

TraHK

Tracker Fund of Hong Kong

Tracker Fund of Hong Kong

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Interim Report 2018

1st January 2018 to 30th June 2018



STATE STREET
GLOBAL ADVISORS®



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CONDENSED STATEMENT OF NET ASSETS (UNAUDITED)

AS AT 30TH JUNE 2018

		(UNAUDITED) 30.06.2018	(AUDITED) 31.12.2017
	Notes	HK\$	HK\$
Assets			
Current assets			
Investments	12	90,930,680,106	99,039,501,431
Dividend receivable		518,026,667	–
Other accounts receivable and prepayments		919,017	676,345
Bank balances	7(d)	782,737,011	204,889,632
Total assets		<u>92,232,362,801</u>	<u>99,245,067,408</u>
Liabilities			
Current liabilities			
Management fee payable	7(b)	8,721,279	7,880,116
Trustee fee payable	7(c)	16,137,243	7,880,116
Index license fee payable	8(c)	3,702,117	3,593,823
Registrar fee payable	8(a)	446,083	289,375
Professional fee payable		198,500	40,000
Amounts payable on redemption of units		5,218,340	328,606
Withholding tax payable		22,419,669	–
Other accounts payable and accruals		1,339,568	1,260,573
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>58,182,799</u>	<u>21,272,609</u>
Net assets attributable to holders of redeemable units	5	<u>92,174,180,002</u>	<u>99,223,794,799</u>

The notes on pages 5 to 14 form part of these condensed financial statements.





CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2018

	Notes	(UNAUDITED)	
		01.01.2018 to 30.06.2018 HK\$	01.01.2017 to 30.06.2017 HK\$
Income			
Dividends		1,622,012,482	1,775,876,418
Bank interest	7(d)	811,584	424,635
Transaction fee	4(a)	810,000	765,000
Other income	4(b)	1,757,921	1,850,508
Net (loss)/gain on investments	3	<u>(3,166,600,548)</u>	<u>13,251,647,788</u>
Total investment (loss)/income		<u>(1,541,208,561)</u>	<u>15,030,564,349</u>
Expenses			
Management fee	7(b)	16,755,810	14,329,467
Trustee fee	7(c)	16,415,200	14,460,506
Index license fee	8(c)	7,450,839	6,325,765
Transaction costs on investments		10,725,404	8,180,267
Registrar fee	8(a)	913,813	910,453
Publication and printing expenses		225,875	1,186,913
Conversion agent fee	8(b)	839,211	743,995
Audit fee		169,600	226,186
Bank charges		128,526	115,619
Legal and other professional fees		1,670,043	254,999
Other operating expenses		<u>255,133</u>	<u>236,434</u>
Total operating expenses		<u>55,549,454</u>	<u>46,970,604</u>
Operating (loss)/profit		(1,596,758,015)	14,983,593,745
Finance costs			
Distributions to holders of redeemable units	13	<u>(516,958,800)</u>	<u>(517,798,875)</u>
(Loss)/profit after distributions and before tax		(2,113,716,815)	14,465,794,870
Withholding tax	6	<u>(46,367,663)</u>	<u>(69,350,507)</u>
(Decrease)/increase in net assets attributable to holders of redeemable units from operations		<u><u>(2,160,084,478)</u></u>	<u><u>14,396,444,363</u></u>

The notes on pages 5 to 14 form part of these condensed financial statements.



CONDENSED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2018

		(UNAUDITED)	
		01.01.2018	01.01.2017
		to	to
		30.06.2018	30.06.2017
Notes		HK\$	HK\$
	Net assets attributable to holders of redeemable units at 1st January	99,223,794,799	80,499,498,290
	Issue of units		
	– In-kind	9 17,967,173,930	14,013,700,646
	– Cash component	9 89,560,426	89,445,213
		<u>18,056,734,356</u>	<u>14,103,145,859</u>
	Redemption of units		
	– In-kind	9 (22,820,412,669)	(16,874,166,907)
	– Cash component	9 (125,852,006)	(79,546,787)
		<u>(22,946,264,675)</u>	<u>(16,953,713,694)</u>
	Net issue/(redemption) of units	<u>(4,889,530,319)</u>	<u>(2,850,567,835)</u>
	(Decrease)/increase in net assets attributable to holders of redeemable units from operations	<u>(2,160,084,478)</u>	<u>14,396,444,363</u>
	Net assets attributable to holders of redeemable units at 30th June	<u><u>92,174,180,002</u></u>	<u><u>92,045,374,818</u></u>

The notes on pages 5 to 14 form part of these condensed financial statements.



CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2018

		(UNAUDITED)	
		01.01.2018	01.01.2017
		to	to
		30.06.2018	30.06.2017
Notes		HK\$	HK\$
Cash flows from operating activities			
	Proceeds from sale of investments	9 4,112,753,108	3,429,913,504
	Payments for purchase of investments	9 (3,980,371,745)	(3,125,862,526)
	Dividends received	1,036,638,495	644,189,027
	Bank interest received	847,959	431,363
	Transaction fee received	825,000	720,000
	Management fee paid	(15,914,647)	(14,030,903)
	Trustee fee paid	(8,158,073)	(20,979,237)
	Index license fee paid	(7,342,544)	(6,131,924)
	Registrar fee paid	(757,105)	(715,681)
	Publication and printing expenses paid	(383,829)	(621,443)
	Transaction costs on investments paid	(10,725,404)	(8,180,267)
	Conversion agent fee paid	(828,000)	(816,000)
	Bank charges paid	(128,526)	(499,120)
	Legal and other professional fees paid	(1,511,543)	(234,999)
	Other operating expenses paid	(493,042)	(1,396,572)
	Net cash generated from operating activities	<u>1,124,450,104</u>	<u>895,785,222</u>
Cash flows from financing activities			
	Cash component received on issue of units	9 89,560,426	89,445,213
	Cash component paid on redemption of units	9 (120,962,272)	(71,763,504)
	Interim distribution paid	4(b), 13 (515,200,879)	(515,948,367)
	Net cash used in financing activities	<u>(546,602,725)</u>	<u>(498,266,658)</u>
	Net increase in cash and cash equivalents	577,847,379	397,518,564
	Cash and cash equivalents at the beginning of the period	204,889,632	198,445,374
	Cash and cash equivalents at the end of the period	<u>782,737,011</u>	<u>595,963,938</u>
Analysis of balances of cash and cash equivalents:			
	Bank balances	7(d) <u>782,737,011</u>	<u>595,963,938</u>

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

The notes on pages 5 to 14 form part of these condensed financial statements.



NOTES TO THE UNAUDITED CONDENSED 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, as amended or supplemented from time to time (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 Basis of preparation and accounting policies

These unaudited condensed interim financial statements for the six months ended 30th June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting". The unaudited condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

HKFRS 9 *Financial Instruments* – Accounting policies applied from 1 January 2018
Investments and other financial assets

Classification

From 1 January 2018, the Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ("FVPL"), and
- those to be measured at amortised cost.

The classification depends on the Fund's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

2 Basis of preparation and accounting policies (Continued)

Investments and other financial assets (Continued)

Equity instruments

The Fund subsequently measures all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss as dividend income when the Fund's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in net in gains/(losses) on investments in the condensed statement of comprehensive income as applicable.

Impairment

From 1 January 2018, the Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For other accounts receivable and prepayments, the Fund applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

3 Net gain/(loss) on investments

	(UNAUDITED)	
	01.01.2018	01.01.2017
	to	to
	30.06.2018	30.06.2017
	HK\$	HK\$
Change in unrealized gain/(loss) on investments	(9,570,365,023)	12,814,203,774
Realized gain on sale of investments	6,403,764,475	437,444,014
	<u>(3,166,600,548)</u>	<u>13,251,647,788</u>

4 Income

(a) *Transaction fee*

Applications to create or redeem units are only made through brokers or dealers (who itself or its agent is a participant in Central Clearing and Settlement System ("CCASS") and to whose or whose agent's account any Units are for the time being credited by Hong Kong Securities Clearing Company ("HKSCC")) (the "Participating Dealers") which have executed participation agreements with the Manager, the Trustee, HK Conversion Agency Services Limited (the "Conversion Agent") and 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 UNAUDITED CONDENSED 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 period are shown on the Condensed Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the objectives and risk management policies, the Manager endeavors 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 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.

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

	(UNAUDITED)		
	Number of units		
	01.01.2018 to 30.06.2018	01.07.2017 to 31.12.2017	01.01.2017 to 30.06.2017
Units in issue at the beginning of the period	3,292,992,500	3,501,992,500	3,631,992,500
Issue of units	580,000,000	422,000,000	565,000,000
Redemption of units	(746,000,000)	(631,000,000)	(695,000,000)
Units in issue at the end of the period	<u>3,126,992,500</u>	<u>3,292,992,500</u>	<u>3,501,992,500</u>
	HK\$	HK\$	HK\$
Net assets attributable to holders of redeemable units	<u>92,174,180,002</u>	<u>99,223,794,799</u>	<u>92,045,374,818</u>
Net assets attributable to holders of redeemable units (per unit)	<u>29.48</u>	<u>30.13</u>	<u>26.28</u>
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	<u>29,476,943</u>	<u>30,131,801</u>	<u>26,283,716</u>





NOTES TO THE UNAUDITED CONDENSED 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 periods ended 30th June 2018 and 2017.

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 period 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 30th June 2018, the directors and officers of the Manager together held 16,360 units in the Fund (as at 31st December 2017: 14,360 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 UNAUDITED CONDENSED 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 balance held with the Trustee amounted to HK\$5,585,373 as at 30th June 2018 (as at 31st December 2017: HK\$8,042,141). Such account is interest bearing. Interest income amounting to HK\$512 was accrued and received for the period ended to 30th June 2018 with respect to the bank balance held with the Trustee (period ended 30th June 2017: HK\$470).

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.

	HK\$ (per month)
For the first 2,000 Unitholders	12,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	2,650
For every additional 1,000 Unitholders above 100,000 Unitholders	2,250

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

The Registrar is also reimbursed for all of its out-of-pocket expenses incurred in connection with performing its services.

(b) *Conversion agent fee*

The Conversion Agent, HK Conversion Agency Services Limited, received a monthly retainer fee of HK\$16,000 plus a transaction fee of HK\$12,000 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 UNAUDITED CONDENSED 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 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 period ended 30th June 2018, the Fund issued 580,000,000 units (for the period ended 30th June 2017: 565,000,000 units), totaling HK\$18,056,734,356 (for the period ended 30th June 2017: HK\$14,103,145,859) in exchange for Index Baskets consisting of investments valued at HK\$17,967,173,930 (for the period ended 30th June 2017: HK\$14,013,700,646) plus the relevant cash component of HK\$89,560,426 (for the period ended 30th June 2017: HK\$89,445,213).

In accordance with the Trust Deed, units are redeemed in-kind with the remaining balances in cash. During the period ended 30th June 2018, the Fund redeemed 746,000,000 units (for the period ended 30th June 2017: 695,000,000 units), totaling HK\$22,946,264,675 (for the period ended 30th June 2017: HK\$16,953,713,694) in exchange for Index Baskets consisting of investments valued at HK\$22,820,412,669 (for the period ended 30th June 2017: HK\$16,874,166,907) plus the relevant cash component of HK\$125,852,006 (for the period ended 30th June 2017: HK\$79,546,787).

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 UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

11 Investment limitations and prohibitions under the SFC Code

Pursuant to the SFC's Guidelines for Regulating Index Tracking Exchange Traded Funds (the "ETF Guidelines"), the Manager is permitted to overweight the holdings of the Fund relative to its respective weightings in the underlying index, on the condition that the maximum extra weighting in any constituent securities will not exceed the maximum limit reasonably determined by the Fund and after consultation with the SFC. The maximum limit for each of the Fund has been disclosed in its respective prospectus.

The Manager has confirmed that the Fund has complied with this limit during the period ended 30th June 2018 and the year ended 31st December 2017.

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 30th June 2018 were as follows:

	Respective weighting in the Index (%)		% of net asset value	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
HSBC Holdings plc	10.2	10.3	10.1	10.3
Tencent Holdings Ltd	10.3	9.6	10.2	9.6
Total	<u>20.5</u>	<u>19.9</u>	<u>20.3</u>	<u>19.9</u>

Except as disclosed above, there were no other securities that individually accounted for more than 10% of the net asset value of the Fund as at 30th June 2018 and 31st December 2017.

During the period ended 30th June 2018, the Hang Seng Index decreased by 3.22% (for the period ended 30th June 2017: increased by 17.11%), while the net asset value per unit of the Fund decreased by 2.16% (for the period ended 30th June 2017: increased by 18.59%).





NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

12 Financial risk management

(a) 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 period 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.



NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(a) Fair value estimation (Continued)

The following table analyses within the fair value hierarchy the Fund's investments (by class) measured at fair value at 30th June 2018 and 31th December 2017.

All fair value measurements disclosed are recurring fair value measurements.

	Level1 HK\$	Level2 HK\$	Level3 HK\$	Total HK\$
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At 30th June 2018

Assets

Financial assets held

for trading:

- Equity securities	90,930,680,106	-	-	90,930,680,106
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	Level1 HK\$	Level2 HK\$	Level3 HK\$	Total HK\$
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At 31st December 2017

Assets

Financial assets held

for trading:

- Equity securities	99,039,501,431	-	-	99,039,501,431
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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 30th June 2018 and 31th December 2017, 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 30th June 2018 and 31th December 2017, the Fund did not hold any investments classified in level 3.

For the period ended 30th June 2018 and the year ended 31th December 2017, there were no transfers of financial instruments between levels.

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





NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS (Continued)

13 Distributions

	(UNAUDITED)	
	01.01.2018	01.01.2017
	to	to
	30.06.2018	30.06.2017
	HK\$	HK\$
Interim distribution		
– HK\$0.15 on 3,451,992,500 units paid on 31st May 2017	–	517,798,875
– HK\$0.16 on 3,230,992,500 units paid on 30th May 2018	516,958,800	–
	<u>516,958,800</u>	<u>–</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 objective of the Fund is to track the performance of its index and invests in substantially all the index constituents with security weight and industry weight that are closely aligned with the characteristics of the tracked index.

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 period.

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

The Fund has no assets classified as non-current assets. The Fund has portfolios that closely correspond to the security weight and industry weight of the relevant tracked index. 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 30th June 2018 and 31st December 2017, there was one nominee company that held more than 10% of the Fund's net assets. The nominee company's holdings were 88.56% as at 30th June 2018 and 88.94% as at 31st December 2017.



INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 30TH JUNE 2018

	Holdings	Fair value HK\$	% of net assets
Hong Kong			
Listed investments (98.65%)			
Equities (98.65%)			
Commence and Industry (36.01%)			
AAC Technologies Holdings Ltd.	7,238,081	799,807,951	0.87
China Mengniu Dairy Co. Ltd.	27,133,697	721,756,340	0.78
China Merchants Port Holdings Co. Ltd.	12,893,987	205,530,153	0.22
China Mobile Ltd.	60,693,619	4,230,345,244	4.59
China Petroleum & Chemical Corporation	252,011,898	1,766,603,405	1.92
China Shenhua Energy Co. Ltd.	33,538,424	624,485,455	0.68
China Unicom (Hong Kong) Ltd.	75,507,355	739,972,079	0.80
CITIC Ltd.	57,411,774	634,974,220	0.69
CK Hutchison Holdings Ltd.	26,676,417	2,219,477,894	2.41
CNOOC Ltd.	176,423,573	2,388,775,178	2.59
CSPC Pharmaceutical Group Ltd.	46,461,435	1,101,136,010	1.19
Galaxy Entertainment Group Ltd.	23,434,282	1,423,632,631	1.54
Geely Automobile Holdings Ltd.	53,166,683	1,081,941,999	1.17
Hengan International Group Co. Ltd.	7,138,852	538,983,326	0.58
MTR Corporation Ltd.	14,807,918	642,663,641	0.70
PetroChina Co. Ltd.	208,362,104	1,243,921,761	1.35
Sands China Ltd.	23,923,484	1,003,590,154	1.09
Sunny Optical Tech Co. Ltd.	7,040,773	1,027,952,858	1.12
Swire Pacific Ltd. 'A'	5,019,089	417,086,296	0.45
Tencent Holdings Ltd.	23,842,050	9,388,999,290	10.19
Want Want China Holding Ltd.	62,837,684	438,607,034	0.48
WH Group Co. Ltd.	86,897,211	555,273,178	0.60
		33,195,516,097	36.01
		-----	-----
Finance (47.12%)			
AIA Group Ltd.	119,318,021	8,185,216,241	8.88
Bank of China Ltd.	784,870,680	3,053,146,945	3.31
Bank of Communications Co Ltd.	86,345,274	518,935,097	0.56
Bank of East Asia Ltd.	13,635,894	427,485,277	0.46
BOC Hong Kong (Holdings) Ltd.	36,546,639	1,350,398,311	1.47
China Construction Bank Corporation	950,285,704	6,889,571,354	7.47
China Life Insurance Co. Ltd.	73,495,514	1,488,284,158	1.62
Hang Seng Bank Ltd.	7,552,841	1,481,867,404	1.61
Hong Kong Exchanges and Clearing Ltd.	11,636,394	2,746,188,984	2.98
HSBC Holdings Plc	126,238,402	9,291,146,387	10.08
Industrial and Commercial Bank of China Ltd.	728,959,590	4,278,992,793	4.64
Ping An Insurance (Group) Co. of China Ltd.	51,510,025	3,719,023,805	4.04
		43,430,256,756	47.12
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INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30TH JUNE 2018

	Holdings	Fair value HK\$	% of net assets
Properties (10.79%)			
China Overseas Land & Investment Ltd.	37,858,806	978,650,135	1.06
China Resources Land Ltd.	27,364,655	723,795,125	0.79
CK Asset Holding Co. Ltd.	25,564,622	1,592,675,951	1.73
Country Garden Holdings Co. Ltd.	75,037,167	1,035,512,905	1.12
Hang Lung Properties Ltd.	20,404,506	330,144,907	0.36
Henderson Land Development Co. Ltd.	13,027,794	540,653,451	0.59
New World Development Co. Ltd.	59,461,573	656,455,766	0.71
Sino Land Co. Ltd.	29,254,075	373,281,997	0.40
Sun Hung Kai Properties Ltd.	12,876,156	1,524,536,870	1.65
The Link Real Estate Investment Trust	21,232,741	1,521,325,892	1.65
Wharf Real Estate Investment Co. Ltd	11,986,801	669,462,836	0.73
		<u>9,946,495,835</u>	<u>10.79</u>
		-----	-----
Utilities (4.73%)			
China Resources Power Holdings Co. Ltd.	19,398,407	268,085,985	0.29
CK Infrastructure Holdings Ltd.	6,680,898	388,494,219	0.42
CLP Holdings Ltd.	18,714,528	1,581,377,616	1.72
Hong Kong and China Gas Co. Ltd.	91,174,576	1,369,442,132	1.49
Power Assets Holdings Ltd.	13,692,096	751,011,466	0.81
		<u>4,358,411,418</u>	<u>4.73</u>
		-----	-----
Total Listed Equities		<u>90,930,680,106</u>	<u>98.65</u>
		=====	=====
Total investments, at cost		<u>81,146,169,040</u>	
		=====	



STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2018

	(UNAUDITED)			30.06.2018
	31.12.2017	Additions	Disposals	
Holdings				
Hong Kong				
Listed investments				
Equities				
Commerce and Industry				
AAC Technologies Holdings Ltd.	7,677,831	1,454,611	(1,894,361)	7,238,081
China Mengniu Dairy Co. Ltd.	28,565,984	33,975,607	(35,407,894)	27,133,697
China Merchants Port Holdings Co. Ltd.	13,287,600	4,760,249	(5,153,862)	12,893,987
China Mobile Ltd.	64,324,059	12,183,187	(15,813,627)	60,693,619
China Petroleum & Chemical Corporation	266,963,698	50,808,332	(65,760,132)	252,011,898
China Shenhua Energy Co. Ltd.	35,728,386	6,601,383	(8,791,345)	33,538,424
China Unicom (Hong Kong) Ltd.	75,329,357	22,462,291	(22,284,293)	75,507,355
CITIC Ltd.	61,167,630	11,296,882	(15,052,738)	57,411,774
CK Hutchison Holdings Ltd.	28,277,451	5,355,989	(6,957,023)	26,676,417
CNOOC Ltd.	186,865,194	35,570,243	(46,011,864)	176,423,573
CSPC Pharmaceutical Group Ltd.	–	50,728,980	(4,267,545)	46,461,435
Galaxy Entertainment Group Ltd.	24,853,285	4,653,419	(6,072,422)	23,434,282
Geely Automobile Holdings Ltd.	56,444,023	10,588,823	(13,866,163)	53,166,683
Hengan International Group Co. Ltd.	7,516,421	1,489,038	(1,866,607)	7,138,852
Lenovo Group Ltd.	64,632,696	19,987,943	(84,620,639)	–
MTR Corporation Ltd.	18,916,272	3,347,734	(7,456,088)	14,807,918
PetroChina Co. Ltd.	220,894,590	41,894,138	(54,426,624)	208,362,104
Sands China Ltd.	25,360,807	4,806,353	(6,243,676)	23,923,484
Sunny Optical Tech Co. Ltd.	7,474,199	1,407,022	(1,840,448)	7,040,773
Swire Pacific Ltd. 'A'	5,176,496	1,024,257	(1,181,664)	5,019,089
Tencent Holdings Ltd.	23,405,603	6,096,550	(5,660,103)	23,842,050
Want Want China Holding Ltd.	65,054,695	12,600,978	(14,817,989)	62,837,684
WH Group Co. Ltd.	99,749,595	16,787,828	(29,640,212)	86,897,211
Finance				
AIA Group Ltd.	126,436,704	23,952,268	(31,070,951)	119,318,021
Bank of China Ltd.	831,882,311	157,564,737	(204,576,368)	784,870,680
Bank of Communications Co Ltd.	91,004,085	18,014,626	(22,673,437)	86,345,274
Bank of East Asia Ltd.	14,361,907	4,327,199	(5,053,212)	13,635,894
BOC Hong Kong (Holdings) Ltd.	38,724,224	7,365,583	(9,543,168)	36,546,639
China Construction Bank Corporation	1,132,908,146	187,323,539	(369,945,981)	950,285,704
China Life Insurance Co. Ltd.	77,844,915	14,835,657	(19,185,058)	73,495,514
Hang Seng Bank Ltd.	8,003,818	1,521,030	(1,972,007)	7,552,841
Hong Kong Exchanges and Clearing Ltd.	12,333,794	2,474,155	(3,171,555)	11,636,394
HSBC Holdings Plc	127,506,815	28,259,438	(29,527,851)	126,238,402
Industrial and Commercial Bank of China Ltd.	772,547,932	146,325,778	(189,914,120)	728,959,590
Ping An Insurance (Group) Co. of China Ltd.	54,591,947	10,340,458	(13,422,380)	51,510,025



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

FOR THE PERIOD ENDED 30TH JUNE 2018

	(UNAUDITED) Holdings			30.06.2018
	31.12.2017	Additions	Disposals	
Properties				
China Overseas Land & Investment Ltd.	40,156,268	7,605,756	(9,903,218)	37,858,806
China Resources Land Ltd.	29,059,451	5,471,193	(7,165,989)	27,364,655
CK Asset Holding Co. Ltd.	27,165,531	5,071,100	(6,672,009)	25,564,622
Country Garden Holdings Co. Ltd.	78,297,808	92,006,844	(95,267,485)	75,037,167
Hang Lung Properties Ltd.	21,043,067	4,165,007	(4,803,568)	20,404,506
Henderson Land Development Co. Ltd.	12,620,464	3,623,618	(3,216,288)	13,027,794
New World Development Co. Ltd.	62,141,996	12,265,652	(14,946,075)	59,461,573
Sino Land Co. Ltd.	33,068,175	5,547,395	(9,361,495)	29,254,075
Sun Hung Kai Properties Ltd.	13,633,219	2,602,755	(3,359,818)	12,876,156
The Link Real Estate Investment Trust	23,036,424	4,213,556	(6,017,239)	21,232,741
Wharf (Holdings) Ltd.	12,708,821	857,808	(13,566,629)	-
Wharf Real Estate Investment Co. Ltd.	12,773,205	2,353,128	(3,139,532)	11,986,801
Utilities				
China Resources Power Holdings Co. Ltd.	19,996,726	3,968,570	(4,566,889)	19,398,407
CK Infrastructure Holdings Ltd.	6,889,572	1,363,937	(1,572,611)	6,680,898
CLP Holdings Ltd.	19,826,016	3,774,214	(4,885,702)	18,714,528
Hong Kong and China Gas Co. Ltd.	87,844,925	25,738,811	(22,409,160)	91,174,576
Power Assets Holdings Ltd.	14,525,618	2,753,244	(3,586,766)	13,692,096

PERFORMANCE RECORD (UNAUDITED)

FOR THE PERIOD ENDED 30TH JUNE 2018

Fund Performance

During the period ended 30th June 2018, the Hang Seng Index decreased by 3.22% (2017: increased by 17.11%), while the net asset value per unit of the Fund decreased by 2.16% (2017: increased by 18.59%).



ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Lochiel Cameron Crafter
(Resigned on 18th April 2018)
Mr. James Keith MacNevin
Mr. Kevin David Anderson
Ms. June Wong
Mr. Louis Boscia

Members of the Supervisory Committee

Mr. Romnesh Lamba
Mr. George Hongchoy
Mr. Blair Pickerell
Mr. Stephen Law
Prof. Chan Kalok
Dr. Kam Pok-man

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

