# JF Provident Capital Fund

**Audited Annual Report**
**30 June 2011**

J.P.Morgan
Asset Management

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This report does not constitute an offer of any units in the fund forming the subject matter of this document (the "Fund"). Subscriptions are only valid if made on the basis of the current explanatory memorandum (or equivalent), supplemented by the most recent financial report.

## Statement of Responsibilities of the Manager and the Trustee

### Manager's responsibilities

The Manager of the Fund is required by the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong and the Trust Deed to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Fund at the end of that period and of the transactions for the period then ended. In preparing 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 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:

- 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 sufficient accounting and other records have been maintained;
- safeguard the property of the Fund and rights attaching thereto; and
- report to the unitholders for each annual accounting period on the conduct of the Manager in the management of the Fund.

## Report of the Trustee to the Unitholders

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 29 September 1995, as amended, for the year ended 30 June 2011.

For and on behalf of
Royal Bank of Canada Trust Company (Cayman) Limited, Trustee

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## Independent Auditor's Report

To the Unitholders of JF Provident Capital Fund (the "Fund")

## Report on the financial statements

We have audited the accompanying financial statements of the Fund set out on pages 4 to 17, which comprise the Statement of Financial Position as at 30 June 2011, 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.

## Management's responsibility for the financial statements

The Trustee and the Manager (the "Management") 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 29 September 1995, as amended (the "Trust Deed"), and the relevant financial statements disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"), and for such internal control as the Management determines 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2011, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

## Report on other legal and regulatory disclosure requirements

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

PricewaterhouseCoopers
Cayman Islands,

13 October 2011

## Statement of Financial Position
As at 30 June 2011

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| **Assets** | | |
| Cash at banks | 30,673,952 | 72,854,641 |
| Amounts receivable on allotment | 2,011,970 | 1,324,967 |
| Investments [Note 4(I)(a)] | 459,833,239 | 375,501,292 |
| **Total assets** | 492,519,161 | 449,680,900 |
| **Liabilities** | | |
| Amounts payable on redemption | 94,689 | 582,999 |
| Other accounts payable | 572,322 | 511,416 |
| **Liabilities (excluding net assets attributable to holders of redeemable units)** | 667,011 | 1,094,415 |
| **Net assets attributable to holders of redeemable units** [Note 3] | 491,852,150 | 448,586,485 |

Approved by the Trustee and the Manager on 13 October 2011

Signed By:

For and on behalf of Royal Bank of Canada Trust Company (Cayman) Limited, Trustee

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For and on behalf of JPMorgan Funds (Asia) Limited, Manager

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*The notes on pages 8 to 17 form part of these financial statements.*

## Statement of Comprehensive Income
For the year ended 30 June 2011

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| **Income** | | |
| Net gains on investments [Note 5] | 50,081,838 | 31,675,932 |
| Interest on deposits | 1,162 | 4,792 |
| Net foreign currency exchange (losses)/gains | (143,820) | 233,269 |
| | 49,939,180 | 31,913,993 |
| **Expenses** | | |
| Management fee [Note 7(e)] | 3,872,258 | 3,634,788 |
| Administration fee [Note 7(f)] | 978,554 | 965,700 |
| Auditor's fee | 129,267 | 123,226 |
| Trustee's fee [Note 8] | 49,142 | 57,108 |
| Legal and professional expenses | 40,523 | 514 |
| Printing and publication expenses | 5,771 | 5,271 |
| Transaction costs | 2,942 | 2,613 |
| Safe custody and bank charges | 366 | 160 |
| Other operating expenses | 35,427 | 36,428 |
| | 5,114,250 | 4,825,808 |
| **Increase in net assets attributable to holders of redeemable units and total comprehensive income** | 44,824,930 | 27,088,185 |

*The notes on pages 8 to 17 form part of these financial statements.*

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
For the year ended 30 June 2011

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| **Net assets attributable to holders of redeemable units at the beginning of the year** | 448,586,485 | 430,026,284 |
| Allotment of redeemable units [Note 3] | 71,339,434 | 72,310,475 |
| Redemption of redeemable units [Note 3] | (72,898,699) | (80,838,459) |
| **Net redemption** | (1,559,265) | (8,527,984) |
| | 447,027,220 | 421,498,300 |
| **Increase in net assets attributable to holders of redeemable units and total comprehensive income** | 44,824,930 | 27,088,185 |
| **Net assets attributable to holders of redeemable units at the end of the year** | 491,852,150 | 448,586,485 |

*The notes on pages 8 to 17 form part of these financial statements.*

## Statement of Cash Flows
For the year ended 30 June 2011

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| **Operating activities** | | |
| Purchase of investments | (44,035,902) | (21,368,168) |
| Proceeds from disposal of investments | 9,785,793 | 72,782,000 |
| Interest received | 1,162 | 4,792 |
| Transaction costs paid | (2,802) | (2,923) |
| Trustee's fee paid | (58,644) | (46,262) |
| Administration fee paid | (976,049) | (972,060) |
| Management fee paid | (3,843,153) | (3,641,026) |
| Others | (294,570) | (248,505) |
| **Net cash (outflow)/inflow from operating activities** | (39,424,165) | 46,507,848 |
| **Financing activities** | | |
| Receipts on allotment of redeemable units | 70,652,431 | 71,788,171 |
| Payments on redemption of redeemable units | (73,387,009) | (80,422,338) |
| **Net cash outflow from financing activities** | (2,734,578) | (8,634,167) |
| **(Decrease)/increase in cash and cash equivalents** | (42,158,743) | 37,873,681 |
| Cash and cash equivalents at the beginning of the year | 72,854,641 | 34,678,801 |
| Exchange (losses)/gains on cash and cash equivalents | (21,946) | 302,159 |
| **Cash and cash equivalents at the end of the year** | 30,673,952 | 72,854,641 |
| **Analysis of balances of cash and cash equivalents:** | | |
| Cash at banks | 30,673,952 | 72,854,641 |

*The notes on pages 8 to 17 form part of these financial statements.*

## Notes to the Financial Statements

### 1 The Fund

JF Provident Capital Fund (the "Fund") was established under a Trust Deed dated 29 September 1995, as amended, and is governed by the laws of the Cayman Islands. The Fund is authorized by the Securities and Futures Commission of Hong Kong ("SFC").

The primary investment objective of the Fund is to minimize its short term capital risk in Hong Kong dollar terms. The secondary objective is to outperform Hong Kong dollar deposit rates over the long-term. The Fund seeks to achieve these investment objectives through a professionally managed portfolio of interests in collective investment schemes managed by the Manager or its Connected Persons.

The Fund offers two classes of units, administration units and investment units. All unitholders' rights with regard to the convening, voting or otherwise acting at any meeting of unitholders are the same.

### 2 Summary of principal 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 of financial statements

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager and the Trustee (the "Management") to exercise their judgment in the process of applying the Fund's accounting policies.

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

HKFRS 9, "Financial Instruments" issued in November 2009. This standard is the first step in the process to replace Hong Kong Accounting Standards (“HKAS”) 39, "Financial Instruments: Recognition and Measurement". HKFRS 9 introduces new requirements for classifying and measuring financial assets. In the fourth quarter of 2010, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) has released additions to HKFRS 9 dealing with financial liabilities. The additions, which are part of the HKICPA's plan to replace HKAS 39, retain most of the HKAS 39's requirements for financial liabilities. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income. The standard is not applicable until 1 January 2013 but is available for early adoption. The Management is currently assessing the impact on the Fund's financial statements.

HKFRS 13, "Fair Value Measurement" issued in June 2011. This standard introduces guidance for defining and measuring fair value. It also requires for additional disclosures about fair value measurements so as to enhance the comparability of information reported in the financial statements. The standard is not applicable until 1 January 2013 but is available for early adoption. The Management is currently assessing the impact on the Fund's financial statements.

#### (b) Investments

*Classification*

The Fund classifies its investments as financial assets or financial liabilities at fair value through profit or loss. These financial assets or financial liabilities are held-for-trading as they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or short-term profit taking.

*Recognition, derecognition and measurement*

Purchases and sales of investments are accounted for on the trade date basis. Investments are initially recognized at fair value and are subsequently re-measured at fair value. Realized and unrealized gains and losses on investments are recognized in the Statement of Comprehensive Income. 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.

*Fair value estimation*

Investments in collective investment schemes are stated at fair value based on the net asset value per unit of the respective funds as determined by the administrators of the relevant funds.

### (c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### (d) Income and expense

Interest income on cash at banks and short term deposits is accounted for in the Statement of Comprehensive Income on an effective interest basis.

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

### (e) Foreign currency translation

*Functional and presentation currency*

The Fund has adopted Hong Kong dollar as its 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 exchange gains and losses resulting from the settlement of such transactions and from the translation of assets and liabilities denominated in foreign currencies at year end exchange rates are recognized 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 exchange gains/losses". 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 gains/losses on investments".

### (f) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash at banks and bank deposits with maturity of three months or less from the date of placing the deposits, net of certain short term bank loans which the Fund usually undertakes as overnight bank borrowings.

### (g) Amounts due from/to brokers

Amounts due from/to brokers represent receivables for investments sold and payables for investments purchased that have been contracted for but not yet settled by the end of the year.

### (h) Proceeds and payments on allotment and redemption of units

The net asset value per unit is computed for each dealing day. The price at which units are allotted or redeemed is calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day in accordance with the provisions of the Fund's Trust Deed dated 29 September 1995, as amended, which may be different from the accounting policies stated in the financial statements.

Units of the Fund are redeemable at the option of the holders of redeemable units and are classified as a financial liability in the Statement of Financial Position which represents the net assets attributable to holders of redeemable units (or "net asset value", "net assets" or "NAV") and is carried at the redemption amount that would be payable at the Statement of Financial Position date if the holders of redeemable units exercised the right to redeem units of the Fund.

## 3 Number of units in issue and net assets attributable to holders of redeemable units (per unit)

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Investment Units | Administration Units | Investment Units | Administration Units |
| Number of units in issue: | | | | |
| At the beginning of the year | 1,519,975.017 | 872,570.288 | 1,505,205.418 | 939,369.444 |
| Total allotments | 222,125.816 | 133,674.133 | 240,186.156 | 144,852.716 |
| Total redemptions | (177,860.661) | (189,116.094) | (225,416.557) | (211,651.872) |
| At the end of the year | 1,564,240.172 | 817,128.327 | 1,519,975.017 | 872,570.288 |
| | HK$ | HK$ | HK$ | HK$ |
| Net assets attributable to holders of redeemable units | 333,240,434 | 158,611,716 | 293,921,516 | 154,664,969 |
| Net assets attributable to holders of redeemable units (per unit) | 213.04 | 194.11 | 193.37 | 177.25 |

Holders of investment units are only entitled to investment management services from the Manager. Holders of administration units are also entitled to other administrative services provided by the Manager upon payment of the administration fee, which is deducted from the share of net assets of the respective units.

## 4 Financial risk management

### (I) Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including market price risk, interest rate risk and currency risk), credit risk and liquidity risk.

### (a) Market risk

### (i) Market price risk

The Fund's investments are subject to the market price risk inherent in all investments i.e. the value of holdings may fall as well as rise. The Fund's market risk is managed through (i) deliberate collective investment schemes selection and ongoing assessment of the performance of the underlying collective investment schemes, and (ii) diversification of the investment portfolio in accordance with specific investment restrictions and guidelines.

For collective investment schemes which invest in equities, the Investment Manager monitors the market price sensitivity of the underlying collective investment schemes primarily through the Beta of the underlying collective investment schemes on a regular basis. Beta measures the statistical relationship between the returns of the underlying collective investment schemes and the relevant benchmark index chosen by the Manager of the underlying collective investment schemes. For collective investment schemes which invest in debt securities, the investments are subject to interest rate risk. Refer to Note 4(I)(a)(ii) for basis of interest rate risk of the collective investment schemes which invest in bond market.

As at 30 June, the Fund's fair value of collective investment schemes which invest in equity market and its estimated market sensitivity were as follows:

| Listed/Quoted Investments | Fair value of investments HK$ | % of net assets | Relevant benchmark index for the underlying collective investment scheme (Note*) | Beta (Note**) | % of reasonable possible change of the relevant benchmark index (Note***) | Estimated impact on net asset value (Note****) HK$ |
|---|---|---|---|---|---|---|
| **Collective Investment Schemes** | | | | | | |
| **As at 30 June 2011** | | | | | | |
| **Equity Funds (31.2%)** | | | | | | |
| JF SAR American Fund 'B' | 21,877,680 | 4.4 | FTSE World US - Total | 0.92 | +30.7 | 6,179,132 |
| JF SAR Asian Fund 'B' | 21,513,074 | 4.4 | MSCI AC Pacific ex Japan, Hong Kong, China and Indonesia (NDR) [Before 1 December 2010, MSCI AC Pacific ex Japan, Hong Kong, China and Indonesia (GDR)] | 0.99 | +39.1 | 8,327,496 |
| JF SAR European Fund 'B' | 24,019,054 | 4.9 | MSCI Europe (NDR) | 1.01 | +36.0 | 8,733,328 |
| JF SAR Global Emerging Markets Fund 'B' | 11,330,553 | 2.3 | J.P. Morgan MPF GEM Composite Index | 1.06 | +25.6 | 3,074,659 |
| JF SAR Greater China Fund 'B' | 5,886,144 | 1.2 | MSCI Golden Dragon (NDR) | 0.96 | +21.7 | 1,226,202 |
| JF SAR Hong Kong Fund 'B' | 50,705,629 | 10.3 | FTSE MPF Hong Kong (Total Net) | 0.96 | +17.2 | 8,372,513 |
| JF SAR Japan Fund 'B' | 18,194,833 | 3.7 | FTSE World Japan - Total | 0.99 | +13.1 | 2,359,688 |
| Total | 153,526,967 | 31.2 | | | | 38,273,018 |

| Listed/Quoted Investments | Fair value of investments HK$ | % of net assets | Relevant benchmark index for the underlying collective investment scheme (Note*) | Beta (Note**) | % of reasonable possible change of the relevant benchmark index (Note***) | Estimated impact on net asset value (Note****) HK$ |
|---|---|---|---|---|---|---|
| **Collective Investment Schemes** | | | | | | |
| **As at 30 June 2010** | | | | | | |
| **Equity Funds (24.9%)** | | | | | | |
| JF SAR American Fund 'B' | 16,772,282 | 3.7 | FTSE World US - Total | 0.91 | +14.4 | 2,197,840 |
| JF SAR Asian Fund 'B' | 11,433,424 | 2.5 | MSCI AC Pacific ex Japan, Hong Kong, China and Indonesia (GDR) | 1.00 | +22.9 | 2,618,254 |
| JF SAR European Fund 'B' | 17,331,388 | 3.9 | MSCI Europe (NDR) [Before 1 December 2009, FTSE World Europe - Total] | 1.00 | +6.2 | 1,074,546 |
| JF SAR Global Emerging Markets Fund 'B' | 8,699,984 | 2.0 | J.P. Morgan MPF GEM Composite Index | 1.04 | +11.6 | 1,049,566 |
| JF SAR Greater China Fund 'B' | 4,681,885 | 1.0 | MSCI Golden Dragon (NDR) | 0.99 | +13.5 | 625,734 |
| JF SAR Hong Kong Fund 'B' | 36,013,439 | 8.0 | FTSE MPF Hong Kong (Total Net) [Before 1 September 2009, 90% FTSE World Hong Kong - Total + 10% HSBC-Price] | 0.99 | +14.9 | 5,312,342 |
| JF SAR Japan Fund 'B' | 16,897,146 | 3.8 | FTSE World Japan - Total | 0.98 | +0.4 | 66,237 |
| Total | 111,829,548 | 24.9 | | | | 12,944,519 |

If the relevant benchmark indices returns were to move in the opposite direction, this would result in an opposite movement in the net asset value of the Fund by the same amount.

Note:

* Relevant benchmark index for the underlying collective investment scheme represents the relevant market index used by the Manager of the underlying collective investment scheme in monitoring the market price risk of the Fund.

** Beta measures the statistical relationship between the return of the underlying collective investment scheme and the respective benchmark index over the maximum of past 36 months, or the number of months since portfolio inception. For underlying collective investment schemes launched within a period of less than 12 months, weekly returns of the underlying collective investment schemes are used for calculating the Beta.

*** % of reasonable possible change is based on the actual historical change in the benchmark index in the past 12 months and does not include remote or "worst case" scenarios or "stress tests" nor represent the Investment Manager's forecast of the Fund's future returns. In order to better reflect on the period over which reasonable possible change may take effect, the Investment Manager assessed and revised the calculation of % of reasonable possible change from using the actual historical change in the benchmark index from in the past 3 months to 12 months. For funds launched within a period of less than 12 months, actual historical change in the benchmark index since the commencement of operations will be used to calculate the % of reasonable possible change.

**** Estimated impact on net asset value of the Fund is calculated by applying the relevant Beta against the fair value of investments multiplied by the % of reasonable possible change of the relevant benchmark index, assuming that all other variables are held constant.

### (ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flow will fluctuate due to changes in market interest rates.

The table below summarizes the Fund's financial assets and liabilities as at 30 June which expose it to the risk associated with the effects of fluctuations in the prevailing levels of market interest rates, categorized by remaining maturity dates.

| | 2011<br>Less than 1 month<br>HK$ | 2010<br>Less than 1 month<br>HK$ |
|---|---|---|
| Cash at banks | 30,673,952 | 72,854,641 |
| Total interest sensitivity gap | 30,673,952 | 72,854,641 |

Any cash and cash equivalents are placed/borrowed at short term market interest rates and the Investment Manager considers that the Fund is not subject to significant amount of risk due to the stable and low fluctuation in the prevailing levels of market interest rates.

The table below summarizes the Fund's fair value of collective investment schemes which invest in bond market and its estimated interest rate sensitivity.

| Listed/Quoted Investments | Fair value of investments HK$ | % of net assets | Modified duration (Note*) | % of reasonable possible change of interest rate (Note**) | Estimated impact on net asset value (Note***) HK$ |
|---|---|---|---|---|---|
| **Collective Investment Schemes** | | | | | |
| **As at 30 June 2011** | | | | | |
| **Bond Funds (62.3%)** | | | | | |
| JF SAR Asian Bond Fund 'B' | 7,558,218 | 1.5 | 3.86 | +0.25 | (72,937) |
| JF SAR Global Bond Fund 'B' | 246,762,481 | 50.2 | 5.78 | +0.25 | (3,565,718) |
| JF SAR HK$ Bond Fund 'B' | 51,985,573 | 10.6 | 4.24 | +0.25 | (551,047) |
| Total | 306,306,272 | 62.3 | | | (4,189,702) |
| **As at 30 June 2010** | | | | | |
| **Bond Funds (58.8%)** | | | | | |
| JF SAR Global Bond Fund 'B' | 218,143,488 | 48.6 | 5.44 | +0.25 | (2,966,751) |
| JF SAR HK$ Bond Fund 'B' | 45,528,256 | 10.2 | 4.25 | +0.25 | (483,738) |
| Total | 263,671,744 | 58.8 | | | (3,450,489) |

If the interest rates were to move in opposite directions, this would result in an opposite movement in the net asset value of the Fund by the same amount.

Note:

* The Investment Manager monitors the Fund's interest rate risk sensitivity primarily through the modified duration of the underlying collective investment schemes on a regular basis. The modified duration measures the sensitivity of the price of a bond relative to the change in interest rate.

** % of reasonable possible change is based on the typical possible change of Fed Funds rate and does not include remote or "worst case" scenarios or "stress tests" nor represent the Investment Manager's forecast of the Fund's future returns.

*** Estimated impact on net asset value of the Fund is calculated by applying the relevant modified duration against the fair value of the underlying collective investment scheme multiplied by the % of reasonable possible change of interest rate.

### (iii) Currency risk

The Fund holds assets and liabilities denominated in Hong Kong dollar and United States dollar. HKFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not currency risk. The Investment Manager monitors the exposure on all foreign currency denominated assets and liabilities including both monetary and non-monetary assets and liabilities.

The table below summarizes the Fund's exposure to currency risk as at 30 June together with the percentage of reasonable possible change in foreign currencies and the estimated impact on net asset value.

| Net currency exposures (Note*) | HK$ equivalent | % of reasonable possible change against HK$ (Note**) | Estimated impact on net asset value HK$ |
|---|---|---|---|
| 2011 | | | |
| United States Dollar | 367,197,249 | -0.1 | (367,197) |
| 2010 | | | |
| United States Dollar | 348,681,518 | +0.5 | 1,743,408 |

If the foreign currency fluctuations were to move in the opposite direction, this would result in an opposite movement in the net asset value of the Fund by the same amount, assuming that all other variables are held constant.

Note:

* Net currency exposures on assets and liabilities include both monetary and non-monetary assets and liabilities.

** % of reasonable possible change is based on the actual historical change in the respective currencies against the functional currency of the Fund in the past 12 months and does not include remote or “worst case” scenarios or “stress tests” nor represent the Investment Manager’s forecast of the Fund’s future returns. In order to better reflect on the period over which reasonable possible change may take effect, the Investment Manager assessed and revised the calculation of % of reasonable possible change from using the actual historical change in the respective currencies against the functional currency of the Fund from in the past 3 months to 12 months.

### (b) Credit risk

Credit risk is the risk that a counterparty will not be able to pay amounts in full when due.

As at 30 June, the Fund's maximum exposure to credit risk before any credit enhancements was as follows:

| | 2011 HK$ | 2010 HK$ |
|---|---|---|
| Cash at banks | 30,673,952 | 72,854,641 |
| Amounts receivable on allotment | 2,011,970 | 1,324,967 |
| | 32,685,922 | 74,179,608 |

The table below summarizes the credit rating of the financial assets placed with banks as at 30 June.

| | 2011<br>Exposure to counterparties<br>HK$ | 2010<br>Exposure to counterparties<br>HK$ |
|---|---|---|
| Bank balances | | |
| S&P(AA)/Moody's(Aa)/FITCH(AA) | 30,673,952 | 72,854,641 |

(c) Liquidity risk

The Fund is exposed to daily redemption of units. As at 30 June 2011 and 2010, the Fund invests solely in collective investment schemes which allow daily redemption. The Manager may also limit the total number of units redeemed on any dealing day to 10% or more of the units in issue on any dealing day.

The table below summarizes the Fund's financial liabilities into relevant maturity groupings based on the remaining period as at 30 June to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

| | 2011<br>Less than 1 month<br>HK$ | 2010<br>Less than 1 month<br>HK$ |
|---|---|---|
| Amounts payable on redemption | 94,689 | 582,999 |
| Other accounts payable | 572,322 | 511,416 |
| Net assets attributable to holders of redeemable units | 491,852,150 | 448,586,485 |
| Total financial liabilities | 492,519,161 | 449,680,900 |

The Investment Manager manages the Fund's liquidity risk by investing predominantly in investments that the Investment Manager expects to be able to liquidate within 1 month to meet the total financial liabilities and making short term bank borrowing.

(II) Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of redeemable units which is subject to subscriptions and redemptions of redeemable units. The Fund's objective for capital management is to provide returns and long-term capital growth for unitholders.

In order to maintain the capital structure, the Management perform the following:

- Monitor subscriptions and redemptions activities relative to the liquid assets.

- To protect the interest of unitholders and in exceptional circumstances, the Manager may also limit the total number of units redeemed on any dealing day to 10% or more of the units in issue on any dealing day.

- Monitor fund investment guidelines and restrictions, in accordance with the constitutional documents, to maintain sufficient liquidity through diversification.

(III) Fair value estimation

As at 30 June 2011 and 2010, the Management consider that the carrying values of assets and liabilities were reasonable approximations of their fair value.

HKFRS 7 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 table below summarizes the Fund's investments within the fair value hierarchy measured at fair value as at 30 June:

| Listed/Quoted Investments | Level 1 HK$ | Level 2 HK$ | Level 3 HK$ | Total HK$ |
|---|---|---|---|---|
| 2011 | | | | |
| Assets | | | | |
| Collective Investment Schemes | 459,833,239 | - | - | 459,833,239 |
| Total financial assets at fair value through profit and loss | 459,833,239 | - | - | 459,833,239 |
| 2010 | | | | |
| Assets | | | | |
| Collective Investment Schemes | 375,501,292 | - | - | 375,501,292 |
| Total financial assets at fair value through profit and loss | 375,501,292 | - | - | 375,501,292 |

## 5 Net gains on investments

| | 2011 HK$ | 2010 HK$ |
|---|---|---|
| Change in unrealized gains/losses in value of investments | 49,002,568 | 16,383,562 |
| Realized gains on sale of investments | 1,079,270 | 15,292,370 |
| | 50,081,838 | 31,675,932 |

## 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 Securities and Futures Ordinance and is therefore exempt from profits tax under Section 26A(1A) of the Inland Revenue Ordinance.

Under current laws of the Cayman Islands, there are no income, capital gains or other taxes payable by the Fund. As a result, no provision for income taxes has been made in the financial statements.

## 7 Transactions with the Trustee and its affiliates and the Manager and its Connected Persons

The following is a summary of transactions entered into during the year between the Fund and the Trustee and its affiliates and the Manager 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 SFC. All such transactions were entered into in the ordinary course of business and were on normal commercial terms.

(a) Investment transactions with the Manager and its Connected Persons are set out below:

The Fund invests solely in the funds which are managed by the Fund's Investment Manager.

| Name of company | Aggregate value of purchases and sales of investments HK$ | Commission paid HK$ | % of the Fund's total commission paid in the year | Average commission rate % |
|---|---|---|---|---|
| 2011 | | | | |
| JPMorgan Funds (Asia) Limited | 53,821,696 | - | - | - |
| 2010 | | | | |
| JPMorgan Funds (Asia) Limited | 87,769,596 | - | -- | - |

(b) Balances with the Manager and its Connected Persons as at year end:

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| Cash at banks | 30,673,952 | 72,267,795 |
| Other accounts payable | (401,894) | (370,144) |

As at 30 June 2011, the Fund's investment balance of HK$459,833,239 (2010: HK$375,501,292) represents the investments in the collective investment schemes issued and managed by a Connected Person of the Manager.

(c) The Fund may utilize the brokerage, custodian, agency and banking services of the Trustee and its affiliates and the Manager and its Connected Persons.

(d) For the year ended 30 June 2011, there was no income accruing to the Manager relating to allotments and redemptions in the Fund (2010: nil).

(e) Management fee of 0.8% per annum of the net asset value of the Fund is paid to JPMorgan Funds (Asia) Limited. Management fee is accrued on each dealing day and is payable monthly in arrears.

The Manager of the JF SAR Funds has not charged a management fee in respect of the Class B units of the JF SAR Funds.

(f) Administration fee of 0.6% per annum of the net asset value attributable to administration units of the Fund is paid to JPMorgan Funds (Asia) Limited. Administration fee is calculated daily and is payable monthly in arrears.

(g) The Fund allows the Manager and its Connected Persons to subscribe for, and redeem, units of the Fund. All such transactions are entered into in the ordinary course of business and are on normal commercial terms.

(h) The retirement schemes of the employees of the Manager and its Connected Persons may subscribe to the investment units of the Fund.

## 8 Trustee's fee

Trustee's fee of 0.1% per annum of the net asset value of the Fund is paid to the Trustee. The trustee's fee of 0.1% per annum of the asset value of JF SAR Funds is waived since a trustee's fee of 0.08% (before 1 July 2010: 0.08% to 0.085%) per annum of the net asset value of JF SAR Funds is paid to the trustee of JF SAR Funds, a Connected Person of the Trustee. Trustee's fee is calculated daily and is payable quarterly in arrears.

## 9 Soft commission arrangements

During the year, the Investment Manager and its associates did not enter into any soft commission arrangements in connection with directing transactions of the Fund through a broker or dealer (2010: nil).

## 10 Distribution

No distribution was made during the year (2010: nil).

## Investment Portfolio
As at 30 June 2011 *(Unaudited)*

| | Place of establishment | Holding | Fair value HK$ | % of net assets |
|---|---|---|---|---|
| **Listed/Quoted Investments** (93.5%) | | | | |
| **Collective Investment Schemes** (93.5%) | | | | |
| **Asia Pacific Region** (5.9%) | | | | |
| JF SAR Asian Bond Fund 'B' * | Hong Kong | 721,204 | 7,558,218 | 1.5 |
| JF SAR Asian Fund 'B' * | Hong Kong | 47,676 | 21,513,074 | 4.4 |
| **Europe** (4.9%) | | | | |
| JF SAR European Fund 'B' * | Hong Kong | 151,610 | 24,019,054 | 4.9 |
| **Greater China** (1.2%) | | | | |
| JF SAR Greater China Fund 'B' * | Hong Kong | 65,494 | 5,886,144 | 1.2 |
| **Hong Kong** (20.9%) | | | | |
| JF SAR HK$ Bond Fund 'B' * | Hong Kong | 2,573,543 | 51,985,573 | 10.6 |
| JF SAR Hong Kong Fund 'B' * | Hong Kong | 1,009,067 | 50,705,629 | 10.3 |
| **International** (52.5%) | | | | |
| JF SAR Global Bond Fund 'B' * | Hong Kong | 1,594,392 | 246,762,481 | 50.2 |
| JF SAR Global Emerging Markets Fund 'B' * | Hong Kong | 734,796 | 11,330,553 | 2.3 |
| **Japan** (3.7%) | | | | |
| JF SAR Japan Fund 'B' * | Hong Kong | 126,668 | 18,194,833 | 3.7 |
| **United States** (4.4%) | | | | |
| JF SAR American Fund 'B' * | Hong Kong | 190,101 | 21,877,680 | 4.4 |
| **Total Listed/Quoted Investments** | | | 459,833,239 | 93.5 |
| **Other net assets** | | | 32,018,911 | 6.5 |
| **Net assets attributable to holders of redeemable units at 30 June 2011** | | | 491,852,150 | 100.0 |
| **Total investments, at cost** | | | 335,561,071 | |

* Issued and managed by a Connected Person of the Manager (refer to Note 7 for the definition of Connected Persons)

Note: Collective Investment Schemes listed above are quoted investments.

## Statement of Movements in Portfolio Holdings
For the year ended 30 June 2011 *(Unaudited)*

| | % holdings of net assets | |
|---|---|---|
| | 2011 | 2010 |
| **Listed/Quoted Investments** | | |
| **Collective Investment Schemes** | | |
| International | 52.5 | 50.6 |
| Hong Kong | 20.9 | 18.2 |
| Asia Pacific Region | 5.9 | 2.5 |
| Europe | 4.9 | 3.9 |
| United States | 4.4 | 3.7 |
| Japan | 3.7 | 3.8 |
| Greater China | 1.2 | 1.0 |
| **Total Listed/Quoted Investments** | 93.5 | 83.7 |
| **Other net assets** | 6.5 | 16.3 |
| **Net assets attributable to holders of redeemable units at 30 June** | 100.0 | 100.0 |

## Performance Record - Unaudited

### Net Asset Values

| At financial period ended | Net asset value of the Fund HK$ | Net asset value per investment unit HK$ | Net asset value per administration unit HK$ |
|---|---|---|---|
| 30/6/11 | 491,852,150 | 213.04 | 194.11 |
| 30/6/10 | 448,586,485 | 193.37 | 177.25 |
| 30/6/09 | 430,026,284 | 181.33 | 167.22 |

### Highest Offer/Lowest Bid Prices

| Financial period ended | Highest offer HK$ | Lowest bid HK$ |
|---|---|---|
| Investment unit | | |
| 30/6/11 | 215.20 | 193.60 |
| 30/6/10 | 200.18 | 179.90 |
| 30/6/09 | 182.36 | 157.67 |
| 30/6/08 | 190.56 | 171.78 |
| 30/6/07 | 174.65 | 153.04 |
| 30/6/06 | 159.96 | 145.75 |
| 30/6/05 | 149.00 | 134.91 |
| 30/6/04 | 140.77 | 126.06 |
| 30/6/03 | 128.89 | 116.01 |
| 30/6/02 | 118.03 | 111.35 |
| Administration unit | | |
| 30/6/11 | 196.28 | 177.45 |
| 30/6/10 | 184.12 | 165.86 |
| 30/6/09 | 168.23 | 145.98 |
| 30/6/08 | 177.50 | 160.20 |
| 30/6/07 | 163.00 | 143.64 |
| 30/6/06 | 150.31 | 137.65 |
| 30/6/05 | 140.99 | 128.14 |
| 30/6/04 | 134.06 | 120.43 |
| 30/6/03 | 123.24 | 111.38 |
| 30/6/02 | 113.56 | 107.58 |

## Management and Administration

**Manager and Service Provider**
JPMorgan Funds (Asia) Limited
21/F, Chater House
8 Connaught Road Central
Hong Kong

**Investment Manager**
JF Asset Management Limited
21/F, Chater House
8 Connaught Road Central
Hong Kong

**Directors of the Manager**
as at 13 October 2011
Ann Kui Ching Kao
Edwin Tsun Kay Chan
Elsie Pui Shan Leung
Ken Wai Ming Tam
Leo Ka Kui Cheung
Lily Suet Lai Lau
Marco Ka Nam Tang
Terry San Kong Pan

**Administrator/Trustee and Registrar**
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Cayman Islands
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