

Principal®

信安

信安資金管理(亞洲)有限公司

Principal Asset Management Company (Asia) Limited

Principal Global Selection Fund Series

Annual Audited Report
For The Year Ended 30 September 2009

PRINCIPAL GLOBAL SELECTION FUND SERIES

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ADMINISTRATION

Manager

Principal Asset Management Company (Asia) Limited
Unit 1001-3, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Directors of the Manager

Binay Chandgothia
Norman R.J. Sorensen Valdez
Sinn Pak Ming, Ringo
Yeung Cheuk Wah, Nelson
Nora Mary Everett

Trustee and Registrar

Principal Trust Company (Asia) Limited
Unit 1001-3, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Auditor

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Legal Advisors to the Manager

Baker & McKenzie
14th Floor
Hutchison House
10 Harcourt Road
Hong Kong

MANAGER'S REPORT

Principal BRIC Emerging Economies Fund

Market Review

Emerging markets, led by BRIC economies, outperformed developed markets during 2009. Their outperformance relating to strong rebound for commodity was driven by both loose monetary and fiscal policies as well as stabilization of financial system over the world and a strong liquidity in developed markets like US and Europe. Emerging markets rebound during the period on attractive valuations, global recovery and sustained investment inflows as global investors took risks on the table.

Brazil was relatively in line with the other BRIC markets and Brazil Bovespa Stock Index returned +24.2% during the year. BRL/USD appreciated +8.5% during the year. Brazil GDP grew by around 2% in 3rd quarter of 2009, quarter-on-quarter and manufacturing activity grew by 1.9% in July 2009, month-on-month. The government imposed a 2% tax on foreign capital inflows directed towards portfolio investments in fixed income and equity.

Russian Trading System Index (RTSI) returned +3.5% during the year. Rebound on oil prices helped Russia's returns. Russ central bank started easing policy in April 2009, lowering the refinancing rate by a quarter to a percentage point to 10.5% in September 2009.

India's Bombay Stock Exchange Sensitive Index (Sensex) was up 29.7%. INR/USD depreciated -3.16%, hurting returns. India's Central Bank, Reserve Bank of India, gave ample signs of normalizing some of the extreme monetary impetus that became a global norm late last year. It withdrew most of the emergency funding facilities that it had made available to the financial system then. It raised its inflation target from 5% to 6.5%.

MSCI China was up 32.2%. Strong loan growth, infrastructure spending pick up with the rebound in domestic consumption, enabled the 8% GDP target to become achievable this year. Inflation is under control and immediate tightening is not needed and new approval of QDII quota starts to absorb liquidity.

Fund Performance

The Fund returned +18.23% (net) during the year, driven by positive performance in all BRIC markets.

Strategy and Outlook

Analysis action on stock earnings has been very positive in recent months as signs of a recovery have intensified and as results are pointing towards better corporate earnings. We believe that as the impact of macro factors subsides, earnings related action should play a bigger role in driving stocks going forward.

Principal Asia Pacific High Income Bond Fund

Market Review

Global asset markets experienced one of the greatest roller-coaster rides in history during the past 12 months. The climax of the subprime mortgage crisis, which broadened into a generalized credit crisis, brought into question the solvency of the entire highly geared banking system in general and bankrupted Lehman Brothers in particular. Liquidity in all financial markets froze. Extraordinary policy action from central banks and governments included: reducing interest rates to near zero, quantitative and credit easing (by way of central banks buying longer term bonds) and large fiscal stimulus programs. Most governments introduced some form of bank deposit guarantees and bank debt guarantees. By the end of the first quarter of 2009 this appeared to work. Markets found a floor and started to rally from highly distressed levels. Given the huge amounts of stimulus being provided, markets continued to rally with many observers concerned the bubble was being re-inflated leaving policy makers in a difficult situation with regard to withdrawal of the extra-ordinary stimulus whilst not forcing economies and markets into a double-dip.

MANAGER'S REPORT *(continued)*

Principal Asia Pacific High Income Bond Fund *(continued)*

Fund Performance

The Fund posted a positive return of 5.03% for the 12-month period ended 30 September 2009.

Strategy and Outlook

Whilst asset values recovered strongly in the third quarter of 2009, authorities are keen not to withdraw the massive stimulus too quickly. This provides the potential for the very policy settings currently in place to re-inflate bubbles whilst unemployment remains high and capacity utilization remains low. There is no point fighting the liquidity driven bull market we are now in. The best approach is to use the rally to lighten up on the riskier assets as they become fully valued. The remaining lagging sectors where value still exists are diminishing. We remain confident that the long government bond and government guaranteed bond holdings will help the fund to outperform should the rally falter. The relatively high yield of the portfolio will lead to outperformance relative to the benchmark over time.

**Principal Asset Management Company (Asia) Limited,
11 November 2009**

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF THE SUB-FUNDS OF PRINCIPAL GLOBAL SELECTION FUND SERIES

We have audited the financial statements of the Sub-Funds of Principal Global Selection Fund Series ("the Sub-Funds") set out on pages 6 to 24, which comprise the statements of assets and liabilities as at 30 September 2009, and the revenue statements and statements of changes in net assets attributable to unitholders and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Manager's and Trustee's responsibilities for the financial statements

The Manager and Trustee 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 ("HKICPA"), and the relevant provisions of the trust deed, as amended, and for ensuring that the financial statements comply with the relevant disclosure requirements set out in Appendix E to the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 judgement, 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 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, 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 assets and liabilities of the Sub-Funds as at 30 September 2009, and of the financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards, and have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements of the Code.



Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
18 January 2010

REVENUE STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

(Expressed in United States dollars)

	<i>Year ended 30 September 2009</i>		<i>Period from 1 January 2008 to 30 September 2008</i>		
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	
Income	<i>Note</i>				
Gross dividend income		\$ 134,595	\$ 384,923	\$ 188,880	\$ 470,237
Fixed deposit interest income		-	503	-	6,872
Bank interest income		2,465	479	8,705	8,338
Other income		-	-	-	13,640
		\$ 137,060	\$ 385,905	\$ 197,585	\$ 499,087
<hr style="border-top: 1px dashed black;"/>					
Expenses					
Management fee	5(a)	\$ 64,483	\$ 199,759	\$ 83,641	\$ 320,767
Trustee fee	5(b)	12,896	26,635	16,728	42,769
Auditor's remuneration		4,524	25,062	11,972	20,710
Custodian fee		651	-	1,251	20,476
Legal and professional fees		807	15,701	2,767	-
Miscellaneous expenses		16,245	13,753	9,148	27,319
Investment transaction costs		2,827	32,341	1,204	113,619
		\$ 102,433	\$ 313,251	\$ 126,711	\$ 545,660



REVENUE STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009 *(continued)*
(Expressed in United States dollars)

	<i>Year ended 30 September 2009</i>		<i>Period from 1 January 2008 to 30 September 2008</i>	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
<i>Note</i>				
Income/(loss) attributable to unitholders before gains/(losses) on investments and exchange differences	\$ 34,627	\$ 72,654	\$ 70,874	\$ (46,573)
Exchange (losses)/gains	(80,830)	(8,107)	65,357	(26,319)
Net realised (losses)/gains on sale of investments	(369,737)	(3,413,450)	67,986	2,375,580
Net unrealised appreciation/ (depreciation) in value of investments	845,699	5,917,211	(1,623,077)	(16,017,753)
Income/(loss) attributable to unitholders before taxation	\$ 429,759	\$ 2,568,308	\$ (1,418,860)	\$ (13,715,065)
Withholding tax	3 (20,882)	(145,709)	(24,030)	169,716
Change in net assets attributable to unitholders before finance costs	\$ 408,877	\$ 2,422,599	\$ (1,442,890)	\$ (13,545,349)
Finance costs				
Distributions to unitholders	7 (458,468)	-	(808,210)	-
Change in net assets attributable to unitholders	\$ (49,591)	\$ 2,422,599	\$ (2,251,100)	\$ (13,545,349)

The notes on pages 11 to 24 form part of these financial statements.

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 SEPTEMBER 2009

(Expressed in United States dollars)

	2009		2008	
	<i>Principal Asia Pacific High Income Bond Note</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Assets				
Investments	\$ 6,738,039	\$ 18,427,334	\$ 7,816,244	\$ 16,513,984
Dividends and interest receivables	117,319	63,551	189,808	26,553
Amounts receivable on sales of investments	-	300,622	-	90,617
Amounts receivable on subscriptions	-	8,379	-	-
Other receivables	7,426	7,426	10,760	10,760
Cash and cash equivalents	4 586,048	529,133	800,223	500,041
	\$ 7,448,832	\$ 19,336,445	\$ 8,817,035	\$ 17,141,955
Liabilities				
Amounts payable on purchase of investments	\$ -	\$ 299,391	\$ -	\$ 69,886
Amounts payable on redemptions	152,949	-	30,856	11,807
Accruals and other payable	91,846	174,138	193,739	70,974
	\$ 244,795	\$ 473,529	\$ 224,595	\$ 152,667
Net asset value	\$ 7,204,037	\$ 18,862,916	\$ 8,592,440	\$ 16,989,288
Representing:				
Net assets attributable to unitholders	\$ 7,204,037	\$ 18,862,916	\$ 8,592,440	\$ 16,989,288
Total number of units in issue - Retail Class	6 908,163.7383	1,717,797.3610	1,099,963.9868	1,832,356.7800
Net asset value per unit	\$ 7.9325	\$ 10.9809	\$ 7.8116	\$ 9.2718
Approved and authorised for issue by the Trustee and the Manager on 18 January 2010.				
)			
)	For and on behalf of		
)	Principal Trust Company		
)	(Asia) Limited		
)			
)	For and on behalf of		
)	Principal Asset Management		
)	Company (Asia) Limited		
The notes on pages 11 to 24 form part of these financial statements.				

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

(Expressed in United States dollars)

	<i>Year ended 30 September 2009</i>		<i>Period from 1 January 2008 to 30 September 2008</i>	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Balance brought forward	\$ 8,592,440	\$ 16,989,288	\$ 13,342,437	\$ 37,231,882
Amounts received and receivable on issue of units	619,472	1,250,936	883,499	3,547,269
Less: Amounts paid and payable on redemption of units	(1,958,284)	(1,799,907)	(3,382,396)	(10,244,514)
Change in net assets attributable to unitholders	\$ 7,253,628	\$ 16,440,317	\$ 10,843,540	\$ 30,534,637
	(49,591)	2,422,599	(2,251,100)	(13,545,349)
Balance carried forward	\$ 7,204,037	\$ 18,862,916	\$ 8,592,440	\$ 16,989,288

The notes on pages 11 to 24 form part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

(Expressed in United States dollars)

	<i>Year ended 30 September 2009</i>		<i>Period from 1 January 2008 to 30 September 2008</i>	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
	<i>Note</i>			
Operating activities				
Interest received	\$ 469,893	\$ 982	\$ 572,824	\$ 15,386
Dividend received	123,555	347,925	188,722	457,664
Other income	-	-	-	13,640
Withholding tax paid	(15,970)	(14,090)	(24,030)	(48,794)
Operating expenses paid	(102,563)	(338,372)	(121,260)	(2,290,305)
Exchange (losses)/gains	(80,830)	(8,107)	65,357	(26,320)
Net cash generated from/(used in) operating activities	\$ 394,085	\$ (11,662)	\$ 681,613	\$ (1,878,729)
Investing activities				
Proceeds from sale of investments	\$ 5,245,999	\$ 10,399,953	\$ 4,948,710	\$ 19,159,735
Payments on purchase of investments	(4,075,731)	(9,790,042)	(2,456,786)	(13,298,557)
Net cash generated from investing activities	\$ 1,170,268	\$ 609,911	\$ 2,491,924	\$ 5,861,178
Financing activities				
Proceeds from issue of units	\$ 619,472	\$ 1,242,557	\$ 883,499	\$ 3,571,893
Payments on redemption of units	(1,836,191)	(1,811,714)	(3,351,540)	(10,235,619)
Payments on distribution	(561,809)	-	(632,216)	-
Net cash used in financing activities	\$ (1,778,528)	\$ (569,157)	\$ (3,100,257)	\$ (6,663,726)
Net (decrease)/increase in cash and cash equivalents	\$ (214,175)	\$ 29,092	\$ 73,280	\$ (2,681,277)
Cash and cash equivalents at 1 October/1 January	800,223	500,041	726,943	3,181,318
Cash and cash equivalents at 30 September	4 \$ 586,048	\$ 529,133	\$ 800,223	\$ 500,041

The notes on pages 11 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in United States dollars)

1 BACKGROUND

The Principal Global Selection Fund Series (“the Fund”) is a unit trust established by a trust deed dated 29 September 2006 between Principal Asset Management (Asia) Limited as manager and Principal Trust Company (Asia) Limited as trustee and as subsequently amended. The Fund is an umbrella fund under which the Retail Class of the two Sub-Funds, Principal Asia Pacific High Income Bond Fund and Principal BRIC Emerging Economies Fund, were established with their first dealing days on 25 June 2007 and 1 December 2006 respectively. The Fund and its Sub-Funds thereunder, are established under and governed by the laws of Hong Kong.

The Fund and its Sub-Funds are authorised by the Hong Kong Securities and Futures Commission under section 104 of the Hong Kong Securities and Futures Ordinance.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the relevant provisions of the Trust Deed, as amended, and the relevant provision of the Code on Unit Trusts and Mutual Funds (“the Code”) issued by the Hong Kong Securities and Futures Commissions. A summary of the significant accounting policies adopted by the Fund is set out below.

(b) *Changes in accounting policies*

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Fund.

There have been no significant changes to the accounting policies applied in these financial statements for the year/period presented as a result of these developments.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(c) *Basis of preparation of the financial statements*

The measurement basis used in the preparation of the financial statements is historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The functional and presentation currency of the Fund is the United States dollar reflecting the fact that the units of the Fund are issued and redeemed in United States dollars.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) *Financial instruments*

(i) Classification

All investments are designated at fair value through profit or loss upon initial recognition as all investments are managed and their performance is evaluated on a fair value basis in accordance with the Fund’s documented investment strategy, and the information provided internally to the relevant parties of the Fund is on a fair value basis.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

(i) Classification *(continued)*

Financial assets that are classified as loans and receivables include amounts receivable on sales of investments, amounts receivable on subscriptions, dividends and interest receivables and other receivables.

Financial liabilities that are not fair value through profit or loss include amounts payable on purchase of investments, amounts payable on redemptions and accruals and other payable.

(ii) Recognition

The Fund recognises financial assets and financial liabilities on the date they become a party to the contractual provisions of the instruments.

Purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of HKAS 39.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all financial instruments are measured at fair value with changes in their fair value recognised in the revenue statement.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate. Financial liabilities arising from the redeemable units issued by the Fund are carried at the redemption amount representing the unitholders' right to a residual interest in the Funds' asset.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the year/period end date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices while financial liabilities are priced at current asking prices.

Realised and unrealised gains and losses are included in the revenue statement. Realised gains or losses include net gains or losses on contracts which have been settled or for which offsetting contracts have been entered into.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in fair value of financial instruments are recognised in the revenue statement.

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or they transfer the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39.

Investments that are sold are derecognised and corresponding receivables from the brokers are recognised as of the date the Fund commits to sell the investments.

Principal Asia Pacific High Income Bond Fund uses the weighted average method to determine realised gains and losses on derecognition, while Principal BRIC Emerging Economies Fund uses the first-in-first-out method.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Income recognition

Provided it is probable that the economic benefits will flow to the Fund and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the revenue statement as follows:

Dividend income from listed investments is recognised in the revenue statement on the ex-dividend date.

Interest income is recognised as it accrues, using the effective interest rate method. Interest income on bank deposits is disclosed separately on the face of the revenue statement. Interest income on debt securities is included in net realised gains on sale of investments.

(g) Translation of foreign currencies

Foreign currency transactions during the year/period are translated into United States dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into United States dollars at the closing exchange rates ruling at the year/period end date. Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised together with other changes in fair value. Foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss are dealt with in the revenue statement.

(b) Related parties

For the purposes of these financial statements, a party is considered to be related to the Fund if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Fund or exercise significant influence over the Fund in making financial and operating policy decisions, or has joint control over the Fund;
- (ii) the Fund and the party are subject to common control;
- (iii) the party is an associate of the Fund;
- (iv) the party is a member of key management personnel of the Fund, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(i) Units in issue

All units issued by the Sub-Funds provide the unitholders with the right to require redemption for cash at the value proportionate to the unitholder's share in the Sub-Funds' net assets at the redemption date. In accordance with HKAS 32, such right gives rise to a financial liability of the Sub-Funds which is equivalent to "net assets attributable to unitholders" in the statement of assets and liabilities.

3 TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the income of the Fund is exempt from taxation under section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

Dividend income, interest and any capital gain received by the Fund may be subject to non-recoverable withholding tax in the countries of origin. The income and related withholding taxes are shown gross in the revenue statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

4 CASH AND CASH EQUIVALENTS

	2009		2008	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Cash at bank	\$ 586,048	\$ 529,133	\$ 800,223	\$ 500,041

5 RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions for the year/period. All such transactions were entered into in the ordinary course of business and on normal commercial terms:

(a) Management fee

The Fund is managed by Principal Asset Management Company (Asia) Limited (“the Manager”) which is an associated company of Principal Trust Company (Asia) Limited, the Trustee of the Fund. During the year/period, the Delegate of the Manager, Principal Global Investors, LLC, has sub-delegated part of its responsibilities to an associate company, Principal Global Investors (Australia) Limited.

The Manager is entitled to receive management fees for each Sub-Fund, calculated at a percentage of the net asset value of the relevant class of each Sub-Fund as below:

- The Principal BRIC Emerging Economies Fund - Retail Class: 1.5% per annum.
- The Principal Asia Pacific High Income Bond Fund - Retail Class: 1% per annum.

The maximum management fee for each class of units of each Sub-Fund is 3% per annum of its net asset value.

The management fee is accrued daily, calculated on each dealing day and is paid monthly in arrears.

(b) Trustee fee

Principal Trust Company (Asia) Limited acts as the Trustee and Registrar of the Fund and its Sub-Funds. The Trustee is entitled to receive trustee fee from each Sub-Fund based on 0.2% of the net asset value of the relevant class of units of each Sub-Fund. The maximum trustee fee for each class of units of each Sub-Fund is 1% per annum of its net asset value.

The trustee fee is accrued daily, calculated on each dealing day and is paid monthly in arrears.

(c) Performance fee

The Manager of the Principal BRIC Emerging Economies Fund is also entitled to a performance fee equivalent to 10% of the increase in the net asset value, above the defined return of 5% per annum based on the published net asset value, provided that the net asset value per unit of the Sub-Fund is higher than the previous Low Tide Mark. The performance fee is calculated and accrued on a daily basis. The Low Tide Mark was initially set at the initial offer price of \$10.00. The Beginning Low Tide Mark of a financial year is the Low Tide Mark at the beginning of that financial year. During a financial year, if the cumulative performance fee accrual reaches zero and the net asset value per unit on the previous day is higher than the Beginning Low Tide Mark of that financial year, such net asset value per unit will be set as the new “Low Tide Mark”. If the cumulative performance fee accrual reaches zero and the net asset value per unit on the previous day is equal to or lower than the Beginning Low Tide Mark of that financial year, the Beginning Low Tide Mark will remain as the Low Tide Mark. During the year, the Manager did not receive any performance fee.

The Manager is not entitled to any performance fee for the Principal Asia Pacific High Income Bond Fund.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

5 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances with related parties

The amount of related party transactions during the year/period are disclosed in the revenue statement.

The liabilities relating to related parties transactions are listed below:

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Balance as at 30 September 2009		
Management fee payable	\$ 1,611	\$ 6,167
Trustee fee payable	322	822
	\$ 1,933	\$ 6,989
Balance as at 30 September 2008		
Management fee payable	\$ 2,025	\$ 5,678
Trustee fee payable	405	757
	\$ 2,430	\$ 6,435

6 TOTAL NUMBER OF UNITS IN ISSUE

	<i>2009</i>		<i>2008</i>	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
<i>Retail Class:</i>				
Number of units in issue brought forward	1,099,963.9868	1,832,356.7800	1,375,686.4812	2,340,208.2364
Units issued during the year/period	90,431.8618	135,733.1824	97,181.6284	246,310.9081
Units redeemed during the year/period	(282,232.1103)	(250,292.6014)	(372,904.1228)	(754,162.3645)
Number of units in issue carried forward	908,163.7383	1,717,797.3610	1,099,963.9868	1,832,356.7800

No institutional class units have been issued.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

7 DISTRIBUTIONS

	<i>Year ended</i> <i>30 September 2009</i>	<i>Period from</i> <i>1 January 2008</i> <i>to 30 September 2008</i>
Principal Asia Pacific High Income Bond Fund		
Interim distribution determined and paid during the year/period		
- US\$0.15 on 903,090.4185 units at 31 December 2008 and paid on 20 January 2009	\$ 135,464	\$ -
- US\$0.16 on 916,887.3314 units at 31 March 2009 and paid on 16 April 2009 (2008: US\$0.19 on 1,201,969.1571 units at 31 March 2008 and paid on 17 April 2008)	146,702	228,374
- US\$0.11 on 942,264.3400 units at 30 June 2009 and paid on 17 July 2009 (2008: US\$0.19 on 1,184,224.9039 units at 30 June 2008 and paid on 17 July 2008)	103,649	225,003
	\$ 385,815	\$ 453,377
Final distribution determined and paid during the year/period		
- US\$ Nil (2008: US\$0.13 on 1,375,686.4812 units determined on 2 January 2008 and paid on 17 January 2008)	-	178,839
Final distribution determined and paid after the year/period end		
- US\$0.08 on 908,163.7383 units at 30 September 2009 and paid on 16 October 2009 (2008: US\$0.16 on 1,099,963.9868 units at 30 September 2008 and paid on 17 October 2008)	72,653	175,994
	\$ 458,468	\$ 808,210

According to Clause 18 of the Trust Deed and the explanatory memorandum of the Fund, the amount available for final and interim distributions is determined by the Manager. The Manager currently intends to distribute the net income earned by the Principal Asia Pacific High Income Bond Fund on a quarterly basis within eight weeks of the end of each calendar quarter. The Manager does not intend to distribute income earned from the Principal BRIC Emerging Economies Fund.

8 FORMATION COSTS

All formation costs are written off as incurred on an accrual basis in these financial statements. According to the explanatory memorandum of the Fund, these formation costs are to be amortised over the first five years of the Fund and allocated to each Sub-Fund in existence in equal shares in determining their daily fund prices. A reconciliation is disclosed in note 11 to the financial statements.

9 SOFT COMMISSION ARRANGEMENTS

During the year/period, the Manager, and/or its connected parties, entered into soft commission arrangements with brokers in respect of which certain goods and services used to support investment decision making were received. The Manager, and/or its connected parties, does not make direct payment for these services but transacts an agreed amount of business with the brokers on behalf of the Fund and commission is paid on these transactions.

The services utilised for the Fund include research and trading related items.

The Manager is satisfied that such soft commission arrangements comply with the relevant requirements under the Code.

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Sub-Funds' investing activities expose them to various types of risks that are associated with the financial instruments and markets in which they invest. The most important types of financial risks to which the Sub-Funds are exposed are market risk, credit risk and liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

Asset allocation is determined by the Sub-Funds' Manager who manages the distribution of the assets to achieve the investment objectives as stated in the investment objectives and policies section enclosed with these financial statements.

Divergence from target asset allocations and the composition of the portfolio is monitored by the Manager. In instances where the Sub-Funds have diverged from target asset allocations, the Manager will rebalance the portfolios to fall in line with the target asset allocations.

(a) Market risk

Market risk embodies the potential for both loss and gain and includes currency risk, interest rate risk and other price risk. To control risk, investment decisions are based on risk/reward analysis, with the adoption of diversification policies. Investment decisions are taken in accordance with the investment objectives of the concerned portfolios so that unwarranted deviations (risks) are controlled.

The securities markets of emerging markets (countries like Brazil, Russia, India, China etc.) tend to be more volatile, less liquid, subject to substantial currency fluctuations and can experience sudden economic and political developments. They may have less government regulation and are probably less subject to extensive accounting and financial reporting requirements than the markets of more developed countries. At times, the Sub-Funds may be unable to sell certain of their portfolio securities without a substantial drop in price, if at all.

The Sub-Funds are also subject to the risk of concentration of investments in issuers located in a particular country or region which may be susceptible to adverse securities markets, exchange rates and social, political, regulatory or economic events which may occur in that country or region.

Currency risk

The Sub-Funds may invest in financial instruments denominated in currencies other than the functional currency. Consequently, the portfolio is exposed to the risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the portfolio's assets or liabilities denominated in currencies other than the functional currency.

Currency exposures are generally left unhedged even though the investment guidelines may allow hedging of such exposures. A part of the reason for such is that portfolios designate the various investment markets in their geographical allocations (contained in the Explanatory Memorandum of the Fund) and currency risk is considered to be a part of the overall risk taken by investing into these geographical regions.

At the reporting date the Sub-Funds had the following exposures (in US dollar equivalent):

<i>2009</i>				
<i>Currency</i>	<i>Principal Asia Pacific High Income Bond Fund % of net assets</i>		<i>Principal BRIC Emerging Economies Fund % of net assets</i>	
Australian Dollars	\$ 459,100	6.37	\$ -	-
Brazilian Real	-	-	1,431,878	7.59
Hong Kong Dollars	2,568	0.04	5,017,754	26.60
Indian Rupee	-	-	2,687,935	14.25
<i>2008</i>				
<i>Currency</i>	<i>Principal Asia Pacific High Income Bond Fund % of net assets</i>		<i>Principal BRIC Emerging Economies Fund % of net assets</i>	
Australian Dollars	\$ (226,124)	(2.63)	\$ -	-
Brazilian Real	-	-	834,135	4.91
Hong Kong Dollars	9,450	0.11	5,119,693	30.13
Indian Rupee	-	-	2,372,118	13.96

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

(a) Market risk (continued)

Currency risk sensitivity analysis

At 30 September 2009, had the United States Dollar (“USD”) strengthened (or weakened) by 5% in relation to the following currencies, with all other variables held constant, the net asset value of the Sub-Funds and the change in net assets attributable to unitholders per the revenue statement would have decreased (or increased) by the amounts shown below. The analysis for 2008 was performed by applying 15% change in all currencies with all other variables held constant.

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
30 September 2009		
Australian Dollars	\$ 22,955	\$ -
Brazilian Real	-	71,594
Indian Rupee	-	134,397
<hr/>		
Total	\$ 22,955	\$ 205,991
<hr/>		
30 September 2008		
Australian Dollars	\$ (33,919)	\$ -
Brazilian Real	-	125,120
Indian Rupee	-	355,818
<hr/>		
Total	\$ (33,919)	\$ 480,938
<hr/>		

As Hong Kong Dollar (“HKD”) is pegged to USD, the risk of movement in exchange rates between HKD and USD is insignificant.

Interest rate risk

Sub-Funds holding interest rate debt securities are exposed to interest rate risk, where the value of these securities may fluctuate as a result of changes in interest rate. In general, if interest rates rise, the income potential of the floating interest rate securities also rises but the value of fixed rate securities declines. A fall in interest rates would generally have the opposite effect. Aligning the portfolio maturity profile to that of the internal benchmark and keeping deviations within certain limits is an important way of controlling relative interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

(a) Market risk (continued)

Interest rate risk (continued)

The following table details the exposure to interest rate risk on Principal Asia Pacific High Income Bond Fund. It includes its assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity date measured by the carrying value of the assets and liabilities:

	2009	2008
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>
Assets		
Investments		
- 1 year or less	\$ 631,041	\$ 410,281
- over 1 year to 5 years	2,927,979	3,355,229
- over 5 years to 10 years	840,988	305,045
- over 10 years	1,509,479	1,961,454
- Non-interest bearing	828,552	1,784,235
Other non-interest bearing assets	710,793	1,000,791
Total assets	\$ 7,448,832	\$ 8,817,035
Liabilities		
Non-interest bearing	\$ (244,795)	\$ (224,595)
Total liabilities	\$ (244,795)	\$ (224,595)
Net assets	\$ 7,204,037	\$ 8,592,440

The Principal BRIC Emerging Economies Fund has negligible interest rate risk.

Interest rate risk sensitivity analysis

A change of 100 basis points in interest rates as at the reporting date would have changed the net asset value of the Principal Asia Pacific High Income Bond Fund and the change in net assets attributable to unitholders by the percentage shown below.

	2009	2008
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal Asia Pacific High Income Bond Fund</i>
Increase 100 basis points in interest	(4.89)%	(4.82)%
Decrease 100 basis points in interest	4.89%	4.82%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

(a) Market risk (continued)

Other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment (stock-specific) or its issuer, or factors affecting all instruments (generic risks) traded in the market. This risk can be mitigated by constructing a diversified portfolio of investments i.e. diversified on asset class (equities vs bonds) or geographies (global vs country specific) or both. The Manager manages such risks by regularly monitoring portfolio exposures, both on an absolute basis and relative to underlying benchmarks, if any. For example, if a Sub-Fund benchmark has an exposure of x% in a particular stock and of y% in a particular country, the Manager may manage exposure to that stock in his portfolio within x+/-10% and to the country at y+/-10%. Other risks relating to liquidity and sector exposures, etc., are also managed in a similar manner.

An analysis of the investment held by each Sub-Fund has been shown on the investment portfolio and the statement of movements in portfolio holdings enclosed with these financial statements.

Other price risk sensitivity analysis

As at 30 September 2009, the overall market exposure is set out below. A 20% decrease in prices of all the underlying investments at the year/period end would have decreased the net asset value of the respective Sub-Funds and the change in net assets attributable to unitholders by the amounts shown below; an equal change in the opposite direction would have increased the net asset value by an equal but opposite amount. The analysis for 2008 was performed on the same basis by applying 20% decrease in prices of all the underlying investments.

2009

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Overall market exposure	6,838,218	18,427,334
Decrease in net assets attributable to unitholders	(1,367,644)	(3,685,467)

2008

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
Overall market exposure	7,701,078	16,513,984
Decrease in net assets attributable to unitholders	(1,540,216)	(3,302,797)

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment to pay dues in time. The Manager has a credit review process in place. This ensures review and monitoring of credit quality and credit risk exposure on an ongoing basis, which helps protect portfolios from anticipated negative credit events. The Manager performs this review on a regular basis. The Sub-Funds' credit risk is also mitigated through diversification and control on exposure to any single issuer in the Sub-Funds.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

(b) Credit risk (continued)

The carrying amounts of financial assets best represent the maximum credit risk exposure at the year/period end date. At the reporting date, each Sub-Fund's financial assets exposed to credit risk have been shown on the statement of assets and liabilities in which the figures are based on the carrying value of each financial asset item.

At the reporting date, the Principal Asia Pacific High Income Bond Fund invested in debt securities with the following credit quality:

	<i>2009</i>		<i>2008</i>	
	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>in % of NAV</i>	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>in % of NAV</i>
Aaa/AAA	\$ 3,768,147	52.31	\$ 1,961,454	22.84
Aa1/AA+	379,505	5.27	-	-
Ba1/BB+	-	-	285,045	3.32
Ba2/BB	-	-	663,492	7.72
Ba3/BB-	405,000	5.62	-	-
B1/B+	278,438	3.86	2,282,176	26.56
B2/B	251,536	3.49	839,842	9.77
B3/B-	345,000	4.79	-	-
Caal/CCC+	363,688	5.05	-	-
Ca/CC	118,173	1.64	-	-
No credit rating (preference shares)	828,552	11.50	1,669,069	19.42
	\$ 6,738,039	93.53	\$ 7,701,078	89.63

The Principal BRIC Emerging Economies Fund did not hold any debt securities at the year/period end dates.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the good credit quality of the brokers used. The Manager monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

Substantially all the securities and cash of the Sub-Funds are held by Citibank N.A., as the custodian of the Fund. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The Trustee monitors its risk by monitoring the credit quality and financial positions of the custodian.

(c) Liquidity risk

The Sub-Funds are exposed to daily liquidity risk on redemptions of units. This arises from the risk that the Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner. To guard against this risk, stock selection considerations include analysis of factors like daily trading volumes, bid-offer spreads, availability of prices from brokers at short notice etc. The Sub-Funds' financial instruments include mainly investments in listed equity securities and quoted debt securities. They are mainly traded either on stock exchanges or over-the-counter markets and are generally liquid. As a result, for most cases, the Sub-Funds should be able to liquidate their investments quickly in these instruments at close to their fair value in order to meet its liquidity requirements. Under extreme market conditions, liquidation of instruments may have to be done at lower prices.

The Sub-Funds are not exposed to other activities which will give rise to significant liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

10 FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

(d) Specific instruments

Derivatives

Principal BRIC Emerging Economics Fund: Under normal circumstances, it would not hedge against its currency exposure to BRIC economies. This Sub-Fund may use options, futures or other derivatives instruments in order to optimize portfolio performance.

Principal Asia Pacific High Income Bond Fund: It may utilise currency forwards, options on currencies and options on bonds as part of its portfolio management strategy.

The Manager currently does not undertake any derivative transactions, except in forward contracts for hedging as stated below.

At 30 September 2009 and 2008, the Sub-Funds' holdings in derivatives, translated into USD, were listed in the table below:

Principal Asia Pacific High Income Bond Fund

2009

<i>Type of contract</i>	<i>Contract period</i>	<i>Underlying</i>	<i>Notional amount of contracts outstanding</i>	<i>Fair value (liability)/asset</i>
Currency Forward (Buy USD; Sell AUD)	7 September 2009 to 13 October 2009	Foreign currencies (AUD)	\$2,999,219.61	(\$100,208.00)
Currency Forward (Buy USD; Sell HKD)	7 September 2009 to 13 October 2009	Foreign currencies (HKD)	380,530.58	29.00

2008

<i>Type of contract</i>	<i>Contract period</i>	<i>Underlying</i>	<i>Notional amount of contracts outstanding</i>	<i>Fair value asset</i>
Currency Forward (Buy USD; Sell AUD)	8 September 2008 to 14 November 2008	Foreign currencies (AUD)	\$2,474,263.66	\$115,165.72

Principal BRIC Emerging Economics Fund

No derivatives were held by this Sub-Fund as at 30 September 2009 and 2008.

(e) Fair value information

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in note 2(d)(iv) to the financial statements.

The carrying amounts of all the Sub-Funds' financial assets and financial liabilities at the year/period end date approximated their fair values. For investment securities, the fair value is based on their quoted bid prices at the year/period end date without any deduction for estimated future selling costs. For other financial instruments, including dividends and interest receivables, amounts receivable on sales of investments, amounts receivable on subscriptions, other receivables, amounts payable on purchase of investments, amount payable on redemptions and accruals and other payable, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

11 NAV RECONCILIATION

The Trustee and the Manager would like to highlight that the NAV presented in the financial statements and that quoted for pricing purposes at the year/period end date (“Dealing NAV”) are different as (1) the principles for calculating the Dealing NAV as set out in the constitutive/offering document are different from those required for financial reporting purposes under HKFRSs and (2) change of valuation of investments due to availability of additional valuation information after issue of Dealing NAV. The following reconciliation provides details of these differences:

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
NAV as reported in the financial statements as at 30 September 2009	\$ 7,204,037	\$ 18,862,916
Formation cost	6,636	6,152
Use of latest available traded pricing instead of bid pricing in valuing investments	5,233	24,129
Dealing NAV as at 30 September 2009	\$ 7,215,906	\$ 18,893,197

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
NAV as reported in the financial statements as at 30 September 2008	\$ 8,592,440	\$ 16,989,288
Formation cost	9,081	9,371
Change in valuation of investment	330,000	-
Use of latest available traded pricing instead of bid pricing in valuing investments	26,989	46,992
Dealing NAV as at 30 September 2008	\$ 8,958,510	\$ 17,045,651

12 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 SEPTEMBER 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 September 2009 and which have not been adopted in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

(Expressed in United States dollars)

12 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 SEPTEMBER 2009 *(continued)*

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		<i>Effective for accounting periods beginning on or after</i>
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 1 and HKAS 32 (Amendment)	Financial instruments: Presentation - <i>Puttable financial instruments and obligations arising on liquidation</i>	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HKFRS 7 (Amendments)	Financial instruments: - Disclosures <i>Improving disclosures about financial instruments</i>	1 January 2009
HKAS 39 (Amendments)	Financial instruments: - Recognition and measurement <i>- Eligible hedged items</i>	1 July 2009

REPORT OF THE TRUSTEE TO THE UNITHOLDERS

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 29 September 2006 as subsequently amended from time to time, for the year ended 30 September 2009.



)
) For and on behalf of
) Principal Trust Company
) (Asia) Limited
)

Hong Kong, 18 January 2010

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009

Principal Asia Pacific High Income Bond Fund	<i>Maturity</i>	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed/quoted investments (cost: US\$7,875,511)				
<i>Listed/quoted debt instruments</i>				
<i>Australia</i>				
Australia & New Zealand Banking Group Ltd-3.2%	15/12/2011	500,000	\$ 517,085	7.18
Australia Government-5.25%	15/03/2019	500,000	435,988	6.05
Bank of Queensland Ltd-5.5%	22/10/2012	500,000	436,700	6.06
Commonwealth Bank of Australia-5.75%	17/12/2013	500,000	435,900	6.05
ING Bank Australia Ltd-5.75%	24/06/2014	500,000	432,995	6.01
New South Wales Treasury Corp-6%	01/05/2023	500,000	433,385	6.02
			\$ 2,692,053	37.37
<i>China</i>				
AES China Generating Co Ltd-8.25%	26/06/2010	264,000	\$ 251,536	3.49
China Glass Holdings Ltd-9.625%	12/07/2012	500,000	345,000	4.79
			\$ 596,536	8.28
<i>Indonesia</i>				
Davomas International Finance Co Ltd-11%	09/05/2011	500,000	\$ 118,173	1.64
Empire Capital Resources Pte Ltd-Floating	15/12/2011	500,000	278,438	3.86
GT 2005 BONDS BV-5%	21/07/2014	518,000	363,688	5.05
			\$ 760,299	10.55
<i>Ireland</i>				
Anglo Irish Bank Corp Ltd-Floating	20/01/2010	3,000,000	\$ 379,505	5.27
<i>Kazakhstan</i>				
Kazkommerts International BV-8%	03/11/2015	500,000	\$ 405,000	5.62
<i>United States</i>				
United States Treasury Note/Bond-4.5%	15/05/2038	1,000,000	\$ 1,076,094	14.94
Total listed/quoted debt instruments			\$ 5,909,487	82.03

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009 *(continued)*

Principal Asia Pacific High Income Bond Fund <i>(continued)</i>				
	<i>Maturity</i>	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed/quoted investments (cost: US\$7,875,511)				
<i>Listed preference shares</i>				
<i>Australia</i>				
BBI EPS Ltd		500,000	\$ 85,744	1.19
Macquarie Airports		2,569	238,915	3.32
Multiplex Group		5,000	272,622	3.78
Orica Ltd		625	52,189	0.72
Transpacific SPS Trust		5,000	279,261	3.88
Total listed preferences shares			\$ 928,731	12.89
<i>Forward contract</i>				
Buy USD/sell AUD Forward rate 0.8530	13/10/2009	2,999,220	\$ (100,208)	(1.39)
Buy USD/sell HKD Forward rate 7.7487	13/10/2009	380,531	29	-
			\$ (100,179)	(1.39)
Total investments			\$ 6,738,039	93.53
Other net assets			465,998	6.47
Total net asset value			\$ 7,204,037	100.00

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009 *(continued)*

Principal BRIC Emerging Economies Fund			
	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed investments (cost: US\$17,619,435)			
<i>Listed shares</i>			
<i>Brazil</i>			
AES Tiete SA	14,000	\$ 156,425	0.82
All America Latina Logistica SA	7,700	58,820	0.30
Banco Bradesco SA-SPON ADR	14,700	292,383	1.54
Banco do Brasil SA	5,200	90,815	0.48
Banco do Estado do Rio Grande do Sul	21,200	129,225	0.69
Banco Itau Holding Financeira SA-ADR	18,232	367,375	1.95
BM&FBOVESPA SA	19,600	143,147	0.76
BRF - Brasil Foods SA	5,000	131,417	0.70
Cia Brasileira de Distribuicao Grupo Pao de Acucar-A	4,900	136,763	0.73
Cia Brasileira de Distribuicao Grupo Pao de Acucar-B	1,018	28,447	0.15
Cia de Concessoes Rodoviaras	4,400	74,580	0.40
Cia de Transmissao de Energia Eletrica Paulista	6,200	172,492	0.92
Cia Siderurgica Nacional SA-SPON ADR	3,400	104,040	0.55
Empresa Brasileira de Aeronautica SA	16,600	95,059	0.50
Gerdau SA	13,700	184,128	0.98
iShares MSCI Brazil Index Fund	8,922	603,484	3.20
Natura Cosméticos SA	7,600	135,365	0.72
Petroleo Brasileiro SA-SPON ADR	31,600	1,242,196	6.59
Tele Norte Leste Participacoes SA-ADR	7,500	140,775	0.75
Telemar Norte Leste SA	3,900	126,910	0.67
Usinas Siderurgicas de Minas Gerais SA	4,825	128,104	0.68
Vale SA-SPON ADR	30,700	710,705	3.77
		\$ 5,252,655	27.85
<i>China</i>			
Air China Ltd-H	118,000	\$ 67,602	0.36
Bank of China Ltd-H	443,000	232,643	1.23
Beijing Enterprises Holdings Ltd	14,500	76,522	0.41
China Agri-Industries Holdings Ltd	110,000	102,902	0.55
China Citic Bank-H	135,000	88,663	0.47
China Construction Bank Corp-H	498,000	397,752	2.11
China Dongxiang (Group) Co	110,000	72,954	0.39
China Life Insurance Co Ltd-H	76,000	330,963	1.75
China Merchants Bank Co Ltd-H	36,500	81,288	0.43
China Mobile Ltd	52,500	511,106	2.71
China National Building Material Co Ltd-H	36,000	84,541	0.45
China Petroleum & Chemical Corp-H	90,000	76,296	0.40
China Railway Group Ltd-H	99,000	85,075	0.45
China Resources Land Ltd	60,000	131,302	0.70
China Resources Power Holdings Co Ltd	35,200	81,663	0.43
China Shenhua Energy Co Ltd-H	34,000	148,282	0.79
China Taiping Insurance Holdings Co Ltd	28,000	74,967	0.40
China Telecom Corp Ltd-H	196,000	92,814	0.49
China Vanke Co Ltd-B	56,700	70,819	0.38

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009 *(continued)*

Principal BRIC Emerging Economies Fund <i>(continued)</i>			
	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed investments (cost: US\$17,619,435)			
<i>Listed shares (continued)</i>			
<i>China (continued)</i>			
China Yurun Food Group Ltd	24,000	\$ 51,344	0.27
CNOOC Ltd	214,000	288,275	1.53
CNPC (Hong Kong) Ltd	90,000	70,954	0.38
Dongfang Electric Corp Ltd-H	12,000	60,386	0.32
Dongfeng Motor Group Co Ltd-H	48,000	50,786	0.27
Fushan International Energy Group Ltd	76,000	50,797	0.27
Golden Eagle Retail Group Ltd	51,000	85,416	0.45
Guangzhou Pharmaceutical Co Ltd-H	88,000	41,104	0.22
Huadian Power International Co-H	142,000	45,623	0.24
Industrial & Commercial Bank of China-H	347,000	261,478	1.39
Jiangxi Copper Co Ltd-H	29,000	64,884	0.34
Perfect World Co Ltd	1,678	80,661	0.43
PetroChina Co Ltd-H	232,000	262,231	1.39
Ping An Insurance (Group) Co of China Ltd-H	6,000	47,651	0.25
Shimao Property Holdings Ltd	55,500	93,668	0.50
Tencent Holdings Ltd-H	8,800	142,161	0.75
Zijin Mining Group Co Ltd-H	68,000	66,595	0.35
		\$ 4,572,168	24.25
<i>Hong Kong</i>			
Digital China Holdings Ltd	78,000	\$ 73,772	0.39
iShares BSE SENSEX India Index ETF	124,400	252,007	1.34
Pacific Basin Shipping Ltd	110,000	72,244	0.38
		\$ 398,023	2.11
<i>India</i>			
Allahabad Bank	39,577	\$ 98,027	0.52
Aurobindo Pharma Ltd	5,414	87,628	0.46
Axis Bank Ltd	4,172	84,763	0.45
Bharat Heavy Electricals Ltd	2,263	108,951	0.58
Bharat Petroleum Corp Ltd	8,369	100,583	0.53
Bharti Airtel Ltd	12,196	105,962	0.56
Biocon Ltd	14,805	79,711	0.42
Crompton Greaves Ltd	11,761	76,646	0.41
Dabur India Ltd	24,023	70,414	0.37
Grasim Industries Ltd	1,127	64,981	0.34
HDFC Bank Ltd - ADR	1,350	159,800	0.85
Hero Honda Motors Ltd	3,892	136,327	0.72
Hindustan Unilever Ltd	8,176	44,453	0.24
Housing Development Finance Corp	2,866	164,021	0.87
ICICI Bank Ltd - SPON ADR	4,000	154,240	0.82
Infosys Technologies Ltd - SPON ADR	7,400	358,826	1.90
iShares MSCI India	39,200	250,880	1.33
ITC Ltd	22,590	108,994	0.58

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009 *(continued)*

Principal BRIC Emerging Economies Fund <i>(continued)</i>	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed investments (cost: US\$17,619,435)			
<i>Listed shares (continued)</i>			
<i>India (continued)</i>			
Jindal Stell & Power Ltd	9,330	\$ 113,849	0.60
Lanco Infratech Ltd	6,878	68,373	0.36
Larsen & Toubro Ltd	4,190	146,635	0.78
Lupin Ltd	3,515	83,069	0.44
Maruti Suzuki India Ltd	3,527	124,561	0.66
NTPC Ltd	19,306	85,764	0.45
Oil & Natural Gas Corp Ltd	5,200	126,154	0.67
Reliance Communications Ltd	16,254	104,011	0.55
Reliance Industries Ltd	5,844	267,089	1.42
Reliance Industries Ltd - SPON GDR	1,450	133,545	0.71
State Bank of India Ltd - GDR	1,290	116,874	0.62
Sterlite Industries India Ltd	6,121	98,657	0.52
Tata Chemicals Ltd	15,412	90,060	0.48
Tata Power Co Ltd	3,269	89,664	0.48
Wipro Ltd	6,849	85,725	0.45
		\$ 3,989,237	21.14
<i>Russia</i>			
Comstar United Telesystems OJSC-GDR	10,850	\$ 56,963	0.30
Gazprom OAO-SPON ADR	45,532	1,058,619	5.61
LUKOIL-SPON ADR	11,352	614,143	3.26
Mechel-ADR	4,000	71,680	0.38
MMC Norilsk Nickel-ADR	12,697	157,443	0.83
Mobile Telesystems OJSC-SPON ADR	4,748	229,186	1.22
NovaTek OAO-SPON GDR	2,650	130,645	0.69
Novolipetsk Steel OJSC-SPON GDR	4,150	105,618	0.56
Polyus Gold Co	4,300	97,868	0.52
Rosneft Oil Co-GDR	51,540	387,581	2.05
RusHydro-SPON ADR	15,438	52,798	0.28
Sberbank of Russian Federation	243,046	481,231	2.55
Severstal	3,400	26,214	0.14
Sistema JSFC-SPON GDR	3,800	55,480	0.29
Surgutneftegaz-SPON ADR	13,700	117,135	0.62
Tatneft-SPON GDR	5,233	129,517	0.69
Uralkali	4,400	83,116	0.44
Vimpel-Communications-SPON ADR	12,384	231,581	1.23
VTB Bank OJSC-REG	19,250	71,225	0.38
Wimm-Bill-Dann Foods OJSC-ADR	800	57,208	0.30
		\$ 4,215,251	22.34
Total listed shares		\$ 18,427,334	97.69

INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2009 *(continued)*

Principal BRIC Emerging Economies Fund <i>(continued)</i>	<i>Holdings</i>	<i>Fair value US\$/US\$ equivalent</i>	<i>% of net assets</i>
Listed investments (cost: US\$17,619,435)			
<i>Unlisted shares</i>			
<i>Russia</i>			
Enel OGK-5 OJSC-GDR	3,789	\$ -	-
TGK-5-REG-SPON GDR	1,563	-	-
Total unlisted shares		\$ -	-
Total investments		\$ 18,427,334	97.69
Other net assets		435,582	2.31
Total net asset value		\$ 18,862,916	100.00

**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS
FOR THE YEAR ENDED 30 SEPTEMBER 2009**

Principal Asia Pacific High Income Bond Fund	<i>% of net assets</i>	<i>% of net assets</i>
	<i>Year ended 30 September 2009</i>	<i>Period from 1 January 2008 to 30 September 2008</i>
<i>Listed/quoted debt instruments</i>		
Australia	37.37	-
China	8.28	14.15
Hong Kong	-	0.23
India	-	25.94
Indonesia	10.55	-
Ireland	5.27	-
Kazakhstan	5.62	3.32
Russia	-	3.73
United States	14.94	22.83
<i>Listed preference shares</i>		
Australia	12.89	19.43
<i>Forward contract</i>	(1.39)	1.34
Total investments	93.53	90.97
Other net assets	6.47	9.03
Total net assets	100.00	100.00

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS
FOR THE YEAR ENDED 30 SEPTEMBER 2009 *(continued)*

Principal BRIC Emerging Economies Fund

	<i>% of net assets</i>	<i>% of net assets</i>
	<i>Year ended</i>	<i>Period from 1 January 2008</i>
	<i>30 September 2009</i>	<i>to 30 September 2008</i>
<i>Listed shares, mutual funds and unit trusts</i>		
Brazil	27.85	26.05
China	24.25	18.21
Hong Kong	2.11	9.86
India	21.14	20.71
Russia	22.34	22.37
Total investments	97.69	97.20
Other net assets	2.31	2.80
Total net assets	100.00	100.00

PERFORMANCE TABLE
FOR THE YEAR ENDED 30 SEPTEMBER 2009

(Expressed in United States dollars)

	<i>Principal Asia Pacific High Income Bond Fund</i>	<i>Principal BRIC Emerging Economies Fund</i>
(a) Net asset value:		
<i>Total net asset value</i>		
30 September 2009	\$ 7,204,037	\$ 18,862,916
30 September 2008	8,592,440	16,989,288
31 December 2007	13,342,437	37,231,882
31 December 2006	N/A	77,150,672
<i>Net asset value per unit (*)</i>		
30 September 2009	\$ 7.9325	\$ 10.9809
30 September 2008	7.8116	9.2718
31 December 2007	9.6987	15.9096
31 December 2006	N/A	10.4446
(b) Performance record:		
<i>Highest offer price during the year/period</i>		
2009	\$ 8.1397	\$ 11.0578
2008	9.6151	16.0432
2007	9.9995	16.6859
2006	N/A	10.5141
<i>Lowest bid price during the year/period</i>		
2009	\$ 6.1477	\$ 5.1053
2008	8.3044	8.8497
2007	9.6249	9.3649
2006	N/A	9.9221

* The net asset value per unit is different from the amount published at 30 September due to different valuation bases. See Note 11 to the financial statements for further details.

INVESTMENT OBJECTIVES AND POLICIES OF PRINCIPAL BRIC EMERGING ECONOMIES FUND

The Principal BRIC Emerging Economies Fund seeks to provide investors with long-term growth whilst at the same time producing an attractive rate of income. The Manager will invest at least 60% of the assets in equity securities of companies in Brazil, Russia, India and Greater China Region (collectively referred to as “BRIC”) or in equity securities of companies that derive a significant portion of their revenues from BRIC economies or that have a significant portion of their assets in BRIC economies. This Sub-Fund seeks to capture the portfolio return of equity investments in BRIC economies by capturing the growth opportunities of these potential giant economies. At the same time, it seeks to limit downside risk by investing in alternative asset classes like fixed income securities, within a certain limit, should the Manager consider that equity exposure should be reduced to protect investors’ interests.

The portfolio of the Principal BRIC Emerging Economies Fund may also from time to time include cash, deposits and instruments with floating or fixed interest rates such as certificates of deposits, bankers’ acceptances and commercial paper, which may be denominated in any currency.

The target ranges of asset allocation and geographic allocation of this Sub-Fund are as follows:

Asset Allocation

	<i>Range</i>
Equity	60-100%
Debt including cash & short-term investments	0-40%

Geographical Allocation

	<i>Range</i>
Brazil, Russia, India, Greater China Region (BRIC)	80-100% (Note)
Other markets	0-20%

Notes:

- (a) In respect of Greater China Region, investments of this Sub-Fund may include shares or depository receipts of companies of Greater China Region or companies listed outside Greater China Region but derive substantial revenue from Greater China Region. “Greater China Region” currently includes People’s Republic of China, Hong Kong, Macau and Taiwan.
- (b) In respect of India, Russia and Brazil, investments of the Sub-Fund may include shares or depository receipts of Indian, Russian or Brazilian companies listed on a stock exchange in India, Russia or Brazil or on any other stock exchange.
- (c) This Sub-Fund may also gain exposure to BRIC markets through investment in index-tracking funds or I-shares (i.e. shares in an index-tracking fund) or other collective investment schemes which invest in such markets.

Under normal circumstances, this Sub-Fund would not hedge against its currency exposure to BRIC economies. This Sub-Fund may use options, futures or other derivative instruments in order to optimize portfolio performance.

The risk profile of this Sub-Fund is generally regarded as high.

INVESTMENT OBJECTIVES AND POLICIES OF PRINCIPAL ASIA PACIFIC HIGH INCOME BOND FUND

The Principal Asia Pacific High Income Bond Fund seeks to provide a return of capital growth and high level of income primarily through investment in a portfolio of high grade and high yield bonds (investment grade bonds and non-investment grade high yield bonds) and other fixed and floating rate instruments issued by governments, government agencies, supranational organizations, corporate or other issuers in Asia Pacific.

The target ranges of asset allocation and geographic allocations of this Sub-Fund are as follows:

Asset Allocation

	<i>Range</i>
Bonds and Other Fixed Income Instruments	70-100%
Convertible Debentures/Bonds	0-20%
Cash and Bank Deposits	0-30%

Geographic Allocation

	<i>Range</i>
Asia Pacific	70-100%
Others	0-30%

Subject to the investment restrictions set out on the explanatory memorandum, this Sub-Fund may utilise currency forwards, options on currencies and options on bonds as part of its portfolio management strategy.

This Sub-Fund may enter, either as a purchaser or seller, into repurchase agreements from time to time only on an ancillary basis. The counterparties of such repurchase transactions are highly rated financial institutions specialised in this type of transactions. During the term of the repurchase agreements, this Sub-Fund may not sell the securities which are the object of any repurchase agreement (i) either before the repurchase of the securities by the counterparty has been carried out or (ii) the repurchase period has expired. The value of purchased securities subject to repurchase obligation shall be restricted at such a level that this Sub-Fund is able, at all times, to meet its obligations to redeem its own securities.

The risk profile of this Sub-Fund is generally regarded as high.