

# TraHK

Tracker Fund of Hong Kong

## Tracker Fund of Hong Kong

Stock Code : 2800

Website : [www.trahk.com.hk](http://www.trahk.com.hk)

### Annual Report 2014

1st January 2014 to 31st December 2014



STATE STREET  
GLOBAL ADVISORS.

# Contents

Statement of Responsibilities of the Manager and the Trustee	2
Report of the Trustee to the Unitholders	3
Independent Auditor's Report	4
Statement of Net Assets	6
Statement of Comprehensive Income	7
Statement of Changes in Net Assets Attributable to Holders of Redeemable Units	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Investment Portfolio (Unaudited)	27
Statement of Movements in Investment Portfolio (Unaudited)	29
Performance Record (Unaudited)	31
Administration and Management	32

## STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

### Manager's responsibilities

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

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

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

### Trustee's responsibilities

The Trustee of the Fund is required to:

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

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

We hereby confirm that, in our opinion, the Manager has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 23rd October, 1999 for the year ended 31st December 2014. While the Manager did not have processes for the entire relevant period for cash management that fully contemplated the interest rate environment, in November 2014 it introduced a cash management policy. The Trustee does not believe that this has a material impact on the Fund.

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

(authorized signature(s))  
24th April 2015

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the financial statements of the Fund set out on pages 6 to 26, which comprise the Statement of Net Assets as at 31st December 2014, and the Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### The Trustee's and the Manager's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

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

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

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December 2014, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 24th April 2015

**STATEMENT OF NET ASSETS**

AS AT 31ST DECEMBER 2014

	Notes	2014 HK\$	2013 HK\$
<b>Assets</b>			
<b>Current assets</b>			
Investments	12(b)	62,224,200,759	56,264,943,068
Other accounts receivable and prepayments		151,372	135,727
Bank balances	7(d)	211,935,563	154,111,961
<b>Total assets</b>		<u>62,436,287,694</u>	<u>56,419,190,756</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Management fee payable	7(b)	5,680,137	5,444,657
Trustee fee payable	7(c)	5,680,137	5,444,657
Index license fee payable	8(c)	2,273,836	2,166,442
Registrar fee payable	8(a)	140,120	128,751
Amounts payable on redemption of units		2,728,453	–
Other accounts payable and accruals		1,284,340	1,556,979
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>		<u>17,787,023</u>	<u>14,741,486</u>
<b>Net assets attributable to holders of redeemable units</b>	5	<u><u>62,418,500,671</u></u>	<u><u>56,404,449,270</u></u>

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

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

(authorized signature(s))

(authorized signature(s))

The notes on pages 10 to 26 form part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 HK\$	2013 HK\$
<b>Income</b>			
Dividends		2,183,486,330	1,971,323,080
Bank interest		246,935	–
Transaction fee	4(a)	1,380,000	1,665,000
Other income	4(b)	3,997,501	4,092,913
Net gain on investments	3	837,446,339	2,008,998,730
<b>Total net income</b>		<b>3,026,557,105</b>	<b>3,986,079,723</b>
<b>Expenses</b>			
Management fee	7(b)	21,844,054	21,860,571
Trustee fee	7(c)	21,844,054	21,860,571
Index license fee	8(c)	8,587,496	8,623,340
Transaction costs on investments		5,303,950	5,611,479
Registrar fee	8(a)	1,611,418	1,715,154
Publication and printing expenses		1,703,343	1,327,016
Conversion agent fee	8(b)	1,296,000	1,535,996
Audit fee		524,090	534,506
Legal and other professional fees		–	154,802
Bank charges		452,114	543,344
Other operating expenses		310,240	614,728
<b>Total operating expenses</b>		<b>63,476,759</b>	<b>64,381,507</b>
<b>Operating profit</b>		<b>2,963,080,346</b>	<b>3,921,698,216</b>
<b>Finance costs</b>			
Distributions to holders of redeemable units	13	(2,046,863,700)	(1,798,854,525)
<b>Profit after distributions and before tax</b>		<b>916,216,646</b>	<b>2,122,843,691</b>
Withholding tax	6	(97,292,862)	(105,176,278)
<b>Profit after distributions and tax</b>		<b>818,923,784</b>	<b>2,017,667,413</b>
Change in adjustment for difference in valuation inputs	5	–	(68,889,571)
<b>Increase in net assets attributable to holders of redeemable units from operations</b>		<b>818,923,784</b>	<b>1,948,777,842</b>

The notes on pages 10 to 26 form part of these financial statements.



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

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 HK\$	2013 HK\$
<b>Net assets attributable to holders of redeemable units at 1st January</b>		<u>56,404,449,270</u>	<u>56,898,902,807</u>
Issue of units			
– In-kind	9	24,309,389,240	29,658,287,672
– Cash component	9	<u>255,941,362</u>	<u>319,254,407</u>
		<u>24,565,330,602</u>	<u>29,977,542,079</u>
Redemption of units			
– In-kind	9	(19,175,421,974)	(32,058,490,971)
– Cash component	9	<u>(194,781,011)</u>	<u>(362,282,487)</u>
		<u>(19,370,202,985)</u>	<u>(32,420,773,458)</u>
Net issue/(redemption) of units		<u>5,195,127,617</u>	<u>(2,443,231,379)</u>
Increase in net assets attributable to holders of redeemable units from operations		<u>818,923,784</u>	<u>1,948,777,842</u>
<b>Net assets attributable to holders of redeemable units at 31st December</b>		<u>62,418,500,671</u>	<u>56,404,449,270</u>

The notes on pages 10 to 26 form part of these financial statements.

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31ST DECEMBER 2014

	Notes	2014 HK\$	2013 HK\$
<b>Cash flows from operating activities</b>			
Proceeds from sale of investments	9	2,419,888,281	2,597,116,919
Payments for purchase of investments	9	(2,402,862,916)	(2,581,653,009)
Dividends received		2,081,324,017	1,868,542,138
Bank interest received		246,935	–
Transaction fee received		1,365,000	1,695,000
Management fee paid		(21,608,574)	(21,813,931)
Trustee fee paid		(21,608,574)	(21,813,931)
Index license fee paid		(8,480,102)	(8,539,300)
Registrar fee paid		(1,600,049)	(1,754,094)
Publication and printing expenses paid		(1,831,285)	(1,403,833)
Transaction costs on investments paid		(5,303,950)	(5,611,479)
Conversion agent fee paid		(1,272,000)	(1,535,999)
Bank charges paid		(441,030)	(583,783)
Legal and other professional fees reimbursed/(paid)		45,096	(45,096)
Other operating expenses paid		(1,059,852)	(1,175,975)
<b>Net cash generated from operating activities</b>		<u>2,036,800,997</u>	<u>1,821,423,627</u>
<b>Cash flows from financing activities</b>			
Cash received on issue of units	9	255,941,362	320,468,894
Cash paid on redemption of units	9	(192,052,558)	(362,282,487)
Interim distribution paid	4(b), 13	(359,200,174)	(380,455,379)
Final distribution paid	4(b), 13	(1,683,666,025)	(1,414,306,233)
<b>Net cash used in financing activities</b>		<u>(1,978,977,395)</u>	<u>(1,836,575,205)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		57,823,602	(15,151,578)
Cash and cash equivalents at the beginning of the year		<u>154,111,961</u>	<u>169,263,539</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><u>211,935,563</u></u>	<u><u>154,111,961</u></u>
<b>Analysis of balances of cash and cash equivalents:</b>			
Bank balances	7(d)	<u><u>211,935,563</u></u>	<u><u>154,111,961</u></u>

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

The notes on pages 10 to 26 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General Information

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

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

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

### 2 Summary of significant accounting policies

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

#### (a) Basis of preparation

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

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

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

#### *Standards and amendments to existing standards effective 1st January 2014*

Amendment to HKAS 32, "Financial instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1st January 2014 that would be expected to have a material impact on the Fund.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 Summary of significant accounting policies (Continued)

#### (a) Basis of preparation (Continued)

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

HKFRS 9, "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income. The standard is effective for accounting periods beginning on or after 1st January 2018. Early adoption is permitted. The Fund is yet to assess HKFRS 9's full impact.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund's financial position or performance.

#### (b) Investments

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

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

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

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

#### (c) Income

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

Other income is recognized in the Statement of Comprehensive Income on an accrual basis.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 Summary of significant accounting policies (Continued)

#### (d) Expenses

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

#### (e) Distributions payable to holders of redeemable units

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

#### (f) Cash component

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

#### (g) Cash and cash equivalents

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

#### (h) Translation of foreign currencies

##### *Functional and presentation currency*

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

##### *Transactions and balances*

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****2 Summary of significant accounting policies (Continued)****(i) Redeemable units**

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

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

**(j) Segmental reporting**

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

**3 Net gain on investments**

	2014 HK\$	2013 HK\$
Change in unrealized gain/loss on investments	(1,527,824,828)	1,114,914,118
Realized gain on sale of investments	2,365,271,167	894,084,612
	<u>837,446,339</u>	<u>2,008,998,730</u>

**4 Income****(a) Transaction fee**

Applications to create or redeem units are only made through brokers or dealers (acting either as principal or on behalf of clients) (the "Participating Dealers") which have executed participation agreements with the Manager, the Trustee, HK Conversion Agency Services Limited (the "Conversion Agent") and Hong Kong Securities Clearing Company ("HKSCC"). The Fund is entitled to receive a transaction fee of HK\$15,000 per total aggregate creation and redemption orders per day per Participating Dealer.

**(b) Other income**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

In accordance with the provisions of the Fund's Trust Deed, listed investments are stated at the last traded price on the valuation day for the purpose of determining net asset value per unit for creations and redemptions and for various fee calculations.

The Fund has adopted HKFRS 13 on 1st January 2013 and has changed its valuation inputs for listed investments to last traded prices. This is consistent with the provisions of the Fund's Trust Deed. Prior to 1st January 2013, the Fund utilized bid prices for its listed investments in accordance with HKAS 39. This resulted in a difference with the per unit trading value calculated by the Fund using last traded prices. This change eliminated the difference between the provisions of the Fund's Trust Deed and HKFRS measurement of financial instruments as at 31st December 2013. However, there was a difference of HK\$68,889,571 as at 31st December 2012. The difference is eliminated in 2013 and is presented in the Statement of Comprehensive Income for the year ended 31st December 2013.

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

	Number of units	
	2014	2013
Units in issue at the beginning of the year	2,400,992,500	2,489,992,500
Issue of units	1,049,000,000	1,328,000,000
Redemption of units	<u>(832,000,000)</u>	<u>(1,417,000,000)</u>
Units in issue at the end of the year	<u>2,617,992,500</u>	<u>2,400,992,500</u>
	<i>HK\$</i>	<i>HK\$</i>
Net assets attributable to holders of redeemable units	<u>62,418,500,671</u>	<u>56,404,449,270</u>
Net assets attributable to holders of redeemable units (per unit)	<u>23.84</u>	<u>23.49</u>
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	<u>23,842,124</u>	<u>23,492,139</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 Taxation

No provision for Hong Kong profits tax has been made as the Fund was authorized as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempted from profits tax under Sections 26A(1A) of the Hong Kong Inland Revenue Ordinance.

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

Withholding tax was charged on dividend income received from H-shares and Red Chips during the years ended 31st December 2014 and 2013.

### 7 Transactions with the related parties/Manager and its Connected Persons

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

#### (a) Manager's holding in the Fund

The directors and officers of the Manager may transact in the units of the Fund as principal. As at 31st December 2014, the directors and officers of the Manager together held 23,500 units in the Fund (2013: 23,500 units).

#### (b) Management fee

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7 Transactions with the related parties/Manager and its Connected Persons (Continued)

#### (c) Trustee fee

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

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

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

#### (d) Bank balances

Bank balances amounted to HK\$10,354,688 were held with the Trustee as at 31st December 2014 (2013: HK\$154,111,961). No interest was earned on these bank balances during the years ended 31st December 2014 and 2013.

### 8 Other fees

#### (a) Registrar fee

The fee payable to Computershare Hong Kong Investor Services Limited (the "Registrar"), is calculated based on the number of unitholders on the register on the first business day of the relevant month at the following fee scale, subject to a monthly maximum aggregate registrar fee of HK\$1,000,000.

	<i>HK\$</i> <i>(per month)</i>
For the first 2,000 Unitholders	10,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	2,200
For every additional 1,000 Unitholders up to 200,000 Unitholders	1,800
For every additional 1,000 Unitholders up to 300,000 Unitholders	1,500
For every additional 1,000 Unitholders above 300,000 Unitholders	1,200

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

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

#### (b) Conversion agent fee

The Conversion Agent received a monthly retainer fee of HK\$16,000 plus a transaction fee of HK\$12,000 on total aggregate creation and redemption orders per day per Participating Dealer.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8 Other fees (Continued)

#### (c) Index license fee

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

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

### 9 Major non-cash transactions

In accordance with the Fund's Trust Deed, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash. For each Creation Unit (of 1,000,000 units), the Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the year, the Fund issued 1,049,000,000 units (2013: 1,328,000,000 units), totaling HK\$24,565,330,602 (2013: HK\$29,977,542,079) in exchange for Index Baskets consisting of investments valued at HK\$24,309,389,240 (2013: HK\$29,658,287,672) by the Manager with remaining balances in cash of HK\$255,941,362 (2013: HK\$319,254,407).

In accordance with the Fund's Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the year, the Fund redeemed 832,000,000 units (2013: 1,417,000,000 units), totaling HK\$19,370,202,985 (2013: HK\$32,420,773,458) in exchange for Index Baskets consisting of investments valued at HK\$19,175,421,974 (2013: HK\$32,058,490,971) by the Manager with remaining balances in cash of HK\$194,781,011 (2013: HK\$362,282,487).

### 10 Soft dollar practices

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**11 Investment limitations and prohibitions under the SFC Code**

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

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

	Respective weighting in the Index (%)		% of net asset value	
	2014	2013	2014	2013
HSBC Holdings plc	<u>12.6</u>	<u>15.0</u>	<u>12.6</u>	<u>15.0</u>

During the year ended 31st December 2014, the Hang Seng Index increased by 1.28% (2013: 2.87%), while the net asset value per unit of the Fund increased by 1.49% (2013: 2.80%).

**12 Financial risk management**

**(a) Strategy in using financial instruments**

*Investment objectives*

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

*Investment policies*

The responsibility of the Manager is to reflect changes in the Index, insofar as practicable and subject to the Trust Deed, by replicating changes to the weightings and composition of the constituent shares in the Index in the portfolio of shares which make up the portfolio.

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

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

**NOTES TO THE FINANCIAL STATEMENTS** (Continued)**12 Financial risk management** (Continued)**(b) Market price risk**

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

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

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

	At 31st December			
	2014		2013	
	Fair value HK\$	% of net assets	Fair value HK\$	% of net assets
Held for trading:				
Listed investments				
Equities				
– Hong Kong	62,224,200,759	99.69	56,264,943,068	99.75

*Net market exposures*

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

	2014 % of net assets	2013 % of net assets
By industry		
– Commerce and industry	36.68	39.70
– Finance	47.16	46.36
– Properties	10.96	9.15
– Utilities	4.89	4.54
	<u>99.69</u>	<u>99.75</u>

All the Fund's equity securities are listed on the Hong Kong Stock Exchange. As the Fund is a Hang Seng Index tracking fund, movements in the Index would cause substantially the same percentage change in the Fund's net asset value.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**12 Financial risk management (Continued)**

**(b) Market price risk (Continued)**

*Net market exposures (Continued)*

	2014		2013	
	Change in index %	Impact HK\$	Change in index %	Impact HK\$
Hong Kong – Hang Seng Index	1.28%	796,469,770	2.87%	1,614,803,866

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

**(c) Interest rate risk**

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

**(d) Credit and counterparty risk**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****12 Financial risk management (Continued)****(d) Credit and counterparty risk (Continued)**

At 31st December 2014, investments and bank balances of HK\$62,234,555,447, HK\$50,357,124 and HK\$151,223,751 were placed with the custodian, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered (Hong Kong) Limited Bank respectively (2013: HK\$56,419,055,029 were placed with the custodian). The credit rating of the counterparties issued by Moody's was as follows:

	2014	2013
Investment and Cash held with State Street Bank and Trust Company	Aa3	Aa3
Cash held with The Hongkong and Shanghai Banking Corporation Limited	Aa2	N/A
Cash held with Standard Chartered Bank (Hong Kong) Limited	Aa3	N/A

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

The maximum exposure to credit risk as at 31 December 2014 and 2013 is the carrying amount of the financial assets as shown on the Statement of Net Assets.

The Manager considers none of the assets is impaired nor past due but not impaired.

**(e) Currency risk**

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

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

**(f) Liquidity risk**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(f) Liquidity risk (Continued)

*Maturity analysis*

	Less than 1 month HK\$	1-3 months HK\$	Total HK\$
<b>At 31st December 2014</b>			
Management fee payable	–	5,680,137	5,680,137
Trustee fee payable	–	5,680,137	5,680,137
Index license fee payable	2,273,836	–	2,273,836
Registrar fee payable	140,120	–	140,120
Amounts payable on redemption of units	2,728,453	–	2,728,453
Other accounts payables and accruals	200,078	1,084,262	1,284,340
Net assets attributable to holders of redeemable units	<u>62,418,500,671</u>	<u>–</u>	<u>62,418,500,671</u>
<b>Total financial liabilities</b>	<b><u>62,423,843,158</u></b>	<b><u>12,444,536</u></b>	<b><u>62,436,287,694</u></b>
<b>At 31st December 2013</b>			
Management fee payable	–	5,444,657	5,444,657
Trustee fee payable	–	5,444,657	5,444,657
Index license fee payable	2,166,442	–	2,166,442
Registrar fee payable	128,751	–	128,751
Other accounts payables and accruals	317,547	1,239,432	1,556,979
Net assets attributable to holders of redeemable units	<u>56,404,449,270</u>	<u>–</u>	<u>56,404,449,270</u>
<b>Total financial liabilities</b>	<b><u>56,407,062,010</u></b>	<b><u>12,128,746</u></b>	<b><u>56,419,190,756</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****12 Financial risk management (Continued)****(f) Liquidity risk (Continued)**

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

	Less than 7 days HK\$	7 days to less than 1 month HK\$	Total HK\$
<b>2014</b>	<u>62,436,151,322</u>	<u>–</u>	<u>62,436,151,322</u>
<b>2013</b>	<u>56,419,055,029</u>	<u>–</u>	<u>56,419,055,029</u>

**(g) Capital risk management**

The Fund's objective is to provide investment results that closely correspond to the performance of the Hang Seng Index. The Manager may:

- Redeem and issue new units in accordance with the constitutive documents of the Fund, which include the ability to amend the Creation Unit and Redemption Unit size upon the approval of the Trustee and Supervisory Committee;
- Exercise discretion when determining the amount of distributions of the Fund to holders of redeemable units; and
- Suspend the creation and redemption of units under certain circumstances stipulated in the prospectus.

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 Financial risk management (Continued)

#### (h) Fair value estimation

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

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

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

HKFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

The following table analyses within the fair value hierarchy the Fund's investments (by class) measured at fair value at 31st December 2014 and 2013.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 Financial risk management (Continued)

#### (h) Fair value estimation (Continued)

All fair value measurements disclosed are recurring fair value measurements.

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total balance HK\$
<b>At 31st December 2014</b>				
<b>Assets</b>				
Financial assets held for trading:				
– Equity securities	62,224,200,759	–	–	62,224,200,759
	<u>62,224,200,759</u>	<u>–</u>	<u>–</u>	<u>62,224,200,759</u>
<b>At 31st December 2013</b>				
<b>Assets</b>				
Financial assets held for trading:				
– Equity securities	56,264,943,068	–	–	56,264,943,068
	<u>56,264,943,068</u>	<u>–</u>	<u>–</u>	<u>56,264,943,068</u>

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As of 31st December 2014 and 2013, the Fund did not hold any investments classified in level 2.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As of 31st December 2014 and 2013, the Fund did not hold any investments classified in level 3.

For the years ended 31st December 2014 and 2013, there were no transfers of financial instruments between levels.

The assets and liabilities included in the Statement of Net Assets except investments are carried at amortized cost; their carrying values are a reasonable approximation of fair value.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 13 Distributions

	2014 HK\$	2013 HK\$
Interim distribution		
– HK\$0.15 on 2,549,992,500 units paid on 31st May 2013	–	382,498,875
– HK\$0.15 on 2,407,992,500 units paid on 30th May 2014	361,198,875	–
Final distribution		
– HK\$0.58 on 2,441,992,500 units paid on 29th November 2013	–	1,416,355,650
– HK\$0.69 on 2,442,992,500 units paid on 28th November 2014	1,685,664,825	–
Total distributions	<u>2,046,863,700</u>	<u>1,798,854,525</u>

#### 14 Segment information

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

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

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

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

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

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

The Fund has no assets classified as non-current assets. The Fund has a diversified portfolio of investments. During the year ended 31st December 2014, there were thirteen investments which each accounted for more than 10% of the Fund's net income (2013: six). Please refer to note 11 for investment holdings account for more than 10% of the Fund's net assets.

The Fund also has a diversified unitholder population. However, as at 31st December 2014 and 2013, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 85.96% as at 31st December 2014 and 82.36% as at 31st December 2013.

#### 15 Approval of financial statements

The financial statements were approved by the Trustee and the Manager on 24th April 2015.

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 31ST DECEMBER 2014

	Holdings	Fair value HK\$	% of net assets
<b>Hong Kong</b>			
<b>Listed investments (99.69%)</b>			
<b>Equities (99.69%)</b>			
<b>Properties (10.96%)</b>			
Cheung Kong (Holdings) Ltd.	11,108,905	1,447,490,321	2.32
China Overseas Land & Investment Ltd.	32,669,467	753,031,214	1.21
China Resources Land Ltd.	16,315,046	333,642,691	0.54
Hang Lung Properties Ltd.	17,925,978	389,890,021	0.62
Henderson Land Development Co. Ltd.	8,393,456	455,764,661	0.73
New World Development Co. Ltd.	41,553,743	370,659,388	0.59
Sino Land Co. Ltd.	24,046,713	301,064,847	0.48
Sun Hung Kai Properties Ltd.	10,893,170	1,288,662,011	2.06
The Link Real Estate Investment Trust	18,327,220	889,786,531	1.43
Wharf (Holdings) Ltd.	10,899,721	610,384,376	0.98
		<hr/>	
		6,840,376,061	<hr/> 10.96
<b>Finance (47.16%)</b>			
AIA Group Ltd.	96,282,579	4,154,593,284	6.66
Bank of China Ltd.	635,013,742	2,775,010,053	4.45
BOC Hong Kong (Holdings) Ltd.	29,579,773	767,595,109	1.23
Bank of Communications Co. Ltd.	69,967,083	506,561,681	0.81
Bank of East Asia Ltd.	11,170,732	349,085,375	0.56
China Construction Bank Corporation	672,622,704	4,284,606,624	6.86
China Life Insurance Co. Ltd.	59,481,045	1,811,197,820	2.90
Hang Seng Bank Ltd.	6,112,974	789,796,241	1.27
Hong Kong Exchanges and Clearing Ltd.	8,869,714	1,522,929,894	2.44
HSBC Holdings Plc	106,055,859	7,848,133,566	12.57
Industrial and Commercial Bank of China Ltd.	589,721,106	3,337,821,460	5.35
Ping An Insurance (Group) Co. of China Ltd.	16,261,402	1,286,276,898	2.06
		<hr/>	
		29,433,608,005	<hr/> 47.16
<b>Utilities (4.89%)</b>			
China Resources Power Holdings Co. Ltd.	15,332,577	306,651,540	0.49
CLP Holdings Ltd.	15,146,260	1,018,585,985	1.63
Hong Kong and China Gas Co. Ltd.	50,433,697	895,702,459	1.43
Power Assets Holdings Ltd.	11,088,931	834,442,058	1.34
		<hr/>	
		3,055,382,042	<hr/> 4.89

## INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31ST DECEMBER 2014

	Holdings	Fair value HK\$	% of net assets
<b>Commerce and Industry (36.68%)</b>			
Belle International Holdings Ltd.	37,080,207	323,339,405	0.52
Cathay Pacific Airways Ltd.	9,516,188	160,823,577	0.26
China Mengniu Dairy Co. Ltd.	10,958,115	350,659,680	0.56
China Merchants Holdings (International) Co. Ltd.	10,177,732	265,638,805	0.43
China Mobile Ltd.	48,848,080	4,420,751,240	7.08
China Petroleum & Chemical Corporation	203,942,908	1,274,643,175	2.04
China Resources Enterprise, Ltd.	9,748,867	158,321,600	0.25
China Shenhua Energy Co. Ltd.	27,166,617	623,473,860	1.00
China Unicom (Hong Kong) Ltd.	47,777,179	496,882,662	0.80
CITIC Ltd.	39,813,185	526,330,306	0.84
CNOOC Ltd.	142,755,779	1,490,370,333	2.39
Galaxy Entertainment Group Ltd.	18,654,722	814,278,615	1.31
Hengan International Group Co. Ltd.	6,374,175	516,626,884	0.83
Hutchison Whampoa Ltd.	17,039,588	1,520,783,229	2.44
Kunlun Energy Co. Ltd.	25,811,448	189,197,914	0.30
Lenovo Group Ltd.	45,755,260	466,703,652	0.75
Li & Fung Ltd.	46,779,562	339,619,620	0.54
MTR Corporation Ltd.	11,627,347	369,749,635	0.59
PetroChina Co. Ltd.	168,653,427	1,450,419,472	2.32
Sands China Ltd.	19,342,629	737,921,296	1.18
Swire Pacific Ltd. 'A'	4,705,271	475,232,371	0.76
Tencent Holdings Ltd.	44,910,081	5,052,384,112	8.09
Tingyi (Cayman Islands) Holding Corporation	15,675,490	277,769,683	0.45
Want Want China Holdings Ltd.	58,015,022	592,913,525	0.95
		22,894,834,651	36.68
Total listed investments		62,224,200,759	99.69
Total investments, at cost		58,791,080,889	

**STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)**

FOR THE YEAR ENDED 31ST DECEMBER 2014

	(UNAUDITED) Holdings			31.12.2014
	31.12.2013	Additions	Disposals	
<b>Hong Kong Listed investments</b>				
<b>Equities</b>				
<b>Properties</b>				
Cheung Kong (Holdings) Ltd.	10,461,028	4,546,040	(3,898,163)	11,108,905
China Overseas Land & Investment Ltd.	30,725,969	13,306,669	(11,363,171)	32,669,467
China Resources Land Ltd.	15,384,170	6,644,834	(5,713,958)	16,315,046
Hang Lung Properties Ltd.	17,037,290	7,296,392	(6,407,704)	17,925,978
Henderson Land Development Co. Ltd.	7,041,357	3,927,452	(2,575,353)	8,393,456
New World Development Co. Ltd.	28,269,315	25,735,259	(12,450,831)	41,553,743
New World Development Co. Ltd., Right	–	9,893,486	(9,893,486)	–
Sino Land Co. Ltd.	22,762,772	9,748,384	(8,464,443)	24,046,713
Sun Hung Kai Properties Ltd.	10,100,043	5,210,463	(4,417,336)	10,893,170
Sun Hung Kai Properties Ltd., Bonus Warrant	–	846,861	(846,861)	–
The Link Real Estate Investment Trust	–	18,754,525	(427,305)	18,327,220
Wharf (Holdings) Ltd.	11,392,320	4,884,792	(5,377,391)	10,899,721
<b>Finance</b>				
AIA Group Ltd.	90,736,008	39,349,985	(33,803,414)	96,282,579
Bank of China Ltd.	598,314,054	259,686,568	(222,986,880)	635,013,742
BOC Hong Kong (Holdings) Ltd.	27,826,209	12,049,442	(10,295,878)	29,579,773
Bank of Communications Co. Ltd.	66,026,360	28,501,209	(24,560,486)	69,967,083
Bank of East Asia Ltd.	10,228,454	4,510,798	(3,568,520)	11,170,732
China Construction Bank Corporation	633,964,670	274,907,570	(236,249,536)	672,622,704
China Life Insurance Co. Ltd	56,019,928	24,229,686	(20,768,569)	59,481,045
Hang Seng Bank Ltd.	5,750,558	2,490,110	(2,127,694)	6,112,974
Hong Kong Exchanges and Clearing Ltd.	8,250,553	3,612,572	(2,993,411)	8,869,714
HSBC Holdings Plc	100,180,700	47,380,971	(41,505,812)	106,055,859
Industrial and Commercial Bank of China Ltd.	523,050,095	262,155,671	(195,484,660)	589,721,106
Ping An Insurance (Group) Co. of China Ltd.	15,388,995	6,623,929	(5,751,522)	16,261,402
<b>Utilities</b>				
China Resources Power Holdings Co. Ltd.	14,586,752	6,239,333	(5,493,508)	15,332,577
CLP Holdings Ltd.	14,334,079	6,169,972	(5,357,791)	15,146,260
Hong Kong and China Gas Co. Ltd.	43,380,800	23,888,457	(16,835,560)	50,433,697
Power Assets Holdings Ltd.	10,428,822	4,517,186	(3,857,077)	11,088,931
Share Stapled Units jointly issued by HK Electric Investments and HK Electric Investments Ltd., Right	–	2,621,361	(2,621,361)	–

**STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)**  
(Continued)

FOR THE YEAR ENDED 31ST DECEMBER 2014

	(UNAUDITED)			31.12.2014
	31.12.2013	Additions	Disposals	
				Holdings
<b>Commerce and Industry</b>				
Belle International Holdings Ltd.	35,300,188	15,104,785	(13,324,766)	37,080,207
Cathay Pacific Airways Ltd.	9,044,772	3,842,869	(3,371,453)	9,516,188
China Coal Energy Co. Ltd.	31,134,813	3,984,898	(35,119,711)	–
China Mengniu Dairy Co. Ltd.	–	13,732,882	(2,774,767)	10,958,115
China Merchants Holdings (International) Co. Ltd.	8,496,160	4,646,326	(2,964,754)	10,177,732
Mandatory Convertible Securities issued by China Merchants Holdings (International) Co. Ltd., Right	–	1,699,702	(1,699,702)	–
China Mobile Ltd.	45,432,405	19,942,758	(16,527,083)	48,848,080
China Petroleum & Chemical Corporation	192,042,084	83,472,280	(71,571,456)	203,942,908
China Resources Enterprise, Ltd.	9,201,279	3,914,604	(3,367,016)	9,748,867
China Shenhua Energy Co. Ltd.	25,550,621	11,066,506	(9,450,510)	27,166,617
China Unicom (Hong Kong) Ltd.	44,836,980	19,366,951	(16,426,752)	47,777,179
CITIC Ltd.	12,481,698	34,347,229	(7,015,742)	39,813,185
CNOOC Ltd.	134,501,912	58,396,001	(50,142,134)	142,755,779
COSCO Pacific Ltd.	12,724,282	5,372,868	(18,097,150)	–
Galaxy Entertainment Group Ltd.	17,456,116	7,616,856	(6,418,250)	18,654,722
Hengan International Group Co. Ltd.	6,078,999	2,603,028	(2,307,852)	6,374,175
Hutchison Whampoa Ltd.	16,050,839	6,971,017	(5,982,268)	17,039,588
Kunlun Energy Co. Ltd.	24,506,049	10,508,253	(9,202,854)	25,811,448
Lenovo Group Ltd.	50,719,072	20,177,043	(25,140,855)	45,755,260
Li & Fung Ltd.	43,945,781	61,453,813	(58,620,032)	46,779,562
MTR Corporation Ltd.	10,928,025	4,722,119	(4,022,797)	11,627,347
PetroChina Co. Ltd.	158,841,545	69,013,637	(59,201,755)	168,653,427
Sands China Ltd.	18,282,942	7,876,812	(6,817,125)	19,342,629
Swire Pacific Ltd. 'A'	4,783,812	2,049,540	(2,128,081)	4,705,271
Tencent Holdings Ltd.	8,400,967	52,882,074	(16,372,960)	44,910,081
Tencent Holdings Ltd., Temp Trading	–	41,697,480	(41,697,480)	–
Tingyi (Cayman Islands) Holding Corporation	14,750,777	6,378,742	(5,454,029)	15,675,490
Want Want China Holdings Ltd.	54,668,847	23,668,314	(20,322,139)	58,015,022

## PERFORMANCE RECORD (UNAUDITED)

### Net asset values

	Net asset value per unit <i>HK\$</i>	Net asset value of the Fund <i>HK\$</i>
At end of financial year dated		
31st December 2012	22.85	56,898,902,807
31st December 2013	23.49	56,404,449,270
31st December 2014	23.84	62,418,500,671

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

Financial period ended	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
31st December 2005	15.80	13.50
31st December 2006	20.16	15.07
31st December 2007	32.17	18.82
31st December 2008	27.78	11.51
31st December 2009	23.07	11.49
31st December 2010	25.08	19.28
31st December 2011	24.62	16.83
31st December 2012	22.86	18.50
31st December 2013	24.23	20.34
31st December 2014	26.11	21.44

### Fund Performance

During the year ended 31st December 2014, the Hang Seng Index increased by 1.28% (2013: 2.87%), while the net asset value per unit of the Fund increased by 1.49% (2013: 2.80%).

### Ongoing charge

Financial year ended	
31 December 2014	0.10%*

\* The ongoing charges figure is calculated by adding the applicable charges and payments deducted from the assets of Tracker Fund of Hong Kong ("TraHK") and then dividing by TraHK's average net asset value for the financial year.



## **ADMINISTRATION AND MANAGEMENT**

### **Directors of the Manager**

Mr. Lochiel Cameron Crafter  
Mr. James Keith MacNevin  
Ms. Ting Li  
Ms. Gigi Lau Che Man  
(Alternate director to Ms. Ting Li)  
Ms. Susana Yeong  
Mr. Matthew Montagu George  
(Alternate director to Ms. Susana Yeong)

### **Members of the Supervisory Committee**

Mr. Chan Ping Keung Bryan  
(Resigned on 4 July 2014)  
Mr. Romnesh Lamba  
(Appointed on 4 July 2014)  
Mr. Fong Hup  
Mr. Lawrence Fok  
Mr. Marvin Cheung  
(Resigned on 21 August 2014)  
Mr. George Hongchoy  
(Appointed on 21 August 2014)  
Mr. Stephen Law  
Prof. Chan Yuk-shee  
(Resigned on 5 December 2014)  
Prof. Chan Kalok  
(Appointed on 5 December 2014)

### **Trustee and custodian**

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

### **Registrar**

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

### **Manager**

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

### **Promoter**

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

### **Conversion agent**

HK Conversion Agency Services Limited  
1/F One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### **Auditor**

PricewaterhouseCoopers  
22nd Floor  
Prince's Building  
Central  
Hong Kong