

財務報表附註

1. 背景

恒生新華富時中國25指數上市基金(「基金」)由香港證券及期貨事務監察委員會根據香港證券及期貨條例第104(1)條認可，並由香港《單位信託及互惠基金守則》管轄。

基金是根據香港法例並按2005年6月1日訂立並經不時修訂的《信託契約》成立。並於2005年6月1日根據香港法例註冊成立。

2. 主要會計政策

(a) 遵例聲明

本基金的財務報表是按照香港會計師公會頒佈的所有適用的《香港財務報告準則》(包含所有適用的個別《香港財務報告準則》、《香港會計準則》及詮釋)、香港公認會計原則、經修訂的《信託契約》的有關披露條款及香港證券及期貨事務監察委員會發出的香港《單位信託及互惠基金守則》的相關披露規定編製。本財務報表亦符合香港聯合交易所有限公司上市條例有關財務披露之規定。以下是本基金採用的主要會計政策概要。

香港會計師公會頒佈了若干新訂及經修訂的《香港財務報告準則》，此等準則於基金本會計年度首度生效或可於本會計年度提早採用。此等新發展的首度生效部份與基金財務報表內本會計年度及去年會計年度的會計政策有若干關係。附註3就這些會計政策的轉變提供了資訊。

(b) 財務報表的編製基準

本財務報表中所呈列的貨幣為港元(即本基金的報價貨幣)，而所有數項則以個位計算。

除投資按公平價值入賬(見下文所載的會計政策)外，本財務報表是以歷史成本作為編製基準。

在按照《香港財務報告準則》編製財務報表時，基金經理及受託人就財務政策的採用需作出判斷、估計及假設。因此，本財務報表中所列之資產、負債、收入及開支數額或會被受影響。該等估計與相關假設乃基於過往經驗和其它被認為合理之各種因素作出，從而作為計算某些難以確認的資產及負債之賬面價值的基準。實際結果或與該等估計不盡相同。

該等估計及相關假設將會被不時檢討。因應該等估計需作出的修訂將在該等估計之修訂期間(若該等修訂僅影響該期間)或者修訂期間及未來期間(若該等修訂影響現時及未來期間)予以確認。

基金採用一致的會計政策並與以前年度所採用的相符。

(c) 收入與費用

利息收入及支出以實際利率法計算。收益分派收入在投資項目的價格除息時確認。所有其他的收入及支出均以權責發生制的形式入帳。

(d) 外幣換算

年度內的外幣交易按交易日的匯率換算。以外幣為單位的貨幣資產及負債則按年終日的匯率換算至港元。匯兌盈虧均撥入收支表確認。

(e) 金融工具

(i) 分類

所有投資包括於新華富時中國25指數成份股的投資，主要是為了可於短期內出售而購置，因而被歸類為持作交易用途的財務資產。基金將其所有投資定名為按公平價值列入收支表的財務資產或財務負債。被歸類為應收款項的財務資產包括了現金及現金等價物。並非按公平價值列入收支表內的財務負債包括了應付收益分派及其他應付款項。

(ii) 確認

基金在成為訂立有關工具合約條文的人士時，財務資產和財務負債將被予以確認。

財務資產及財務負債在一般情況下購入或出售時將按交易日會計法以公平價值列入收支表予以確認。該等財務資產或財務負債之公平價值變動所產生的盈餘和虧損由該日起計算。

如合約其中一方履行合約責任或該合約為衍生工具合約，而根據《香港會計準則》第39號該合約並不符合豁免確認之要求，財務負債則需予以確認。

(iii) 計量

金融工具的首次計量是以公平價值(即交易價格)計算。財務資產及財務負債的交易成本則列為費用撥入收支表立即註銷。

首次確認後，持作交易用途的財務資產以公平價值計算。

(iv) 公平價值計量的準則

金融工具的公平價值一般是按結算日之市場價值計算。此市場價值並沒有扣除將來出售該等工具時所涉及的成本之預算。財務資產按市場買入價釐定價格，而財務負債則按市場賣出價釐定價格。

投資收益和虧損將列於收支表內。由公平價值的變動所帶來的已變現之投資的收益和虧損及未變現之投資的收益和虧損則載列於附註7。

2. 主要會計政策(續)

(e) 金融工具(續)

(v) 取消確認

若可按財務資產的合約收取現金的權利已過期或該財務資產連同大部份的風險及所有權的報酬被轉讓，該財務資產應予以取消確認。

於基金出售持作交易用途的資產當日，已出售之該等資產將被取消確認，來自經紀商的相關應收款項將於基金出售該等資產之日進行確認。

若合約所指定的責任被解除、取消或終止時，財務負債即被取消確認。

基金採用加權平均的方法釐定取消已於收支表內確認的已變現之盈餘和虧損。

(f) 關聯人士

就本財務報表而言，有關人士即被視為基金的關聯人士，如：

- (i) 另一方人士能夠透過一位或多位中介人直接或間接監控基金或對基金的財務及經營決策發揮重大的影響力，或對基金有共同的監控；
- (ii) 基金與另一方人士均受制於共同的監控；
- (iii) 另一方人士是基金的附屬公司、關聯公司或與基金成立合資企業；
- (iv) 另一方人士是基金或基金母公司的主要管理層的成員，或該個體的親密家庭成員，或是一個受制於該個體的監控、共同監控或受該個體重大影響的實體；
- (v) 另一方人士是上述(i)類另一方人士的親密家庭成員或是一個受制於該個體的監控、共同監控或受該個體重大影響的實體；
- (vi) 另一方人士是基金關聯人士的僱員的僱員利益計劃的任何實體。

一個個體的親密家庭成員是指就基金的交易預計可能影響到該個體或受該個體影響的親密家庭成員。

(g) 現金及現金等價物

現金及現金等價物包括銀行存款及現金，於銀行及其他金融機構的活期存款和短期及流動性極高的投資項目。這些項目可以在沒有重大價值轉變的風險下容易地換算為已知的現金數額，並在購入後三個月內到期。就編製現金流量表而言，現金等價物也包括作為基金現金管理一部分而又隨時可被要求還款的銀行透支。

(h) 已發行單位

基金發行的所有單位提供相關單位持有人於贖回日贖回持有相關基金單位的權利。而贖回金額將按單位持有人於贖回日持有相關基金之額份佔該基金之資產淨值的比例以現金計算。根據《香港會計準則》第32號，此權利構成基金的一項財務負債。該財務負債於資產負債表內列為《屬於單位持有人之資產淨值》，該等予單位持有人之收益分派是以融資成本之一部份按權責發生制計入收支表。

3. 會計政策的轉變

香港會計師公會頒佈了若干新訂及經修訂的《香港財務報告準則》及詮釋，此等準則及詮釋於本會計年內首度生效或基金可於本會計年內提早採用。

本財務報表於本年度所採用的會計政策並沒有因此等新發展而有重大的轉變。然而，由於採用了《香港財務報告準則》第7號 – 金融工具：披露，以下為一些附加的披露：

與去年根據《香港會計準則》第32號 – 金融工具：披露及呈報須披露的資料作比較，財務報表由於採用了《香港財務報告準則》第7號，增加了對基金財務工具的重要性的披露及該等工具的性質及由該等工具所衍生的風險。此等披露遍佈於本財務報表，但詳情則載於附註5。

《香港財務報告準則》第7號對本財務報表內就分類、確認及計量方面已確認的金額並沒有重大的影響。

於本會計年度，基金並沒有應用未生效的新訂的準則或詮釋(詳見附註14)。

4. 稅項

由於基金的收入根據稅務條例S26A(1A)條獲得稅項豁免，故此財務報表內並無就香港利得稅撥提準備。

5. 金融工具及相關風險

根據其投資管理策略，基金的投資組合為新華富時中國25指數成份股，但不限於股票。基金的投資目標是於扣除費用前盡實際可能緊貼作為基金基準的新華富時中國25指數(「該指數」)之表現。基金經理主要採用複製策略以達到基金的投資目標。當指數的成份股或指數成份股的比重有所改變時，基金經理會負責調整基金組合內之股票，以確保基金的投資組合與構成指數的股票及每一成份股的比重相符。截至2007年12月31日止的該等投資詳情載列於投資組合內。

基金於年結日所持有的財務工具之性質及種類與其風險管理政策詳述如下。

(a) 市場風險

因市場價格變動而令到金融工具的公平價值和未來現金流出現波動，會引致市場風險，包括滙率、利率及價格風險。

(i) 滙率風險

基金或會投資於財務資產或財務負債，此等投資的報價貨幣或會與基金報價貨幣不同，貨幣滙率的變動或會產生滙率風險。

由於基金的財務資產及負債的報價貨幣為港幣，與基金的報價貨幣相同，因此基金所面對之滙率風險極少。

(ii) 利率風險

利率變動可能為債務工具之價值帶來相反影響，或會引致基金獲得收益或虧損，從而或會產生利率風險。除銀行存款外，基金的金融資產及負債均為非帶息，因此基金並沒有重大的利率風險，而利率風險敏感度分析亦不載於本財務報表內。

(iii) 價格風險

基金所持之財務工具之價值可能受個別投資又或整個市場之(非滙率或利率)風險的因素影響而令市場價格的轉變而波動，從而可能產生價格風險。基金受到由股票的市場價格轉變所帶來的價格風險。

基金經理透過採用複製策略建立投資組合。由於基金並非積極管理型基金，基金經理並無酌情權挑選股票或於股市下跌時採取防禦措施。因此，相關指數下跌將會使基金的價格相應下跌。

基金所持之投資均為於香港聯合交易所有限公司上市的新華富時中國25指數成份股。若新華富時中國25指數於2007年12月31日上升5%，而所有其他變數維持不變，則估計「屬於單位持有人之資產淨值」會上升13,885,564港元(2006: 9,514,572港元)；若指數於相反方向有同樣的變動，則估計「屬於單位持有人之資產淨值」會下跌相同的金額。

(b) 信貸風險

與經紀的交易於等待結算時或會產生信貸風險。然而所涉及的結算時間非常短暫及選用的經紀亦有一定的質素，因此由於未能結算而衍生出的信貸風險是非常低的。基金會透過監察經紀的信貸評級及其財政狀況以進一步減低此風險。

基金的所有資產均由HSBC Provident Fund Trustee (Hong Kong) Limited (「受託人」) 托管。如受託人破產或清盤或會令到由受託人托管的基金資產的權益受到耽擱或限制。基金經理每年均會履行盡責審查以確保受託人的信貸質素。

基金所持有的現金大部份均存於恒生銀行有限公司及香港上海滙豐銀行有限公司(「該等銀行」)。如該等銀行破產或清盤或會令到存於該等銀行的基金現金的權益受到耽擱或限制。基金會透過持續監察該等銀行的信貸質素以檢視其風險。若該等銀行的信貸質素或財政狀況嚴重惡化時，基金經理會將現金轉移至其他銀行。

除以上所述外，於2007年12月31日及2006年12月31日，基金並沒有與其他對手有重大的集中的信貸風險。

(c) 流通性風險

如基金不能及時地將其投資變換為現金以應付流通性的需要，或會產生流通性風險。

基金可作每日贖回，因此，其大部份資產均投資於活躍的市場並可輕易變現。由於基金之投資均為香港聯合交易所上市之股票，故被視為可輕易變現的投資。

6. 利息收入

於年度內，基金的所有利息收入均從現金及現金等價物之投資賺取。

7. 投資收益及虧損

於年度內，已變現及未變現的投資收益及虧損詳情如下：

	2007	2006
	港元	港元
	HKD	HKD
已變現收益 Realised gains	59,253,433	22,146,526
未變現收益之變動 Movement on unrealised gains	50,337,375	61,257,461
投資總收益 Total gains on investments	<u>109,590,808</u>	<u>83,403,987</u>
已變現虧損 Realised losses	(207,653)	(1,166,976)
未變現虧損之變動 Movement on unrealised losses	(13,105,500)	-
投資總虧損 Total losses on investments	<u>(13,313,153)</u>	<u>(1,166,976)</u>

8. 關聯人士交易

以下為年度內於日常業務過程中按正常商業條款與關聯人士的交易概要:

- (a) 恒生投資管理有限公司(「恒生投資管理」)(滙豐集團成員—恒生銀行的全資附屬機構)是基金的經理。恒生投資管理向基金收取最高每年資產淨值的1%為管理費。於年度內,恒生投資管理從基金所收取的管理費少於其有權收取的全部數額,並放棄收取差額的權利。管理費於每個交易日計算,並於每月支付。於年終日,應付予基金經理的管理費為131,263港元(2006: 74,601港元)。
- (b) HSBC Provident Fund Trustee (Hong Kong) Limited (滙豐集團成員)是基金的受託人,並可向基金收取最高每年為資產淨值之0.15%為受託人費。於年度內,受託人收取之受託人費少於其有權收取的全部數額,並放棄收取差額的權利。受託人費於每個交易日計算,並於每月支付。於年終日,應付予受託人的受託人費為26,998港元(2006: 18,601港元)。受託人於年度內提供其他各項服務予基金,受託人就以下各項服務收費的費率如下:

	港元 HKD
最高受託人費 (每年%) Maximum trustee's fee (% p.a.)	0.15
登記處費 (每年) Registrar's fees (p.a.)	15,600
每次購入或出售投資的交易費 Fee for each investment transaction	80
每次估值的估值費 Fee for each valuation	400
每次發行/贖回/轉換基金的手續費 Fee for each subscription, redemption and switching transaction	100

- (c) 基金在購入及出售投資時有使用恒生銀行的全資附屬機構恒生證券有限公司(「恒生證券」)的服務。以下為基金於年度內經由恒生證券處理的交易詳情:

	透過恒生證券進行的交易的總值 Value of transactions executed through HSSL		佔基金交易總額% % of total value of transactions of the Fund		支付予恒生證券的經紀佣金 Commission paid to HSSL		平均佣金比率 Average commission rate	
	2007	2006	2007	2006	2007	2006	2007	2006
港元 HKD	1,877,183	1,305,082	0.67%	1.58%	4,710	3,192	0.25%	0.24%

另外,基金使用「恒生證券」服務,需向「恒生證券」支付手續費,證券存倉費及證券交易的銀行費用。基金亦需向恒生銀行支付未動用透支額的承諾費用,有關費用如下:

	支付予恒生證券的手續費 Securities expenses paid to HSSL		支付予恒生證券的證券託管費用 Safe custody charges paid to HSSL		支付予恒生證券之證券交易的銀行費用 Bank charges on security transactions paid to HSSL		支付予恒生銀行的未動用透支額的承諾費用 Commitment fee on unused portion of bank overdraft facility paid to HSB	
	2007	2006	2007	2006	2007	2006	2007	2006
港元 HKD	40,274	31,730	2,371	1,989	-	231	12,662	12,443

- (d) 基金的部份銀行存款於滙豐銀行及恒生銀行,有關的銀行存款於年終日的結餘分別為699港元(2006: 11,829港元)及884,149港元(2006: 10,337港元)。於年度內從恒生銀行存款所賺取的利息收入為9,699港元(2006: 10,418港元)。

- (e) 於年度內,恒生銀行處理基金的收益分派時,有收取4,781港元作為服務費用(2006: 3,894港元)。

9. 已發行單位

基金之已發行單位如下:

	截至2007年12月31日止年度 For the year ended 31 December 2007			
	年初 單位結餘 Balance brought forward	年度內 發行單位 Issued during the year	年度內 贖回單位 Redeemed during the year	年終 單位結餘 Balance carried forward
單位數目	1,147,145	299,552	356,199	1,090,498
	截至2006年12月31日止年度 For the year ended 31 December 2006			
	年初 單位結餘 Balance brought forward	年度內 發行單位 Issued during the year	年度內 贖回單位 Redeemed during the year	年終 單位結餘 Balance carried forward
單位數目	1,267,158	538,487	658,500	1,147,145

10. 資產淨值的對賬

受託人與基金經理欲強調公佈的基金每單位資產淨值乃根據基金之基金說明書中所列明之原則計算。此計算原則與計算財務報告中《屬於單位持有人之資產淨值》及相關的《每單位資產淨值》需按照的《香港財務報告準則》並不相同。因此，於本財務報告中所載之《屬於單位持有人之資產淨值》則有別於用作估值用途經調整後之資產淨值。基於不同計算原則下所作出的調整詳情如下：

	2007	2006
	港元 HKD	港元 HKD
用於財務報表中之屬於單位持有人之資產淨值 Net assets attributable to unitholders as reported in the financial statements	277,850,949	190,261,670
基金不同計算原則下用以達至估值用途之資產淨值的調整： Adjustments for different principles adopted by the Fund in arriving at the total net assets for valuation purposes:		
- 以收市價取代買入價計算交易所買賣證券之估值 - Use of closing price instead of bid price in valuing listed securities	415,877	255,960
經調整後用作估值用途之資產淨值 Adjusted total net assets for valuation purposes	<u>278,266,826</u>	<u>190,517,630</u>

11. 軟佣金

基金經理並沒有為基金與任何經紀訂立任何軟佣金協議。

12. 公平價值

基金的金融工具是以公平價值記入資產負債表內。而公平價值是於某一指定之時間，並因應市場因素及金融工具的有關資料計算出來。由於此計算是會受不名因素及主觀判斷所影響，因此並未盡精確。然而，公平價值仍可於合理範圍內確實地估計出來。而其他金融工具包括《應收投資款項》，《現金及現金等價物》，《應付贖回單位款項》及《預提費用及其他應付款項》，基於其性質屬短期，故該等公平價值則以持有金額計算。

13. 上期比較數字

由於採用了《香港財務報告準則》第7號 – 金融工具：披露，若干作比較用的數字已作出調整以方便作出相應的比較，及將2007年度首次作披露的項目下作比較用的金額分開載列。此等新發展的詳情已於附註3披露。

14. 截至2007年12月31日之會計年度內已頒佈但尚未正式生效之新訂及經修訂的準則

截至本財務報表發行之日，香港會計師公會頒佈了若干新訂及經修訂的準則及詮釋。由於該等新訂及經修訂的準則及詮釋於截至2007年12月31日之會計期內尚未正式生效，故本財務報表暫未採用。

基金已進行評估當首次採用新訂及經修訂的準則及詮釋之影響，到目前為止，斷定採用該等準則及詮釋並不會對基金之營運業績及財務狀況造成重大影響。

1 Background

Hang Seng FTSE/Xinhua China 25 Index ETF ("the Fund") is authorised by the Hong Kong Securities and Futures Commission under Section 104(1) of the Hong Kong Securities and Futures Ordinance, and is governed by the Hong Kong Code on Unit Trusts and Mutual Funds.

The Fund was constituted by a Trust Deed dated 1 June 2005, as amended from time to time under the laws of Hong Kong, and registered on the same date as a unit trust under the laws of Hong Kong.

2 Significant accounting policies

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure provisions of the Hong Kong Code on Unit Trusts and Mutual Funds and other relevant guidelines issued by the Hong Kong Securities and Futures Commission. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Fund is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Fund. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The financial statements are presented in Hong Kong Dollars ("dollars") and rounded to the nearest dollars.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently by the Fund and are consistent with those used in the previous year.

(c) Income and expenses

Interest income and expense are recognised as they accrue using the effective interest method. Distribution income is recognised when the underlying securities are quoted ex-distribution. All other income and expenses are accounted for on an accruals basis.

(d) Translation of foreign currency

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of assets and liabilities. Exchange gains and losses are recognised in the revenue statement.

(e) Financial instruments

(i) Classification

All the investments including investments in the constituent stocks of FTSE/Xinhua China 25 Index are acquired principally for the purposes of selling in the short term and classified as held for trading. The Fund designates all the investments into financial assets at fair value through profit or loss category. Financial assets that are classified as receivables include cash and cash equivalents. Financial liabilities that are not at fair value through profit or loss include amounts distributions and other payables.

(ii) Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

Notes on the Financial Statements (continued)

A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

Financial liabilities are not recognised unless one of the parties has performed its obligations under the contract or the contract is a derivative contract not exempted from the scope of HKAS 39.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all trading instruments are measured at fair value.

(iv) Fair value measurement principles

The fair value of financial instruments is generally based on their quoted market prices at the date of statement of assets and liabilities without any deduction of estimated future selling costs. Financial assets are priced at current bid prices while financial liabilities are priced at current ask prices.

Gains and losses on investments are included in the revenue statement. Realised gains and losses on investments and unrealised gains and losses on investments arising from a change in fair value are provided in note 7.

(v) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred and the transfer qualifies for derecognition in accordance with HKAS 39.

Assets held for trading that are sold are derecognised and corresponding receivables from the brokers are recognised as of the date the Fund commits to sell the assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Fund uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(f) Related parties

For the purposes of these financial statements, a party is considered to be related to the Fund if:

- (i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Fund or exercise significant influence over the Fund in making financial and operating policy decisions, or has joint control over the Fund;
- (ii) the Fund and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Fund or a joint venture in which the Fund is the venturer;
- (iv) the party is a member of key management personnel of the Fund or the Fund's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Fund or of any entity that is a related party of the Fund.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Fund.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Fund's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(h) Units in issue

All units issued by the Fund provide their respective unitholders with the right to require redemption for cash at the value proportionate to the unitholder's share in the Fund's net assets at the redemption date. In accordance with HKAS 32, such rights give rise to a financial liability to the

Fund which is shown as "net assets attributable to unitholders" in the statement of assets and liabilities and distributions paid to unitholders thereon are recognised on an accrual basis in revenue statement as part of finance costs.

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Fund.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Fund's financial instruments and the nature and extent of risk arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 5.

HKFRS 7 does not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

4 Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund is exempt from taxation under S26A(1A) of the Inland Revenue Ordinance.

5 Financial instruments and associated risks

The Fund maintains investment portfolio in the constituent stocks of FTSE/Xinhua China 25 Index as dictated by its investment management strategy, but is not limited to equity instruments. The Fund's investment objective is to match, before expenses, as closely as practicable, the performance of FTSE/Xinhua China 25 Index ("the Index") against which the Fund is benchmarked. The Manager primarily adopts a replication strategy to achieve the investment objective of the Fund. When there is a change in the constituent stock(s) of the Index or the weighting of the constituent stocks in the Index, the Manager will be responsible for implementing any adjustment to the Fund's portfolio of stocks to ensure that the Fund's investment portfolio closely correspond to the composition of the Index and the weighting of each constituent stocks. Details of such investments held as at 31 December 2007 are shown in the investment portfolio.

(a) Market risk

Market risk arises when the fair value and future cash flows of a financial instrument will fluctuate because of changes in market prices and includes currency risk, interest rate risk and price risk.

(i) Currency risk

Currency risk arises from change in foreign rate of financial assets and financial liabilities denominated in currencies other than the Fund's functional currency.

As all the financial assets and liabilities of the Fund are denominated in Hong Kong Dollars, the functional currency, the Fund has limited exposure to currency risk.

(ii) Interest rate risk

Interest rate risk arises from change in interest rates which may inversely affect the value of debt instruments and therefore result in potential gain or loss to the Fund. Except for bank deposits, all the financial assets and liabilities of the Fund are non-interest bearing. As a result, the Fund has limited exposure to interest rate risk and interest rate sensitivity analysis is not presented in the financial statements.

(iii) Price risk

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Manager constructed the portfolio through adopting replication strategy. The Fund is not actively managed and the Manager does not have the discretion to select stocks or to take defensive position in declining market. Hence, any fall in the underlying index will result in a corresponding fall in the value of the Fund.

Notes on the Financial Statements (continued)

All investments of the Fund are constituent stocks of FTSE/Xinhua China 25 Index listed on Stock Exchange of Hong Kong Limited. A 5% increase in FTSE/Xinhua China 25 Index at 31 December 2007, other variables held constant, it is estimated that the net assets attributable to unitholders would increase by HKD 13,885,564 (2006: HKD 9,514,572); an equal change in the opposite direction, the net assets attributable to unitholders would decrease by an equal but opposite amount.

(b) Credit risk

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high quality of the brokers used. The Fund monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

All of the assets of the Fund are held by HSBC Provident Fund Trustee (Hong Kong) Limited (the "Trustee"). Bankruptcy or insolvency of the Trustee may cause the Fund's rights with respect to the assets held by the Trustee to be delayed or limited. The Manager monitors the credit quality of the Trustee by performing due diligence annually.

Majority of the cash held by the Fund is deposited with Hang Seng Bank Limited and the Hongkong and Shanghai Banking Corporation Limited (the "banks"). Bankruptcy or insolvency of the banks may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. The Fund monitors its risk by monitoring the credit rating of these banks on a on-going basis. If the credit rating of these banks deteriorates significantly the Manager will move the cash holdings to another bank.

Other than outlined above, there were no significant concentrations of credit risk to counterparties at 31 December 2007 and 31 December 2006.

(c) Liquidity risk

Liquidity risk arises when the Fund are not able to convert investments into cash to meet liquidity needs in a timely manner.

The Fund is exposed to daily redemption and therefore invests the majority of the assets in investments that are traded in an active market and can be readily disposed of. The Fund's investments are considered to be readily realisable as equities are listed on the Stock Exchange of Hong Kong Limited.

6 Interest income

During the year, the Fund earned all its interest income from cash and cash equivalents.

7 Gains and losses on investments

During the year, the Fund disposed of equities and earned and incurred realised and unrealised gains and losses as shown in the table on page 16.

8 Transactions with related parties

The following is a summary of transactions with related parties during the year which were entered into in the ordinary course of business and under normal commercial terms:

- (a) Hang Seng Investment Management Limited ("HSIM"), a wholly-owned subsidiary of Hang Seng Bank Limited ("HSB"), which is a member of The Hongkong and Shanghai Banking Corporation Limited ("HSBC") Group, is the Manager of the Fund. HSIM earns management fees at a maximum rate of 1% of net asset value per annum. HSIM received less than the full management fees to which it was entitled from the Fund during the year and waived its right to the difference. Management fees are calculated as at each dealing date and payable monthly. Management fees payable to the Manager at the year end date is HKD 131,263 (2006: HKD 74,601).
- (b) HSBC Provident Fund Trustee (Hong Kong) Limited, a member of the HSBC Group, is the Trustee of the Fund and earns trustee's fee at a maximum rate of 0.15% of net asset value per annum. The Trustee received less than the full trustee's fee to which it was entitled from the Fund during the year and waived its right to the difference. Trustee's fee is calculated as at each dealing date and payable monthly. Trustee's fee payable at the year end is HKD 26,998 (2006: HKD 18,601). The Trustee also earns fees for providing various other services to the Fund during the year as shown in the table on page 17.
- (c) The Fund utilises the services of Hang Seng Securities Limited ("HSSL"), a wholly-owned subsidiary of HSB, in its purchase and sale of investments and depository of securities. In addition, commitment fee is paid to HSB for the unused portion of bank overdraft facility. Details of such transactions executed during the year are shown in the table (c) on page 17.
- (d) Certain bank accounts are maintained with HSBC and HSB. The respective bank balances at 31 December 2007 were HKD 699 (2006: HKD 11,829) and HKD 884,149 (2006: HKD 10,337). The interest income earned from the HSB bank account during the year is HKD 9,699 (2006: HKD 10,418).
- (e) During the year, HSB charged service fees for handling distribution income amounted to HKD 4,781 (2006: HKD 3,894) for the Fund.

9 Units in issue

For movements of units in issue, please refer to page 17.

10 Reconciliation of Net Asset Values

The Trustee and the Manager would like to highlight that the principles for calculating the published unit price as set out in the Hong Kong Offering Document of the Fund are different from that required for calculating the net assets attributable to unitholders and hence the corresponding net asset value per unit for financial reporting purposes under HKFRSs. The net assets attributable to unitholders as reported in the financial statements are therefore different from the adjusted total net assets for valuation purposes at the reporting dates. The reconciliation between the net assets attributable to unitholders as reported in the financial statements and the adjusted total net assets for valuation purposes is shown in the table on page 18.

11 Soft dollar commission

As regards to the Fund, the Manager has not entered into any soft dollar commission arrangements with brokers.

12 Fair value information

The Fund's financial instruments are measured at fair value on the date of statement of assets and liabilities. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including amounts receivable from sale of investments, cash and cash equivalents, amounts payable on redemption of units, accrued expenses and other payables and distributions payable, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

13 Comparative figures

As a result of adopting *HKFRS 7, Financial instruments: Disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3. Certain comparative figures have been reclassified to conform with presentation of current year's financial statements.

14 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.