JF SAR HK$ Bond 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.

Investment Report

Investment Policy

The investment policy of the JF SAR HK$ Bond Fund (the "Fund") is to provide investors with long-term capital growth in Hong Kong dollar terms through a portfolio consisting primarily of Hong Kong dollar denominated bonds.

The proposed allocation of the assets held under the Fund is as follows:

70-100%	non-cash assets in Hong Kong dollar denominated bonds
0-30%	non-cash assets in US dollar denominated bonds

During this financial period, there has been no change in the Fund's investment policy.

Commentary by the Manager

Market review

Hong Kong government bond yields have been trading in a range over the year ended June 2011. During the second half of 2010, global government bond yields once plunged to record lows before selling off towards the end of the year on the back of improved economic data. In 2011, however, US treasuries traded mostly in a range, momentarily breaking lower when nuclear fears in Japan reached a peak in the first quarter and when Peripheral Europe experienced acute stress towards the end of the second quarter. The credit sector continued to recover during 2010 and in early 2011. However, it lost some momentum in the second quarter of 2011. US economic data, especially employment and housing, have been on the weak side in 2011. Meanwhile, the Hong Kong economy continued its robust recovery, supported by strong domestic demand. However, inflation reached a new cycle high at the end of June 2011.

Outlook & Positions

The uncertainties on the solution to the European debt crisis will continue to weigh on investor confidence. Meanwhile, the Japan nuclear crisis might also create a flight to safety. However, Asian economies including Hong Kong should remain robust, with the key risk being inflation. While the US economic data remain weak, the Fed will keep rates at the floor with possible speculation for another round of quantitative easing. We maintain an overweight position to high quality corporate bonds as we expect them to outperform government bonds in the medium term.

Commentary by the Trustee

Investments made by the Fund during the year are in accordance with the investment policy as described in the Explanatory Memorandum. During the year, there has been no change in the statement of investment policy that will materially affect the risk attached to the investment of the Fund.

	2011 HK$	2010 HK$	2009 HK$
Decrease in net assets attributable to holders of redeemable units and total comprehensive loss before net gains/(losses) on investments and net foreign currency exchange gains/(losses)	(499,867)	(1,134,497)	(1,046,593)
Capital appreciation[1]	254,439,974	38,860,049	72,344,877
Net assets attributable to holders of redeemable units (after fair value adjustment)	828,620,549	574,680,442	536,954,890

[[1]Capital appreciation represents the aggregate of net allotment/(redemption) and net gains/(losses) on investments and net foreign currency exchange gains/(losses)]

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 16 September 1998, as amended, for the year ended 30 June 2011.

We have not become aware of any failures by the Custodian, the Manager and their delegates to comply with the obligations imposed on them.

We are not aware of any events of a significant nature relating to the Fund that occurred during the year which have not been reported to the Mandatory Provident Fund Schemes Authority (the "MPFA").

We hereby confirm that provisions of the Trust Deed dated 16 September 1998, as amended, the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong, the Mandatory Provident Fund Schemes Ordinance, the Mandatory Provident Fund Schemes (General) Regulation, the Code on MPF Investment Funds and other relevant guidelines issued by the MPFA have been complied with in all material respects during the year.

There are no material changes (including changes of the Custodian, the Manager and delegates of the Manager) which have not been reported to the MPFA during the year.

We declare that we have, during the year, supervised, and exercised proper control over, all persons appointed or engaged for the purposes of the Fund.

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

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Director Director

Independent Auditor's Report

To the Trustee of JF SAR HK$ Bond Fund (the "Fund")

Report on the financial statements

We have audited the financial statements of the Fund set out on pages 4 to 16, 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 16 September 1998, 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"), the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "Ordinance"), the Hong Kong Mandatory Provident Fund Schemes (General) Regulation (the "General Regulation"), the Code on MPF Investment Funds (the "MPF Code"), and Guideline 11.5 issued by the Mandatory Provident Fund Scheme Authority (the "MPF Guideline"), 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 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.

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, the Ordinance, the General Regulation, the MPF Code and the MPF Guideline.

PricewaterhouseCoopers
Hong Kong,

13 October 2011

Statement of Financial Position
As at 30 June 2011

	2011 HK$	2010 HK$
Assets		
Cash at banks	30,347,423	33,923,918
Amounts receivable on allotment	719,417	1,010,792
Investments [Notes 3, 4(I)(a)]	798,830,199	540,006,144
Other accounts receivable	-	570,500
Total assets	829,897,039	575,511,354
Liabilities		
Amounts payable on redemption	1,857,861	618,247
Other accounts payable	253,879	212,665
Liabilities (excluding net assets attributable to holders of redeemable units)	2,111,740	830,912
Net assets attributable to holders of redeemable units (before fair value adjustment) classified as financial liability/equity [Note 3]	827,785,299	574,680,442
Fair value adjustment of units of the Fund [Note 3]	835,250	-
Net assets attributable to holders of redeemable units (after fair value adjustment) classified as financial liability/equity [Note 3]	828,620,549	574,680,442

Approved by the Trustee and the Manager on 13 October 2011

Signed By:

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

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Director Director

For and on behalf of JF Asset Management Limited, Manager

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Director Director

The notes on pages 8 to 16 form part of these financial statements.

Statement of Comprehensive Income
For the year ended 30 June 2011

	2011 HK$	2010 HK$
Income		
Net gains on investments [Note 5]	20,508,256	40,749,636
Net foreign currency exchange losses	(1,604)	(1,688)
	20,506,652	40,747,948
Expenses		
Trustee's fee [Note 7(g)]	583,487	529,028
Registrar's fee [Note 7(h)]	291,572	248,566
Valuation fee [Note 7(e)]	135,501	135,278
Safe custody and bank charges	120,877	101,264
Auditor's fee	84,101	79,826
Legal and professional expenses	55,293	6,761
Management fee [Note 7(e)]	37,104	-
Transaction costs	10,472	21,114
Printing and publication expenses	9,974	4,527
Other operating expenses	6,736	8,133
	1,335,117	1,134,497
Net operating profit	19,171,535	39,613,451
Change in cumulative difference arising from the fair value adjustment of units of the Fund	835,250	-
Increase in net assets attributable to holders of redeemable units and total comprehensive income	20,006,785	39,613,451

The notes on pages 8 to 16 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 HK$	2010 HK$
Net assets attributable to holders of redeemable units at the beginning of the year	574,680,442	536,954,890
Allotment of redeemable units [Note 3]	414,657,154	162,148,194
Redemption of redeemable units [Note 3]	(180,723,832)	(164,036,093)
Net allotment/(redemption)	233,933,322	(1,887,899)
	808,613,764	535,066,991
Increase in net assets attributable to holders of redeemable units and total comprehensive income	20,006,785	39,613,451
Net assets attributable to holders of redeemable units at the end of the year	828,620,549	574,680,442

The notes on pages 8 to 16 form part of these financial statements.

Statement of Cash Flows
For the year ended 30 June 2011

	2011 HK$	2010 HK$
Operating activities		
Purchase of investments	(387,642,003)	(283,915,012)
Proceeds from disposal of investments	149,896,704	311,346,128
Transaction costs paid	(19,325)	(11,871)
Management fee paid	(33,093)	-
Registrar's fee paid	(287,254)	(234,882)
Trustee's fee paid	(569,713)	(535,194)
Others	(386,122)	(355,287)
Net cash (outflow)/inflow from operating activities	(239,040,806)	26,293,882
Financing activities		
Receipts on allotment of redeemable units	414,948,529	162,458,652
Payments on redemption of redeemable units	(179,484,218)	(163,549,444)
Net cash inflow/(outflow) from financing activities	235,464,311	(1,090,792)
(Decrease)/increase in cash and cash equivalents	(3,576,495)	25,203,090
Cash and cash equivalents at the beginning of the year	33,923,918	8,720,828
Cash and cash equivalents at the end of the year	30,347,423	33,923,918
Analysis of balances of cash and cash equivalents:		
Cash at banks	30,347,423	33,923,918

The notes on pages 8 to 16 form part of these financial statements.

Notes to the Financial Statements

1 The Fund

JF SAR HK$ Bond Fund (the "Fund") was established under a Trust Deed dated 16 September 1998, as amended, and is governed by the laws of Hong Kong. The Fund is authorized by the Securities and Futures Commission of Hong Kong ("SFC").

The investment policy of the Fund is to provide investors with long-term capital growth in Hong Kong dollar terms through a portfolio consisting primarily of Hong Kong dollar denominated bonds.

The Fund has been approved under section 6 of the Mandatory Provident Fund Schemes (General) Regulation (the "General Regulation") as an Approved Pooled Investment Fund since 31 October 2000. The Fund is also required to comply with the Schedule of Conditions for Approval of Pooled Investment Funds issued by the Mandatory Provident Fund Schemes Authority (the "MPFA") to the Fund dated 31 October 2000.

The Fund is established with different classes of units to cater for different categories of investors. Currently, the Fund offers two classes of units. The two classes of units are:

Class A - Available to collective investment schemes, pension plans, segregated portfolios or other types of investment vehicles to which units of Class B are not made available.

Class B - Available to any schemes registered under the General Regulation for investment purpose only and collective investment schemes which are authorized by the SFC, pension plans, segregated portfolios or other types of investment vehicles where the Manager or its associated party acts as the manager or the investment manager of such scheme, plan, portfolio or vehicle and a management fee or investment management fee is being charged by them.

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 Standard (“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 that are listed or traded on an exchange and investments with prices quoted in over-the-counter markets or by market makers, are fair valued based on quoted "bid" prices on long investments and quoted "ask" prices on investments sold short.

Debt securities are fair valued based on quoted prices inclusive of accrued interest.

(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 investments is accounted for as part of net gains/losses on investments in the Statement of Comprehensive Income.

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 16 September 1998, 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 Net assets attributable to holders of redeemable units and number of units in issue

Fair value adjustment of units of the Fund

As at 30 June 2011, there were two classes in the Fund. The net assets attributable to the holders of redeemable units was classified as a financial liability which 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. The redemption amount is determined based on the net assets attributable to holders of redeemable units calculated in accordance with the provisions of the Fund's Trust Deed dated 16 September 1998, as amended ("Trust Deed NAV").

	2011 HK$
Net assets attributable to holders of redeemable units (before fair value adjustment)	827,785,299
Fair value adjustment of units of the Fund:	
Difference between bid/ask prices and last traded prices basis in valuing investments as at 30 June [Note 3(a)]	835,250
Net assets attributable to holders of redeemable units (after fair value adjustment)	828,620,549

Note:

(a) Listed investments and investments with prices quoted in over-the-counter markets or by market makers are stated at the last traded prices for the purpose of the Trust Deed NAV. As stated in Note 2(b), the accounting policy of the Fund for the purpose of compliance with HKAS 39, "Financial Instruments: Recognition and Measurement" and for reporting purposes is to value its investments at fair value based on the relevant bid/ask market prices on the Statement of Financial Position date.

As at 30 June 2010, there was only one class in the Fund. The net assets attributable to the holders of redeemable units (or "net asset value", "net assets" or "NAV") was classified as equity and not adjusted for fair value adjustment of units of the Fund.

Number of units in issue

	2011		2010	
	Class A Units	Class B Units	Class A Units	Class B Units
Number of units in issue:				
At the beginning of the year	-	29,322,500.796	-	29,356,148.738
Total allotments	493,071.168	20,357,555.802	-	8,587,313.482
Total redemptions	(172,383.030)	(8,958,541.365)	-	(8,620,961.424)
At the end of the year	320,688.138	40,721,515.233	-	29,322,500.796
	HK$	HK$	HK$	HK$
Net assets attributable to holders of redeemable units (after fair value adjustment)	6,098,452	822,522,097	-	574,680,442
Net assets attributable to holders of redeemable units (per unit)	19.02	20.20	-	19.60

As at 30 June 2011, the Fund had HK$828,620,549 of puttable financial instruments, represented by the net assets attributable to holders of redeemable units, classified as financial liabilities. As at 30 June 2010, the Fund's net assets attributable to holders of redeemable units of HK$574,680,442 was classified as equity.

The Fund's objectives and policies for managing its obligations for the holders of redeemable units of the Fund are included in Note 4(II) capital risk management.

Units of the Fund are redeemable at the option of the holders of redeemable units. Based on historical levels of activity for the year ended 30 June 2010, the Fund on average has outflows relating to the redemption of units of HK$650,937 on each dealing day.

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 primarily invests in debt securities which are subject to interest rate risk. Refer to Note 4(I)(a)(ii) for interest rate risk.

(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 Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its investments and cash deposits.

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.

	Less than 1 year HK$	1-5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
2011					
Cash at banks	30,347,423	-	-	-	30,347,423
Investments (Note*)	51,100,451	404,452,311	326,784,437	16,493,000	798,830,199
Total interest sensitivity gap	81,447,874	404,452,311	326,784,437	16,493,000	829,177,622
2010					
Cash at banks	33,923,918	-	-	-	33,923,918
Investments (Note*)	39,881,365	275,414,005	224,710,774	-	540,006,144
Total interest sensitivity gap	73,805,283	275,414,005	224,710,774	-	573,930,062

Note:

* The coupon rate of the investments ranged between 0.00% p.a. - 5.70% p.a. (2010: 1.61% p.a. - 8.02% p.a.).

As at 30 June, the Fund's fair value of investments were as follows:

	2011		2010	
Listed/Quoted Investments	Fair value of investments HK$	% of net assets	Fair value of investments HK$	% of net assets
Assets				
Convertibles				
- Hong Kong Dollar	43,698,300	5.3	-	-
Debt Securities				
- Hong Kong Dollar	755,131,899	91.1	540,006,144	94.0
Total Listed/Quoted Investments	798,830,199	96.4	540,006,144	94.0

The Manager monitors the Fund's interest rate risk sensitivity primarily through the modified duration of the Fund on a regular basis. The modified duration measures the sensitivity of the price of a bond relative to the change in interest rate. As at 30 June 2011, the Manager estimates that the Fund has a modified duration of 4.24 (2010: 4.25). For the purpose of disclosing relevant sensitivities, the percentage of reasonable possible change in interest rate adopted is 25 basis points, which 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 Manager's forecast of the Fund's future returns. If the interest rates were to rise by 25 basis points with all other variables held constant, this would result in a decrease in net asset value of the Fund by approximately HK$8,783,378 (2010: HK$6,105,980). If the interest rates were to fall by 25 basis points, this would result in an increase in the net asset value of the Fund by the same amount.

(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 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	(111,567)	-0.1	112
	(111,567)		112
2010			
United States Dollar	(92,413)	+0.5	(462)
	(92,413)		(462)

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 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 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	30,347,423	33,923,918
Amounts receivable on allotment	719,417	1,010,792
Investments - debt securities	755,131,899	540,006,144
Other accounts receivable	-	570,500
	786,198,739	575,511,354

All transactions in listed investments are settled on a delivery versus payment basis using approved brokers. The risk of default is considered minimal, as delivery of investments sold is only made when the Fund's custodian bank has received payment. For a purchase, payment is made once the investments have been received by the Fund's custodian bank. The trade will fail if either party fails to meet the obligation.

The Fund's investments are predominantly in debt securities and therefore the Fund is exposed to credit risk that the issuers may not be able to repay the principal amount and interest at maturity.

The table below summarizes the debt securities by credit rating as at 30 June.

	2011 % of net assets	2010 % of net assets
S&P(AAA)/Moody's(Aaa)/FITCH(AAA)	31.3	11.2
S&P(AA)/Moody's(Aa)/FITCH(AA)	21.5	44.3
S&P(A)/Moody's(A)/FITCH(A)	38.3	38.5
	91.1	94.0

The table below summarizes the credit rating of the ultimate holding company of the custodian.

	2011 Exposure to counterparties HK$	2010 Exposure to counterparties HK$
Bank balances under the safekeeping of the custodian		
S&P(AA)/Moody's(Aa)/FITCH(AA)	30,347,423	33,923,918

(c) Liquidity risk

The Fund is exposed to daily redemption of units, the majority of its assets in investments are traded in an active market which can be readily disposed of. The Manager may also limit the total number of units redeemed on any dealing day to 10% or more of the current units in issue of any one class 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 Less than 1 month HK$	2010 Less than 1 month HK$
Amounts payable on redemption	1,857,861	618,247
Other accounts payable	253,879	212,665
Net assets attributable to holders of redeemable units	828,620,549	-
Total financial liabilities	830,732,289	830,912

The Manager manages the Fund's liquidity risk by investing predominantly in investments that the 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 current units in issue of any one class 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				
Convertibles	-	43,698,300	-	43,698,300
Debt Securities	-	755,131,899	-	755,131,899
Total financial assets at fair value through profit and loss	-	798,830,199	-	798,830,199

Listed/Quoted Investments	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
2010				
Assets				
Debt Securities	-	540,006,144	-	540,006,144
Total financial assets at fair value through profit and loss	-	540,006,144	-	540,006,144

5 Net gains on investments

	2011 HK$	2010 HK$
Change in unrealized gains/losses in value of investments	1,764,291	15,090,657
Realized gains on sale of investments	18,743,965	25,658,979
	20,508,256	40,749,636

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.

7 Transactions with the Trustee, the Manager and their Associates/ Connected Persons

The following is a summary of transactions entered into during the year between the Fund and the Trustee, the Manager and their Associates/Connected Persons. Associates and Connected Persons of the Trustee and the Manager are those as defined in the Mandatory Provident Fund Schemes Ordinance and the Code on Unit Trusts and Mutual Funds established by the SFC respectively. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

(a) Investment transactions with Associates/Connected Persons of the Trustee and the Manager are set out below:

Name of company	Aggregate value of purchases and sales of investments HK$	% of the Fund's total aggregate value of transactions	Commission paid HK$	% of the Fund's total commission paid in the year (Note)	Average commission rate %
2011					
J.P. Morgan Securities Limited	8,000,000	1.69	-	-	-

2010

There were no investment transactions with Associates/Connected Persons of the Trustee and the Manager during the year.

Note: The Fund did not pay any commission with respect to purchases and sales of securities during the year (2010: nil).

(b) Balances with the Trustee, the Manager and their Associates/Connected Persons as at year end:

	2011 HK$	2010 HK$
Cash at banks	30,347,423	33,923,918
Other accounts payable	(169,778)	(132,842)

As at 30 June 2011, the Fund's investment balance of HK$16,947,489 (2010: HK$17,137,976) represents the investments in the debt securities issued by an Associate of the Trustee.

(c) The Fund may utilize the brokerage, custodian, agency and banking services of the Trustee, the Manager and their Associates/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 for Class A of 0.8% per annum and Class B of 0% per annum of the net asset value of the Fund is paid to JF Asset Management Limited. Management fee is accrued based on the net asset value attributable to each class of units on each dealing day and is payable monthly in arrears.

The Manager also receives a valuation fee of US$40 per valuation if the Fund's net asset value is larger than US$10 million but smaller than US$20 million, or US$70 per valuation if the Fund's net asset value is larger than US$20 million.

(f) 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.

(g) Trustee's fee for Class A of 0.08% (before 1 July 2010: 0.085%) per annum and Class B of 0.08% (before 1 July 2010: 0.085%) per annum of the net asset value of the Fund is paid to the Trustee. Trustee's fee is accrued based on the net asset value attributable to each class of units on each dealing day and is payable monthly in arrears.

(h) JPMorgan Funds (Asia) Limited, the registrar agent and also a subsidiary of the Manager, receives a fee which will vary depending on the number of unitholders in the Fund and the number of transactions which occur. The range agreed with the Trustee is between 0.015% and 0.5% per annum of the Fund's net asset value. The fee is payable quarterly in arrears.

(i) The retirement schemes of the employees of the Manager and its Connected Persons may subscribe to the Class B units of the Fund.

8 Soft commission arrangements

The Manager has entered into soft commission arrangements with brokers under which certain goods and services used to support investment decision making are received by the Manager. The Manager does not make direct payment for these services but transacts an agreed amount of business with the brokers on behalf of the Fund. Commission is paid from the Fund on these transactions.

The goods and services must be of demonstrable benefit to the Fund and may include research and advisory services; economic and political analysis; portfolio analysis, including valuation and performance measurement; market analysis, data and quotation services, computer hardware and software incidental to the above goods and services; clearing and custodian services and investment-related publications.

9 Distribution

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

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

	Holding	Fair value HK$	% of net assets
Listed/Quoted Investments (96.4%)			
(I) Convertibles (5.3%)			
Hong Kong Dollar (5.3%)			
China Petro & Chem CB 0% 24/04/14	HKD7,000,000	8,041,250	1.0
Joyous King EB (Shun T) 3.3% 10/14	HKD15,200,000	15,372,900	1.9
Sherson Ltd EB (New World)0% 4/6/14	HKD7,500,000	8,451,750	1.0
Wharf Fin (2014) CB 2.3% 07/06/14	HKD12,000,000	11,832,400	1.4
		43,698,300	5.3
(II) Debt Securities (91.1%)			
Hong Kong Dollar (91.1%)			
ANZ Banking Grp 3.08% 19/11/14	HKD4,000,000	4,162,794	0.5
ANZ Banking Grp 4.5% 10/02/20	HKD5,000,000	5,404,118	0.7
ANZ Banking Grp 5.24% 05/07/17	HKD3,000,000	3,400,249	0.4
ANZ Banking/Melbou 2.73% 13/08/12	HKD4,000,000	4,173,414	0.5
Bank Ned Gemeenten 3.02% 24/02/14	HKD8,000,000	8,421,584	1.0
Bank Of America 4.24% 28/09/20	HKD5,000,000	5,180,607	0.6
Bank Of Nova Scotia 3.62% 21/5/13	HKD8,000,000	8,375,650	1.0
Bank Of Scotland 5.45% 13/08/12	HKD4,000,000	4,347,678	0.5
BNP Paribas 2.65% 21/02/12	HKD10,000,000	10,120,919	1.2
BNP Paribas 2.95% 09/08/17	HKD4,000,000	4,088,512	0.5
BNZ Intl Fund 2.075% 27/11/12	HKD3,000,000	3,070,997	0.4
Central American Bk 4.8% 03/11/11	HKD10,000,000	10,194,489	1.2
Citigroup Inc 5.7% 17/08/17	HKD5,000,000	5,885,039	0.7
CK Bond Finance 3.48% 22/04/13	HKD8,000,000	8,374,821	1.0
CLP Power HK Fin 3.6% 13/09/30	HKD10,000,000	9,778,414	1.2
CLP Power HK Fin 4.15% 23/06/15	HKD2,500,000	2,705,174	0.3
CLP Power HK Fin 4.38% 11/01/17	HKD7,000,000	7,727,370	0.9
CLP Power HK Fin 4.93% 13/01/14	HKD4,000,000	4,392,022	0.5
Deutsche Bk Ldn 3.03% 09/03/15	HKD5,000,000	5,185,918	0.6
Dexia Credit Local 4.44% 27/06/13	HKD5,000,000	5,139,633	0.6
Eurofima 4.18% 08/06/15	HKD6,000,000	6,624,564	0.8
Export-Import Bk Korea 3.4% 7/3/16	HKD10,000,000	10,336,555	1.3
Export-Import Bk Korea 4.05%24/6/20	HKD10,000,000	10,018,267	1.2
Export-Import Bk Korea 4.25%15/6/12	HKD5,000,000	5,147,315	0.6
France Telecom 2.95% 04/02/15	HKD16,000,000	16,737,293	2.0
General Elec Cap 4.3% 03/08/15	HKD6,000,000	6,359,944	0.8
General Elec Cap 4.69% 06/02/12	HKD5,000,000	5,182,158	0.6
HK Airport Auth 5.1% 13/04/16	HKD2,000,000	2,311,117	0.3
HK Exchange Fund 1.18% 21/09/15	HKD19,000,000	19,165,253	2.3
HK Exchange Fund 1.61% 10/12/18	HKD10,000,000	9,832,263	1.2
HK Exchange Fund 1.67% 19/12/13	HKD15,000,000	15,453,049	1.9
HK Exchange Fund 3.27% 28/08/23	HKD11,500,000	12,708,874	1.5
HK Exchange Fund 3.56% 25/06/18	HKD10,000,000	11,156,901	1.4
HK Exchange Fund 4.85% 27/06/17	HKD13,500,000	16,046,525	1.9
HK Govt Bd 2.93% 13/1/20-10GB2001	HKD40,000,000	43,281,862	5.2
HK Land Try Serv 4.1875% 23/10/19	HKD7,500,000	8,056,364	1.0
HK Mortgage 4.55% 31/10/12	HKD6,000,000	6,347,421	0.8
HK Mortgage 4.82% 08/10/14	HKD8,000,000	8,961,221	1.1
HK Mortgage 5.2% 16/07/18	HKD4,000,000	4,854,102	0.6
HKCG Finance 3.9% 03/06/19	HKD7,000,000	7,360,910	0.9
HKSAR Govt 5.125% 23/07/19	HKD2,000,000	2,451,910	0.3
Hongkong Land Notes 3.95% 8/6/20	HKD7,000,000	7,242,333	0.9
Hongkong Land Notes 4.11% 13/9/30	HKD5,000,000	5,012,687	0.6
HSBC Finance 5.3% 21/10/13	HKD8,000,000	8,575,718	1.0
ICBC Asia 2.92% 06/04/16	HKD10,000,000	10,212,900	1.2
Kookmin Bank 4% 22/04/13	HKD10,000,000	10,401,429	1.3
Korea Dev Bank 3.25% 20/07/15	HKD8,000,000	8,462,626	1.0

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

	Holding	Fair value HK$	% of net assets
Hong Kong Dollar (Continued)			
Korea Finance 3.4% 15/03/16	HKD8,000,000	8,241,683	1.0
Korea Natl Oil 2.53% 25/02/14	HKD5,000,000	5,109,918	0.6
Korea Water Res 4.45% 11/08/14	HKD8,000,000	8,707,611	1.1
Kowloon-Canton Rail 3.5% 29/04/19	HKD12,000,000	12,654,444	1.5
Kowloon-Canton Rail 3.64% 24/07/19	HKD3,000,000	3,218,450	0.4
Kowloon-Canton Rail 3.88% 15/06/21	HKD3,000,000	3,191,822	0.4
Kowloon-Canton Rail 4.65% 10/06/13	HKD5,000,000	5,375,164	0.7
Kowloon-Canton Rail 4.8% 06/06/13	HKD1,300,000	1,401,993	0.2
Link Finance Cayman 3.73% 23/01/17	HKD5,000,000	5,338,523	0.7
Link Finance Cayman 4.1% 24/12/19	HKD6,000,000	6,375,723	0.8
Link Finance Cayman 4.75% 20/05/19	HKD15,000,000	16,579,136	2.0
Macquarie Bank 2.75% 02/11/15	HKD7,000,000	7,084,543	0.9
Manitoba (Province Of) 3% 30/04/14	HKD7,000,000	7,337,472	0.9
MTR Corp 4.28% 06/07/20	HKD9,000,000	10,126,970	1.2
MTR Corp 4.5% 03/06/13	HKD1,000,000	1,073,395	0.1
MTR Corp 4.6% 03/06/13	HKD1,000,000	1,075,365	0.1
MTR Corp 4.95% 21/10/19	HKD2,000,000	2,349,498	0.3
National Aust Bk 2.6% 09/12/15	HKD10,000,000	10,216,715	1.2
National Aust Bk 3.7% 09/12/11	HKD3,000,000	3,095,008	0.4
National Bk Abu Dhabi 3.4% 09/17	HKD5,000,000	5,080,963	0.6
Natl Grid Gas 4.02% 04/11/19	HKD8,000,000	8,615,382	1.0
Neder Waterschapsbk 2.51% 24/2/12	HKD10,000,000	10,179,047	1.2
Nordic Inv Bank 5% 30/11/12	HKD20,000,000	21,823,961	2.6
PSA Intl Pte 3.8% 26/05/20	HKD4,000,000	4,178,752	0.5
Quebec Province 4.3% 02/02/12	HKD7,000,000	7,181,515	0.9
Rabobank Nederland 3% 02/09/14	HKD12,000,000	12,616,029	1.5
Region Ile de France 3.95% 17/11/14	HKD10,000,000	10,919,881	1.3
Royal Bk Of Canada 4.18% 27/06/13 *	HKD16,000,000	16,947,489	2.1
Shinhan Bank 4.01% 09/11/20	HKD10,000,000	10,106,279	1.2
SNCF 2.59% 16/10/14	HKD7,000,000	7,380,852	0.9
SPI Elect & Gas 4.125% 16/03/20	HKD5,000,000	5,274,176	0.6
Standard Chart Bk 3.22% 17/03/14	HKD7,000,000	7,342,729	0.9
Sun Hung Kai Prop 3.94% 16/01/13	HKD7,000,000	7,345,156	0.9
Sun Hung Kai Prop 4.67% 09/02/16	HKD7,000,000	7,742,288	0.9
Sun Hung Kai Prop 5.15% 13/08/18	HKD5,000,000	5,842,014	0.7
Swedish Export Credit 3% 28/10/16	HKD14,000,000	14,542,784	1.8
Swire Pacific MTN 4.2% 18/12/18	HKD2,000,000	2,121,832	0.3
Swire Pacific MTN 4.93% 28/03/13	HKD15,000,000	15,927,526	1.9
Telstra Corp 4.02% 10/07/20	HKD13,000,000	13,491,934	1.6
Toyota Motor Fin 4.635% 11/03/16	HKD6,000,000	6,646,695	0.8
UBS AG Jersey 3% 05/02/14	HKD5,000,000	5,210,378	0.6
UBS AG Jersey 3% 23/12/15	HKD5,000,000	5,192,232	0.6
UBS AG Jersey 3.59% 09/08/17	HKD7,000,000	7,337,989	0.9
Westpac Banking 2.845% 19/01/16	HKD8,000,000	8,229,161	1.0
Westpac Banking 4.55% 22/01/20	HKD10,000,000	10,870,459	1.3
		755,131,899	91.1
Total Listed/Quoted Investments		798,830,199	96.4
Other net assets		29,790,350	3.6
Net assets attributable to holders of redeemable units at 30 June 2011		828,620,549	100.0
Total investments, at cost		772,577,688	

* Issued by an Associate of the Trustee (refer to Note 7 for the definition of Associates)

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

	% holdings of net assets	
	2011	2010
Listed/Quoted Investments		
Convertibles		
Hong Kong Dollar	5.3	-
Debt Securities		
Hong Kong Dollar	91.1	94.0
Total Listed/Quoted Investments	96.4	94.0
Other net assets	3.6	6.0
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 Class A unit HK$	Net asset value per Class B unit HK$
30/6/11	828,620,549	19.02	20.20
30/6/10	574,680,442	18.60 *	19.60
30/6/09	536,954,890	17.50 *	18.29

* There were no units in issue in this class and was presented for reference only.

Fund Expense Ratio

	Class A	Class B
30/6/11	0.98% *	0.18% *
	HK$	HK$
Transaction cost for the period from 1 July 2010 to 30 June 2011	66	10,406

* Basis of calculation and assumptions used by the Manager

1. The **Fund Expense Ratio** (FER) for the Fund has been calculated to two decimal places.

   FER = Total Expenses/Average Net Asset Value

2. **Total Expenses** represent the total expenses as set out in the Statement of Comprehensive Income of the Fund for the year ended 30 June 2011 but excluding transaction costs in arriving at total expenses.

3. **Average Net Asset Value** is the sum of the net asset value (NAV) of the Fund at each of the pricing points divided by the number of pricing points. The NAV at each pricing point is directly extracted from the accounting and valuation system used by JF Asset Management Limited and is unaudited.

4. Pricing points represent relevant valuation dates for the Fund which are currently performed on a daily basis by the Manager.

Performance Record - Unaudited (Continued)

Net annualized investment returns, highest offer and lowest bid prices

Financial period ended	Net annualized investment return (Note)	Highest offer HK$	Lowest bid HK$
Class A unit			
30/6/11	+2.3%	19.14	18.29
30/6/10	+6.3%	18.60	17.44
30/6/09	+4.4%	18.04	16.69
30/6/08	+5.9%	17.49	15.79
30/6/07	+3.5%	16.07	15.25
30/6/06	-1.2%	15.47	15.07
30/6/05	+2.3%	15.67	15.11
30/6/04	+0.3%[1]	15.47	14.78
30/6/03	+7.1%	15.20	14.09
30/6/02	+8.1%	14.15	13.02
Class B unit			
30/6/11	+3.1%	21.40	19.36
30/6/10	+7.2%	20.64	18.24
30/6/09	+5.2%	19.77	17.31
30/6/08	+6.8%	19.06	16.24
30/6/07	+4.3%	17.37	15.57
30/6/06	-0.4%	16.54	15.30
30/6/05	+3.1%	16.64	15.19
30/6/04	+1.1%[1]	16.33	14.73
30/6/03	+7.0%	15.96	14.06
30/6/02	+8.1%	14.87	13.01

[1] Certain changes were made to the categorization of Class A and Class B effective 1 August 2003. To accommodate the above change, there were switches between Class A and Class B units on 31 July 2003. The data as at 30 June 2004 shown above had already reflected such switch.

Note: Net annualized investment return is calculated by the percentage change in unit prices.

Management and Administration

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Administrator
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as at 13 October 2011
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Eddie Chung Shun Fong
Edwin Tsun Kay Chan
Roger Anthony Hepper
Ken Wai Ming Tam
Lily Suet Lai Lau
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