



# **HSBC ETFs Trust**

## **Annual Report 2012**

# Contents

	Page(s)
Investment adviser's report	1
Trustee's report	2
Independent auditor's report	3
Statement of assets and liabilities	4
Statement of comprehensive income	6
Statement of changes in equity	8
Cash flow statement	9
Notes to the financial statements	11
Investment portfolio (Unaudited)	38
Statement of movements in portfolio holdings (Unaudited)	49
Performance of the underlying index and the Sub-Funds (Unaudited)	51
Performance record (Unaudited)	52
Underlying index constituent stocks disclosure (Unaudited)	54
Administration	55

## Investment adviser's report

### **HSBC MSCI Hong Kong ETF**

### **HSBC MSCI China ETF**

### **HSBC MSCI Taiwan ETF**

### **HSBC MSCI Golden Dragon ETF**

For the one-year period ended 31 October 2012, equity markets recovered from last year's disappointing returns around the globe. Within the Greater China region, MSCI Hong Kong gained the most, close to 16% during the period; MSCI China gained approximately 8%, while MSCI Taiwan posted a return of 0.59% return in USD term. The objective of the ETFs is to track the return of their corresponding benchmark (MSCI Hong Kong, MSCI China, MSCI Taiwan, and MSCI Golden Dragon). In gross terms, none of the one-year return deviation of each ETF exceeded +/-20bps to the benchmark as at 31 October 2012. The tracking errors since inception were kept well below 40bps.

Trustee's report  
HSBC ETFs Trust ("the Trust")

We hereby confirm that, in our opinion, the Manager of HSBC MSCI Golden Dragon ETF, HSBC MSCI China ETF, HSBC MSCI Hong Kong ETF and HSBC MSCI Taiwan ETF ("the Sub-Funds") of the Trust has, in all material respects, managed the Sub-Funds in accordance with the provisions of the Trust Deed dated 25 February 2011, as amended, for the year ended 31 October 2012.

Kelvin Ka Wo CHAN  
Bertha Man Hing TAM

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

27 February 2013

# Independent auditor's report to the unitholders of HSBC ETFs Trust ("the Trust")

## **Report on the financial statements**

We have audited the financial statements of the sub-funds of the Trust set out on pages 4 to 37, which comprise the statement of assets and liabilities as at 31 October 2012, the statement of comprehensive income, the statement of changes in equity and the 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 responsibilities to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, as amended, 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.

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 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 sub-funds of the Trust as at 31 October 2012 and of their 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, as amended, and the relevant disclosure requirements set out in the Code.

## **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
27 February 2013

# Statement of assets and liabilities

As at 31 October 2012

		31 October 2012			
	Note	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
<b>Assets</b>					
Financial assets at fair value					
through profit or loss	4,12	125,037,766	228,881,827	109,486,483	1,077,921,335
Dividends receivable		–	72,680	36,410	20,323
Other receivable		–	–	–	79,705
Amounts due from broker	8(d)(ii)	–	581,496	170,235	2,000,911
Cash and cash equivalents	8(d)(i)	1,137	1,045,465	642,327	4,503,069
<b>Total assets</b>		<u>125,038,903</u>	<u>230,581,468</u>	<u>110,335,455</u>	<u>1,084,525,343</u>
<b>Liabilities</b>					
Financial liabilities at fair value through					
profit or loss	4,12	–	–	–	73,033
Accrued expenses and other payable	7	65,156	564,165	390,146	2,731,861
<b>Total liabilities</b>		<u>65,156</u>	<u>564,165</u>	<u>390,146</u>	<u>2,804,894</u>
<b>Net assets attributable to unitholders</b>	10	<u>124,973,747</u>	<u>230,017,303</u>	<u>109,945,309</u>	<u>1,081,720,449</u>
Representing:					
<b>Total equity</b>		<u>124,973,747</u>	<u>230,017,303</u>	<u>109,945,309</u>	<u>1,081,720,449</u>
<b>Total number of units in issue</b>	9	<u>3,600,000</u>	<u>8,500,000</u>	<u>3,600,000</u>	<u>7,000,000</u>
<b>Net asset value per unit – Class A units</b>		<u>34.7149</u>	<u>27.0609</u>	<u>30.5404</u>	<u>154.5315</u>

# Statement of assets and liabilities (continued)

As at 31 October 2012

		31 October 2011				
		HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD	
Note						
<b>Assets</b>						
Financial assets at fair value						
	through profit or loss	4,12	116,988,796	213,151,523	94,447,423	786,073,081
	Dividends receivable		–	64,294	104,920	25,694
	Other receivable		–	8,724	8,671	33,397
	Amounts due from broker	8(d)(ii)	–	178,722	121,348	4,983,135
	Cash and cash equivalents	8(d)(i)	170,680	1,485,956	822,844	2,277,763
<b>Total assets</b>			<u>117,159,476</u>	<u>214,889,219</u>	<u>95,505,206</u>	<u>793,393,070</u>
<b>Liabilities</b>						
Financial liabilities at fair value						
	through profit or loss	4, 12	–	–	–	56,545
	Accrued expenses and other payable	7	17,897	288,305	189,115	1,232,580
<b>Total liabilities</b>			<u>17,897</u>	<u>288,305</u>	<u>189,115</u>	<u>1,289,125</u>
<b>Net assets attributable to unitholders</b>		10	<u>117,141,579</u>	<u>214,600,914</u>	<u>95,316,091</u>	<u>792,103,945</u>
Representing:						
<b>Total equity</b>			<u>117,141,579</u>	<u>214,600,914</u>	<u>95,316,091</u>	<u>792,103,945</u>
<b>Total number of units in issue</b>		9	<u>3,600,000</u>	<u>8,500,000</u>	<u>3,600,000</u>	<u>5,000,000</u>
<b>Net asset value per unit – Class A units</b>			<u>32.5393</u>	<u>25.2472</u>	<u>26.4767</u>	<u>158.4208</u>

Approved by the Trustee and the Manager on 27 February 2013

	)
Kelvin Ka Wo CHAN	) For and on behalf of
Bertha Man Hing TAM	) HSBC Institutional Trust Services (Asia) Limited
	)
	)
	)
	)
Stuart Glenn BERRY	) For and on behalf of
Edgar Kai Man NG	) HSBC Investment Funds (Hong Kong) Limited
	)
	)

The notes on pages 11 to 37 form part of these financial statements.

# Statement of comprehensive income

For the year ended 31 October 2012

		2012			
		HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Income	Note				
Dividend income		–	7,013,119	3,096,639	38,520,753
Other income	8(e)	–	–	–	739,590
		–	7,013,119	3,096,639	39,260,343
<b>Expenses</b>					
Management fees	8(a)	34	108,003	49,724	537,115
Operating expenses	6(a)	143	971,988	447,480	4,823,638
Other expenses	6(b)	51,918	291,354	119,170	2,041,149
		52,095	1,371,345	616,374	7,401,902
<b>(Loss)/income attributable to unitholders before gains/(losses) on financial instruments at fair value through profit or loss</b>					
		(52,095)	5,641,774	2,480,265	31,858,441
<b>Gains/(losses) on financial instruments at fair value through profit or loss</b>					
Net gains/(losses) on financial instruments at fair value through profit or loss	5	7,884,271	10,359,823	12,148,958	(22,646,814)
Net foreign exchange (losses)/gains		(8)	1,166	(5)	(417,714)
		7,884,263	10,360,989	12,148,953	(23,064,528)
<b>Income attributable to unitholders before taxation</b>					
		7,832,168	16,002,763	14,629,218	8,793,913
Taxation	3	–	(586,374)	–	(8,881,609)
<b>Income/(loss) attributable to unitholders and total comprehensive income for the year</b>					
		7,832,168	15,416,389	14,629,218	(87,696)



# Statement of comprehensive income (continued)

For the year ended 31 October 2012

		2011			
		Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Income	Note				
Dividend income		–	3,902,146	2,239,648	31,531,995
Other income	8(e)	–	500,808	148,309	410,799
		–	4,402,954	2,387,957	31,942,794
<b>Expenses</b>					
Management fees	8(a)	34	50,366	28,094	191,192
Operating expenses	6(a)	308	453,296	252,848	1,720,725
Other expenses	6(b)	16,944	530,880	217,532	1,171,322
		17,286	1,034,542	498,474	3,083,239
<b>(Loss)/income attributable to unitholders before losses on financial instruments at fair value through profit or loss</b>		(17,286)	3,368,412	1,889,483	28,859,555
<b>Losses on financial instruments at fair value through profit or loss</b>					
Net losses on financial instruments at fair value through profit or loss	5	(21,050,165)	(48,692,574)	(16,408,486)	(115,285,422)
Net foreign exchange (losses)/gains		(10)	(257)	534	26,913
		(21,050,175)	(48,692,831)	(16,407,952)	(115,258,509)
<b>Loss attributable to unitholders before taxation</b>		(21,067,461)	(45,324,419)	(14,518,469)	(86,398,954)
Taxation	3	–	(306,867)	–	(7,298,901)
<b>Loss attributable to unitholders and total comprehensive income for the period</b>		(21,067,461)	(45,631,286)	(14,518,469)	(93,697,855)

The notes on pages 11 to 37 form part of these financial statements.

# Statement of changes in equity

For the year ended 31 October 2012

	2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
<b>Balance at beginning of year</b>	117,141,579	214,600,914	95,316,091	792,103,945
<b>Income/(loss) attributable to unitholders and total comprehensive income for the year</b>	7,832,168	15,416,389	14,629,218	(87,696)
<b>Transactions with owners (i.e. unitholders), recorded directly in equity</b>				
Received and receivable on issue of units	–	–	–	289,704,200
<b>Total transactions with owners (i.e. unitholders)</b>	–	–	–	289,704,200
<b>Balance at year end</b>	124,973,747	230,017,303	109,945,309	1,081,720,449

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
<b>Loss attributable to unitholders and total comprehensive income for the period</b>	(21,067,461)	(45,631,286)	(14,518,469)	(93,697,855)
<b>Transactions with owners (i.e. unitholders), recorded directly in equity</b>				
Received and receivable on issue of units	138,209,040	260,232,200	109,834,560	885,801,800
<b>Total transactions with owners (i.e. unitholders)</b>	138,209,040	260,232,200	109,834,560	885,801,800
<b>Balance at period end</b>	117,141,579	214,600,914	95,316,091	792,103,945

The notes on pages 11 to 37 form part of these financial statements.

# Cash flow statement

For the year ended 31 October 2012

	2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
<b>Operating activities</b>				
Dividend income received	–	7,004,733	3,165,149	38,526,124
Other income received	–	–	–	739,590
Net foreign exchange (losses)/gains	(8)	1,166	(5)	(417,714)
Payment for management fees	(41)	(106,182)	(48,567)	(522,324)
Payment for operating expenses	(324,104)	(930,070)	(868,245)	(3,665,473)
Reimbursements from Manager	370,646	221,663	610,180	259,101
Payment for other expenses	(51,337)	(266,436)	(99,377)	(1,926,955)
Margin deposit (paid to)/withdrawn from broker	–	(400,000)	–	3,272,175
Proceeds from sale of financial instruments at fair value through profit or loss	2,561,091	14,381,582	4,052,753	69,772,003
Payment on purchase of financial instruments at fair value through profit or loss	(2,725,790)	(19,760,573)	(6,992,405)	(384,633,812)
Tax paid	–	(586,374)	–	(8,881,609)
<b>Net cash used in operating activity</b>	<b>(169,543)</b>	<b>(440,491)</b>	<b>(180,517)</b>	<b>(287,478,894)</b>
<b>Financing activity</b>				
Proceeds on issue of units	–	–	–	289,704,200
<b>Net cash generated from financing activity</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>289,704,200</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(169,543)</b>	<b>(440,491)</b>	<b>(180,517)</b>	<b>2,225,306</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>170,680</b>	<b>1,485,956</b>	<b>822,844</b>	<b>2,277,763</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,137</b>	<b>1,045,465</b>	<b>642,327</b>	<b>4,503,069</b>

## Cash flow statement (continued)

For the year ended 31 October 2012

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
<b>Operating activities</b>				
Dividend income received	–	3,837,852	2,134,728	31,506,301
Other income received	–	500,808	148,309	410,799
Net foreign exchange (losses)/gains	(10)	(257)	534	26,913
Payment for management fees	(27)	(42,029)	(24,304)	(158,620)
Payment for operating expenses	(125,544)	(292,546)	(294,142)	(1,076,863)
Reimbursements from Manager	143,126	119,217	226,619	431,954
Payment for other expenses	(16,944)	(536,796)	(225,591)	(1,066,199)
Margin deposit paid to broker	–	(310,000)	(190,000)	(6,611,540)
Proceeds from sale of financial instruments at fair value through profit or loss	1,091,713	5,418,661	12,630,809	21,966,541
Payment on purchase of financial instruments at fair value through profit or loss	(1,072,462)	(267,134,287)	(123,418,678)	(921,654,422)
Tax paid	–	(306,867)	–	(7,298,901)
<b>Net cash generated from/(used in) operating activities</b>	19,852	(258,746,244)	(109,011,716)	(883,524,037)
<b>Financing activity</b>				
Proceeds on issue of units	150,828	260,232,200	109,834,560	885,801,800
<b>Net cash generated from financing activity</b>	150,828	260,232,200	109,834,560	885,801,800
<b>Net increase in cash and cash equivalents</b>	170,680	1,485,956	822,844	2,277,763
<b>Cash and cash equivalents at the beginning of the period</b>	–	–	–	–
<b>Cash and cash equivalents at the end of the period</b>	170,680	1,485,956	822,844	2,277,763

### Major non-cash transactions:

During the period, the participating dealer, The Hongkong and Shanghai Banking Corporation Limited, subscribed for 3,600,000 units of HSBC MSCI Golden Dragon ETF by tendering a basket of constituent stocks of the MSCI Golden Dragon Index with a market value of HK\$138,058,212.

# Notes to the financial statements

For the year ended 31 October 2012

## 1 The Trust

HSBC ETFs Trust (the "Trust") is an umbrella unit trust which was established under a Trust deed dated 25 February 2011 made under Hong Kong law. Four sub-funds were created under the Trust with the date of inception set out below:

	<b>Date of inception</b>
HSBC MSCI Golden Dragon ETF	13 April 2011
HSBC MSCI China ETF	13 April 2011
HSBC MSCI Hong Kong ETF	12 April 2011
HSBC MSCI Taiwan ETF	12 April 2011

The Sub-Funds are authorised by the Securities and Futures Commission in Hong Kong ("SFC") under Section 104(1) of the Hong Kong Securities and Futures Ordinance ("HKSF"), and are governed by the Hong Kong Code on Unit Trusts and Mutual Funds issued by the SFC.

The objective of the HSBC MSCI Golden Dragon ETF is to replicate the performance of the MSCI Golden Dragon Index, before fees and expenses, while minimising as far as possible the tracking error between the Sub-Fund's performance and that of the MSCI Golden Dragon Index.

The objective of the HSBC MSCI China ETF is to replicate the performance of the MSCI China Index, before fees and expenses, while minimising as far as possible the tracking error between the Sub-Fund's performance and that of the MSCI China Index.

The objective of the HSBC MSCI Hong Kong ETF is to replicate the performance of the MSCI Hong Kong Index, before fees and expenses, while minimising as far as possible the tracking error between the Sub-Fund's performance and that of the MSCI Hong Kong Index.

The objective of the HSBC MSCI Taiwan ETF is to replicate the performance of the MSCI Taiwan Index, before fees and expenses, while minimising as far as possible the tracking error between the Sub-Fund's performance and that of the MSCI Taiwan Index.

The financial statements of the Sub-Funds are presented in their respective functional and presentation currencies as follows:

	<b>Functional and presentation currency</b>
HSBC MSCI Golden Dragon ETF	HK\$
HSBC MSCI Hong Kong ETF	HK\$
HSBC MSCI China ETF	HK\$
HSBC MSCI Taiwan ETF	TWD

The Trust Deed does not contain any requirement that a combined set of financial statements for the Trust itself be prepared.

## 2 Significant accounting policies

### (a) Statement of compliance

The financial statements of the Sub-Funds 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 and the relevant disclosure provisions of the Code issued by the Hong Kong Securities and Futures Commission ("SFC"). A summary of the significant accounting policies adopted by the Sub-Funds is set out below.

# Notes to the financial statements

For the year ended 31 October 2012

## 2 Significant accounting policies (continued)

### (a) Statement of compliance (continued)

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 Sub-Funds. There have been no significant changes to the accounting policies applied in these financial statements for the period presented as a result of these developments.

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

The functional and presentation currency of HSBC MSCI Taiwan ETF is Taiwan dollars reflecting the fact that the participating redeemable units of the Sub-Fund are issued and redeemed in Taiwan dollars. The functional and presentation currencies for the Sub-Funds other than HSBC MSCI Taiwan ETF are Hong Kong dollars reflecting the fact that the participating redeemable units of the Sub-Funds are issued and redeemed in Hong Kong 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.

### (c) 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 Sub-Funds. Of these, the following developments are relevant to the Sub-Funds' financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Trust and its Sub-Funds have re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Sub-Funds' related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Trust and its Sub-Funds because the Trust and its Sub-Funds are not a government-related entities.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. 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 Sub-Funds have not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

### (d) Income and expenses

Interest income and expense 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 accrual basis.

# Notes to the financial statements

For the year ended 31 October 2012

## 2 Significant accounting policies (continued)

### (e) Financial instruments

#### (i) Classification

All of the Sub-Funds' investments are classified as financial assets or financial liabilities at fair value through profit or loss. This category comprises financial instruments held for trading, including futures contracts, and financial instruments designated at fair value through profit or loss, including equities, exchange traded funds, rights and warrants.

All derivatives in a net receivable position (positive fair value) are reported as financial assets. All derivatives in a net payable position (negative fair value) are reported as financial liabilities.

Financial liabilities that are not at fair value through profit or loss include amounts payable on redemption of units, distributions payables, accrued expenses and other payables.

#### (ii) Recognition

The Sub-Funds recognise 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.

#### (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 the 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.

Net gains on financial instruments are included in profit or loss. Realised gains and losses on financial instruments and unrealised gains and losses on financial instruments arising from a change in fair value are provided in note 5.

#### (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.

Assets held for trading that are sold are derecognised and corresponding receivables from brokers are recognised as of the date the Sub-Funds commit to sell the assets.

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

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.

# Notes to the financial statements

For the year ended 31 October 2012

## 2 Significant accounting policies (continued)

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

#### (vi) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities when the Sub-Funds have a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or simultaneously, e.g. through a market clearing mechanism.

### (f) *Foreign currency translation*

Foreign currency transactions during the year/period are translated into base currency of the Sub-Funds at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into base currency of the Sub-Funds at the foreign exchange rates ruling at the date of the statement of assets and liabilities. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in profit or loss of the relevant sub-funds.

### (g) *Related parties*

(1) A person, or a close member of that person's family, is related to the Trust and its Sub-Funds if that person:

- (i) has control or joint control over the Trust and its Sub-Funds;
- (ii) has significant influence over the Trust and its Sub-Funds; or
- (iii) is a member of the key management personnel of the Trust and its Sub-Funds.

(2) An entity is related to the Trust and its Sub-Funds if any of the following conditions applies:

- (i) The entity and the Trust and its Sub-Funds 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 (1); or
- (vi) A person identified in (1)(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 entity.

### (h) *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 Sub Funds' cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.



# Notes to the financial statements

For the year ended 31 October 2012

## 2 Significant accounting policies (continued)

### (i) Units in issue

The Sub-Funds classify financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Sub-Funds have one class of redeemable units in issue. This is the most subordinate class of financial instruments in the Sub-Funds 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 Sub-Funds' net assets at each redemption date and also in the event of the Sub-Funds' 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:

- (i) it entitles the holder to a pro rata share of the entity's net assets in the event of the Sub-Funds' liquidation;
- (ii) it is in the class of instruments that is subordinate to all other classes of instruments;
- (iii) all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- (iv) apart from the contractual obligation for the Sub-Funds 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
- (v) the total expected cash flows attributable to the instrument over its life are based substantially on the 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 Sub-Funds over the life of the instrument.

The Sub-Funds' redeemable units meet all of these conditions and are classified as equity.

### (j) Expenses

All expenses are recognised in profit or loss on an accruals basis.

### (k) Taxation

Taxation for the year/period represents non-recoverable withholding tax on dividend income and interest income imposed in the country of origin. Such income is recorded gross of taxes in profit or loss.

### (l) Segment reporting

An operating segment is a component of the Sub-Funds that engages in business activities from which they may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Sub-Funds' 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 Sub-Funds is identified as the Manager, HSBC Investment Funds (Hong Kong) Limited.

# Notes to the financial statements

For the year ended 31 October 2012

## 3 Taxation

### *Hong Kong*

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Sub-Funds is exempt from taxation under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

### *China*

HSBC MSCI China ETF invests in shares of companies in People's Republic of China ("PRC") listed on overseas stock exchanges including the H-shares listed in Hong Kong on the SEHK ("H-shares"). Under the PRC Corporate Income Tax Law, the HSBC MSCI China ETF may be liable to pay PRC tax on the capital gains realised in the trading of H-shares and dividend income derived from PRC listed companies. However, no provision was made for taxation from capital gains in the financial statements as the Manager believes that HSBC MSCI China ETF can sustain a position for not filing a tax return based on the existing tax regulations and that the enforcement of PRC tax on capital gains is not probable.

### *Taiwan*

The HSBC Taiwan ETF invests in shares of companies in Taiwan listed on Taiwan Stock Exchange or quoted on the Gretai Securities Market, which is a market regulated and supervised by the Taiwan Financial Supervisory Commission. Capital gain derived from Taiwan securities is exempted from income tax pursuant to Article 4-1 Income Tax Act. Dividend derived from a Taiwan company is subject to withholding tax of 20% for foreign institutional investors (FINI) if no tax treaty applies.

Dividend income received by the Sub-Funds may be subject to non-recoverable withholding tax imposed in the country of origin. Dividend income is recorded gross of such taxes and the withholding tax is recognised in statement of comprehensive income as incurred.

Taxation in the statement of comprehensive income represents:

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Withholding tax – PRC	–	586,374	–	–
Withholding tax – Taiwan	–	–	–	8,881,609
	–	586,374	–	8,881,609

# Notes to the financial statements

For the year ended 31 October 2012

## 3 Taxation (continued)

### Taiwan (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Withholding tax – PRC	–	306,867	–	–
Withholding tax – Taiwan	–	–	–	7,298,901
	–	306,867	–	7,298,901

## 4 Financial instruments and associated risks

The Sub-Funds maintain investment portfolio in the constituent stocks of the underlying Index as dictated by its investment management strategy. The Sub-Funds' investment objective is to provide investment results that, before fees and expenses, closely correspond to the performance of the Underlying Index relevant to the Sub-Funds. The Manager primarily adopts a replication strategy to achieve the investment objective of the Sub-Funds. When there is a change in the constituent stock of the Index or the weighting of the constituent stocks in the Index, the Manager will be responsible for implementing any adjustment to the Sub-Funds' portfolio of stocks to ensure that the Sub-Funds' investment portfolio closely corresponds to the composition of the Index and the weighting of each constituent stock. Details of such investments held as at 31 October 2012 are shown in the Investment Portfolio.

The nature and extent of the financial instruments outstanding at the year/period 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

As the financial assets and liabilities of the Sub-Funds are denominated in the functional currency, no significant currency risk is associated with them.

#### (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 Sub-Funds. Except for bank deposits, all the financial assets and liabilities of the Sub-Funds are non-interest bearing. As a result, the Sub-Funds have limited exposure to interest rate risk.

#### (iii) Price risk

Price risk is the risk that the value of 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.

# Notes to the financial statements

For the year ended 31 October 2012

## 4 Financial instruments and associated risks (continued)

### (a) Market risk (continued)

#### (iii) Price risk (continued)

The Manager constructs the portfolio through adopting replication strategy. The Sub-Funds are 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 indices will result in a corresponding fall in the value of the Sub-Funds.

#### Price sensitivity

The impact on a 1% increase in the index at 31 October 2012, other variables held constant, is shown below. An equal change in the opposite direction would decrease the net assets attributable to unitholders by an equal but opposite amount. The analysis is performed on the same basis for 2011.

#### As at 31 October 2012

Sub-Funds	Underlying Index	Impact on net assets attributable to unitholders
HSBC MSCI Golden Dragon ETF	MSCI Golden Dragon Index <sup>1</sup>	HK\$1,250,378
HSBC MSCI China ETF	MSCI China Index <sup>2</sup>	HK\$2,288,818
HSBC MSCI Hong Kong ETF	MSCI Hong Kong Index <sup>3</sup>	HK\$1,094,865
HSBC MSCI Taiwan ETF	MSCI Taiwan Index <sup>4</sup>	TWD10,778,483

#### As at 31 October 2011

Sub-Funds	Underlying Index	Impact on net assets attributable to unitholders
HSBC MSCI Golden Dragon ETF	MSCI Golden Dragon Index <sup>1</sup>	HK\$1,171,416
HSBC MSCI China ETF	MSCI China Index <sup>2</sup>	HK\$2,146,009
HSBC MSCI Hong Kong ETF	MSCI Hong Kong Index <sup>3</sup>	HK\$953,161
HSBC MSCI Taiwan ETF	MSCI Taiwan Index <sup>4</sup>	TWD7,921,039

Notes:

- <sup>1</sup> The MSCI Golden Dragon Index consists of (i) Chinese securities (H shares, Red chips and P chips) listed on The Stock Exchange of Hong Kong Limited ("SEHK") and B shares listed on Shanghai Stock Exchange and Shenzhen Stock Exchange; (ii) Hong Kong securities listed on the SEHK; and (iii) Taiwanese securities listed on the Taiwan Stock Exchange and Taiwanese securities traded or quoted on Greta Securities Market, which is a market regulated and supervised by the Taiwan Financial Supervisory Commission.
- <sup>2</sup> The MSCI China Index consists of Chinese securities (H shares, Red chips and P chips) listed on the SEHK and B shares listed on Shanghai Stock Exchange and Shenzhen Stock Exchange.
- <sup>3</sup> The MSCI Hong Kong Index consists of Hong Kong securities listed on the SEHK.
- <sup>4</sup> The MSCI Taiwan Index consists of Taiwanese securities listed on the Taiwan Stock Exchange and Taiwanese securities traded or quoted on Greta Securities Market, which is a market regulated and supervised by the Taiwan Financial Supervisory Commission.

# Notes to the financial statements

For the year ended 31 October 2012

## 4 Financial instruments and associated risks (continued)

### (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 Sub-Funds monitor the credit rating and financial positions of the brokers used to further mitigate this risk.

All of the investments and assets of the Sub-Funds are safe-kept by HSBC Institutional Trust Services (Asia) Limited (the "Trustee"). Bankruptcy or insolvency of the Trustee may cause the Sub-Funds' rights with respect to the investments and assets safe-kept 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 Sub-Funds is deposited with HSBC Group. Bankruptcy or insolvency of the banks may cause the Sub-Funds' rights with respect to the cash held by the banks to be delayed or limited. The Sub-Funds monitor their risk by monitoring the credit rating of these banks on an on-going basis. If the credit rating of these banks deteriorates significantly the Manager will move the cash holdings to another bank.

HSBC MSCI China ETF is subject to credit and counterparty risk associated with the warrant issuer and may suffer losses potentially equal to the full value of the warrant issued by warrant issuer if such warrant issuer fails to perform its obligations to HSBC MSCI China ETF.

The table below sets out the net exposure of the HSBC MSCI China ETF to counterparties as at 31 October 2012 and 2011 together with the credit ratings provided by Standard & Poor's Rating Services:

<b>Warrant issuer</b>	<b>Credit rating</b>	<b>Net exposure to counterparties at 31 October 2012</b>
Morgan Stanley BV	A-	<u><u>7,027,999</u></u>

  

<b>Warrant issuer</b>	<b>Credit rating</b>	<b>Net exposure to counterparties at 31 October 2011</b>
Morgan Stanley BV	A-	<u><u>6,591,220</u></u>

Other than outlined above, there were no significant concentrations of credit risk to counterparties at 31 October 2012 and 2011.

### (c) Liquidity risk

Liquidity risk is the risk that the Sub-Funds will encounter difficulty in meeting obligations arising from their 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 Sub-Funds.

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

# Notes to the financial statements

For the year ended 31 October 2012

## 4 Financial instruments and associated risks (continued)

### (c) Liquidity risk (continued)

The Sub-Funds' Hong Kong Offering Document ("Offering Document") provides for the daily creation and cancellation of units and they are therefore exposed to the liquidity of meeting unitholder redemptions daily. All other financial liabilities have contractual maturities less than one year.

The Sub-Funds' majority of financial assets are listed or quoted equity investments which are expected to be readily realisable under normal market conditions. As a result, the Sub-Funds are able to liquidate quickly its investments in order to meet its liquidity requirements.

The Sub-Funds' liquidity risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place. The Sub-Funds' redemption policy allows redemption to be made through participating dealers by any investor with a basket of constituent stocks of the underlying Index and a minor cash component or wholly with cash at a minimum of units.

	<b>Application unit size of each redemption</b>
HSBC MSCI Golden Dragon ETF	600,000
HSBC MSCI China ETF	500,000
HSBC MSCI Hong Kong ETF	600,000
HSBC MSCI Taiwan ETF	500,000

The Manager has the right to declare suspension of unitholders' right to redeem units under certain conditions, such as SEHK is closed; dealings on the SEHK or the Hong Kong Futures Exchange Limited are restricted or suspended; or the underlying Index is not compiled or published, etc. in accordance with the Offering Document.

### (d) Specific instrument risk

#### (i) Derivatives

At 31 October 2012 and 2011, the Sub-Funds' holdings in derivatives were as specified in the following table.

#### As at 31 October 2012

##### HSBC MSCI China ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	December 2012	Hang Seng China Enterprises Index	71,900	–

##### HSBC MSCI Hong Kong ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	December 2012	Mini Hang Seng Index	16,640	–

##### HSBC MSCI Taiwan ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	November 2012	MSCI Taiwan Index	–	(73,033)

# Notes to the financial statements

For the year ended 31 October 2012

## 4 Financial instruments and associated risks (continued)

### (d) Specific instrument risk (continued)

(i) Derivatives (continued)

As at 31 October 2011

#### HSBC MSCI China ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	November 2011	Hang Seng China Enterprises Index	6,500	–

#### HSBC MSCI Hong Kong ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	November 2011	Mini Hang Seng Index	3,000	–

#### HSBC MSCI Taiwan ETF

Type of contract	Expiration	Underlying	Fair value assets HK\$	Fair value liabilities HK\$
Futures	November 2011	MSCI Taiwan Index	–	(56,545)

(ii) Futures contracts

Futures contracts are commitments either to purchase or sell a designated financial instrument, currency, commodity or index at a specified future date for a specified price and may be settled in cash or the underlying financial asset. Futures are standardised exchange-traded contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in future contract values are marked to market daily. Futures contracts have lower credit risk because the counterparties are futures exchanges.

Futures contracts result in exposure to market risk based on changes in market prices relative to contracted price. Market risks arise due to the possible movement in foreign currency exchange rates, indices, and securities' values underlying these instruments. In addition, because of the low margin deposits normally required in relation to notional contract sizes, a high degree of leverage may be typical of a futures contract and may result in substantial losses to the Sub-Funds. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a material fluctuation in price during a single day's trading beyond certain preset limits. If prices fluctuate during a single day's trading beyond those limits, the Sub-Funds could be prevented from promptly liquidating unfavourable positions and thus could be subject to substantial losses.

### (e) Capital management

The Sub-Funds' capital as at the year/period end date is represented by their redeemable units.

The Sub-Funds' 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 Sub-Funds in accordance with the Sub-Funds' investment objectives and policies stated in the Offering Document.

# Notes to the financial statements

For the year ended 31 October 2012

## 4 Financial instruments and associated risks (continued)

### (e) Capital management (continued)

There were no changes in the policies and procedures during the year/period with respect to the Sub-Funds' approach to its capital management.

The Sub-Funds are not subject to externally imposed capital requirements.

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

During the period, no distributions were made to the unitholders of the Fund.

## 5 Net gains/(losses) on financial instruments at fair value through profit or loss

During the year/period, the Sub-Funds disposed of equities and earned or incurred realised and unrealised gains and losses as shown below.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Realised losses	(500,038)	(7,314,113)	(1,403,399)	(13,096,521)
Movement on unrealised gains or losses	8,384,309	17,673,936	13,552,357	(9,550,293)
Net gains/(losses) on financial instruments at fair value through profit or loss	<u>7,884,271</u>	<u>10,359,823</u>	<u>12,148,958</u>	<u>(22,646,814)</u>

  

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Realised losses	(63,023)	(487,640)	(456,187)	(2,038,948)
Movement on unrealised gains or losses	(20,987,142)	(48,204,934)	(15,952,299)	(113,246,474)
Net losses on financial instruments at fair value through profit or loss	<u>(21,050,165)</u>	<u>(48,692,574)</u>	<u>(16,408,486)</u>	<u>(115,285,422)</u>



# Notes to the financial statements

For the year ended 31 October 2012

## 6 Expenses

### (a) Operating expenses

In accordance with the prospectus, the Trust has a fee structure where, in respect of each Sub-Fund all of the fees and expenses (except for the Management Fees, certain duties, charges and other costs and expenses which will be paid separately out of the assets of the relevant Sub-Fund) are paid as one single fee. This is referred to as the "Operating Expenses". The Operating Expenses also include any due proportion of expenses of the Trust which may be allocated to the relevant Sub-Funds from time to time.

The level of the Operating Expenses payable by each Sub-Fund is set out as 0.45% per annum of the Net Asset Value.

The Operating Expenses are calculated and accrued daily from the Net Asset Value of the Index Fund and payable monthly in arrears. If the Sub-Fund's expenses exceed the Operating Expenses, the Manager will cover any shortfall from its own assets. Conversely, if the Sub-Fund's expenses are less than the Operating Expenses, the Manager will retain the surplus for its own benefits.

Further in accordance with the prospectus all Sub-Funds are managed by the Manager. The Manager shall ensure that neither the HSBC MSCI Golden Dragon ETF nor unitholders of the HSBC MSCI Golden Dragon ETF will suffer any increase in the overall total of initial charges, management fee, or any other costs and any charges payable to the Manager or its connected person as a result of the HSBC MSCI Golden Dragon ETF's investment in the HSBC MSCI China ETF, HSBC MSCI Hong Kong ETF and HSBC MSCI Taiwan ETF.

Operating Expenses for the year/period is comprised of the following fees, including reimbursement from or payment to the Manager for covering the shortfall from its own assets or retaining the surplus for its own benefits.

		<b>Year ended 31 October 2012</b>			
		<b>HSBC MSCI Golden Dragon ETF HK\$</b>	<b>HSBC MSCI China ETF HK\$</b>	<b>HSBC MSCI Hong Kong ETF HK\$</b>	<b>HSBC MSCI Taiwan ETF TWD</b>
<b>Note</b>					
Accounting service fees	8(b)	45,566	45,567	45,435	174,170
Auditors' fee		57,688	288,438	288,438	1,106,142
Trustee's fee	8(b)	240,000	600,000	600,000	2,296,293
Register and transfer agent fees	8(b)	29,891	29,891	29,891	115,205
Information services		–	108,003	49,724	537,184
(Reimbursement from) / payment to Manager	8(b)	(373,002)	(99,911)	(566,008)	594,644
Total operating expenses		<u>143</u>	<u>971,988</u>	<u>447,480</u>	<u>4,823,638</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 6 Expenses (continued)

### (a) Operating expenses (continued)

		2011			
		Period from 13 April 2011 (date of inception) to 31 October 2011	Period from 13 April 2011 (date of inception) to 31 October 2011	Period from 12 April 2011 (date of inception) to 31 October 2011	Period from 12 April 2011 (date of inception) to 31 October 2011
		HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Accounting service fees	8(b)	26,434	26,434	26,565	99,592
Auditors' fee		31,249	156,249	156,249	585,775
Trustee's fee	8(b)	131,333	328,334	330,000	1,238,595
Register and transfer agent fees	8(b)	16,820	16,820	16,752	63,357
Information services		–	50,366	28,094	191,191
Reimbursements from Manager	8(b)	(205,528)	(124,907)	(304,812)	(457,785)
Total operating expenses		<u>308</u>	<u>453,296</u>	<u>252,848</u>	<u>1,720,725</u>

### (b) Other expenses

Other expenses comprise of items not part of Operating Expenses or management fee expense, and include the following:

		Year ended 31 October 2012			
		HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Annual fee		–	19,192	19,140	73,391
Printing and advertising		18,454	18,454	18,454	70,490
Safe custody and bank charges		24,306	74,214	35,637	646,518
Professional fees		–	–	–	202,289
Miscellaneous expenses		–	15,651	1,762	–
Administration fee		–	–	–	233,981
Commission and transaction expenses		9,158	163,843	44,177	814,480
Total other expenses		<u>51,918</u>	<u>291,354</u>	<u>119,170</u>	<u>2,041,149</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 6 Expenses (continued)

### (b) Other expenses (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Annual fee	–	10,719	10,773	40,387
Printing and advertising	931	931	931	3,661
Safe custody and bank charges	11,262	34,287	22,339	204,180
Professional fees	–	–	–	105,435
Miscellaneous expenses	–	23,808	8,123	14,362
Administration fee	–	–	–	130,550
Commission and transaction expenses	4,751	461,135	175,366	672,747
Total other expenses	16,944	530,880	217,532	1,171,322

## 7 Accrued expenses and other payable

The following is a summary of accrued expenses and other payable at the end of the year/period, including reimbursement from or payment to the Manager for covering the shortfall from its own assets or retaining the surplus for its own benefits. See note 6(a) on Operating Expenses.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Accrued expenses and other payable	129,914	448,104	424,167	1,903,947
(Reimbursement from)/ payable to Manager	(64,758)	116,061	(34,021)	827,914
Total accrued expenses and other payable	65,156	564,165	390,146	2,731,861

# Notes to the financial statements

For the year ended 31 October 2012

## 7 Accrued expenses and other payable (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Accrued expenses and other payable	80,299	293,996	267,308	1,258,411
Reimbursements from Manager	(62,402)	(5,691)	(78,193)	(25,831)
Total accrued expenses and other payable	<u>17,897</u>	<u>288,305</u>	<u>189,115</u>	<u>1,232,580</u>

## 8 Transactions with related parties

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

- (a) HSBC Investment Funds (Hong Kong) Limited ("the Manager") which is a member of the HSBC Group, is the Manager of the Sub-Funds. The Manager earns management fees at a maximum rate of 0.05% of net asset value per annum. Management fees are calculated as at each dealing date and payable monthly in arrears. As noted in note 6(a) the Manager shall ensure that the HSBC MSCI Golden Dragon ETF will not suffer any increase in the overall total of initial charges, management fee, or any other costs and any charges payable to the Manager or its connected person as a result of the HSBC MSCI Golden Dragon ETF's investment in the HSBC MSCI China ETF, HSBC MSCI Hong Kong ETF and HSBC MSCI Taiwan ETF.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
(i) Management fee for the year	34	108,003	49,724	537,115
(ii) Management fee payable at year ended	<u>–</u>	<u>10,158</u>	<u>4,947</u>	<u>47,363</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 8 Transactions with related parties (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
(i) Management fee for the period	34	50,366	28,094	191,192
(ii) Management fee payable at period ended	<u>7</u>	<u>8,337</u>	<u>3,790</u>	<u>32,572</u>

- (b) The Sub-Funds utilise the services of The HSBC Institutional Trust Services (Asia) Limited and pays accounting and professional fee, trustee fee, registrar and transfer agent fee to The Hongkong and Shanghai Banking Corporation Limited.

The following is a summary of operating expenses which were connected to the related parties during the year/period, including the reimbursements to and from Manager as described in note 6(a).

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
(i) Operating expenses				
Accounting service fees	45,566	45,567	45,435	174,170
Trustee's fee	240,000	600,000	600,000	2,296,293
Register and transfer agent fees	29,891	29,891	29,891	115,205
(Reimbursement from)/payment to Manager	(373,002)	(99,911)	(566,008)	594,644
(ii) Operating expenses payable				
Accounting service fee payable	48,000	480,000	48,000	180,926
Trustee fees payable	21,333	53,334	53,333	201,030
Registrar and transfer agent fees	2,500	2,500	2,500	9,423
(Reimbursement from)/payment to Manager	<u>(64,758)</u>	<u>116,061</u>	<u>(34,021)</u>	<u>827,914</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 8 Transactions with related parties (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
(i) Operating expenses				
Accounting service fees	26,434	26,434	26,565	99,592
Trustee's fee	131,333	328,334	330,000	1,238,595
Register and transfer agent fees	16,820	16,820	16,752	63,357
Reimbursement from Manager	(205,528)	(124,907)	(304,812)	(457,785)
(ii) Operating expenses payable				
Accounting service fee payable	26,434	26,434	26,565	102,321
Trustee fees payable	20,000	50,000	50,000	192,587
Registrar and transfer agent fees	2,609	2,610	2,610	10,051
Reimbursement from Manager	(62,402)	(5,691)	(78,193)	(25,831)

(c) The Sub-Funds utilise the services of HSBC Bank Plc Futures Wholesale Trading Operations and The Hongkong and Shanghai Banking Corporation Limited which is a member of HSBC Group. Details of such transactions executed and fees paid during the year/period are shown below.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Value of transactions executed	5,284,150	32,291,406	9,735,664	396,262,658
% of total value of transactions of the Sub-Funds	100%	96.65%	99.79%	100%
Commission and transaction expenses	1,467	17,972	5,019	101,955
Average Investment transaction commission rate	0.03%	0.06%	0.05%	0.03%

# Notes to the financial statements

For the year ended 31 October 2012

## 8 Transactions with related parties (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Value of transactions executed	140,224,242	249,496,877	109,866,482	899,607,406
% of total value of transactions of the Sub-Funds	100.00%	91.48%	90.57%	96.95%
Commission and transaction expenses	972	76,203	22,239	225,587
Average Investment transaction commission rate	0.00%	0.03%	0.02%	0.03%

Also, the Sub-Funds utilise the services of The Hongkong and Shanghai Banking Corporation Limited and pays securities expenses and safe custody charges for depository of securities and commitment fee on unused portion of bank overdraft facility and the annual fee for the bank overdraft facility to The Hongkong and Shanghai Banking Corporation Limited. Details of such fees paid during the year/period are shown below.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Transaction handling expense	4,075	107,233	28,326	583,849
Safe custody, bank charges and other expense	24,306	74,214	35,637	646,518
Annual fee on bank overdraft facility	-	19,193	19,140	73,391

# Notes to the financial statements

For the year ended 31 October 2012

## 8 Transactions with related parties (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Transaction handling expense	2,338	69,617	16,337	392,128
Safe custody, bank charges and other expense	11,262	17,096	10,307	202,223
Annual fee on bank overdraft facility	–	19,443	19,443	73,785

- (d) (i) Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited which is a member of HSBC Group. The respective balances are set out below:

	31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Cash held at the year end	1,137	1,045,465	642,327	4,503,069

  

	31 October 2011			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Cash held at the period end	170,680	1,485,956	822,844	2,277,763



# Notes to the financial statements

For the year ended 31 October 2012

## 8 Transactions with related parties (continued)

- (ii) Margin accounts are maintained with HSBC Bank Plc Futures Wholesale Trading Operations, which is a fellow subsidiary of the Manager within the HSBC Group. The respective margin deposits are set out below:

	<b>31 October 2012</b>			
	<b>HSBC MSCI Golden Dragon ETF HK\$</b>	<b>HSBC MSCI China ETF HK\$</b>	<b>HSBC MSCI Hong Kong ETF HK\$</b>	<b>HSBC MSCI Taiwan ETF TWD</b>
Margin deposits held at the year end	–	581,496	170,235	2,000,911
	<b>31 October 2011</b>			
	<b>HSBC MSCI Golden Dragon ETF HK\$</b>	<b>HSBC MSCI China ETF HK\$</b>	<b>HSBC MSCI Hong Kong ETF HK\$</b>	<b>HSBC MSCI Taiwan ETF TWD</b>
Margin deposits held at the period end	–	178,722	121,348	4,983,135

- (e) Other income during the year/period relates to charges to the participating dealer, The Hongkong and Shanghai Banking Corporation Limited, in connection with the creation and issue of units.
- (f) Only the Participating Dealer, The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, may submit creation and redemption orders directly to the Sub-Funds. The Participating Dealer may subsequently sell and buy those units on the secondary market.

The Participating Dealer entered into transactions to create nil (2011: 3,600,000) units of the HSBC MSCI Golden Dragon ETF during the year, there were no units redeemed for the years ended 31 October 2012 and 2011. As at 31 October 2012, The Participating Dealer held 2,510,500 units (31 October 2011: 3,069,500 units) of the HSBC MSCI Golden Dragon ETF.

The Participating Dealer entered into transactions to create nil (2011: 8,500,000) units of the HSBC MSCI China ETF during the year, there were no units redeemed for the years ended 31 October 2012 and 2011. As at 31 October 2012, The Participating Dealer held 4,681,742 units (31 October 2011: 5,158,742 units) of the HSBC MSCI China ETF.

The Participating Dealer entered into transactions to create nil (2011: 3,600,000) units of the HSBC MSCI Hong Kong ETF during the year, there were no units redeemed for the years ended 31 October 2012 and 2011. As at 31 October 2012, The Participating Dealer held 1,615,134 units (31 October 2011: 1,893,134 units) of the HSBC MSCI Hong Kong ETF.

The Participating Dealer entered into transactions to create 2,000,000 (2011: 5,000,000) units of the HSBC MSCI Taiwan ETF during the year, there were no units redeemed for the years ended 31 October 2012 and 2011. As at 31 October 2012, The Participating Dealer held 3,109,244 units (31 October 2011: 3,415,587 units) of the HSBC MSCI Taiwan ETF.

# Notes to the financial statements

For the year ended 31 October 2012

## 9 Units in issue

The movements of units in issue are shown as below.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Balance brought forward	3,600,000	8,500,000	3,600,000	5,000,000
Issued during the year	–	–	–	2,000,000
Balance carried forward	<u>3,600,000</u>	<u>8,500,000</u>	<u>3,600,000</u>	<u>7,000,000</u>
	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Issued during the period	<u>3,600,000</u>	<u>8,500,000</u>	<u>3,600,000</u>	<u>5,000,000</u>
Balance carried forward	<u>3,600,000</u>	<u>8,500,000</u>	<u>3,600,000</u>	<u>5,000,000</u>

## 10 Reconciliation of net assets values

The Trustee and the Manager would like to highlight that the principles for calculating the published unit price as set out in the Offering Document 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 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 below.

	Year ended 31 October 2012			
	HSBC MSCI Golden Dragon ETF HK\$	HSBC MSCI China ETF HK\$	HSBC MSCI Hong Kong ETF HK\$	HSBC MSCI Taiwan ETF TWD
Net assets attributable to unitholders as reported in the financial statements	124,973,747	230,017,303	109,945,309	1,081,720,449
Adjustments for different principles adopted by the Sub-Funds in arriving at the total net assets for valuation purposes:				
– Use of closing price instead of bid price in valuing listed securities	–	505,563	177,364	895,861
Adjusted total net assets for valuation purposes	<u>124,973,747</u>	<u>230,522,866</u>	<u>110,122,673</u>	<u>1,082,616,310</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 10 Reconciliation of net assets values (continued)

	2011			
	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Golden Dragon ETF HK\$	Period from 13 April 2011 (date of inception) to 31 October 2011 HSBC MSCI China ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Hong Kong ETF HK\$	Period from 12 April 2011 (date of inception) to 31 October 2011 HSBC MSCI Taiwan ETF TWD
Net assets attributable to unitholders as reported in the financial statements	117,141,579	214,600,914	95,316,091	792,103,945
Adjustments for different principles adopted by the Sub-Funds in arriving at the total net assets for valuation purposes:				
– Use of closing price instead of bid price in valuing listed securities	–	633,224	175,330	666,934
Adjusted total net assets for valuation purposes	<u>117,141,579</u>	<u>215,234,138</u>	<u>95,491,421</u>	<u>792,770,879</u>

## 11 Soft commission arrangements

As regards to the Sub-Funds, the Manager has not entered into any soft commission arrangements with brokers (2011: Nil).

## 12 Fair value information

The Sub-Funds' financial instruments are measured at fair value on the date of the 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 value can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including 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.

### Valuation of financial instruments

The Sub-Funds' accounting policy on fair value measurements is detailed in accounting policy in note 2(e)(iv).

The Sub-Funds measure 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 defined as follows:

# Notes to the financial statements

For the year ended 31 October 2012

## 12 Fair value information (continued)

### Valuation of financial instruments (continued)

- 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 based on observable market data; and
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Fair values of financial assets and financial liabilities that are traded in active markets, such as equities, unit trusts, futures and rights which are listed on recognised stock exchanges are based on quoted market prices or dealer price quotations. For all other financial instruments, the Sub-Funds determine fair value using valuation techniques.

The Sub-Funds use widely recognised valuation models for determining the fair value of the warrants which do not have quoted market prices in an active market. Valuation techniques include net present value, discounted cash flow models, comparison to similar instruments for which market observable prices exist, comparison to similar instruments for which market observable prices exist, comparison to quoted prices for identical instruments that are considered less than active and other valuation models.

The table below presents the carrying value of financial instruments measured at fair value at the date of the statement of assets and liabilities across the three levels of fair value hierarchy.

*HSBC MSCI Golden Dragon ETF*

### 31 October 2012

	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Total HK\$</b>
<i>Financial assets at fair value through profit or loss</i>			
Exchange traded funds	<u>125,037,766</u>	<u>–</u>	<u>125,037,766</u>

### 31 October 2011

	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Total HK\$</b>
<i>Financial assets at fair value through profit or loss</i>			
Exchange traded funds	<u>116,988,796</u>	<u>–</u>	<u>116,988,796</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 12 Fair value information (continued)

### Valuation of financial instruments (continued)

HSBC MSCI China ETF

31 October 2012

	Level 1 HK\$	Level 2 HK\$	Total HK\$
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	221,781,928	–	221,781,928
Futures	71,900	–	71,900
Warrants	–	7,027,999	7,027,999
	<u>221,853,828</u>	<u>7,027,999</u>	<u>228,881,827</u>

31 October 2011

	Level 1 HK\$	Level 2 HK\$	Total HK\$
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	206,553,803	–	206,553,803
Futures	6,500	–	6,500
Warrants	–	6,591,220	6,591,220
	<u>206,560,303</u>	<u>6,591,220</u>	<u>213,151,523</u>

HSBC MSCI Hong Kong ETF

31 October 2012

	Level 1 HK\$	Level 2 HK\$	Total HK\$
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	109,469,843	–	109,469,843
Futures	16,640	–	16,640
	<u>109,486,483</u>	<u>–</u>	<u>109,486,483</u>

31 October 2011

	Level 1 HK\$	Level 2 HK\$	Total HK\$
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	94,308,307	–	94,308,307
Futures	3,000	–	3,000
Rights	136,116	–	136,116
	<u>94,447,423</u>	<u>–</u>	<u>94,447,423</u>

# Notes to the financial statements

For the year ended 31 October 2012

## 12 Fair value information (continued)

### Valuation of financial instruments (continued)

HSBC MSCI Taiwan ETF

#### 31 October 2012

	Level 1 TWD	Level 2 TWD	Total TWD
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	1,077,921,335	–	1,077,921,335
<i>Financial liabilities at fair value through profit or loss</i>			
Futures	(73,033)	–	(73,033)

#### 31 October 2011

	Level 1 TWD	Level 2 TWD	Total TWD
<i>Financial assets at fair value through profit or loss</i>			
Listed equities	786,012,040	–	786,012,040
Rights	61,041	–	61,041
	786,073,081	–	786,073,081
<i>Financial liabilities at fair value through profit or loss</i>			
Futures	(56,545)	–	(56,545)

## 13 Segment information

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

The Manager considers that each of the Sub-Funds have one single operating segment based on one single, integrated investment strategy by investing in constituent stocks of the Indices with the objective to provide investment results that, before fees and expenses, closely correspond to the performance of the Underlying Indices relevant to the Sub-Funds as stipulated in the Offering Document. There were no changes in the operating segment during the year/period.

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 Sub-Funds are domiciled in Hong Kong.

# Notes to the financial statements

**For the year ended 31 October 2012**

## **14 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 October 2012**

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 October 2012 and which have not been adopted in these financial statements.

These include, the following which may be relevant to the Sub-Funds:

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 9, <i>Financial instruments</i>	1 January 2015
HKFRS 13, <i>Fair value measurement</i>	1 January 2013

The Sub-Funds are 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 they have concluded that the adoption of them is unlikely to have a significant impact on the Sub-Funds' results of operations and financial position.

## Investment portfolio

As at 31 October 2012 (Unaudited)

### HSBC MSCI Golden Dragon ETF

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed investments</b>			
<i>Exchange traded funds</i>			
HSBC ETFs Trust – HSBC MSCI China ETF	2,232,758	60,549,494	48.45
HSBC ETFs Trust – HSBC MSCI Hong Kong ETF	976,866	29,881,940	23.91
HSBC ETFs Trust – HSBC MSCI Taiwan ETF	843,413	34,606,332	27.69
<b>Total investments</b>		125,037,766	100.05
<i>(Total cost of investments: HK\$137,640,599)</i>			
<b>Other net liabilities</b>		(64,019)	(0.05)
<b>Total net assets attributable to unitholders</b>		124,973,747	100.00



# Investment portfolio

As at 31 October 2012 (Unaudited)

<i>HSBC MSCI China ETF</i>			
	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities</b>			
Agile Property Holdings Ltd	62,704	552,422	0.24
Agricultural Bank of China H Shares	970,846	3,242,626	1.41
Air China Ltd H Shares	81,641	448,209	0.19
Aluminium Corp of China Ltd H Shares	177,716	598,903	0.26
Angang Steel Co Ltd H Shares	48,576	225,393	0.10
Anhui Conch Cement Co Ltd H Shares	55,510	1,482,117	0.64
Anta Sports Products Ltd	39,661	260,969	0.11
Avichina Industry & Technology Co Ltd	90,453	287,640	0.12
Bank of China Ltd H Shares	3,397,083	10,802,724	4.70
BBMG Corp H Shares	50,248	334,652	0.15
Beijing Capital International Airport Co Ltd H Shares	85,546	426,019	0.19
Beijing Enterprises Holdings Ltd	23,338	1,163,399	0.51
Belle International Holdings Ltd	209,436	3,015,878	1.31
Bosideng International Holdings Ltd	126,613	310,202	0.13
Brilliance China Automotive	112,468	1,085,316	0.47
Byd Co Ltd H Shares	23,517	359,810	0.16
China Agri-Ind Holdings Ltd	73,243	354,496	0.15
China Bluechemical Ltd H Shares	80,498	393,635	0.17
China Citic Bank Corp Ltd H Shares	335,612	1,325,667	0.58
China Coal Energy Co H Shares	185,288	1,426,718	0.62
China Communications Construction Co Ltd H Shares	200,240	1,455,745	0.63
China Communications Services Corp Ltd H Shares	106,999	465,446	0.20
China Construction Bank H Shares	3,255,104	19,009,807	8.26
China COSCO Holdings Co Ltd H Shares	116,707	448,155	0.19
China Everbright Ltd	38,155	428,099	0.19
China Gas Holdings Ltd	138,918	586,234	0.25
China Life Insurance Co H Shares	335,615	7,668,803	3.33
China Longyuan Power Group Corp H Shares	97,704	493,405	0.21
China Mengniu Dairy Co Ltd	55,675	1,302,795	0.57
China Merchants Bank Co Ltd H Shares	176,654	2,550,884	1.11
China Merchants Holdings International Co Ltd	50,287	1,284,833	0.56
China Minsheng Banking Co Ltd H Shares	234,523	1,651,042	0.72
China Mobile Ltd	268,600	23,059,310	10.03
China National Building Material Co Ltd H Shares	130,114	1,285,526	0.56
China Oilfield Services Ltd	69,498	1,018,841	0.44
China Overseas Land & Investment Ltd	184,345	3,723,769	1.62
China Pacific Insurance (Gr) Co Ltd H Shares	88,652	2,149,811	0.93
China Petroleum & Chemical Corp H Shares	757,647	6,235,435	2.71
China Railway Construction Corp H Shares	88,882	685,280	0.30

# Investment portfolio

As at 31 October 2012 (Unaudited)

	<i>HSBC MSCI China ETF</i>		
	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
China Railway Group Ltd H Shares	180,184	711,727	0.31
China Resources Cement Holding Ltd	89,102	467,785	0.20
China Resources Enterprise Ltd	54,859	1,382,447	0.60
China Resources Gas Group Ltd	33,200	568,384	0.25
China Resources Land Ltd	91,826	1,623,484	0.71
China Resources Power Holdings Co Ltd	85,023	1,409,681	0.61
China Rongsheng Heavy Industries Group Holdings Ltd	142,016	235,747	0.10
China Shanshui Cement Group Co Ltd	82,706	475,559	0.21
China Shenhua Energy Co Ltd H Shares	153,307	5,043,800	2.19
China Shipping Container Lines Co Ltd H Shares	168,988	349,805	0.15
China Shipping Development Co Ltd H Shares	58,368	236,974	0.10
China Southern Airlines Co Ltd H Shares	82,625	303,234	0.13
China State Construction International Holdings Ltd	78,762	725,398	0.32
China Taiping Insurance Holdings Co Ltd	38,516	509,952	0.22
China Telecom Corp Ltd H Shares	626,423	2,875,282	1.25
China Unicom (Hong Kong)	212,384	2,684,534	1.17
China Yurun Food Group Ltd	61,390	348,695	0.15
China Zhengtong Auto Services Holdings Ltd	40,000	208,400	0.09
China Zhongwang Holdings Ltd	73,149	225,299	0.10
Chongqing Rural Commercial Bank Co Ltd H Shares	107,366	389,739	0.17
CITIC Pacific Ltd	57,484	565,068	0.25
CITIC Securities Co Ltd H Shares	26,500	384,780	0.17
CNOOC Ltd	806,401	12,966,928	5.64
COSCO Pacific Ltd	73,786	839,685	0.37
Country Garden Holdings Co	197,817	611,254	0.27
CSR Corporation Ltd H Shares	86,569	521,145	0.23
Dah Chong Hong	37,400	271,898	0.12
Daphne International Holdings Ltd	41,000	380,480	0.17
Datang International Power Gen Co Ltd H Shares	135,006	371,266	0.16
Dongfang Electric Corp Ltd H Shares	15,441	199,807	0.09
Dongfeng Motor Group Co Ltd H Shares	122,374	1,172,343	0.51
ENN Energy Holdings Ltd	34,240	1,102,528	0.48
Evergrande Real Estate Group	236,547	799,529	0.35
Far East Horizon Ltd	59,800	327,106	0.14
Fosun International	72,282	274,672	0.12
Franshion Properties China Ltd	144,699	340,043	0.15
GCL Poly Energy Holdings Ltd	349,394	478,670	0.21
Geely Automobile Holdings Ltd	168,314	560,486	0.24
Golden Eagle Retail Group Ltd	30,673	520,828	0.23
Gome Electrical Appliances Holdings Ltd	457,054	365,643	0.16

# Investment portfolio

As at 31 October 2012 (Unaudited)

<i>HSBC MSCI China ETF</i>			
	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
Great Wall Motor Co Ltd H Shares	46,627	993,155	0.43
Guangdong Investments Ltd	112,095	708,440	0.31
Guangzhou Automobile Group Co Ltd H Shares	99,101	525,235	0.23
Guangzhou R&F Properties Co Ltd H Shares	41,329	393,039	0.17
Haier Electronics Group Co Ltd	37,200	368,280	0.16
Hengan International Group Co Ltd	33,218	2,341,869	1.02
Hengdeli Holdings Ltd	98,405	239,124	0.10
Huabao International Holdings Ltd	93,030	359,096	0.16
Huaneng Power International Inc H Shares	145,054	896,434	0.39
Industrial and Commercial Bank of China H Shares	2,938,395	15,015,198	6.53
Intime Department Store Group Co Ltd	44,988	411,640	0.18
Jiangsu Expressway Co Ltd H Shares	52,919	353,499	0.15
Jiangxi Copper Co Ltd H Shares	62,632	1,252,640	0.54
Kingboard Chemical Holdings Ltd	27,196	625,508	0.27
Kunlun Energy Co Ltd	145,840	2,097,179	0.91
Lee & Man Paper Manufacturing Ltd	84,453	342,879	0.15
Lenovo Group Ltd	280,194	1,740,005	0.76
Longfor Properties	58,029	793,837	0.34
Metallurgical Corporation of China Ltd H Shares	129,736	184,225	0.08
MMG Ltd	72,664	223,078	0.10
Nine Dragons Paper Holdings Ltd	74,009	402,609	0.17
Parkson Retail Group Ltd	63,454	413,085	0.18
Petrochina Co Ltd H Shares	952,805	10,042,565	4.37
PICC Property and Casualty Co Ltd	119,759	1,233,518	0.54
Poly Property Group Co Ltd (formerly known as Poly (Hong Kong) Investment Ltd)	89,446	417,713	0.18
SANY Heavy Equipment International Holdings Co Ltd	42,499	172,546	0.07
Shandong Weigao Group Medical Polymer Co Ltd H Shares	71,800	749,592	0.33
Shanghai Electric Grp Corp H Shares	126,560	397,398	0.17
Shanghai Industrial Holdings Ltd	24,146	600,028	0.26
Shanghai Pharmaceuticals Holding Co Ltd H Shares	27,700	397,772	0.17
Shimao Property Holdings Ltd	62,874	928,020	0.40
Shougang Fushan Resources Group Ltd (formerly known as Fushan International Energy Group Ltd)	133,850	361,395	0.16
Shui On Land Ltd	118,380	385,919	0.17
Sihuan Pharmaceutical Holdings	81,574	246,353	0.11
Sino-Ocean Land Holdings Ltd	127,589	620,083	0.27
Sinopec Shanghai Petrochemical Co Ltd H Shares	104,531	231,013	0.10
Sinopharm Medicine Holding Co Ltd H Shares	35,454	923,577	0.40

# Investment portfolio

As at 31 October 2012 (Unaudited)

	<b>HSBC MSCI China ETF</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets attributable to unitholders</b>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
Soho China Ltd	93,660	488,905	0.21
Sun Art Retail Group Ltd	86,000	903,000	0.39
Tencent Holdings Ltd	45,743	12,533,582	5.45
Tingyi (Cayman) Holdings Corp	89,085	2,044,501	0.89
Tsingtao Brewery Co Ltd H Shares	13,733	574,726	0.25
Uni-President China Holdings	48,800	472,384	0.21
Want Want China Holdings Ltd	268,933	2,834,554	1.23
Weichai Power Co Ltd H Shares	21,426	586,001	0.25
Wumart Stores Inc H Shares	22,992	315,450	0.14
Yanzhou Coal Mining Co Ltd H Shares	89,223	1,038,556	0.45
Yingde Gases Group Company	40,700	299,145	0.13
Yuexiu Property Co Ltd	229,834	487,248	0.21
Zhaojin Mining Industry Co Ltd H Shares	39,230	509,205	0.22
Zhejiang Expressway Co Ltd H Shares	64,792	364,131	0.16
Zhongsheng Group Holdings Ltd	26,000	260,000	0.11
Zhuzhou CSRTimes Electric Co Ltd H Shares	20,248	460,642	0.20
Zijin Mining Group Co Ltd H Shares	271,868	842,791	0.37
Zoomlion Heavy Industry Science and Technology Co Ltd H Shares	61,346	639,225	0.28
ZTE Corporation H Shares	28,462	310,236	0.13
		221,781,928	96.42
		221,781,928	96.42
<b>Futures</b>			
Mini H-Shares Index Futures 28/12/2012	10	71,900	0.03
		71,900	0.03
<b>Unlisted Investments</b>			
<b>Warrants</b>			
Morgan Stanley (Bank of Communications Ltd H Shares) CWTS 14/03/2014	328,763	1,821,347	0.79
Morgan Stanley (Ping An Insurance (Group) Co of China Ltd H Shares) CWTS 14/03/2014	84,868	5,206,652	2.27
		5,206,652	2.27
		7,027,999	3.06
		7,027,999	3.06
<b>Total investments</b>		228,881,827	99.51
<i>(Total cost of investments: HK\$259,412,825)</i>			
<b>Other net assets</b>		1,135,476	0.49
<b>Total net assets attributable to unitholders</b>		230,017,303	100.00

# Investment portfolio

As at 31 October 2012 (Unaudited)

## HSBC MSCI Hong Kong ETF

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities</b>			
AIA Group Ltd	442,886	13,574,456	12.35
ASM Pacific Technology	8,576	740,538	0.67
Bank of East Asia	59,208	1,699,270	1.55
BOC Hong Kong (Holdings) Ltd	160,601	3,822,304	3.48
Cathay Pacific Airways Ltd	50,697	710,772	0.65
Cheung Kong Holdings Ltd	60,277	6,901,716	6.28
Cheung Kong Infrastructure Holdings Ltd	20,990	951,896	0.87
CLP Holdings Ltd	78,222	5,154,830	4.69
First Pacific Co	90,882	780,676	0.71
Foxconn International Holdings	94,944	255,399	0.23
Galaxy Entertainment Group Ltd	63,652	1,696,326	1.54
Hang Lung Group Ltd	37,995	1,738,271	1.58
Hang Lung Properties Ltd	96,757	2,597,925	2.36
Hang Seng Bank Ltd	33,100	3,932,280	3.58
Henderson Land Development	40,708	2,186,020	1.99
Hong Kong & China Gas	225,918	4,642,615	4.22
Hong Kong Exchanges and Clearing Ltd	44,541	5,683,432	5.17
Hopewell Holdings Ltd	24,436	681,764	0.62
Hutchison Whampoa Ltd	92,280	7,027,122	6.39
Hysan Development Co Ltd	27,454	940,300	0.86
Kerry Properties Ltd	31,004	1,190,554	1.08
Li & Fung Ltd	252,451	3,281,863	2.98
Lifestyle International Holdings Ltd	21,589	355,787	0.32
Link REIT	98,042	3,779,519	3.44
MGM China Holdings Ltd	41,300	579,026	0.53
MTR Corp Ltd	62,750	1,895,050	1.72
New World Development Ltd	160,311	1,910,907	1.74
NWS Holdings Ltd	62,381	731,105	0.66
Orient Overseas International Ltd	9,595	468,716	0.43
PCCW Ltd	173,212	542,154	0.49
Power Assets Holdings Ltd	60,270	3,965,766	3.61
Sands China Ltd	104,573	3,037,846	2.76
Shangri-La Asia Ltd	67,716	1,015,740	0.92
Sino Land Co	127,114	1,759,258	1.60
SJM Holdings Ltd	84,499	1,421,273	1.29
Sun Hung Kai Properties Ltd	68,020	7,339,358	6.68
Swire Pacific Ltd A	29,336	2,700,379	2.46
Wharf Holdings Ltd	65,549	3,467,542	3.15

## Investment portfolio

As at 31 October 2012 (Unaudited)

### HSBC MSCI Hong Kong ETF

	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets attributable to unitholders</b>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
Wheelock & Co Ltd	39,653	1,340,271	1.22
Wing Hang Bank Ltd	7,824	638,047	0.58
Wynn Macau Ltd	67,373	1,478,837	1.34
Yue Yuen Industrial Holdings Ltd	32,005	852,933	0.78
		<u>109,469,843</u>	<u>99.57</u>
<b>Futures</b>			
Mini Hang Seng Index Futures 28/12/2012	2	16,640	0.01
		<u>109,486,483</u>	<u>99.58</u>
<b>Total investments</b>			
<i>(Total cost of investments: HK\$111,886,425)</i>			
<b>Other net assets</b>		<u>458,826</u>	<u>0.42</u>
<b>Total net assets attributable to unitholders</b>		<u><u>109,945,309</u></u>	<u><u>100.00</u></u>

# Investment portfolio

As at 31 October 2012 (Unaudited)

	<i>HSBC MSCI Taiwan ETF</i>		
	<i>Holdings</i>	<i>Market value TWD</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities</b>			
Acer Inc	238,464	5,389,286	0.50
Advanced Semiconductor Engineering Inc	593,821	13,064,062	1.21
Advantech Co Ltd	27,379	2,765,279	0.26
Airtac International Group	8,000	1,092,000	0.10
Asia Cement Corp	189,618	6,883,133	0.64
Asustek Computer Inc	66,826	20,883,125	1.93
Au Optronics Corp	734,976	8,121,485	0.75
Capital Securities Corp	162,504	1,579,539	0.15
Catcher Technology Co Ltd	55,082	6,995,414	0.65
Cathay Financial Holding Co Ltd	692,546	20,326,225	1.88
Chang Hwa Commercial Bank	425,817	6,280,801	0.58
Cheng Shin Rubber Industry Co Ltd	179,217	13,064,919	1.21
Cheng Uei Precision Industry Co	37,239	2,409,363	0.22
Chicony Electronics Co Ltd	45,855	2,934,720	0.27
Chimei Innolux Corp	534,065	5,794,605	0.54
China Airlines	254,772	2,904,401	0.27
China Development Financial Holding Co Inc	1,203,091	7,856,184	0.73
China Life Insurance Co Ltd	177,050	4,027,887	0.37
China Motor Co Ltd	54,334	1,428,984	0.13
China Petrochemical Develop Corp	135,705	2,754,812	0.25
China Steel Corp	1,121,577	28,151,583	2.60
Chinatrust Financial Holding Co Ltd	1,094,505	17,621,530	1.63
Chunghwa Telecom Co Ltd	372,639	34,096,468	3.15
CLEVO Co	44,130	1,676,940	0.15
Compal Electronics Inc	409,032	7,505,737	0.69
CTCI Corp	56,000	3,253,600	0.30
Delta Electronics Inc	176,951	17,642,015	1.63
E Ink Holdings Inc	79,651	1,867,816	0.17
E.Sun Financial Holding Co	376,334	5,513,293	0.51
Epistar Corp	71,328	3,313,186	0.31
Eternal Chemical Co Ltd	67,817	1,542,837	0.14
Eva Airways Corp	159,876	2,709,898	0.25
Evergreen Marine Corp	163,223	2,456,506	0.23
Everlight Electronics Co Ltd	33,073	1,008,727	0.09
Far Eastern Department Stores Ltd	94,141	2,588,878	0.24
Far Eastern New Century Corp	296,076	8,956,299	0.83
Far Eastone Telecommunication Co Ltd	156,458	10,545,269	0.97
Farglory Land Developers Co Ltd	33,500	1,644,850	0.15

## Investment portfolio

As at 31 October 2012 (Unaudited)

HSBC MSCI Taiwan ETF

	<i>Holdings</i>	<i>Market value TWD</i>	<i>% of total net assets attributable to unitholders</i>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
Feng Hsin Iron & Steel Co Ltd	40,106	1,850,892	0.17
First Financial Holding	636,791	10,570,731	0.98
Formosa Chemicals & Fibre Corp	306,245	21,161,529	1.96
Formosa International Hotels Corp	3,694	1,152,528	0.11
Formosa Petrochemical Corp	111,697	9,438,396	0.87
Formosa Plastics Corp	389,406	30,957,777	2.86
Formosa Taffeta Co Ltd	73,880	1,902,410	0.18
Foxconn Technology Co Ltd	71,866	7,294,399	0.67
Fubon Financial Holding Co	556,521	16,695,630	1.54
Giant Manufacturing Co Ltd	27,687	4,153,050	0.38
Highwealth Construction Corp	31,881	1,615,968	0.15
Hiwin Technologies Corp	16,491	3,100,308	0.29
Hon Hai Precision Industry	979,101	86,846,259	8.03
Hotai Motor Co Ltd	24,000	4,956,000	0.46
HTC Corp	71,176	15,018,136	1.39
Hua Nan Financial Holdings Co Ltd	506,822	7,754,377	0.72
Inotera Memories Inc	185,178	735,157	0.07
Inventec Co Ltd	228,712	2,282,546	0.21
Kinsus Interconnect Technology Corp	26,589	2,132,438	0.20
Largan Precision Co Ltd	9,618	5,972,778	0.55
LCY Chemical Corp (formerly known as Lee Chang Yung Chemical Industries Corp)	45,157	1,363,741	0.13
Lite-On Technology Corp	202,386	7,528,759	0.70
Macronix International Co Ltd	344,841	2,620,792	0.24
Mediatek Inc	112,591	36,479,484	3.37
Mega Financial Holding Co Ltd	784,470	16,630,764	1.54
Motech Industries Inc	30,273	679,629	0.06
Mstar Semiconductor Inc	20,690	5,110,430	0.47
Nan Kang Rubber Tire Co Ltd	56,957	1,922,299	0.18
Nan Ya Plastic Corp	461,865	23,739,861	2.19
Nan Ya Printed Circuit Board Corp	19,442	651,307	0.06
Novatek Microelectronics Ltd	49,825	5,455,837	0.50
Pegatron Corp	154,600	5,697,010	0.53
Phison Electronics Corp	11,871	2,665,040	0.25
Pou Chen Corp	215,141	6,346,660	0.59
Powertech Technology Inc	70,170	3,178,701	0.29
President Chain Store Corp	56,070	8,074,080	0.75
Quanta Computer Inc	244,407	16,301,947	1.51
Radiant Opto-Electronics Corp	42,200	5,106,200	0.47
Realtek Semiconductor Corp	44,271	2,434,905	0.23
Richtek Technology Corp	13,580	2,152,430	0.20



# Investment portfolio

As at 31 October 2012 (Unaudited)

	<b>HSBC MSCI Taiwan ETF</b>		
	<b>Holdings</b>	<b>Market value TWD</b>	<b>% of total net assets attributable to unitholders</b>
<b>Listed Investments</b>			
<b>Equities (continued)</b>			
Ruentex Development Co Ltd	57,385	2,811,865	0.26
Ruentex Industries Ltd	44,880	2,953,104	0.27
Shin Kong Financial Holdings	578,435	4,372,969	0.40
Siliconware Precision Industries Co	290,266	8,272,581	0.76
Simplo Technology Co Ltd	26,879	4,461,914	0.41
Sino-American Silicon Product	45,741	1,289,896	0.12
Sinopac Financial Holdings Co Ltd	590,958	6,648,277	0.61
Standard Foods Corp	25,800	1,929,840	0.18
Synnex Tech International Corp	122,766	7,586,939	0.70
Taishin Financial Holdings Co Ltd	640,955	6,665,932	0.62
Taiwan Business Bank	287,772	2,336,709	0.22
Taiwan Cement Corp	307,316	11,493,618	1.06
Taiwan Cooperative Financial Holding	462,013	6,999,497	0.65
Taiwan Fertilizer Co Ltd	71,678	4,988,789	0.46
Taiwan Glass Industrial Corp	93,034	2,586,345	0.24
Taiwan Mobile Co Ltd	163,789	16,706,478	1.54
Taiwan Semiconductor Manufacturing Co Ltd	2,409,216	213,215,616	19.71
Teco Electric & Machinery Co Ltd	171,269	3,391,126	0.31
TPK Holding Co Ltd	22,997	8,416,902	0.78
Transcend Information Inc	18,269	1,342,772	0.12
Tripod Technology Corp	41,204	2,323,906	0.21
Tsrc Corp	54,073	3,217,344	0.30
Tung Ho Steel Enterprise Corp	72,400	2,001,860	0.19
U-Ming Marine Transport Corp	42,419	1,879,162	0.17
Unimicron Technology Corp	120,161	3,592,814	0.33
Uni-President Enterprises Corp	404,524	20,873,438	1.93
United Microelectronics	1,204,721	13,071,223	1.21
Walsin Lihwa Corp	318,666	2,549,328	0.24
Wan Hai Lines Ltd	108,448	1,550,806	0.14
Wintek Corp	162,484	1,876,690	0.17
Wistron Corp	203,601	5,711,008	0.53
WPG Holdings Co Ltd	137,518	4,847,509	0.45
Yang Ming Marine Transport	137,831	1,571,273	0.15
Yuanta Financial Hldg Co Ltd	785,094	10,363,241	0.96
Yulon Motor Co Ltd	85,113	4,340,763	0.40
Zhen Ding Technology Holding	16,800	1,296,960	0.12
		1,077,921,335	99.65
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## Investment portfolio

As at 31 October 2012 (Unaudited)

	<b>HSBC MSCI Taiwan ETF</b>		
	<b>Holdings</b>	<b>Market value TWD</b>	<b>% of total net assets attributable to unitholders</b>
<b>Listed Investments</b>			
<b>Futures</b>			
MSCI Taiwan Index 29/11/2012	5	(73,033)	(0.01)
<b>Total investments</b>		1,077,848,302	99.64
<i>(Total cost of investments: TWD1,200,645,069)</i>			
<b>Other net assets</b>		3,872,147	0.36
<b>Total net assets attributable to unitholders</b>		1,081,720,449	100.00

# Statement of movements in portfolio holdings

For the year ended 31 October 2012 (Unaudited)

## HSBC MSCI Golden Dragon ETF

	<i>% of net asset attributable to unitholders 2012</i>	<i>% of net asset attributable to unitholders 2011</i>
<b>Listed investments</b>		
Exchange traded funds	100.05	99.87
<b>Total investments</b>	100.05	99.87
<b>Other net (liabilities)/assets</b>	(0.05)	0.13
<b>Total net assets attributable to unitholders</b>	100.00	100.00

## HSBC MSCI China ETF

	<i>% of net asset attributable to unitholders 2012</i>	<i>% of net asset attributable to unitholders 2011</i>
<b>Listed investments</b>		
Equities	96.42	96.25
Futures	0.03	0.00
<b>Unlisted investments</b>		
Warrants	3.06	3.07
<b>Total investments</b>	99.51	99.32
<b>Other net assets</b>	0.49	0.68
<b>Total net assets attributable to unitholders</b>	100.00	100.00

# Statement of movements in portfolio holdings

For the year ended 31 October 2012 (Unaudited)

## HSBC MSCI Hong Kong ETF

	<i>% of net asset attributable to unitholders 2012</i>	<i>% of net asset attributable to unitholders 2011</i>
<b>Listed investments</b>		
Equities	99.57	98.95
Futures	0.01	0.00
<b>Unlisted investments</b>		
Rights	0.00	0.14
<b>Total investments</b>	99.58	99.09
<b>Other net assets</b>	0.42	0.91
<b>Total net assets attributable to unitholders</b>	100.00	100.00

## HSBC MSCI Taiwan ETF

	<i>% of net asset attributable to unitholders 2012</i>	<i>% of net asset attributable to unitholders 2011</i>
<b>Listed investments</b>		
Equities	99.65	99.23
Futures	(0.01)	(0.01)
<b>Unlisted investments</b>		
Rights	0.00	0.01
<b>Total investments</b>	99.64	99.23
<b>Other net assets</b>	0.36	0.77
<b>Total net assets attributable to unitholders</b>	100.00	100.00

## Performance of the underlying index and the Sub-Funds

For the year ended 31 October 2012 (Unaudited)

Fund/Index	Performance in HK Dollar	
	2012	2011
HSBC MSCI Golden Dragon ETF	6.69%	(15.92%)*
MSCI Golden Dragon Index	7.40%	(15.57%)

Fund/Index	Performance in HK Dollar	
	2012	2011
HSBC MSCI China ETF	7.10%	(18.31%)*
MSCI China Index	7.71%	(18.03%)

Fund/Index	Performance in HK Dollar	
	2012	2011
HSBC MSCI Hong Kong ETF	15.32%	(13.06%)*
MSCI Hong Kong Index	16.12%	(12.59%)

Fund/Index	Performance in Taiwan Dollar	
	2012	2011
HSBC MSCI Taiwan ETF	(2.46%)	(10.39%)*
MSCI Taiwan Index	(1.78%)	(10.09%)

\* Performance is calculated in the base currency with the change between period end NAV and IPO price, divided by IPO price.

Investors should note that investment involves risks and not all investment risks are predictable. Prices of sub-fund units may go up as well as down and past performance information presented is not indicative of future performance. Investors should read the Hong Kong Offering Document of HSBC ETFs Trust (including the full text of the risk factors stated therein (such as the arrangement in the event that the Sub-Funds are delisted)) in detail before making any investment decision.

## Performance record (Unaudited)

### HSBC MSCI Golden Dragon ETF

**(a) Price record (Dealing net asset value per unit)**

Year/period	Class A units	
	Lowest HK\$	Highest HK\$
Year ended 31 October 2012	29.2259	35.8891
Period from 13 April 2011 (date of inception) to 31 October 2011	27.1372	39.2413

**(b) Total net asset value (at bid prices)**

	2012 HK\$	2011 HK\$
Total net asset value	124,973,747	117,141,579

**(c) Net asset value per unit (at bid prices)**

	2012 HK\$	2011 HK\$
Net asset value per unit – Class A units	34.7149	32.5393

### HSBC MSCI China ETF

**(a) Price record (Dealing net asset value per unit)**

Year/period	Class A units	
	Lowest HK\$	Highest HK\$
Year ended 31 October 2012	22.8197	28.0109
Period from 13 April 2011 (date of inception) to 31 October 2011	20.0580	31.3871

**(b) Total net asset value (at bid prices)**

	2012 HK\$	2011 HK\$
Total net asset value	230,017,303	214,600,914

**(c) Net asset value per unit (at bid prices)**

	2012 HK\$	2011 HK\$
Net asset value per unit – Class A units	27.0609	25.2472

## Performance record (Unaudited)

### HSBC MSCI Hong Kong ETF

**(a) Price record (Dealing net asset value per unit)**

Year/period	Class A units	
	Lowest HK\$	Highest HK\$
Year ended 31 October 2012	24.1201	31.1155
Period from 12 April 2011 (date of inception) to 31 October 2011	21.7842	30.8569

**(b) Total net asset value (at bid prices)**

	2012 HK\$	2011 HK\$
Total net asset value	109,945,309	95,316,091

**(c) Net asset value per unit (at bid prices)**

	2012 HK\$	2011 HK\$
Net asset value per unit – Class A units	30.5404	26.4767

### HSBC MSCI Taiwan ETF

**(a) Price record (Dealing net asset value per unit)**

Year/period	Class A units	
	Lowest TWD	Highest TWD
Year ended 31 October 2012	139.9751	169.6718
Period from 12 April 2011 (date of inception) to 31 October 2011	143.6496	184.0512

**(b) Total net asset value (at bid prices)**

	2012 TWD	2011 TWD
Total net asset value	1,081,720,449	792,103,945

**(c) Net asset value per unit (at bid prices)**

	2012 TWD	2011 TWD
Net asset value per unit – Class A units	154.5315	158.4208

## Underlying index constituent stocks disclosure (Unaudited)

Those constituent stocks held by HSBC MSCI Golden Dragon ETF, HSBC MSCI China ETF, HSBC MSCI Hong Kong ETF and HSBC MSCI Taiwan ETF that accounted for more than 10% of the underlying index as at 31 October 2012 are shown below.

### HSBC MSCI Golden Dragon ETF

Constituent stocks	Weighting of the underlying index (%)	
	2012	2011
HSBC MSCI China ETF	48.42%	47.54%
HSBC MSCI Hong Kong ETF	23.90%	29.97%
HSBC MSCI Taiwan ETF	27.68%	22.36%

### HSBC MSCI China ETF

Constituent stocks	Weighting of the underlying index (%)	
	2012	2011
China Mobile Ltd	10.02%	9.60%

### HSBC MSCI Hong Kong ETF

Constituent stocks	Weighting of the underlying index (%)	
	2012	2011
AIA Group Ltd	12.35%	9.20%

### HSBC MSCI Taiwan ETF

Constituent stocks	Weighting of the underlying index (%)	
	2012	2011
Taiwan Semiconductor Manufacturing Co Ltd	19.74%	15.84%



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