

# MANULIFE

# DYNAMIC FUND

## ANNUAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2009





# CONTENTS

	<b>PAGE</b>
<b>Management and administration .....</b>	<b>2</b>
<b>Report of the custodian.....</b>	<b>3</b>
<b>Independent auditor's report.....</b>	<b>4</b>
<b>Balance sheet.....</b>	<b>7</b>
<b>Income statement .....</b>	<b>8</b>
<b>Statement of movements in net assets attributable to holders of redeemable participating shares .....</b>	<b>9</b>
<b>Cash flow statement.....</b>	<b>10</b>
<b>Notes to the financial statements .....</b>	<b>11</b>
<b>Investment portfolio – Income Plus Capital Guaranteed Fund – Australian Dollar (“IPG Fund”) (unaudited) .....</b>	<b>41</b>
<b>Statement of movements in investment portfolio – IPG Fund (unaudited) .....</b>	<b>42</b>
<b>Performance table – IPG Fund (unaudited) .....</b>	<b>43</b>
<b>Report of the investment manager – IPG Fund (unaudited) .....</b>	<b>44</b>

*Note: The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents.*



# MANAGEMENT AND ADMINISTRATION

## **Directors of the Company**

Robert A. Cook  
Cindy Forbes  
Michael E. Huddart  
Kong Wai Hung

## **Investment Manager and Distributor**

Manulife Asset Management  
(Hong Kong) Limited  
Suite 4701, 47th Floor  
Manulife Plaza,  
The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

## **Legal Advisers to the Investment Manager:**

*(as to Hong Kong law)*  
Stephenson Harwood & Lo  
35th Floor Bank of China Tower  
1 Garden Road Central  
Hong Kong

*(as to Cayman Islands law)*  
Maples and Calder  
53rd Floor The Center  
99 Queen's Road Central  
Hong Kong

*(as to the Custodian and Administrator)*

Deacons  
3rd-6th Floor  
Alexandra House  
16-20 Chater Road  
Central, Hong Kong

## **Custodian and Administrator**

Bank of Bermuda (Cayman)  
Limited  
P.O.Box 513 GT  
HSBC House  
68 West Bay Road  
Grand Cayman KY1-1106  
Cayman Islands  
British West Indies

## **Principal Sub-Custodian, Administrator's Agent and Guarantee Claims Agent**

HSBC Institutional Trust  
Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

## **Guarantor**

Société Générale S.A.  
29 Boulevard Haussmann  
75009 Paris  
France

## **Registered office of the Company**

P.O. Box 309 GT  
Ugland House  
South Church Street  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

## **Principal Office of the Company**

Bank of Bermuda (Cayman)  
Limited  
P.O.Box 513 GT  
HSBC House  
68 West Bay Road  
Grand Cayman KY1-1106  
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British West Indies

## **Auditors**

PricewaterhouseCoopers  
P.O. Box 258 GT  
Strathvale House  
George Town, Cayman Islands  
British West Indies



## REPORT OF THE CUSTODIAN

In our opinion, the Investment Manager, Manulife Asset Management (Hong Kong) Limited, has, in all material respects, managed the Manulife Dynamic Fund for the year ended 30th June 2009 in accordance with the provisions of the Memorandum of Association dated 2nd August 2001, as amended.

For and on behalf of the Board of  
Bank of Bermuda (Cayman) Limited

Date: 23rd October 2009



# INDEPENDENT AUDITOR'S REPORT

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MANULIFE DYNAMIC FUND**

*(incorporated in the Cayman Islands as an exempted company  
with limited liability)*

### **Report on the financial statements**

We have audited the accompanying financial statements of each of Income Plus Capital Guaranteed Fund – Australian Dollar (the “IPG Fund”) and Fixed Income Fund, each a sub-fund of Manulife Dynamic Fund (the “Company”) and collectively referred to as (the “Sub-Funds”) set out on pages 7 to 40, which comprise the balance sheet of each of the Sub-Funds as of 30th June 2009 and the income statement, statement of movements in net assets attributable to holders of redeemable participating shares and cash flow statement for the year then ended 30th June 2009 for IPG Fund and for the period from 17th December 2008 (date of formation) to 30th June 2009 for Fixed Income Fund, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

The Directors and the Manager (the “Management”) of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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 of IPG Fund have been properly prepared in accordance with 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”). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



# INDEPENDENT AUDITOR'S REPORT

## 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 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 Company's preparation and true and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 each of the Sub-Funds as of 30th June 2009, and of each of their financial performance and each of their cash flows for the year then ended for IPG Fund and for the period from 17th December 2008 (date of formation) to 30th June 2009 for Fixed Income Fund in accordance with Hong Kong Financial Reporting Standards.



# INDEPENDENT AUDITOR'S REPORT

## **Emphasis of Matter**

Without qualifying our opinion, we draw your attention to Note 2(a) to the financial statements, which states that the IPG Fund will mature on 16th March 2010 and that the Board of Directors intend to terminate the Fixed Income Fund on the same date. As a result, the financial statements of the IPG Fund and Fixed Income Fund have not been prepared on a going concern basis.

## **Report on other legal and regulatory disclosure requirements**

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

## **PricewaterhouseCoopers**

Cayman Islands, 23rd October 2009

# BALANCE SHEET

AS AT 30TH JUNE 2009

		Income Plus Capital Guaranteed Fund – Australian Dollar		Fixed Income Fund*
	Note	2009 AUD	2008 AUD	2009 USD
<b>Assets</b>				
Current assets				
Financial assets at fair value				
through profit or loss	10	4,941,356	4,778,771	-
Amount due from investment manager		1,540	-	4,946
Accounts receivables		6	248	58
Prepayment of management fee		49,933	120,303	-
Prepayment of custodian and administration fees		6,242	15,038	-
Cash at banks		28,522	54,624	1,995,635
		<u>5,027,599</u>	<u>4,968,984</u>	<u>2,000,639</u>
<b>Liabilities</b>				
Current liabilities				
Amount due to investment manager		-	1,070	-
Accounts payable and accruals		6,404	14,791	458
		<u>6,404</u>	<u>15,861</u>	<u>458</u>
Net assets attributable to holders of redeemable participating shares (before adjusting redeemable participating shares to fair value)				
		5,021,195	4,953,123	2,000,181
Fair value adjustment for redeemable participating shares	3(a)	(56,175)	(135,341)	-
Net assets attributable to holders of redeemable participating shares		<u>4,965,020</u>	<u>4,817,782</u>	<u>2,000,181</u>

Director

Director

\* The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents.

The notes on pages 11 to 40 form part of these financial statements.

# INCOME STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2009

	Note	Income Plus Capital Guaranteed Fund – Australian Dollar 2009 AUD	2008 AUD	Fixed Income Fund* 2009 USD
<b>Income</b>				
Interest on bank deposits		1,148	4,214	231
Net exchange gains/(losses)		596	(354)	–
Net gains on financial assets at fair value through profit or loss	9	519,016	127,786	–
<b>Total investment income</b>		<b>520,760</b>	<b>131,646</b>	<b>231</b>
<b>Expenses</b>				
Management fee	6(a)	92,646	102,169	50
Custodian and administration fees	6(b)	8,796	8,820	–
<b>Total operating expenses</b>		<b>101,442</b>	<b>110,989</b>	<b>50</b>
<b>Net operating income</b>		<b>419,318</b>	<b>20,657</b>	<b>181</b>
<b>Finance costs</b>				
Distributions to holders of redeemable participating shares	7	–	(135,282)	–
Fair value adjustment for redeemable participating shares	3(a)	79,166	79,382	–
<b>Increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations for the year/period</b>		<b>498,484</b>	<b>(35,243)</b>	<b>181</b>

\* The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents. The income statement covers the period from 17th December 2008 (date of formation) to 30th June 2009.

The notes on pages 11 to 40 form part of these financial statements.

# STATEMENT OF MOVEMENTS IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE PARTICIPATING SHARES

FOR THE YEAR ENDED 30TH JUNE 2009

	Income Plus Capital Guaranteed Fund – Australian Dollar 2009 AUD	2008 AUD	Fixed Income Fund* 2009 USD
Net assets attributable to holders of redeemable participating shares at the beginning of the year, as previously reported	4,817,782	6,148,478	–
Proceeds on issue of redeemable participating shares	–	–	2,000,000
Payment on redemption of redeemable participating shares	(351,246)	(1,295,453)	–
Increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations	498,484	(35,243)	181
Balance at the end of the year/period	<u>4,965,020</u>	<u>4,817,782</u>	<u>2,000,181</u>

\* The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents. The statement of movements in net assets attributable to holders of redeemable participating shares covers the period from 17th December 2008 (date of formation) to 30th June 2009.

The notes on pages 11 to 40 form part of these financial statements.

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 2009

	Income Plus Capital Guaranteed Fund – Australian Dollar	Fixed Income Fund*
	2009 AUD	2009 USD
Cash flows from operating activities		
Increase/(decrease) in net assets attributable to holders of redeemable participating shares from operations	498,484	181
Adjustments for:		
– Fair value adjustment for redeemable participating shares	(79,166)	–
– Interest on bank deposits	(1,148)	(231)
– Distributions to holders of redeemable participating shares	–	–
– Net exchange (gains)/losses	(596)	–
Operating gains/(losses) before working capital changes	417,574	(50)
Increase in amount due from investment manager	(1,540)	(4,946)
Increase in amount due to investment manager	(1,070)	–
Decrease in prepayment of management fee	70,370	–
Decrease in prepayment of custodian and administration fees	8,796	–
(Decrease)/increase in accounts payable and accruals	(8,387)	458
(Increase)/decrease in financial assets at fair value through profit or loss	(162,585)	–
Cash generated from/(used in) operations	323,158	(4,538)
Bank interest received	1,390	173
Net cash inflow/(outflow) from operating activities	324,548	(4,365)
Financing activities		
Distributions paid	–	–
Proceeds on issue of redeemable participating shares	–	2,000,000
Payment on redemption of redeemable participating shares	(351,246)	–
Net cash (outflow)/inflow from financing activities	(351,246)	2,000,000
(Decrease)/increase in cash and cash equivalents	(26,698)	1,995,635
Cash and cash equivalents at beginning of the year	54,624	–
Effect of foreign exchange rate changes	596	–
Cash and cash equivalents at end of the year	28,522	1,995,635
Analysis of balances of cash and cash equivalents		
Cash at banks	28,522	1,995,635

\* The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents. The cash flow statement covers the period from 17th December 2008 (date of formation) to 30th June 2009.

The notes on pages 11 to 40 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 1 General

Manulife Dynamic Fund (the “Company”) is an open-ended umbrella mutual fund company incorporated in and under the laws of the Cayman Islands with limited liability on 2nd August 2001. The Articles provide that the Company may offer separate classes of shares representing interests in defined portfolios of assets and investments. Each sub-fund has been established as a class of redeemable participating shares in the Company. As at 30th June 2009 the Company comprised two sub-funds, namely the Income Plus Capital Guaranteed Fund – Australian Dollar (the “IPG Fund”) and the Fixed Income Fund.

The IPG Fund is authorised by the Securities and Futures Commission in Hong Kong under Section 104(1) of the Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (“SFC”). The Fixed Income Fund is not authorized in Hong Kong and is not available to Hong Kong Residents.

The activities attributable to each sub-fund is accounted for separately, the assets and liabilities and income and expenditure attributable to a sub-fund shall be applied to such sub-fund. In the event of the insolvency of any one sub-fund resulting in the assets attributable to that sub-fund being insufficient to meet the liabilities attributable to that sub-fund, assets may be transferred to and from the sub-funds in the books of the Company as may be necessary in order that effective burden of the creditors’ claims may be shared among the holders of Shares of different classes in such proportion as may be equitable having regards to the segregate attribution principle as provided in the Articles of Association. In relation to the attribution of liabilities in respect of any sub-fund, investors should consult the Articles of Association for details.



# NOTES TO THE FINANCIAL STATEMENTS

## 1 General (Continued)

### IPG Fund

The IPG Fund commenced operation on 16th March 2005 (the “Start Date”), it aims to provide investors with the opportunity to participate, through the receipt of the distributions, if any, for the third year to the fifth year, in the positive performance of a basket of bond funds, which consists of the PIMCO Fund-Emerging Markets Bond Fund; the Schroder International Selection Fund Emerging Markets Debt Fund; the Morgan Stanley SICAV Emerging Markets Debt Fund and the Pioneer Fund – US High Yield Corporate Bond (each of the above funds weighted 25% of the basket).

The guarantor, Société Générale guarantees investors (i) a minimum redemption value of 100% of their initial investment if they redeem their shares on 16th March 2010 (“Maturity Date”) and (ii) a distribution of 3% of the offer price for the first year of the IPG Fund, being payable after 16th March 2006 and (iii) a distribution of 8% of the offer price for the second year of the IPG Fund, being payable after 16th March 2007. Shareholders who redeem their holdings prior to the Maturity Date will not benefit from the Guarantee. According to the Explanatory Memorandum and Addendum dated 17th February 2005, the IPG Fund will be terminated on 16th March 2010, the Maturity Date.

### Fixed Income Fund

The Fixed Income Fund commenced operation on 17th December 2008 (the “Start Date”), it aims to maximise total returns from a combination of current income and capital appreciation while maintaining a high degree of principal stability and liquidity. To pursue this objective, notwithstanding the range of investments permitted under the Articles and the Explanatory Memorandum, the sub-fund shall invest its assets only and exclusively in Hong Kong Government debt securities issued on account of the Hong Kong Monetary Authority Exchange Fund, and cash assets shall be deposited in an interest-bearing account set up with an authorized financial institution in Hong Kong.



## NOTES TO THE FINANCIAL STATEMENTS

### 2 Summary of significant accounting policies

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

#### (a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). According to the Explanatory Memorandum and Addendum dated 17th February 2005, the IPG Fund will mature on 16th March 2010. The Board of Directors and Investment Manager (the “Management”) also have an intention to terminate Fixed Income Fund on the same date. As a result, the financial statements of the above sub-funds have not been prepared on a going concern basis.

Management have assessed that the values of all assets and liabilities at the balance sheet date approximate their net realisable value, and therefore no changes of accounting policies or adjustments were made in the financial statements to reflect the fact that the IPG Fund and Fixed income Fund will be able to realise its assets or to extinguish its liabilities in the normal course of business.

All references to net assets throughout these financial statements refer to net assets attributable to holders of redeemable participating shares unless otherwise stated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.



# NOTES TO THE FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

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

Certain new standards, amendments to standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1st July 2008. Those that are relevant to the Company's operations are as follows.

- Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 7 "Financial Instruments: Disclosures," are effective for annual periods beginning on or after 1st July 2008. The amended standards permit the Company to re-classify non-derivative financial assets other than those designated at fair value through profit or loss by the Company upon initial recognition out of the fair value through profit or loss category in particular circumstances. As the Company has not reclassified any financial assets into different categories, the amendments have had no impact on the financial position or performance of the Company.

*Standards and amendments to existing standards that are not effective and have not been early adopted by the Company*

The following new standards, amendments to standards and interpretations have been published but are not effective and which the Company has not early adopted. Those that are relevant to the Company's operations are as follows.



## NOTES TO THE FINANCIAL STATEMENTS

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

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

*Standards and amendments to existing standards that are not effective and have not been early adopted by the Company (Continued)*

- HKAS 1 (Revised) “Presentation of Financial Statements”, effective for annual periods beginning on or after 1st January 2009. The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply HKAS 1 (Revised) from annual periods beginning 1st July 2009. This change is not expected to significantly change the presentation of the Company’s performance statement.



# NOTES TO THE FINANCIAL STATEMENTS

## 2 Summary of significant accounting policies (Continued)

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

*Standards and amendments to existing standards that are not effective and have not been early adopted by the Company (Continued)*

- Amendments to HKAS 32 and HKAS 1 “Puttable Financial Instruments and Obligations Arising on Liquidation”, effective for annual periods beginning on or after 1st January 2009. The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. The Management assessed the impact of the amendments to HKAS 32 and HKAS 1 and concluded that the main impact will be the reclassification of net assets attributable to the holders of redeemable participating shares from liability to equity. The Company will apply the amendments to HKAS 32 and HKAS 1 from annual periods beginning 1st July 2009.
- There are a number of minor amendments to HKFRS 7, ‘Financial instruments: Disclosures’, HKAS 8, ‘Accounting policies, changes in accounting estimates and errors’, HKAS 10, ‘Events after the balance sheet date’, HKAS 18, ‘Revenue’ which are not addressed above (all effective from 1st January 2009). These amendments are unlikely to have an impact on the Group’s financial statements and have therefore not been analysed in detail.



## NOTES TO THE FINANCIAL STATEMENTS

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

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

*Standards and amendments to existing standards that are not effective and have not been early adopted by the Company (Continued)*

- Apart from the above, the HKICPA has also issued “Improvements to HKFRSs” which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1st July 2009, other amendments are effective for annual periods beginning on or after 1st January 2009 although there are separate transitional provisions for each standard.

#### (b) Foreign currency translation

##### (i) *Functional and presentation currency*

The performance of the sub-funds are measured and reported to the investors in Australian dollar for the IPG Fund and the United States dollar for the Fixed Income Fund. The Management considers the respective currencies as the currencies that most faithfully represent the economic effects of the underlying transactions, events and conditions.

The financial statements are presented in Australian dollars for the IPG Fund and the United States dollars for the Fixed Income Fund, which are the sub-funds functional and presentation currency respectively.



## NOTES TO THE FINANCIAL STATEMENTS

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

#### (b) Foreign currency translation (Continued)

##### (ii) 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the income statement within '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 income statement within 'net gains on financial assets at fair value through profit or loss'.

#### (c) Financial assets at fair value through profit or loss

##### (i) Classification

The Company classifies its investments as financial assets at fair value through profit or loss. These financial assets are classified as held for trading.

Financial assets held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are also categorised as financial assets or financial liabilities held for trading. The Company does not classify any derivatives as hedges in a hedging relationship.



## NOTES TO THE FINANCIAL STATEMENTS

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

#### (c) Financial assets at fair value through profit or loss (Continued)

##### (ii) Recognition/derecognition

Regular-way purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

##### (iii) Measurement

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Income Statement. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the Income Statement in the period in which they arise.

##### (iv) Fair value estimation

The fair value of investments are obtained from quoted market prices from issuer, which is determined by using valuation techniques. Valuation techniques used by issuer of investments include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.



## NOTES TO THE FINANCIAL STATEMENTS

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

#### (d) Interest on bank deposits and other expenses

Interest on bank deposits is recognised in the Income Statement on a time-proportion basis using effective interest method. Management fee, custodian and administration fees are accounted for on an accrual basis.

#### (e) Proceeds and payments on issue and redemption of redeemable participating shares

The Company issues redeemable shares, which are redeemable at the holder's option and are classified as financial liabilities. Redeemable shares can be put back to the Company at each dealing day for cash equal to a proportionate share of the Company's net asset value. The redeemable share is carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the share back to the Company.

The net asset value for the IPG Fund and Fixed Income Fund are computed monthly. Initial subscription of shares in the IPG Fund was issued at an offer price of AUD10 per share during the initial offer period and the Fixed Income Fund was issued at an offer price of USD100,000 per share during the offer period. No subsequent subscription of the IPG Fund was accepted after the initial offer period.



## NOTES TO THE FINANCIAL STATEMENTS

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

#### (e) Proceeds and payments on issue and redemption of redeemable participating shares (Continued)

Proceeds and payments on the subscription and redemption of shares recorded in the statement of movements in net assets attributable to holders of redeemable participating shares exclude any entry or exit fees payable with respect to the subscription and redemption of shares in the Company. Redemptions from the Company are recorded gross of any exit fees payable after the redemption of shares. The price at which shares are subscribed or redeemed is calculated by reference to the net asset value per share as at the close of business on the relevant dealing day. The basis adopted by the Company in arriving at the net asset value per share for subscription and redemption purposes during the period may not be the same as the accounting principles adopted for the preparation of these financial statements.

Redemption of shares of the IPG Fund prior to the Maturity Date will not benefit from the Guarantee.

#### (f) Cash and cash equivalents

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.



## NOTES TO THE FINANCIAL STATEMENTS

### **3 Number of redeemable participating shares and net assets attributable to holders of redeemable participating shares**

#### **(a) Reconciliation of net asset value calculated in accordance with HKFRS and net asset calculated by the Administrator for redemption purpose**

In accordance with the Company's Memorandum of Association dated 2nd August 2001, as amended and Explanatory Memorandum, an estimated ongoing operational expense payable by the IPG Fund throughout its life have been prepaid upfront to the relevant services providers (i.e. Investment Manager, Custodian and Administrator). These upfront payments of fees to service providers are intended to encourage investors to hold its shares until Maturity Date and there will be no refund of these charges and expenses to holders of redeemable participating shares who realise its shares prior to Maturity Date of the IPG Fund.

However, as stated in Note 2(d) the accounting policy of the Company, for the purpose of compliance with HKFRS and for reporting purposes is to charge the fees to the Income Statement in accordance with the period to which they relate (i.e. on an accrual basis). As at 30th June 2009, the difference between determining the IPG Fund's net asset value on an accruals basis rather than on the basis described in the Company's Memorandum of Association and Explanatory Memorandum results in an increase in prepaid expenses by AUD56,175 (2008: AUD135,341) for the IPG Fund.

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Number of redeemable participating shares and net assets attributable to holders of redeemable participating shares (Continued)

### (a) Reconciliation of net asset value calculated in accordance with HKFRS and net asset calculated by the Administrator for redemption purpose (Continued)

Net assets attributable to holders of redeemable participating shares represent a liability in the Balance Sheet, carried at redemption amount that would be payable at Balance Sheet date if the holders of redeemable participating shares exercised the right to redeem shares in the Company. Due to the classification and fair valuation of redeemable participating shares to liability, an adjustment of AUD56,175 (2008: AUD135,341) was recognised for the IPG Fund in the Balance sheet. The difference between adjustment for current and prior year of AUD79,166 (2008: AUD79,382) is recognised in the Income Statement to increase the carrying amount of the net assets of the IPG Fund attributable to holders of redeemable participating shares as at 30th June 2009.

### (b) Movement in number of redeemable participating shares

	IPG Fund Number of shares	Fixed Income Fund Number of shares
Shares outstanding at 1st July 2007	721,410	–
Shares redeemed	<u>(152,309)</u>	<u>–</u>
Shares at 30th June 2008/ 1st July 2008	569,101	–
Shares issued	–	20
Shares redeemed	<u>(41,073)</u>	<u>–</u>
Shares outstanding at 30th June 2009	<u>528,028</u>	<u>20</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Number of redeemable participating shares and net assets attributable to holders of redeemable participating shares (Continued)

### (c) Net assets attributable to holders of redeemable participating shares

	2009	2008
<b>IPG Fund</b>		
Net assets attributable to holders of redeemable participating shares	<u>AUD4,965,020</u>	<u>AUD4,817,782</u>
Net assets attributable to holders of redeemable participating shares (per share)	<u>AUD9.4029</u>	<u>AUD8.4656</u>
<b>Fixed Income Fund</b>		
Net assets attributable to holders of redeemable participating shares	<u>USD2,000,181</u>	<u>-</u>
Net assets attributable to holders of redeemable participating shares (per share)	<u>USD100,009</u>	<u>-</u>

## 4 Financial risk management

### Strategy in using financial instruments

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

The objective of the IPG Fund is to achieve capital growth through investing in a basket of four emerging markets debt/high yield corporate bond funds. The IPG Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the IPG Fund's financial performance through the arrangement with the Guarantor to guarantee investors a minimum redemption value of 100% of their initial investment if they redeem their Shares on the Maturity Date.



## NOTES TO THE FINANCIAL STATEMENTS

### 4 Financial risk management (Continued)

#### Strategy in using financial instruments (Continued)

The objective of Fixed Income Fund is to maximise total returns from a combination of current income and capital appreciation while maintaining a high degree of principal stability and liquidity. To pursue this objective, notwithstanding the range of investments permitted under the Articles and the Explanatory Memorandum, the sub-fund shall invest its assets only and exclusively in Hong Kong Government debt securities issued on account of the Hong Kong Monetary Authority Exchange Fund, and cash assets shall be deposited in an interest-bearing account set up with an authorized financial institution in Hong Kong.

(a) *Market price risk*

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

All securities investments present a risk of loss of capital. The IPG Fund's structured note is susceptible to market price risk arising from uncertainties about future prices of the instruments.

The management analysed that the sensitivity on price quote of the structured note is predominated by the change in market interest rate and that the change in distribution based on possible return from a basket of underlying bond funds is not material to the price quote.

The analyses below have been determined based on the change in AUD interest rate as of 30th June 2009 and assuming all other factors remain constant (including the return of underlying bond funds).

As of 30 June 2009, if the AUD interest rate had been 25 basis point higher/lower with all other variables held constant, the value of the notes decrease/increase by 0.17% (2008: 0.35%).

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### Strategy in using financial instruments (Continued)

#### (a) Market price risk (Continued)

For those investors who hold the IPG Fund to the Maturity Date, the Investment Manager moderates this price risk through an arrangement of the Guarantor. The Guarantor of the IPG Fund guarantees investors a minimum realisation value at the Maturity Date of the IPG Fund as a percentage of the initial investment as set out in the Addendum to Explanatory Memorandum.

As at year-end, the overall market exposures of the IPG Fund were as follows:

2009			2008		
Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
AUD	Cost	% of net assets	AUD	Cost	% of net assets
4,941,356	5,106,561	99.52%	4,778,771	5,452,038	99.19%

Fixed Income Fund is not exposed to market price risk as over 99% of its assets are deposited in an interest-bearing account set up with an authorized financial institution in Hong Kong.

#### (b) Interest rate risk

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

The majority of the IPG Fund's financial assets are non-interest bearing; as a result, the IPG Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates, which is considered having minimal interest rate risk.



## NOTES TO THE FINANCIAL STATEMENTS

### 4 Financial risk management (Continued)

#### Strategy in using financial instruments (Continued)

##### (b) Interest rate risk (Continued)

The only component of interest rate risk will be relating to the structured note. The relative amount of risk undertaken along the yield curve depends on the effects of fluctuations in the prevailing levels of market interest rates on fair values of the structure note. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The IPG Fund takes on exposure on fair value interest rate risk.

The Investment Manager monitors its interest sensitivity on a regular basis. No sensitivity analysis is prepared as the IPG Fund's exposure to interest rate risk was included in the market price sensitivity as disclosed in Note 4(a).

Fixed Income Fund has interest bearing assets limited to bank deposits. At 30th June 2009, should USD deposit interest rates have risen/lowered by 1% with all other variables remaining constant, the increase/decrease in net assets attributable to holders of redeemable participating shares for the period would amount to approximately USD19,956.

##### (c) Foreign exchange risk

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

The Company has no significant foreign exchange risk because a majority of the assets and liabilities are denominated in the respective sub-funds' functional and presentation currency, i.e. Australian dollar for the IPG Fund and the United States dollar for the Fixed Income Fund.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### Strategy in using financial instruments (Continued)

#### (d) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

IPG Fund invests in financial assets, which the credit rating of the issuer/guarantor of financial assets at fair value through profit or loss and the bank at which cash is deposited are as below:

	Moody's Rating	
	As at 30th June 2009	As at 30th June 2008
Financial assets at fair value through profit or loss	Aa2	Aa2
Cash at bank	Aa2	Aa2

Fixed Income Fund places cash at bank, which has credit rating as below:

	Moody's Rating As at 30th June 2009
Cash at bank	Aa2

The Company manages its credit exposures by closely monitoring credit information from well-known rating agencies, and by reviewing other publicly available information to continually assess the credit quality of the issuers or counterparties of the financial assets.



## NOTES TO THE FINANCIAL STATEMENTS

### 4 Financial risk management (Continued)

#### Strategy in using financial instruments (Continued)

(d) *Credit risk (Continued)*

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

(e) *Liquidity risk*

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

The Company is exposed to cash redemptions of the shares of the Company at each dealing day.

Although the investments of the IPG Fund are not listed or traded on any formal securities exchange, the issuer will make a market in these investments from time to time at the price determined by the issuer on each dealing day in response to requests for monthly redemption of the shares prior to the maturity date of the IPG Fund.

For the IPG Fund, the Investment Manager may limit the number of shares redeemed on any monthly dealing day to 10% in aggregate of the total number of shares in issue. Such limitation will be applied pro rata to all shareholders who have requested such redemption. This limitation shall not apply to any redemption made in respect of the IPG Fund on the maturity date.

As over 99% of its assets are bank deposits, Fixed Income Fund is considered having minimal liquidity risk.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### Strategy in using financial instruments (Continued)

#### (e) Liquidity risk (Continued)

The table on the following page analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

#### IPG Fund

AUD	Less than 1 month	1-3 months	4-12 months	1-3 years	Total
<b>At 30th June 2009</b>					
Accounts payable and accruals	-	-	6,404	-	6,404
Net assets attributable to holders of redeemable participating shares*	496,502	849,018	3,619,500	-	4,965,020
<b>Total financial liabilities</b>	<b>496,502</b>	<b>849,018</b>	<b>3,625,904</b>	<b>-</b>	<b>4,971,424</b>
<b>At 30th June 2008</b>					
Amount due to investment manager	-	-	1,070	-	1,070
Accounts payable and accruals	-	-	14,791	-	14,791
Net assets attributable to holders of redeemable participating shares*	481,778	823,841	2,151,479	1,360,684	4,817,782
<b>Total financial liabilities</b>	<b>481,778</b>	<b>823,841</b>	<b>2,167,340</b>	<b>1,360,684</b>	<b>4,833,643</b>

\* The liquidity risk disclosure is calculated based on the 10% redemption restriction imposed on monthly redemption amount. Please refer to Note 4(e) for details of the restriction.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk management (Continued)

### Strategy in using financial instruments (Continued)

#### (e) Liquidity risk (Continued)

#### Fixed Income Fund

USD	Less than 1 month	1-3 months	4-12 months	1-3 years	Total
<b>At 30th June 2009</b>					
Accounts payable and accruals	-	-	458	-	458
Net assets attributable to holders of redeemable participating shares	2,000,181	-	-	-	2,000,181
<b>Total financial liabilities</b>	<u>2,000,181</u>	<u>-</u>	<u>458</u>	<u>-</u>	<u>2,000,639</u>

There are no redemption restrictions for the Fixed Income Fund.

#### (f) Capital management

The Company's capital is represented by the redeemable participating shares, subscribed by investors of the sub-funds, and shown as net assets attributable to holders of redeemable participating shares in the balance sheet. The Company has no restrictions or specific capital requirements on the subscriptions and redemption of shares except as documented in the Explanatory Memorandum and Addendum. Please refer to Note 4(e) for details of restriction on redemption. The relevant movements are shown in the statements of movements in net assets attributable to holders of redeemable participating shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 4 above, whilst maintaining sufficiency liquidity to meet redemption requests, such liquidity is augmented by the holding of investments that the issuer will be the market-maker, enable the Company to sell at the price determined by the issuer on each dealing day once a month, and notice period for redemption requests. The Company's capital at 30th June 2009 was AUD4,965,020 (2008: AUD4,817,782) for the IPG Fund and USD2,000,181 for the Fixed Income Fund.



# NOTES TO THE FINANCIAL STATEMENTS

## 5 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### Fair value estimates

The fair value of financial assets is obtained from quoted market prices from issuer, which is determined by using valuation techniques. Valuation techniques used by issuer of financial assets are validated and periodically reviewed by experienced personnel from the Investment Manager, including the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Models use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial assets.

## 6 Fees

### (a) Management fee

Manulife Asset Management (Hong Kong) Limited is the Investment Manager of the IPG Fund and the Fixed Income Fund.

#### *IPG Fund*

The Investment Manager is entitled to receive an upfront fee at a rate of 4% of the aggregate subscription proceeds, which was payable in one lump sum after the date of the offer period of the Fund. After that, an annual rate of 0.5% per annum of the aggregate subscription proceeds will be charged during each year.

# NOTES TO THE FINANCIAL STATEMENTS

## 6 Fees (Continued)

### (a) Management fee (Continued)

#### *IPG Fund (Continued)*

Holders of redeemable participating shares redeeming out of the Fund prior to the Maturity Date bear the management fee in full for the life of the Fund as explained in Note 3(a).

The aggregate payment of management fee during the life of the Fund is 6.5% of the aggregate subscription proceeds, with 4% being paid for upfront fee after the date of the offer period and an annual rate of 0.5% per annum during each year.

#### *Fixed Income Fund*

The Investment Manager is entitled to receive a management fee of USD100 per annum accrued monthly and payable yearly in arrears.

### (b) Custodian and Administration fees

#### *IPG Fund*

Bank of Bermuda (Cayman) Limited is entitled to receive a fee at an annual rate of 0.1% of the IPG Fund in respect of the period from the first day after the close of the offer period to Maturity Date, charged on the aggregate subscription proceeds of the IPG Fund. Such fees were aggregated and payable in advance in one lump sum after the close of the offer period of the IPG Fund.

Holders of redeemable participating shares redeeming out of the IPG Fund prior to the Maturity Date bear the custodian and administrator's fees in full for the life of IPG Fund as explained in Note 3(a). Thus the aggregate payment approximately equivalent to 0.50% of the subscription proceeds of the IPG Fund.

According to HKFRS, the above management fee, custodian and administration fees are amortised over the life of the IPG Fund to match services provided over the period of operation.



# NOTES TO THE FINANCIAL STATEMENTS

## 6 Fees (Continued)

### (b) Custodian and Administration fees (Continued)

#### *Fixed Income Fund*

Bank of Bermuda (Cayman) Limited is entitled to an annual fee of 0.1% per annum of the net assets of the Fixed Income Fund, accrued and calculated as at each Valuation Day and payable monthly in arrears.

All custodian fees and out-of-pocket expenses properly incurred by Bank of Bermuda (Cayman) Limited or its sub-custodian HSBC Institutional Trust Services (Asia) Limited in performing its duties are borne by the Investment Manager.

## 7 Distributions to holders of redeemable participating shares

For the IPG Fund, there was no distribution for the year (2008: AUD0.21 per share). As redeemable participating shares are redeemable at holders' option and are classified as financial liabilities, distributions on these shares are recognised in the Income Statement as finance cost (2009: nil and 2008: AUD135,282).

## 8 Other operating expenses

### **IPG Fund**

A payable amount of AUD88,058 (1% of total subscription proceeds) was established for the IPG Fund by charging the estimated ongoing operational expenses of the IPG Fund throughout its life (the "IPG Fund's Expenses") to the Income Statement immediately after the close of the initial offer period. The IPG Fund's Expenses include all taxes, auditors' fees and legal charges payable by the IPG Fund, the cost of printing, and all other costs, charges and expenses which, in



## NOTES TO THE FINANCIAL STATEMENTS

the opinion of the Investment Manager, have been properly incurred in the administration and investment activities of the IPG Fund. This accounting policy is not in accordance with HKFRS. Under HKFRS, a provision should only be recognised when the IPG Fund has a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and a reliable estimate can be made. As a result, adjustments are made to prepayment as set out in Note 3(a) above for the purpose of financial statements prepared in accordance with HKFRS.

In case the payable is insufficient for the IPG Fund's Expenses throughout its life, any further expenses will be paid by the Investment Manager. If there is surplus of the payable remaining after payment of the IPG Fund's Expenses, the Investment Manager will retain such amount provided that such amount, together with the fees payable to the Investment Manager, do not, in aggregate, exceed the maximum fee payable to the Investment Manager, which is 2.5% per annum of the net asset value of the Fund as at the Maturity Date.

During the year, the total provision of AUD88,058 previously set aside for the IPG Fund was fully utilised, and all remaining expenses until the Maturity Date will be paid by the Investment Manager and are not reflected as expenses of the IPG Fund. For expenses such as bank charges or transaction handling fees which were charged by the Administrator/Custodian, the expenses were first charged to the IPG Fund and subsequently reimbursed by the Investment Manager. Such reimbursement amounted to AUD21,152 for the year ended 30th June 2009 (2008: AUD8,681).

Auditor's remuneration for the year amounted AUD23,651 (2008: AUD22,343) for the IPG Fund and USD8,154 for the Fixed Income Fund. Such fees are payable by the Investment Manager starting in 2007.

# NOTES TO THE FINANCIAL STATEMENTS

## 8 Other operating expenses (Continued)

### Fixed Income Fund

The ongoing operational expenses throughout its life shall be borne by the Investment Manager. Expenses include all taxes, auditors' fees and legal charges payable, the cost of printing all statements, accounts and reports to Shareholders relating to the Fixed Income Fund and all other costs, charges and expenses which, in the opinion of the Investment Manager, have been properly incurred in the administration and investment activities of the Fixed Income Fund.

Upon the termination of the Fixed Income Fund, the relevant expenses relating to the Fixed Income Fund (if any) will be borne by the Investment Manager.

## 9 Net gains on financial assets at fair value through profit or loss

### IPG Fund

	2009	2008
	AUD	AUD
Change in unrealised gain/loss in value of financial assets at fair value through profit or loss	565,227	176,145
Net realised loss on sale of financial assets at fair value through profit or loss	(46,211)	(181,219)
Coupon income	—	132,860
	<u>519,016</u>	<u>127,786</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 10 Financial assets at fair value through profit or loss

As at 30th June 2009 and 2008, the IPG Fund invested in the following investment type:

	2009		2008	
	Fair value AUD	% of net assets	Fair value AUD	% of net assets
Structured note	<u>4,941,356</u>	<u>99.52%</u>	<u>4,778,771</u>	<u>99.19%</u>

## 11 Taxation

No provision for Hong Kong profits tax has been made as interest, dividend income and realised gains on disposal of investments of the Company are excluded from the charge to profits tax under either sections 14, 26 or 26A of the Hong Kong Inland Revenue Ordinance.

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

## 12 Transactions with Custodian and Administrator, the Investment Manager and its Connected Persons

The following is a summary of transactions entered into during the year between the IPG Fund, the Fixed Income Fund or the Company, the Custodian and Administrator, the Investment Manager and its Connected Persons in addition to those disclosed in Note 6 and 8. Connected Persons of the Investment Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

# NOTES TO THE FINANCIAL STATEMENTS

## 12 Transactions with Custodian and Administrator, the Investment Manager and its Connected Persons (Continued)

### (a) Subscriptions and redemptions of shares of the Company

#### (i) With Directors of the Company

During the year, there were no subscriptions and redemptions of shares with the directors of the Company (2008: nil).

#### (ii) With Connected Persons of the Investment Manager

During the year, the Connected Persons of the Investment Manager subscribed 20 shares of the Fixed Income Fund (2008: nil).

#### (iii) Directors remuneration

No remuneration will be payable to Directors who are also directors of the Investment Manager (2008: nil).

### (b) Investment of the IPG Fund

During the year, the IPG Fund sold structured note issued by the Guarantor – Société Générale S.A. and its group companies. No separate commission or finance charge was paid to the Guarantor or its group companies for these investment transactions during the year. The value of such transactions executed is set out below:

2009		2008	
Value of transactions executed through group companies of the Guarantor	% of total value of transactions of the Fund	Value of transactions executed through group companies of the Guarantor	% of total value of transactions of the Fund
AUD356,430	100	AUD1,352,252	100

# NOTES TO THE FINANCIAL STATEMENTS

## 12 Transactions with Custodian and Administrator, the Investment Manager and its Connected Persons (Continued)

### (c) Balances with the Investment Manager as at year end

For the year ended 30th June 2008 and the year/period ended 30th June 2009, the Investment Manager charged a management fee to the IPG Fund and the Fixed Income Fund (as set out in Note 6(a)) and also incurred amount due (from)/to Investment Manager as at balance sheet date. Details are set out as below:

#### IPG Fund

	Management fee incurred during the year AUD	Prepayment of management fee AUD	Amount due from/(to) Investment Manager AUD
30th June 2009	92,646	49,933	1,540
30th June 2008	102,169	120,303	(1,070)

## 12 Transactions with Custodian and Administrator, the Investment Manager and its Connected Persons (Continued)

### (c) Balances with the Investment Manager as at year end (Continued)

#### Fixed Income Fund

	Management fee incurred during the period* USD	Amount due from Investment Manager USD
30th June 2009	50	4,946

\* For the period from 17 December 2008 (date of formation) to 30 June 2009.

# NOTES TO THE FINANCIAL STATEMENTS

## (d) Balances with Custodian and Administrator

For the year ended 30th June 2008 and the year/period ended 30th June 2009, Custodian and Administrator charged custodian and administration fees to the IPG Fund and the Fixed Income Fund (as set out in Note 6(b)). Details are set out as below.

### IPG Fund

	Custodian and administration fee incurred during the year AUD	Prepayment of custodian and administration fee AUD
30th June 2009	<u>8,796</u>	<u>6,242</u>
30th June 2008	<u>8,820</u>	<u>15,038</u>

## 13 Soft commission arrangements

During the year/period, the Investment Manager and its connected persons did not enter into any soft dollar arrangements with brokers (2008: nil).

## 14 Approval of financial statements

The financial statements were approved for issue by the directors on 23rd October 2009.

# INVESTMENT PORTFOLIO – INCOME PLUS CAPITAL GUARANTEED FUND – AUSTRALIAN DOLLAR (UNAUDITED)

AS AT 30TH JUNE 2009

	Nominal value/ Holdings	Fair value AUD	% of net assets
<b>Structured note (99.52%)</b>			
Société Générale Acceptance FRN 16/03/2010	5,146,710	<u>4,941,356</u>	<u>99.52%</u>
Total structured note		<u>4,941,356</u>	<u>99.52%</u>
Other net assets		<u>23,664</u>	<u>0.48%</u>
Net assets at 30th June 2009		<u>4,965,020</u>	<u>100%</u>
<b>Total investment, at amortised cost</b>		<u>5,106,561</u>	

# STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO - INCOME PLUS CAPITAL GUARANTEED FUND - AUSTRALIAN DOLLAR (UNAUDITED)

FOR THE YEAR ENDED 30TH JUNE 2009

	Nominal value/ Holdings 2007	Additions	Deductions	Nominal value/ Holdings 2008
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**Structured note**

Société Générale Acceptance FRN 16/03/2010	5,556,710	-	410,000	5,146,710
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# PERFORMANCE TABLE (UNAUDITED)

FOR THE YEAR ENDED 30TH JUNE 2009

## IPG Fund

### Net asset values since inception

	Total net asset value AUD	Net asset value per share AUD
2005	8,711,157	9.8925
2006	7,766,622	9.0733
2007	6,148,478	8.5228
2008	4,817,782	8.4656
2009	<u>4,965,020</u>	<u>9.4029</u>

### Performance record since inception

	Highest issue price per share AUD	Lowest redemption price per share AUD
2005	10.0000 <sup>1</sup>	9.2715
2006	–	9.0972
2007	–	8.4838
2008	–	8.4671
2009	<u>–</u>	<u>8.5123</u>

<sup>1</sup> The highest issue price per share represents the issue price during the inception of the IPG Fund, no further subscription of shares is then allowed after the closing of the offer period of this sub-fund.

# REPORT OF THE INVESTMENT MANAGER – INCOME PLUS CAPITAL GUARANTEED FUND – AUSTRALIAN DOLLAR (UNAUDITED)

## Investment Objective

Income Plus Capital Guaranteed Fund (Australian Dollar) (the “IPG Fund”) aims to provide investors with Guaranteed Distributions of 3% and 8% of the capital invested at the end of the first and second years, respectively, and the opportunity to participate, through the receipt of Potential Distributions, if any, for the third to fifth years in the potential performance of a basket of four emerging markets debt/high yield corporate bond funds. A 100% capital guarantee will also be provided at maturity.

## Performance from 16th March 2005 (inception) to 30th June 2009

	Change in %
IPG Fund	(5.97%)

## Portfolio Review and Outlook

For the year ended June 2009, the performance of the four underlying funds are varied, reflecting the unfavourable environment facing high-yield bonds. The details are as follows:

PIMCO Funds – Emerging Markets Bond Fund	-1.15%
Schroders International Selection Fund	
– Emerging Markets Debt Fund	+2.90%
Morgan Stanley SICAV Emerging Markets Debt Fund	-1.85%
Pioneer Fund – US High Yield Corporate Bond	-14.89%

Emerging market debt had a roller coaster ride for the year ended June 2009. During the period, tighten credit conditions were exhibited by the largest decline in consumer credit on record. The last October’s U.S. Conference Board consumer sentiment index posted its lowest level since its launch over 40 years ago as the combination of negative economic indicators was digested. Global credit markets were sold off in last October and November, which drove valuations to levels that many market participants considered attractive. Starting from 2009, as the market stabilized and on signs that the global economy has bottomed out, increased risk appetite was seen in emerging markets with improved investor sentiment.



## **REPORT OF THE INVESTMENT MANAGER – INCOME PLUS CAPITAL GUARANTEED FUND – AUSTRALIAN DOLLAR (UNAUDITED)**

In the U.S., the policy response to provide macroeconomic stability was an unprecedented degree of monetary stimulus, coupled with sizable increases in federal spending. This was enacted to prevent a deflationary cycle from taking hold. As an example, the Fed Funds rate was lowered to 25 basic points, the Treasury, in co-ordination with the Federal Reserve, allocated more than US\$1 trillion to interim liquidity facilities and funding programs, and the U.S. government was committed to a US\$787 billion stimulus package.

Against this backdrop, for the high-yield market, the year ended June 2009 has covered some of the worst months in market history in late 2008, as well as some of the very best in 2009. The late 2008 struggles came at the height of the economic and financial crisis and sent the spread (yield over Treasuries) on the high-yield market to an all-time high to above 2,000 basis points (or 20 per cent). But those record high yields and optimism over government measures to support the credit markets and economy triggered massive cash inflows from investors who were underweight high-yield bonds. As a result, the spread over Treasuries plunged to 1,055 basis points by the end of June.

Going forward, the market's sharp rebound supports the argument that high-yield bonds can generate very strong excess returns as market conditions stabilize. But some are worried that the moves are entirely technically driven, and that the market may have come too far, too fast. The general outlook on the high yield market is neutral.



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