



**Polaris Taiwan Top 50  
Tracker Fund (H.K.)**

**(A Sub-fund of Polaris Tracker Fund (H.K.) Series)**

**31 December 2011**

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## **Management and Administration**

### **Manager**

Polaris Securities (Hong Kong) Limited \*  
1003-1004 Admiralty Centre Tower 1  
18 Harcourt Road  
Hong Kong

### **Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central, Central  
Hong Kong

### **Legal Advisor to the Manager**

Simmons & Simmons  
35th Floor, Cheung Kong Centre  
2 Queen's Road Central  
Hong Kong

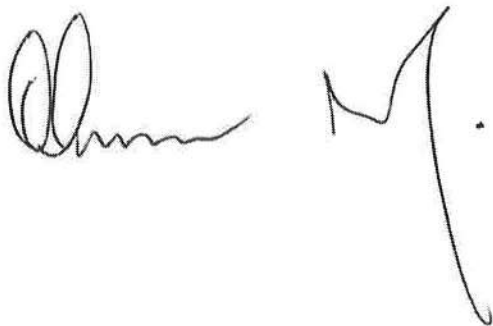
### **Auditors**

KPMG  
8th Floor, Prince's Building  
10 Charter Road  
Central Hong Kong

\* At 31 December 2011, the immediate parent of the Manager is Polaris Holdings (Cayman) Limited, which is incorporated in the Cayman Islands, and the ultimate controlling party is Yuanta Securities Co. Limited, which is incorporated in the Republic of China.

## **Trustee's report to the unitholders of Polaris Taiwan Top 50 Tracker Fund (H.K.) ("the Fund")**

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 27 July 2009, for the year ended 31 December 2011.



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)  
) For and on behalf of  
) HSBC Institutional Trust Services  
) (Asia) Limited  
)  
) **16 APR 2012**

## **Independent auditor's report to the unitholders of Polaris Taiwan Top 50 Tracker Fund (H.K.) ("the Fund")**

### **Report on the financial statements**

We have audited the financial statements of the Fund set out on pages 5 to 27, which comprise the statement of assets and liabilities as at 31 December 2011, the statement of comprehensive income, statement of changes in equity, statement of distribution and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

### *Manager's and Trustee's responsibilities for the financial statements*

The Manager and the Trustee 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 for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Manager and the Trustee also have a responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code").

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

## Independent auditor's report to the unitholders of Polaris Taiwan Top 50 Tracker Fund (H.K.) ("the Fund") (continued)

### Report on the financial statements (continued)

#### *Auditor's responsibility (continued)*

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 judgement, 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 entity's preparation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, 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.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2011 and of its transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### Report on disclosure requirements under the Code

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

*V. mls*

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

16 APR 2012

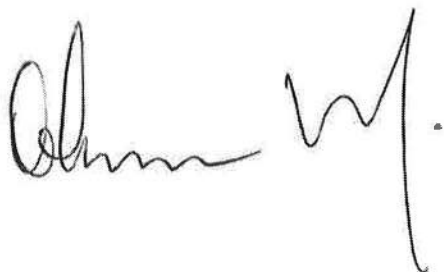
**Statement of assets and liabilities**  
**as at 31 December 2011**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>2011</i>	<i>2010</i>
<b>Assets</b>			
Cash and cash equivalents	7	\$ 1,328,646	\$ 2,231,395
Margin accounts	6	433,894	2,543,513
Financial assets at fair value through profit or loss	5	30,032,296	134,913,270
Other assets		<u>531,872</u>	<u>1,398,539</u>
<b>Total assets</b>		<u>\$ 32,326,708</u>	<u>\$ 141,086,717</u>
<b>Liabilities</b>			
Management fee payable	10(a)	\$ 10,192	\$ 43,220
Trustee fee payable	10(b)	26,000	26,000
Other payables		<u>259,352</u>	<u>289,765</u>
<b>Total liabilities</b>		<u>\$ 295,544</u>	<u>\$ 358,985</u>
<b>Net assets attributable to unitholders</b>	12	<u>\$ 32,031,164</u>	<u>\$ 140,727,732</u>
<b>Representing:</b>			
<b>Total equity</b>		<u>\$ 32,031,164</u>	<u>\$ 140,727,732</u>

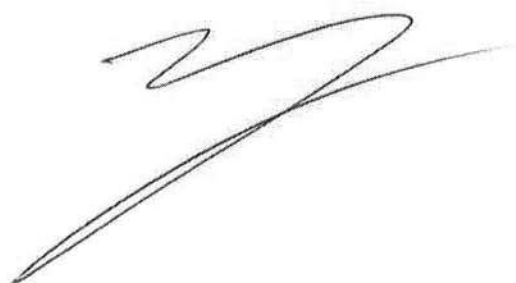
**Statement of assets and liabilities**  
**as at 31 December 2011 (continued)**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>2011</i>	<i>2010</i>
<b>Total number of units in issue</b>	10(c), 11	<u>3,000,000</u>	<u>10,000,000</u>
<b>Net asset value per unit</b>		<u>\$ 10.68</u>	<u>\$ 14.07</u>

Approved and authorised for issue by the Trustee and the Manager on **16 APR 2012**



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)  
) For and on behalf of  
) HSBC Institutional Trust Services  
) (Asia) Limited, Trustee  
)  
)



)  
)  
) For and on behalf of  
) Polaris Securities (Hong Kong)  
) Limited, Manager  
)  
)

The notes on pages 12 to 27 form part of these financial statements.



## Statement of comprehensive income for the year ended 31 December 2011

*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>2011</i>	<i>2010</i>
<b>Income</b>			
Dividend income		\$ 1,176,985	\$ 4,631,011
Interest income	8	3	188
Other income		85,925	285,750
		<u>\$ 1,262,913</u>	<u>\$ 4,916,949</u>
<b>Expenses</b>			
Auditor's remuneration		\$ (134,131)	\$ (231,100)
Management fee	10(a)	(395,480)	(668,104)
Trustee fee	10(b)	(312,000)	(312,000)
Safe custody and bank charges		(75,795)	(121,073)
Registration fee	10(b)	(39,000)	(39,000)
Valuation fee	10(b)	(279,630)	(284,310)
Transaction fees paid to trustee	10(b)	(4,500)	(4,650)
Transactions cost		(146,294)	(194,575)
Sundry expenses		(1,021,362)	(1,003,246)
Legal and professional fees		(280,572)	(36,433)
Withholding tax	4	(235,398)	(611,640)
		<u>\$ (2,924,162)</u>	<u>\$ (3,506,131)</u>
<b>Net (loss)/profit before investment and exchange gain</b>		\$ (1,661,249)	\$ 1,410,818
<b>Net investment and exchange gain/(loss)</b>			
Net foreign exchange gain		5,918,408	4,012,931
Net (loss)/gain from financial instruments at fair value through profit or loss	9	(34,844,727)	17,916,937
<b>(Loss)/profit after tax and total comprehensive income for the year</b>		<u>\$ (30,587,568)</u>	<u>\$ 23,340,686</u>

The notes on pages 12 to 27 form part of these financial statements.

**Statement of changes in equity  
for the year ended 31 December 2011**  
*(Expressed in Hong Kong dollars)*

	<i>2011</i>	<i>2010</i>
<b>Net assets at the beginning of the year</b>	<b>\$ 140,727,732</b>	<b>\$ 219,837,046</b>
<b>(Loss)/profit after tax and total comprehensive income for the year</b>	<b>(30,587,568)</b>	<b>23,340,686</b>
<b>Transaction with unitholders recorded directly in equity</b>		
Redemption of units	(77,305,000)	(99,350,000)
Distributions to unitholders	(804,000)	(3,100,000)
<b>Total transactions with unitholders</b>	<b>(78,109,000)</b>	<b>(102,450,000)</b>
<b>Net assets at the end of the year</b>	<b>\$ 32,031,164</b>	<b>\$ 140,727,732</b>

The notes on pages 12 to 27 form part of these financial statements.

**Statement of distribution**  
**for the year ended 31 December 2011**  
*(Expressed in Hong Kong dollars)*

	<i>2011</i>	<i>2010</i>
<b>Distributable income at the beginning of the year</b>	\$ 3,757,392	\$ 2,552,083
Income earned during the year	1,262,913	4,916,949
Withholding tax	(235,398)	(611,640)
<b>Distributions to unitholders</b>	<u>(804,000)</u>	<u>(3,100,000)</u>
<b>Distributable income at the end of the year</b>	<u>\$ 3,980,907</u>	<u>\$ 3,757,392</u>
<b>Distribution to unitholders per unit</b>	<u>\$ 0.27</u>	<u>\$ 0.31</u>
<b>Date of distribution to unitholders</b>	<u>2 December 2011</u>	<u>3 December 2010</u>

The notes on pages 12 to 27 form part of these financial statements.

**Cash flow statement**  
**for the year ended 31 December 2011**  
*(Expressed in Hong Kong dollars)*

	<i>2011</i>	<i>2010</i>
<b>Operating activities</b>		
(Loss)/profit after tax and total comprehensive income for the year	\$ (30,587,568)	\$ 23,340,686
Adjustment for:		
Net change in unrealised gain or loss from financial instruments at fair value through profit or loss	<u>37,123,898</u>	<u>(5,862,419)</u>
<b>Operating cash flows before changes in working capital</b>	\$ 6,536,330	\$ 17,478,267
Decrease in margin accounts	2,109,619	1,439
Decrease in financial assets at fair value through profit or loss	67,757,076	84,202,188
Decrease in other assets	866,667	866,666
Decrease in management fee payable	(33,028)	(24,284)
(Decrease)/increase in other payables	<u>(30,413)</u>	<u>13,347</u>
<b>Net cash generated from operating activities</b>	<u>\$ 77,206,251</u>	<u>\$ 102,537,623</u>
<b>Financing activities</b>		
Payments for redemption of units	\$ (77,305,000)	\$ (99,350,000)
Distributions paid	<u>(804,000)</u>	<u>(3,100,000)</u>
<b>Net cash used in financing activities</b>	<u>\$ (78,109,000)</u>	<u>\$ (102,450,000)</u>

**Cash flow statement**  
**for the year ended 31 December 2011 (continued)**  
*(Expressed in Hong Kong dollars)*

	<i>2011</i>	<i>2010</i>
<b>Net (decrease)/increase in cash and cash equivalents</b>	\$ (902,749)	\$ 87,623
<b>Cash and cash equivalents at the beginning of the year</b>	<u>2,231,395</u>	<u>2,143,772</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>\$ 1,328,646</u>	<u>\$ 2,231,395</u>

The notes on pages 12 to 27 form part of these financial statements.

## **Notes to the financial statements** *(Expressed in Hong Kong dollars)*

### **1 Background**

Polaris Taiwan Top 50 Tracker Fund (H.K.) (“the Fund”) is a sub-fund of Polaris Tracker Fund (H.K.) Series (“the Trust”). The Fund is authorised by the Securities and Futures Commission in Hong Kong (“SFC”) 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 Code”).

The Trust is an open ended unit trust constituted by a Trust Deed dated 27 July 2009, entered into between Polaris Securities (Hong Kong) Limited (the “Manager”), and HSBC Institutional Trust Services (Asia) Limited (the “Trustee”).

The Fund is an exchange traded fund listed on The Stock Exchange of Hong Kong Limited on 19 August 2009.

The investment objective of the Fund is to provide investment results that, after expenses, closely link to or correspond to the performance of the FTSE TWSE Taiwan 50 Index (“the Index”) by investing substantially all of its assets in Polaris Taiwan Top 50 Tracker Fund (the “Master Fund”) listed on the Taiwan Stock Exchange.

### **2 Significant accounting policies**

#### **(a) Statement of compliance**

The financial statements of the Fund have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards 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, and the relevant disclosure provisions of the Code issued by the SFC. 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 the 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 reflection in these financial statements.

## **2 Significant accounting policies (continued)**

### **(b) Basis of preparation of the financial statements**

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.

### **(c) Foreign currency**

These financial statements are prepared in Hong Kong dollars, which is the Fund's functional currency. Transactions in foreign currencies are translated into Hong Kong dollars at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date into Hong Kong dollars at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the exchange rate at the date the fair value was determined.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income as net foreign exchange gain or loss, except for those arising on financial assets at fair value through profit or loss, which are recognised as net gain or loss from financial instruments at fair value through profit or loss.

### **(d) Income and expenses**

Interest income and expenses are recognised as they accrue using the effective interest method. Dividend income is recognised when the underlying securities are quoted ex-dividend. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in profit or loss. All other income and expenses are accounted for on an accruals basis.

## **2 Significant accounting policies (continued)**

### **(e) Financial instruments**

#### **(i) Recognition**

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

A regular purchase or sale of financial assets or financial liabilities at fair value through profit or loss is recognised on a trade date basis. 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.

#### **(ii) Classification**

The Fund has classified its investments in the Master Fund and futures as financial assets at fair value through profit or loss.

Financial liabilities that are not at fair value through profit or loss include management fee payable, trustee fee payable and other payables.

#### **(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 financial instruments classified at fair value through profit or loss are measured at fair value.

#### **(iv) Derecognition**

A financial asset is derecognised when the contractual rights to receive cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership has been transferred.

Assets held for trading that are sold are derecognised and corresponding receivables from 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 expired.

On derecognition of a financial asset, the difference between the carrying value of the asset and the consideration received is recognised in profit or loss.



## **2 Significant accounting policies (continued)**

### **(e) Financial instruments (continued)**

#### **(v) Fair value measurement**

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

#### **(f) 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.

#### **(g) Units in issue**

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has one class of redeemable units in issue. This is the most subordinate class of financial instruments in the Fund and ranks *pari passu* in all material respects and has identical terms and conditions. The redeemable units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at each daily redemption date and also in the event of the Fund's liquidation.

A puttable financial instrument that includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset is classified as equity instruments if it meets the following conditions:

- it entitles the holder to pro rata share of the entity's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

## **2 Significant accounting policies (continued)**

### **(g) Units in issue (continued)**

The Fund's redeemable units meet all of these conditions and are classified as equity.

### **(h) Related parties**

- a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund.
- b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is controlled or jointly controlled by a person identified in (a).
  - (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

## **2 Significant accounting policies (continued)**

### **(i) Segment reporting**

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager, Polaris Securities (Hong Kong) Limited.

## **3 Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- (i) HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Fund has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Fund's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Fund because the Fund is not a government-related entity.
- (ii) *Improvements to HKFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Fund's financial instruments in Note 5 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 16).

#### **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 Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Taxation for the year represents non-recoverable withholding tax on dividend income.

#### **5 Financial instruments and associated risks**

The Fund maintains investment portfolio in the Master Fund as dictated by its investment management strategy. The Fund's investment objective is to provide investment results that, after expenses, closely link to or correspond to the performance of the Index. To achieve the investment objective, the Manager will aim at investing at least 90% of its assets in the Master Fund. The Manager may also invest in other permitted investments to achieve the investment objective. Where there is a change in the composition of the Index or the weighting of shares in the Index, the Manager will be responsible for implementing any adjustment to the Fund's investment portfolio to ensure that the investment portfolio closely corresponds to the performance of the Index.

The nature and extent of the financial instruments outstanding at the year end date and the risk management policies employed by the Fund are discussed below.

##### **(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 changes in foreign exchange rate of financial assets and financial liabilities denominated in currencies other than the Fund's functional currency.

The Fund is exposed to foreign currency risk primarily from its investments and deposits at bank which are denominated in Taiwanese dollar ("TWD"). The risk is assessed in the context of the investment objectives of the Fund and is managed accordingly.

The table below summarises the Fund's net exposure of monetary assets which are denominated in TWD:

	<i>2011</i>	<i>2010</i>
	HK\$ equivalent	HK\$ equivalent
TWD	<u>31,213,242</u>	<u>136,196,822</u>

## 5 Financial instruments and associated risks (continued)

### (a) Market risk (continued)

#### (i) Currency risk (continued)

An analysis of the estimated change in the Fund's net profit and total equity in response to reasonably possible changes in the foreign exchange rates to which the Fund has significant exposure at the balance sheet date is presented in the following table.

	2011		2010	
	<i>Appreciation/ (depreciation) of foreign currency</i>	<i>Effect on net profit and total equity</i>	<i>Appreciation/ (depreciation) of foreign currency</i>	<i>Effect on net profit and total equity</i>
TWD	4.20%	\$ 1,310,956	9.45%	\$ 12,870,600
	(4.20)%	<u>(1,310,956)</u>	(9.45)%	<u>(12,870,600)</u>

The above analysis assumes the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Fund's exposure to currency risk in existence at that date while all other variables remains constant. The stated changes also represent management's assessment of reasonably possible changes in foreign exchange rates until the next annual balance sheet date. The analysis is performed on the same basis for 2010.

#### (ii) Interest rate risk

Interest rate risk arises from changes in interest rates which may inversely affect the value of interest bearing assets and therefore result in potential gain or loss to the Fund. The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund has limited exposure to interest rate risk.

#### (iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The Fund is exposed to price risk arising from changes in market prices of the Master Fund and futures contracts.

The Fund tracks the performance of the Index by investing in the Master Fund and futures contracts. It is estimated that a 18.88% (2010: 8.77%) increase in the Index at 31 December 2011, other variables held constant, would increase net profit and total equity by \$5,670,097 (2010: \$11,831,894); an equal change in the opposite direction, would decrease net profit and total equity by an equal but opposite amount.

## **5 Financial instruments and associated risks (continued)**

### **(b) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis.

At 31 December 2011, all of the Fund's financial assets were exposed to credit risk. These include investments, margin accounts and cash and cash equivalents placed with the Trustee, brokers and banks.

All of the assets of the Fund are safe-kept by the Trustee. Bankruptcy or insolvency of the Trustee may cause the Fund's rights with respect to the assets safe-kept by the Trustee to be delayed or limited. The Manager monitors the credit quality and financial position of the Trustee by performing due diligence annually.

The margin deposits held by the Fund are placed with South China Commodities Limited (the "Broker"). Bankruptcy or insolvency of the broker may cause the Fund's rights with respect to the assets held by the Broker to be delayed or limited. The Manager monitors the credit rating and financial position of the Broker on an ongoing basis.

The cash held by the Fund and all of the investments of the Fund are held by The Hongkong and Shanghai Banking Corporation Limited (the "Bank"). Bankruptcy or insolvency of the Bank may cause the Fund's rights with respect to the assets held by the Bank to be delayed or limited. The Manager monitors the credit rating and financial position of the Bank on an ongoing basis.

The table below summarises the assets placed with the Bank, the Broker and the Trustee, which are also the Fund's maximum exposure to credit risk at 31 December 2011 and 31 December 2010.

*At 31 December 2011*

	<i>Exposure</i>	<i>Credit rating</i>	<i>Source of credit rating</i>
<b>Bank</b>			
<i>The Hongkong and Shanghai Bank Corporation Limited</i>			
- Cash at bank	\$ 1,328,646	* A-1	S&P
- Investments held in custody	\$ 30,030,120	* A-1	S&P
<b>Broker</b>			
<i>South China Commodities Limited</i>	\$ 436,070	Unrated	

## **5 Financial instruments and associated risks (continued)**

### **(b) Credit risk (continued)**

*At 31 December 2010*

		<i>Credit rating</i>	<i>Source of credit rating</i>
Bank			
<i>The Hongkong and Shanghai Bank Corporation Limited</i>			
- Cash at bank	\$ 2,231,395	* A-1+	S&P
- Investments held in custody	\$134,886,061	* A-1+	S&P
Broker			
<i>South China Commodities Limited</i>	\$ 2,570,722	Unrated	

\* Credit rating of HSBC Holdings plc., the parent company of The Hongkong and Shanghai Bank Corporation Limited and HSBC Institutional Trust Services (Asia) Limited.

### **(c) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund's policy and the Manager's approach to manage liquidity is to have sufficient liquidity to meet its liability including estimated redemption of units, as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund's majority of financial assets are the Master Fund listed on the Taiwan Stock Exchange and futures traded on the Singapore Exchange which are considered to be readily realisable. As a result, the Fund is able to liquidate quickly some of its investments in order to meet its liquidity requirements.

The Fund's Explanatory Memorandum provides for the daily issue and redemption of units and it is therefore exposed to the liquidity of meeting unitholder redemptions daily. All other financial liabilities are repayable on demand or have contractual maturities less than three months.

The Fund's liquidity risk is managed on a daily basis by the Manager in accordance with policies and procedures in place. The Manager is entitled to direct the Trustee to limit the number of units in the Fund on any dealing day to 10% of the total number of units in the Fund in issue.

## 5 Financial instruments and associated risks (continued)

### (c) Liquidity risk (continued)

The following table presents the earliest contractual settlement dates of the Fund's financial liabilities at the balance sheet date.

<i>2011</i>				
	<i>Carrying amount</i>	<i>Total contractual undiscounted cash flow</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>
Management fee payable	\$ 10,192	\$ 10,192	\$ 10,192	\$ -
Trustee fee payable	26,000	26,000	26,000	-
Other payables	259,352	259,352	-	259,352
	<u>\$ 295,544</u>	<u>\$ 295,544</u>	<u>\$ 36,192</u>	<u>\$ 259,352</u>

<i>2010</i>				
	<i>Carrying amount</i>	<i>Total contractual undiscounted cash flow</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>
Management fee payable	\$ 43,220	\$ 43,220	\$ 43,220	\$ -
Trustee fee payable	26,000	26,000	26,000	-
Other payables	289,765	289,765	-	289,765
	<u>\$ 358,985</u>	<u>\$ 358,985</u>	<u>\$ 69,220</u>	<u>\$ 289,765</u>

### (d) Capital management

The Fund's capital as at the balance sheet date is represented by its redeemable shares.

The Fund's objective in managing the capital is to ensure a stable and strong base to maximise returns to all investors, and to manage liquidity risk arising from the redemptions. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives and policies stated in the Explanatory Memorandum.

There were no changes in the policies and procedures during the year with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.



## **5 Financial instruments and associated risks (continued)**

### **(d) Capital management (continued)**

The amount and the movement of equity are stated in the statement of changes in equity. As the redeemable shares are redeemed on demand at the shareholders' option, the actual level of redemption may differ significantly from the historic experience.

## **6 Margin accounts**

Margin accounts represent margin deposits placed with brokers in respect of open exchange-traded futures contracts. These deposits are pledged with brokers.

## **7 Cash and cash equivalents**

	<i>2011</i>	<i>2010</i>
Cash at bank	\$ 1,328,646	\$ 2,231,395

## **8 Interest income**

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

## **9 Net (loss)/gain from financial instruments at fair value through profit or loss**

	<i>2011</i>	<i>2010</i>
Net realised gain	\$ 2,279,171	\$ 12,054,518
Net change in unrealised gain or loss	(37,123,898)	5,862,419
Total net (loss)/gain	\$ (34,844,727)	\$ 17,916,937

## 10 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 on normal commercial terms:

- (a) The Manager earns management fee at the rate of 0.38% per annum of the net asset value of the Fund. Management fee is accrued daily and calculated as at each dealing day and payable monthly in arrears.

The management fee currently payable by the Master Fund to the Master Fund's manager, Polaris International Securities Investment Trust Co., Ltd., is 0.32% per annum of the net asset value of the Master Fund. Accordingly the current aggregate amount of management fee payable to the Manager and its connected persons of the Fund and the Master Fund is equal to 0.70% per annum of the net asset value of the Fund.

- (b) The Trustee earns trustee fee at the rate of 0.115% per annum of the net asset value of the Fund (subject to a minimum of HK\$312,000 per annum). Trustee fee is accrued daily and calculated as at each dealing day and payable monthly in arrears.

The Trustee also earns fees for providing various other services to the Fund as follows:

- (i) Registrar's fees per annum
  - (ii) Transaction fees for each purchase/sale of investments
  - (iii) Valuation fees per daily valuation
- (c) The Fund allows the Manager and its connected persons to transact in the units of the Fund. The holding in the Fund by the Manager as at 31 December 2011 was 126,200 units (2010: 323,800 units).
- (d) The Fund utilises the services of Polaris Securities Co. Ltd ("PSCL"), the intermediate holding company of the Manager in certain purchase and sale of investments. Details of such transactions executed and fees paid during the year are as follows:

<i>Value of transactions executed through PSCL</i>		<i>% of total value of transactions of the Fund</i>		<i>Commission paid to PSCL</i>		<i>Average commission rate</i>	
<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
\$ 6,743,544	\$71,515,032	5.0%	66.52%	\$ 3,370	\$ 35,758	0.05%	0.05%

## 11 Units in issue

	2011 No. of units	2010 No. of units
Balance at the beginning of the year	10,000,000	18,500,000
Units redeemed during the year	<u>(7,000,000)</u>	<u>(8,500,000)</u>
Balance at the end of the year	<u>3,000,000</u>	<u>10,000,000</u>

## 12 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 Explanatory Memorandum of the Fund are different from those 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 balance sheet date. 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 as follows:

	2011	2010
Net assets attributable to unitholders as reported in the financial statements	\$ 32,031,164	\$ 140,727,732
Adjustments for different principles adopted by the Fund in arriving at the adjusted total net assets for valuation purposes:		
– Use of closing price instead of bid price in valuing investments	<u>1,631</u>	<u>17,492</u>
Adjusted total net assets for valuation purposes	<u>\$ 32,032,795</u>	<u>\$ 140,745,224</u>
Total number of units in issue	<u>3,000,000</u>	<u>10,000,000</u>
Net asset value per unit for valuation purpose	<u>\$ 10.67</u>	<u>\$ 14.07</u>

## 13 Soft dollar commission

The Manager has not entered into any soft dollar commission arrangements with brokers for the Fund.

## 14 Fair value information

The Fund's financial instruments are measured at fair value on the balance sheet date. 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 cash and cash equivalents, margin accounts, other receivables and other payables, the carrying amounts approximate their fair value due to the immediate or short-term nature of these financial instruments.

### *Valuation of financial instruments*

The Fund's accounting policy on fair value measurements is detailed in accounting policy in Note 2(e)(v).

The Fund measures fair values using the three levels of fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are as defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

The investments held by the Fund are either listed on the Taiwan Stock Exchange or traded on the Singapore Futures Exchange and their fair values are based on quoted market prices in active markets.

The following analyses financial instruments at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	<i>Level 1</i>	
	<i>2011</i>	<i>2010</i>
Polaris Taiwan Top 50 Tracker Fund	\$ 30,030,120	\$ 134,886,061
MSCI Taiwan Index futures	<u>2,176</u>	<u>27,209</u>
	<u>\$ 30,032,296</u>	<u>\$ 134,913,270</u>

The notional amount of MSCI Taiwan Index futures is \$1,374,917 (2010: \$6,160,895). Their expiry date is 30 January 2012.

#### **14 Fair value information (continued)**

There are no significant transfers between the levels during the year.

#### **15 Segment information**

The Manager makes the strategic resource allocation on behalf of the Fund and determines operating segments based on internal reports reviewed which are used to make strategic decisions.

The Manager considers that the Fund has one single operating segment based on one single and integrated investment strategy by investing substantially all of its assets in the Master Fund with the objective to closely match the performance of the Index as stipulated in the Explanatory Memorandum. There was no change in the operating segment during the year.

All revenues generated by the Fund are from investments. The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of assets and liabilities.

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

#### **16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011**

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 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund:

*Effective for  
accounting periods  
beginning on or after*

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

1 July 2012

HKFRS 13, *Fair value measurement*

1 January 2013

HKFRS 9, *Financial instruments*

1 January 2015

The Fund is in the process of making an assessment of what the impact of these amendments 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.

**Performance of Polaris Taiwan Top 50 Tracker Fund  
(H.K.) and FTSE TWSE Taiwan 50 Index  
from 1 January 2011 to 31 December 2011 (unaudited)**

<i>Fund/Index</i>	<i>Performance</i>
Polaris Taiwan Top 50 Tracker Fund (H.K.) <sup>(1)</sup>	-24.09%
FTSE TWSE Taiwan 50 Index <sup>(2)</sup>	<u>-18.88%</u>

(1) Performance is calculated in base currency with unit price to unit price, dividend reinvestment (if any).

(2) Performance is calculated in total return with dividend reinvestment.

Source: HSBC Institutional Trust Services (Asia) Limited and Bloomberg

Investors should note that investment involves risks and not all investment risks are predictable. Prices of fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should refer to the Fund's offering document (including the full text of the risk factors stated therein) before making any investment decision.

## **FTSE TWSE Taiwan 50 Index Constituent Stocks Disclosure as at 31 December 2011 (unaudited)**

Those constituent stocks that accounted for more than 10% of the weighting of the FTSE TWSE Taiwan 50 Index ("the Index") as at 31 December 2011 are listed below.

	<i>Weighting in the Index %</i>
<b>Taiwan Semiconductor Manufacturing</b>	<b><u>18.56</u></b>

**Investment portfolio**  
**as at 31 December 2011 (unaudited)**  
*(Expressed in Hong Kong dollars)*

<i>Investment</i>	<i>Holdings</i>	<i>Market value</i>	<i>% of total net asset attributable to unitholders</i>
Polaris Taiwan Top 50 Tracker Fund	2,350,000	\$ 30,030,120	93.75
MSCI Taiwan Index futures	7	<u>2,176</u>	<u>0.01</u>
<b>Total investments</b>		<b>\$ 30,032,296</b>	<b>93.76</b>
<b>Other net assets</b>		<u>1,998,868</u>	<u>6.24</u>
<b>Total net assets attributable to unitholders</b>		<u><b>\$ 32,031,164</b></u>	<u><b>100.00</b></u>



**Statement of movements in portfolio holdings  
as at 31 December 2011 (unaudited)**

	<i>% of total net assets attributable to unitholders</i>	
	<i>2011</i>	<i>2010</i>
Polaris Taiwan Top 50 Tracker Fund	93.75	95.85
MSCI Taiwan Index futures	0.01	0.02
<b>Total investments</b>	<b>93.76</b>	<b>95.87</b>
<b>Other net assets</b>	<b>6.24</b>	<b>4.13</b>
<b>Total net assets</b>	<b>100.00</b>	<b>100.00</b>

**Performance table (unaudited)**  
*(Expressed in Hong Kong dollars)*

**(a) Net asset value attributable to unitholders (in accordance with HKFRSs):**

	<i>Net asset value</i>	<i>Net asset value per unit</i>
At 31 December 2011	<u>\$ 32,031,164</u>	<u>\$ 10.68</u>
At 31 December 2010	<u>\$ 140,727,732</u>	<u>\$ 14.07</u>
At 31 December 2009	<u>\$ 219,837,046</u>	<u>\$ 11.88</u>

**(b) Price record (in accordance with Explanatory Memorandum):**

	<i>Highest offer price during the year</i>	<i>Lowest bid price during the year</i>
2011	<u>\$ 14.52</u>	<u>\$ 10.03</u>
2010	<u>\$ 14.07</u>	<u>\$ 9.99</u>
2009	<u>\$ 11.88</u>	<u>\$ 9.68</u>