,906</u> | <u>10.97</u> |
| Utilities (4.64%) | | | |
| CK Infrastructure Holdings Ltd. | 7,646,072 | 423,974,692 | 0.47 |
| CLP Holdings Ltd. | 18,181,823 | 1,489,091,304 | 1.66 |
| Hong Kong and China Gas Co. Ltd. | 97,440,312 | 1,483,041,549 | 1.66 |
| Power Assets Holdings Ltd. | 13,349,640 | 760,929,480 | 0.85 |
| | | <u>4,157,037,025</u> | <u>4.64</u> |
| Total Listed Equities | | <u>89,521,415,060</u> | <u>99.83</u> |
| Total investments, at cost | | <u>87,186,796,378</u> | |

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

FOR THE YEAR ENDED 31ST DECEMBER 2019

| | (UNAUDITED) | | | 31.12.2019 |
|--|---------------|-------------|---------------|---------------|
| | 31.12.2018 | Additions | Disposals | |
| | | | | Holdings |
| Hong Kong | | | | |
| Listed investments | | | | |
| Equities | | | | |
| Commerce and Industry | | | | |
| AAC Technologies Holdings Ltd. | 7,073,483 | 5,422,102 | (6,139,700) | 6,355,885 |
| China Mengniu Dairy Co. Ltd. | 26,522,853 | 45,917,279 | (45,980,840) | 26,459,292 |
| China Mobile Ltd. | 59,379,252 | 46,923,902 | (47,323,984) | 58,979,170 |
| China Petroleum & Chemical Corporation | 246,145,451 | 193,813,285 | (207,550,476) | 232,408,260 |
| China Shenhua Energy Co. Ltd. | 32,788,397 | 25,891,345 | (25,976,140) | 32,703,602 |
| China Unicom (Hong Kong) Ltd. | 59,176,631 | 46,621,430 | (46,910,768) | 58,887,293 |
| CITIC Ltd. | 56,130,571 | 58,180,854 | (44,557,103) | 69,754,322 |
| CK Hutchison Holdings Ltd. | 26,052,156 | 20,639,205 | (20,783,932) | 25,907,429 |
| CNOOC Ltd. | 172,296,964 | 136,521,306 | (137,407,437) | 171,410,833 |
| CSPC Pharmaceutical Group Ltd. | 45,435,113 | 35,643,351 | (36,070,867) | 45,007,597 |
| Galaxy Entertainment Group Ltd. | 22,914,365 | 17,104,124 | (19,240,204) | 20,778,285 |
| Geely Automobile Holdings Ltd. | 51,967,701 | 42,163,929 | (41,685,358) | 52,446,272 |
| Hengan International Group Co. Ltd. | 6,982,499 | 5,423,606 | (5,536,731) | 6,869,374 |
| MTR Corporation Ltd. | 17,772,418 | 13,376,944 | (16,363,228) | 14,786,134 |
| PetroChina Co. Ltd. | 203,555,680 | 160,738,436 | (161,264,485) | 203,029,631 |
| Sands China Ltd. | 23,386,174 | 22,911,677 | (19,006,561) | 27,291,290 |
| Shenzhou International Group Holdings Ltd. | 7,262,499 | 6,428,100 | (5,760,953) | 7,929,646 |
| Sino Biopharmaceutical Ltd. | 67,170,000 | 52,635,135 | (53,179,517) | 66,625,618 |
| Sunny Optical Tech Co. Ltd. | 6,879,365 | 5,432,084 | (5,450,749) | 6,860,700 |
| Swire Pacific Ltd. | 4,803,240 | 3,793,311 | (3,805,579) | 4,790,972 |
| Techtronic Industries Co. Ltd. | – | 21,248,625 | (7,188,067) | 14,060,558 |
| Tencent Holdings Ltd. | 26,341,862 | 20,875,053 | (21,899,977) | 25,316,938 |
| Want Want China Holding Ltd. | 54,103,925 | 42,657,487 | (42,860,391) | 53,901,021 |
| WH Group Co. Ltd. | 84,950,171 | 67,122,068 | (67,324,767) | 84,747,472 |
| Finance | | | | |
| AIA Group Ltd. | 116,701,777 | 89,164,584 | (99,811,601) | 106,054,760 |
| Bank of China Ltd. | 766,884,520 | 607,160,438 | (611,451,500) | 762,593,458 |
| Bank of Communications Co Ltd. | 84,445,945 | 66,683,684 | (66,901,405) | 84,228,224 |
| BOC Hong Kong (Holdings) Ltd. | 35,700,959 | 28,191,124 | (28,283,283) | 35,608,800 |
| China Construction Bank Corporation | 1,045,530,877 | 826,232,852 | (832,770,031) | 1,038,993,698 |
| China Life Insurance Co. Ltd. | 71,789,626 | 56,931,505 | (57,322,262) | 71,398,869 |
| Hang Seng Bank Ltd. | 7,377,977 | 5,825,758 | (5,844,838) | 7,358,897 |
| Hong Kong Exchanges and Clearing Ltd. | 11,490,621 | 9,283,811 | (9,271,578) | 11,502,854 |
| HSBC Holdings Plc | 127,028,918 | 134,324,338 | (116,764,486) | 144,588,770 |
| Industrial and Commercial Bank of China Ltd. | 712,110,595 | 563,611,159 | (567,330,969) | 708,390,785 |
| Ping An Insurance (Group) Co. of China Ltd. | 53,915,632 | 42,662,511 | (42,940,002) | 53,638,141 |

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 | | |
| 31.12.2017 | 30.13 | 99,223,794,799 |
| 31.12.2018 | 26.04 | 82,171,591,531 |
| 31.12.2019 | 28.39 | 89,670,742,240 |

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 | | |
| 31.12.2010 | 25.08 | 19.28 |
| 31.12.2011 | 24.62 | 16.83 |
| 31.12.2012 | 22.86 | 18.50 |
| 31.12.2013 | 24.23 | 20.34 |
| 31.12.2014 | 26.11 | 21.44 |
| 31.12.2015 | 28.83 | 21.24 |
| 31.12.2016 | 24.80 | 18.50 |
| 31.12.2017 | 30.21 | 22.30 |
| 31.12.2018 | 33.38 | 25.13 |
| 31.12.2019 | 30.48 | 25.25 |

Fund Performance

During the year ended 31st December 2019, the Hang Seng Index increased by 9.07% (2018: decreased by 13.61%), while the net asset value per unit of the Fund increased by 9.02% (2018: decreased by 13.59%).

Ongoing charge

| | |
|----------------------|--------|
| Financial year ended | |
| 31.12.2019 | 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.

ADMINISTRATION AND MANAGEMENT

Directors of the Manager

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

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

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

Manager

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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

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Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants and Registered
PIE Auditor
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Hong Kong