



Tracker Fund of Hong Kong

Stock Code : 2800

Website : www.trahk.com.hk

Annual Report 2010

1st January 2010 to 31st December 2010

STATE STREET
GLOBAL ADVISORS.

Contents

Statement of Responsibilities of the Manager and the Trustee	2
Report of the Trustee to the Unitholders	3
Independent Auditor's Report	4
Statement of Net Assets	6
Statement of Comprehensive Income	7
Statement of Changes in Net Assets Attributable to Holders of Redeemable Units	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Investment Portfolio (Unaudited)	25
Statement of Movements in Investment Portfolio (Unaudited)	27
Performance Record (Unaudited)	29
Administration and Management	30

STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

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

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

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

Trustee's responsibilities

The Trustee of the Fund is required to:

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

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

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed, dated 23rd October 1999 for the year ended 31st December 2010.

State Street Bank and Trust Company

19 April 2011

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the financial statements of the Fund set out on pages 6 to 24, which comprise the Statement of Net Assets as at 31st December 2010, and the Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December 2010, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on Other Legal and Regulatory Disclosure Requirements

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 April 2011

Tracker Fund of Hong Kong

Annual Report 2010

STATEMENT OF NET ASSETS

As at 31st December 2010

	Note	2010 HK\$	2009 HK\$
Assets			
Current assets			
Investments	12(b)	53,152,791,728	39,025,886,042
Dividends receivable		57,356,296	48,874,940
Amounts receivable on issue of units		262,557	–
Other accounts receivable and prepayments		44,998	45,000
Bank balances	7(d)	89,961,441	56,176,081
		<u>53,300,417,020</u>	<u>39,130,982,063</u>
Total assets			
Liabilities			
Current liabilities			
Management fee payable	7(b)	5,139,723	4,070,841
Trustee fee payable	7(c)	5,139,723	4,070,841
Index license fee payable	8(c)	1,949,588	1,487,795
Registrar fee payable	8(a)	145,041	149,407
Other accounts payable and accruals		728,284	993,418
		<u>13,102,359</u>	<u>10,772,302</u>
Liabilities (excluding net assets attributable to holders of redeemable units)			
		<u>13,102,359</u>	<u>10,772,302</u>
Net assets attributable to holders of redeemable units (at bid market prices)			
		53,287,314,661	39,120,209,761
Adjustments from bid market prices to last traded market prices	5	89,888,106	6,801,924
		<u>89,888,106</u>	<u>6,801,924</u>
Net assets attributable to holders of redeemable units (at last traded market prices)			
	5	<u>53,377,202,767</u>	<u>39,127,011,685</u>

State Street Bank and Trust Company

State Street Global Advisors Asia Limited

The notes on pages 10 to 24 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2010

	Note	2010 HK\$	2009 HK\$
Income			
Dividends		1,251,571,921	1,048,186,014
Transaction fee	4(a)	825,000	801,718
Other income	4(b)	4,360,760	4,492,894
Net gain on investments	3	2,593,575,204	14,787,084,676
Total net income		<u>3,850,332,885</u>	<u>15,840,565,302</u>
Expenses			
Management fee	7(b)	19,055,661	15,898,863
Trustee fee	7(c)	19,055,661	15,898,863
Index license fee	8(c)	6,585,747	5,339,011
Transaction costs on investments		9,288,932	13,269,813
Registrar fee	8(a)	1,649,200	1,664,800
Publication and printing expenses		1,248,164	1,305,668
Conversion agent fee	8(b)	888,006	502,687
Audit fee		250,000	378,001
Legal and other professional fees		480,217	67,998
Bank charges		265,954	337,100
Other operating expenses		691,862	1,104,158
Total operating expenses		<u>59,459,404</u>	<u>55,766,962</u>
Operating profit		<u>3,790,873,481</u>	<u>15,784,798,340</u>
Finance costs			
Distributions to holders of redeemable units	13	(1,191,075,650)	(1,009,475,950)
Profit after distributions and before tax		2,599,797,831	14,775,322,390
Withholding tax	6	(61,735,522)	(49,933,572)
Profit after distributions and tax		2,538,062,309	14,725,388,818
Adjustments from bid market prices to last traded market prices	5	83,086,182	(26,312,374)
Increase in net assets attributable to holders of redeemable units from operations		<u>2,621,148,491</u>	<u>14,699,076,444</u>

The notes on pages 10 to 24 form part of these financial statements.

Tracker Fund of Hong Kong

Annual Report 2010

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

For the year ended 31st December 2010

	Note	2010 HK\$	2009 HK\$
Net assets attributable to holders of redeemable units at 1st January (at last traded market prices)		<u>39,127,011,685</u>	<u>33,181,932,365</u>
Issue of units			
– In-kind	9	16,871,437,800	3,452,646,365
– Cash component	9	<u>115,637,079</u>	<u>31,555,456</u>
		<u>16,987,074,879</u>	<u>3,484,201,821</u>
Redemption of units			
– In-kind	9	(5,314,847,703)	(12,108,706,527)
– Cash component	9	<u>(43,184,585)</u>	<u>(129,492,418)</u>
		<u>(5,358,032,288)</u>	<u>(12,238,198,945)</u>
Net issue/(redemption) of units		<u>11,629,042,591</u>	<u>(8,753,997,124)</u>
Increase in net assets attributable to holders of redeemable units from operations		<u>2,621,148,491</u>	<u>14,699,076,444</u>
Net assets attributable to holders of redeemable units at 31st December (at last traded market prices)		<u><u>53,377,202,767</u></u>	<u><u>39,127,011,685</u></u>

The notes on pages 10 to 24 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st December 2010

	Note	2010 HK\$	2009 HK\$
Cash flows from operating activities			
Proceeds from sale of investments		4,379,401,545	6,177,860,115
Payments for purchase of investments		(4,356,141,930)	(6,177,451,229)
Dividends received		1,181,355,043	1,036,567,020
Transaction fee received		825,000	1,065,000
Management fee paid		(17,986,779)	(15,518,313)
Trustee fee paid		(17,986,779)	(15,518,313)
Index license fee paid		(6,123,954)	(5,047,171)
Registrar fee paid		(1,653,566)	(1,838,146)
Publication and printing expenses paid		(1,401,067)	(1,511,039)
Transaction costs on investments paid		(9,288,932)	(13,269,813)
Conversion agent fee paid		(852,000)	(1,204,000)
Bank charges paid		(266,944)	(383,151)
Legal and other professional fees paid		(480,217)	(67,998)
Other operating expenses paid		(1,089,107)	(1,847,557)
Net cash generated from operating activities		<u>1,148,310,313</u>	<u>981,835,405</u>
Cash flows from financing activities			
Cash received on issue of units	9	115,374,522	31,555,456
Cash paid on redemption of units	9	(43,184,585)	(129,492,418)
Interim distribution paid	13	(224,741,944)	(330,063,388)
Final distribution paid	13	(961,972,946)	(674,919,668)
Net cash used in financing activities		<u>(1,114,524,953)</u>	<u>(1,102,920,018)</u>
Net increase/(decrease) in cash and cash equivalents		33,785,360	(121,084,613)
Cash and cash equivalents at the beginning of the year		<u>56,176,081</u>	<u>177,260,694</u>
Cash and cash equivalents at the end of the year		<u><u>89,961,441</u></u>	<u><u>56,176,081</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances	7(d)	<u><u>89,961,441</u></u>	<u><u>56,176,081</u></u>

Please refer to notes 4(b) and 9 for details of major non-cash transactions. The notes on pages 10 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

HKFRS 9, "Financial instruments part 1: Classification and measurement". HKFRS 9 was issued in November 2009 and replaces those parts of HKAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**2 Summary of significant accounting policies (Continued)****(a) Basis of preparation (Continued)**

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

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity instruments, an irrevocable election can be made at initial recognition, to recognise unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit and loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit and loss, as long as they represent a return on investment.

The Fund will apply the standard from 1st January 2013. However, it is not expected to have a significant impact on the Fund's financial statements.

(b) Investments

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

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

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

(c) Income

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

Other income is recognized on an accruals basis.

(d) Expenses

Expenses are accounted for on an accruals basis.

(e) Distributions payable to holders of redeemable units

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

(f) Cash component

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(g) Cash and cash equivalents

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

(h) Translation of foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

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

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

(i) Redeemable units

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

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

(j) Segmental reporting

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Net gain on investments

	2010 HK\$	2009 HK\$
Change in unrealized gain/loss on investments	1,754,860,600	21,247,455,910
Realized gain/(loss) on sale of investments	838,714,604	(6,460,371,234)
	<u>2,593,575,204</u>	<u>14,787,084,676</u>

4 Income

(a) Transaction fee

Applications to create or redeem units are only made through brokers or dealers (acting either as principal or on behalf of clients) (the "Participating Dealers") which have executed a participation agreement with the Manager, the Trustee, HK Conversion Agency Services Limited 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 application per day per Participating Dealer.

(b) Other income

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

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

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

In accordance with the provisions of the Fund's Trust Deed, listed investments are stated at the last traded price on the valuation day for the purpose of determining net asset value per unit for creations and redemptions and for various fee calculations. However, the accounting policy of the Fund for the purpose of compliance with HKAS 39 and for reporting purpose is to value its investments at the relevant bid market prices on the year end date. The difference between the valuation of these investments as stated in the financial statements and the valuation methodology indicated in the Fund's Trust Deed, results in a decrease in value of investments by HK\$89,888,106 (2009: HK\$6,801,924). The amount of the adjustment recognized in the Statement of Comprehensive Income is HK\$83,086,182 (2009: HK\$(26,312,374)).

Tracker Fund of Hong Kong

Annual Report 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Number of units	
	2010	2009
Units in issue at the beginning of the year	1,776,992,500	2,280,992,500
Creation of units	764,000,000	238,000,000
Redemption of units	(239,000,000)	(742,000,000)
	<u>2,301,992,500</u>	<u>1,776,992,500</u>
	HK\$	HK\$
Net assets attributable to holders of redeemable units	<u>53,377,202,767</u>	<u>39,127,011,685</u>
Net assets attributable to holders of redeemable units (per unit)	<u>23.19</u>	<u>22.02</u>
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	<u>23,187,392</u>	<u>22,018,670</u>

6 Taxation

No provision for Hong Kong profits tax has been made as the interest, dividend income and realized gains on disposal of investments of the Fund are excluded from the charge to profits tax under Sections 14, 26 or 26A of the Hong Kong Inland Revenue Ordinance.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)**7 Transactions with the related parties/Manager and its Connected Persons**

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

(a) Manager's holding in the Fund

The directors and officers of the Manager may transact in the units of the Fund as principal provided that prior written notice is provided to the Trustee. As of 31st December 2010, the directors and officers of the Manager together held 23,500 units in the Fund (2009: 28,960 units).

(b) Management fee

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

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

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

(c) Trustee fee

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

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

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

(d) Bank balances

Bank balances are maintained with the Trustee. Bank balances held with the Trustee as at 31st December 2010 was HK\$89,961,441 (2009: HK\$56,176,081). No interest was earned on these bank balances during the years ended 31st December 2010 and 2009 as they were placed in a non-interest bearing current account.

Tracker Fund of Hong Kong

Annual Report 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 Other fees

(a) Registrar fee

The fee payable to the Registrar, Computershare Hong Kong, 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	10,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	2,200
For every additional 1,000 Unitholders up to 200,000 Unitholders	1,800
For every additional 1,000 Unitholders up to 300,000 Unitholders	1,500
For every additional 1,000 Unitholders above 300,000 Unitholders	1,200

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

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

(b) Conversion agent fee

The Conversion Agent, HK Conversion Agency Services Limited, received a monthly retainer fee of HK\$16,000 plus a transaction fee of HK\$12,000 for each creation or redemption application.

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

(c) Index license fee

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

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

9 Major non-cash transactions

In accordance with the Fund's Trust Deed, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash. For each Creation Unit (of 1,000,000 units), the Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the year, the Fund issued 764,000,000 units (2009: 238,000,000), totaling HK\$16,987,074,879 (2009: HK\$3,484,201,821) in exchange for Index Baskets consisting of investments valued at HK\$16,871,437,800 (2009: HK\$3,452,646,365) by the Manager with remaining balances in cash of HK\$115,637,079 (2009: HK\$31,555,456).

In accordance with the Fund's Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the year, the Fund redeemed 239,000,000 units (2009: 742,000,000 units), totaling HK\$5,358,032,288 (2009: HK\$12,238,198,945) in exchange for Index Baskets consisting of investments valued at HK\$5,314,847,703 (2009: HK\$12,108,706,527) by the Manager with remaining balances in cash of HK\$43,184,585 (2009: HK\$129,492,418).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Soft dollar practices

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

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

11 Investment limitations and prohibitions under the SFC Code

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

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

	Respective weighting in the Index (%)		% of net asset value	
	2010	2009	2010	2009
HSBC Holdings plc	15.1	14.6	15.0	14.6

During the year, the Hang Seng Index increased by 5.32% (2009: 52.02%), while the net asset value per unit of the Fund increased by 5.31% (2009: 51.34%).

12 Financial risk management

(a) Strategy in using financial instruments

Investment objectives

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(a) Strategy in using financial instruments (Continued)

Investment policies

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

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

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

(b) Market price risk

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

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

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

	At 31st December			
	2010		2009	
	Fair value HK\$	% of net assets	Fair value HK\$	% of net assets
Held for trading:				
Listed investments				
Equities				
– Hong Kong	<u>53,152,791,728</u>	<u>99.58</u>	<u>39,025,886,042</u>	<u>99.74</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(b) Market price risk (Continued)

Net market exposures

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

	2010 % of net assets	2009 % of net assets
By industry		
– Commerce and industry	38.66	35.15
– Finance	45.89	50.40
– Properties	10.27	9.64
– Utilities	4.76	4.55
	<u>99.58</u>	<u>99.74</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.

	2010		2009	
	Change in index %	Impact HK\$	Change in index %	Impact HK\$
Hong Kong				
– Hang Seng Index	<u>5.32%</u>	<u>2,827,728,520</u>	<u>52.02%</u>	<u>20,301,265,919</u>

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

(c) Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(d) Credit risk

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

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

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

At 31st December 2010, bank balances of HK\$89,961,441 (2009: HK\$56,176,081) were placed with State Street Bank and Trust Company, the Fund's Trustee and Custodian. The credit rating of the Trustee and Custodian issued by Standard and Poor's was as follows:

	2010	2009
State Street Bank and Trust Company ¹	A+	AA-

Accordingly, the Fund has no significant credit risk.

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

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

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

(e) Currency risk

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

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

(f) Liquidity risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk (Continued)

Maturity analysis

	Less than 1 month	1-3 months	Total
At 31st December 2010			
Management fee payable	–	5,139,723	5,139,723
Trustee fee payable	–	5,139,723	5,139,723
Index license fee payable	1,949,588	–	1,949,588
Registrar fee payable	145,041	–	145,041
Other accounts payable and accruals	49,300	678,984	728,284
Net assets attributable to holders of redeemable units (at last traded market prices)	<u>53,377,202,767</u>	<u>–</u>	<u>53,377,202,767</u>
Total financial liabilities	<u>53,379,346,696</u>	<u>10,958,430</u>	<u>53,390,305,126</u>
At 31st December 2009			
Management fee payable	–	4,070,841	4,070,841
Trustee fee payable	–	4,070,841	4,070,841
Index license fee payable	1,487,795	–	1,487,795
Registrar fee payable	–	149,407	149,407
Other accounts payable and accruals	103,880	889,538	993,418
Net assets attributable to holders of redeemable units (at last traded market prices)	<u>39,127,011,685</u>	<u>–</u>	<u>39,127,011,685</u>
Total financial liabilities	<u>39,128,603,360</u>	<u>9,180,627</u>	<u>39,137,783,987</u>

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

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

	Less than 7 days	7 days to less than 1 month	1-12 months	Total
2010	<u>53,243,031,008</u>	<u>57,372,264</u>	<u>13,748</u>	<u>53,300,417,020</u>
2009	<u>39,082,062,123</u>	<u>48,906,214</u>	<u>13,726</u>	<u>39,130,982,063</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 holders of redeemable units; and
- Suspend the creation and redemption of units under certain circumstance stipulated in the prospectus.

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

(h) Fair value estimation

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

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

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

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

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

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 categorised 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 judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement 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 tables analyse within the fair value hierarchy the Fund's investments (by class) measured at fair value at 31st December 2010 and 2009:

	Level 1	Level 2	Level 3	Total balance
At 31st December 2010				
Assets				
Financial assets held for trading				
– Equity securities	53,152,791,728	–	–	53,152,791,728
	<u>53,152,791,728</u>	<u>–</u>	<u>–</u>	<u>53,152,791,728</u>
At 31st December 2009				
Assets				
Financial assets held for trading				
– Equity securities	39,025,886,042	–	–	39,025,886,042
	<u>39,025,886,042</u>	<u>–</u>	<u>–</u>	<u>39,025,886,042</u>

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 2010 and 2009, 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 2010 and 2009, the Fund did not hold any investments classified in level 3.

Tracker Fund of Hong Kong

Annual Report 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Distributions

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Interim distribution		
– HK\$0.16 on 2,076,992,500 units paid on 22nd May 2009	–	332,318,800
– HK\$0.12 on 1,890,992,500 units paid on 28th May 2010	226,919,100	–
Final distribution		
– HK\$0.38 on 1,781,992,500 units paid on 27th November 2009	–	677,157,150
– HK\$0.46 on 2,095,992,500 units paid on 3rd December 2010	964,156,550	–
Total distributions	<u>1,191,075,650</u>	<u>1,009,475,950</u>

14 Segment information

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

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

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

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

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

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

The Fund has no assets classified as non-current assets. The Fund has a diversified portfolio of investments and no single investment accounts for more than 10% of the Fund's income. 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 2010 and 2009, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 80.14% as at 31st December 2010 and 73.80% as at 31st December 2009.

15 Approval of financial statements

The financial statements were approved by the Trustee and the Manager on 19 April 2011.

INVESTMENT PORTFOLIO (UNAUDITED)

As at 31st December 2010

	Holdings	Fair value HK\$	% of net assets
Hong Kong			
Listed investments (99.58%)			
Equities (99.58%)			
Properties (10.27%)			
Cheung Kong (Holdings) Ltd.	12,281,887	1,472,598,251	2.76
China Overseas Land & Investment Ltd.	36,099,568	514,779,840	0.96
China Resources Land Ltd.	17,804,349	251,397,408	0.47
Hang Lung Properties Ltd.	18,412,944	669,310,514	1.25
Henderson Land Development Co. Ltd.	9,568,302	507,120,006	0.95
Sino Land Co. Ltd.	21,648,359	314,767,140	0.59
Sun Hung Kai Properties Ltd.	13,624,833	1,750,791,041	3.29
		5,480,764,200	10.27
		-----	-----
Finance (45.89%)			
Bank of China Ltd.	554,145,624	2,260,914,146	4.24
BOC Hong Kong (Holdings) Ltd.	32,693,349	863,104,414	1.62
Bank of Communications Co. Ltd.	58,586,601	458,147,220	0.86
Bank of East Asia Ltd.	14,426,075	470,290,045	0.88
China Construction Bank Corporation	531,060,640	3,696,182,054	6.92
China Life Insurance Co. Ltd	65,745,873	2,080,856,880	3.90
Hang Seng Bank Ltd.	6,759,502	863,864,356	1.62
Hong Kong Exchanges and Clearing Ltd.	9,047,618	1,595,095,053	2.99
HSBC Holdings plc	100,651,300	8,016,876,045	15.02
Industrial and Commercial Bank of China Ltd.	498,472,631	2,876,187,081	5.39
Ping An Insurance (Group) Co. of China Ltd.	15,153,535	1,312,296,131	2.45
		24,493,813,425	45.89
		-----	-----
Utilities (4.76%)			
China Resources Power Holdings Co. Ltd.	16,639,413	234,615,723	0.44
CLP Holdings Ltd.	15,949,011	1,005,585,144	1.88
Hong Kong and China Gas Co. Ltd.	38,073,766	700,557,294	1.31
Hong Kong Electric Holdings Ltd.	12,254,450	601,080,773	1.13
		2,541,838,934	4.76
		-----	-----

Tracker Fund of Hong Kong

Annual Report 2010

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

As at 31st December 2010

	Holdings	Fair value HK\$	% of net assets
Commerce and Industry (38.66%)			
Aluminum Corporation of China Ltd.	34,847,658	247,069,895	0.46
Belle International Holdings Ltd.	40,810,023	537,059,903	1.01
Cathay Pacific Airways Ltd.	10,426,375	223,645,744	0.42
China Coal Energy Co. Ltd.	36,291,812	439,130,925	0.82
China Merchants Holdings (International) Co. Ltd.	9,699,702	294,385,956	0.55
China Mobile Ltd.	53,181,803	4,097,657,921	7.68
China Petroleum & Chemical Corporation	148,268,538	1,098,669,867	2.06
China Resources Enterprise, Ltd.	10,595,014	334,802,442	0.63
China Shenhua Energy Co. Ltd.	30,033,553	977,592,150	1.83
China Unicom (Hong Kong) Ltd.	41,638,207	463,016,862	0.87
CITIC Pacific Ltd.	11,283,163	225,663,260	0.42
CNOOC Ltd.	157,875,502	2,898,594,217	5.43
COSCO Pacific Ltd.	14,378,775	194,688,613	0.36
Esprit Holdings Ltd.	10,815,859	400,727,576	0.75
Foxconn International Holdings Ltd.	18,938,395	102,646,101	0.19
Hutchison Whampoa Ltd.	18,837,323	1,508,869,572	2.83
Li & Fung Ltd.	21,975,302	995,481,181	1.86
MTR Corporation Ltd.	12,741,984	360,598,147	0.68
New World Development Co. Ltd.	20,772,380	302,861,300	0.57
PetroChina Co. Ltd.	186,423,411	1,882,876,451	3.53
Swire Pacific Ltd. 'A'	6,397,216	817,564,205	1.53
Tencent Holdings Ltd.	8,879,985	1,505,157,457	2.82
Wharf (Holdings) Ltd.	12,167,482	727,615,424	1.36
		<u>20,636,375,169</u>	<u>38.66</u>
Total listed investments		<u>53,152,791,728</u>	<u>99.58</u>
Total investments, at cost		<u>41,327,195,634</u>	

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)*For the year ended 31st December 2010*

	(UNAUDITED) Holdings			31.12.2010
	31.12.2009	Additions	Disposals	
Hong Kong Listed investments				
Equities				
Properties				
Cheung Kong (Holdings) Ltd.	9,554,722	4,697,820	(1,970,655)	12,281,887
China Overseas Land & Investment Ltd.	28,170,668	13,716,113	(5,787,213)	36,099,568
China Resources Land Ltd.	–	20,484,777	(2,680,428)	17,804,349
Hang Lung Properties Ltd.	14,298,190	6,975,459	(2,860,705)	18,412,944
Henderson Land Development Co. Ltd.	7,401,483	3,614,225	(1,447,406)	9,568,302
Henderson Land Development Co. Ltd. Warrants	–	1,629,413	(1,629,413)	–
Sino Land Co. Ltd.	16,635,421	8,422,549	(3,409,611)	21,648,359
Sun Hung Kai Properties Ltd.	10,582,062	5,201,360	(2,158,589)	13,624,833
Finance				
Bank of China Ltd.	523,545,534	240,242,885	(209,642,795)	554,145,624
Bank of China Ltd. Right	–	46,624,155	(46,624,155)	–
BOC Hong Kong (Holdings) Ltd.	25,521,162	12,416,372	(5,244,185)	32,693,349
Bank of Communications Co. Ltd.	95,126,989	33,171,321	(69,711,709)	58,586,601
Bank of Communications Co. Ltd. Right	–	6,852,442	(6,852,442)	–
Bank of East Asia Ltd.	12,705,213	6,365,660	(4,644,798)	14,426,075
China Construction Bank Corporation	464,230,582	214,278,424	(147,448,366)	531,060,640
China Construction Bank Corporation Right	–	32,590,470	(32,590,470)	–
China Life Insurance Co. Ltd	51,241,028	25,123,635	(10,618,790)	65,745,873
Hang Seng Bank Ltd.	5,276,599	2,583,127	(1,100,224)	6,759,502
Hong Kong Exchanges and Clearing Ltd.	7,397,770	3,116,893	(1,467,045)	9,047,618
HSBC Holdings plc	63,925,369	48,465,806	(11,739,875)	100,651,300
Industrial and Commercial Bank of China Ltd.	429,003,475	191,425,520	(121,956,364)	498,472,631
Industrial and Commercial Bank of China Ltd. Right	–	21,445,645	(21,445,645)	–
Ping An Insurance (Group) Co. of China Ltd.	9,704,929	7,365,811	(1,917,205)	15,153,535
Utilities				
China Resources Power Holdings Co. Ltd.	12,834,915	6,396,327	(2,591,829)	16,639,413
CLP Holdings Ltd.	12,450,396	6,094,803	(2,596,188)	15,949,011
Hong Kong and China Gas Co. Ltd.	26,967,325	16,943,152	(5,836,711)	38,073,766
HongKong Electric Holdings Ltd.	9,566,545	4,654,716	(1,966,811)	12,254,450

Tracker Fund of Hong Kong

Annual Report 2010

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

(Continued)

For the year ended 31st December 2010

	(UNAUDITED)			31.12.2010
	31.12.2009	Additions	Disposals	
Holdings				
Commerce and Industry				
Aluminum Corporation of China Ltd.	27,204,717	13,234,266	(5,591,325)	34,847,658
Belle International Holdings Ltd.	–	41,610,143	(800,120)	40,810,023
Cathay Pacific Airways Ltd.	8,138,949	3,960,693	(1,673,267)	10,426,375
China Coal Energy Co. Ltd.	–	37,452,002	(1,160,190)	36,291,812
China Merchants Holdings (International) Co. Ltd.	7,540,878	3,686,206	(1,527,382)	9,699,702
China Mobile Ltd.	41,445,622	20,329,467	(8,593,286)	53,181,803
China Petroleum & Chemical Corporation	115,740,517	56,662,823	(24,134,802)	148,268,538
China Resources Enterprise, Ltd.	8,243,709	4,042,014	(1,690,709)	10,595,014
China Shenhua Energy Co. Ltd.	23,376,302	11,474,260	(4,817,009)	30,033,553
China Unicom (Hong Kong) Ltd.	48,685,265	16,379,368	(23,426,426)	41,638,207
CITIC Pacific Ltd.	8,760,524	4,332,407	(1,809,768)	11,283,163
CNOOC Ltd.	123,015,976	60,327,046	(25,467,520)	157,875,502
COSCO Pacific Ltd.	7,800,764	8,205,527	(1,627,516)	14,378,775
Esprit Holdings Ltd.	8,367,298	3,949,362	(1,500,801)	10,815,859
Foxconn International Holdings Ltd.	14,609,481	7,318,335	(2,989,421)	18,938,395
Hutchison Whampoa Ltd.	14,705,613	7,199,511	(3,067,801)	18,837,323
Li & Fung Ltd.	18,183,054	8,965,361	(5,173,113)	21,975,302
MTR Corporation Ltd.	9,849,183	4,847,169	(1,954,368)	12,741,984
New World Development Co. Ltd.	17,341,229	8,389,779	(4,958,628)	20,772,380
PetroChina Co. Ltd.	145,260,380	71,234,536	(30,071,505)	186,423,411
Swire Pacific Ltd. 'A'	6,249,397	2,372,567	(2,224,748)	6,397,216
Tencent Holdings Ltd.	6,883,705	3,395,605	(1,399,325)	8,879,985
Wharf (Holdings) Ltd.	9,497,831	4,620,758	(1,951,107)	12,167,482

PERFORMANCE RECORD (UNAUDITED)

Net asset values

	Net asset value per unit <i>HK\$</i>	Net asset value of the Fund <i>HK\$</i>
At end of financial year dated		
31st December 2007	27.98	32,517,482,048
31st December 2008	14.55	33,181,932,365
31st December 2009	22.02	39,127,011,685
31st December 2010	23.19	53,377,202,767

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

Financial period ended	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
31st December 2001	16.24	9.12
31st December 2002	12.07	9.06
31st December 2003	12.70	8.62
31st December 2004	14.39	11.08
31st December 2005	15.80	13.50
31st December 2006	20.16	15.07
31st December 2007	32.17	18.82
31st December 2008	27.78	11.51
31st December 2009	23.07	11.49
31st December 2010	25.08	19.28

Fund Performance

During the year, the Hang Seng Index increased by 5.32% (2009: 52.02%), while the net asset value per unit of the Fund increased by 5.31% (2009: 51.34%).

Tracker Fund of Hong Kong

Annual Report 2010

ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Bernard Patrick Reilly
Mr. Eric Kam Piu Choi
(resigned on 15th April 2010)
Ms. Katrina Lee Sly
(resigned on 15th April 2010)
Ms. Kelly Quinn Driscoll
Ms. Ting Li (appointed on 15th April 2010)

Members of the Supervisory Committee

Mr. Fong Hup
Mr. Lawrence Fok
Mr. Marvin Cheung
Mr. Stephen Law
Prof. Tsang Shu-ki
(resigned on 23rd November 2010)
Prof. Chan Yuk-shee
(appointed on 23rd November 2010)

Trustee and custodian

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

Registrar

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

Manager

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

Promoter

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

Conversion agent

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

Auditor

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong