



Annual Report 2007

ABF Hong Kong Bond Index Fund

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Investment Adviser's Report

ABF Hong Kong Bond Index Fund

Against a backdrop of rising interest rates, the Fund delivered a total return of 4.15 percent for the 12-month period ended July 2007.

During the review period, the U.S. Federal Reserve kept the Fed Funds rate unchanged at 5.25 percent but instilled a vigilant stance on controlling inflation. Ten-year benchmark U.S. Treasury bonds were range-bound for most of the reporting period but have started to trend lower as global risk aversion attributing to U.S. sub-prime contagion loomed. Two-year U.S. notes gained most from flight-to-quality trades and the difference between the two-year and ten-year note went from as low as -19 basis points in November 2006 to 22 basis points at July 31 2007, representing a significant steepening in the Treasury curve. U.S. swaps spreads were largely unchanged until July 2007 when fears over further credit deterioration sent spreads to their widest since 2001.

Tracking U.S. Treasuries, HK dollar interest rates also experienced volatility during this period but remained range-bound and at a discount to U.S. rates on abundant local liquidity. Hong Kong banks' cost of funding rose during the period, as the HK dollar's weakening trend continued; lower interest rates also encouraged investors to shift funds to the U.S. dollar. HK dollar swap rates steepened and under-performed swaps in the U.S.; one- and five-year HK dollar swap rates fell by -16 basis points and were unchanged respectively versus a fall of -30 basis points and -18 basis points in the corresponding U.S. swap rates. The government sector outperformed the non-government sector mildly with the five-year HK dollar swap spread widening by 8 basis points.

HK dollar money rates stayed below U.S. dollar money rates throughout the period; though at times, technical drivers in the HK dollar market and economic factors in the U.S. market have drifted their spread closer. The three-month HIBOR (daily fixings) rose from 4.30 percent to 4.38 percent over the period, while the 12-month HK dollar TT forward discount narrowed from -645 pips to -565 pips after reaching a spread of -990 pips in December 2006.

Fundamentally, Hong Kong's robust growth has gained further momentum with better than expected export

growth, rising retail sales, and improving employment readings, while encompassed in a benign inflation environment. All three rating agencies issued positive ratings to Hong Kong recognizing its strong sovereign position and growing fiscal reserves. Standard and Poor's put Hong Kong on positive outlook, with ratings unchanged at AA, Moody's upgraded the sovereign rating from Aa3 to Aa2 and Fitch upgraded Hong Kong from AA- to AA.

U.S. sub-prime triggered a series of global liquidity concerns, first, there were 'runs' and redemption halts on various hedge funds, these then later permeated to borrowing difficulties on asset-backed commercial paper (ABCP) programs. We expect these adverse liquidity conditions to persist in the global short-term money market, and HK dollar money rates are poised to experience similar upward pressure but lag behind their global counterparts.

HSBC Investments (Hong Kong) Limited

31 August 2007

Trustee’s Report

ABF Hong Kong Bond Index Fund (“the Trust”)

We hereby confirm that, in our opinion, the Manager of the Trust has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 10 June 2005, for the year ended 31 July 2007.

)	
Keith CHEUNG)	For and on behalf of
Eddie WONG)	HSBC Institutional Trust Services
)	(Asia) Limited
)	

Independent Auditor's Report to the Unitholders of ABF Hong Kong Bond Index Fund ("the Trust")

We have audited the financial statements of the Trust set out on pages 5 to 16, which comprise the statement of assets and liabilities as at 31 July 2007, and the income statement, statement of changes in net assets attributable to unitholders and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Manager's responsibilities for the financial statements

The Manager is 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 for ensuring that the financial statements comply with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in Appendix E to the Hong Kong 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 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 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, 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 Trust as at 31 July 2007 and of its 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.

KPMG

Certified Public Accountants
Hong Kong, 30 November 2007

Statement of Assets and Liabilities

ABF Hong Kong Bond Index Fund

as at 31 July 2007

	Note	2007 HKD	2006 HKD
ASSETS			
Cash and cash equivalents	6(b)	3,726,821	4,482,354
Investments	5	2,136,047,869	2,088,016,551
Interest receivable		19,586,607	21,697,992
Amounts receivable from sale of investments		44,377,365	63,873,274
		<hr/> 2,203,738,662	<hr/> 2,178,070,171
LIABILITIES			
Amounts payable on purchases of investments		—	21,339,830
Distributions payable	9	47,136,602	46,525,522
Other payables	6(a), 6(c)	381,216	708,431
		<hr/> 47,517,818	<hr/> 68,573,783
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)			
		<hr/> 2,156,220,844	<hr/> 2,109,496,388
Total number of units in issue			
	8	<hr/> 22,446,001	<hr/> 21,946,001
Net asset value per unit at bid prices			
		<hr/> 96.06	<hr/> 96.12

Approved by the Trustee and the Manager on 30 November 2007

Keith CHEUNG)	
Eddie WONG)	For and on behalf of
)	HSBC Institutional Trust Services
)	(Asia) Limited
)	
Po Yee LAM)	For and on behalf of
Ngar Yee LOUIE)	HSBC Investment Funds
)	(Hong Kong) Limited
)	

The notes on pages 9 to 16 form part of these financial statements.

Income Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2007

		Year ended 31 July 2007 HKD	Period from 10 June 2005 (date of inception) to 31 July 2006 HKD
	Note		
Interest income	6(b)	320,284	159,076
Sundry income		623,200	1,543,586
Gains on investments	3	129,117,275	102,550,752
Losses on investments	3	(35,292,489)	(79,735,085)
Net foreign exchange loss		–	(163)
NET INVESTMENT INCOME		94,768,270	24,518,166
Management fees	6(a)	2,855,213	3,279,698
Preliminary expenses		–	2,455,819
Trustee's fees	6(c)	1,023,797	1,148,178
Miscellaneous expenses		865,220	835,051
Auditors' remuneration		127,726	156,876
Transaction costs	6(c)	22,174	58,739
OPERATING EXPENSES		4,894,130	7,934,361
NET INCOME FROM OPERATIONS BEFORE FINANCE COSTS		89,874,140	16,583,805
Distributions to unitholders during the year/period	9	(91,084,684)	(97,352,544)
		(1,210,544)	(80,768,739)
Income equalisation on subscription and redemption for units	10	(637,500)	3,532,500
Change in net assets attributable to unitholders		(1,848,044)	(77,236,239)

The notes on pages 9 to 16 form part of these financial statements.

Statement of Changes in Net Assets Attributable to Unitholders

ABF Hong Kong Bond Index Fund
for the year ended 31 July 2007

	Year ended 31 July 2007 HKD	Period from 10 June 2005 (date of inception) to 31 July 2006 HKD
Subscriptions received from units issued (excluding equalisation)	243,212,500	2,186,732,627
Less: Redemptions (excluding equalisation)	(194,640,000)	–
	48,572,500	2,186,732,627
Change in net assets attributable to unitholders	(1,848,044)	(77,236,239)
	46,724,456	2,109,496,388
Net assets attributable to unitholders, beginning of the year/period	2,109,496,388	–
Net assets attributable to unitholders, end of year/period	2,156,220,844	2,109,496,388

The notes on pages 9 to 16 form part of these financial statements.

Cash Flow Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2007

		Period from 10 June 2005 (date of inception) to 31 July 2006 HKD
	Note	Year ended 31 July 2007 HKD
OPERATING ACTIVITIES		
Interest received		317,002
Sundry income received		623,200
Management fees paid		(3,112,558)
Trustee's fees paid		(1,114,462)
Other operating expenses paid		(994,325)
Cash flows used in operating activities		(4,281,143)
INVESTING ACTIVITIES		
Purchase of investments		(897,271,660)
Proceeds from sale of investments		943,335,874
Cash flows from/(used in) investing activities		46,064,214
FINANCING ACTIVITIES		
Proceeds from issue of units and equalisation		244,575,000
Payment on redemption of units and equalisation		(196,640,000)
Distributions paid		(90,473,604)
Cash flows (used in)/from financing activities		(42,538,604)
Net (decrease)/increase in cash and cash equivalents		(755,533)
Cash and cash equivalents at beginning of year/period		4,482,354
Cash and cash equivalents at end of year/period		3,726,821

The notes on pages 9 to 16 form part of these financial statements.

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

1 The Trust

The Trust was established under a Trust Deed dated 10 June 2005 and is governed by Hong Kong law. The Trust is an “index fund” which seeks investment results that correspond closely before fees and expenses to the total return of the iBoxx ABF Hong Kong Index which is compiled by the International Index Company Limited.

The Trust is authorised by the Hong Kong Securities and Futures Commission under section 104 of the Hong Kong Securities and Futures Ordinance. The Trust is also listed on The Stock Exchange of Hong Kong Limited (a subsidiary of The Hong Kong Exchanges and Clearing Limited).

2 Significant accounting policies

(a) Statement of compliance

The 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 disclosure provisions of the Trust Deed and the relevant disclosure requirements of the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission. A summary of the significant accounting policies adopted by the Trust is set out below.

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Trust is the Hong Kong dollar reflecting the fact that the participating redeemable units of the Trust are issued and redeemed in Hong Kong dollars.

The financial statements are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost or redemption amount.

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, 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.

(c) Foreign currency translation

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of assets and liabilities. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Hong Kong dollars at the foreign currency exchange rates ruling at the dates that the values are determined. Foreign currency exchange differences relating to investments at fair value through profit or loss are included in gains or losses on investments. All other foreign currency exchange differences relating to monetary items are presented separately in the income statement.

(d) Financial instruments

(i) Classification

All of the Trust’s investments are classified as financial assets at fair value through profit or loss. This

Notes on the Financial Statements

category comprises financial instruments held for trading, which are instruments that the Trust has acquired principally for the purpose of short-term profit-taking. These include investments in equity and debt securities, futures and options.

All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities.

Financial assets that are classified as receivables include amount due from brokers, subscription receivables, prepayments and other receivables.

Financial liabilities include accrued expenses and other payables.

(ii) Recognition

The Trust recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way 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 on financial assets and liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are

measured at fair value with changes in their fair values recognised in the income 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 method. Financial liabilities arising from the redeemable units issued by the Trust are carried at the redemption amount representing the investors' right to a residual interest in the Trust's assets.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the date of the statement of assets and liabilities 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.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where pricing models are used, inputs are based on market data at the date of the statement of assets and liabilities. Fair values for unquoted equity instruments are estimated, if possible, using applicable price/ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Gains and losses on investments are included in the income statement. Realised gains or losses include

Notes on the Financial Statements

net gains and losses on contracts which have been settled or for which offsetting contracts have been entered into.

(v) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of assets and liabilities to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(vi) Derecognition

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

The Trust uses the weighted average method to determine realised gains and losses on derecognition.

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

(vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities when the Trust has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or simultaneously, e.g. through a market clearing mechanism.

(viii) Specific instruments

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Investment in debt securities

Debt securities are managed on a fair value basis and are designated at fair value through profit or loss.

(e) Revenue recognition

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

Interest income

Interest income is recognised in the income statement as it accrues, using the original effective interest rate method.

(f) Expenses

All expenses are recognised in the income statement on an accrual basis.

(g) Foreign exchange gains and losses

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 the fair value. Included in the profit or loss line item *Net foreign exchange loss* are net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

Notes on the Financial Statements

(h) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Trust or exercise significant influence over the Trust in making financial and operating policy decisions, or has joint control over the Trust;
- (ii) the Trust and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Trust or a joint venture in which the Trust is a venturer;
- (iv) the party is a member of key management personnel of the Trust 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.

(i) Subscriptions and redemptions

The Trust recognises unitholders' subscriptions and allots units upon receipt of a valid subscription application and derecognises them upon receipt of a valid redemption application.

(j) Formation costs

Formation costs of the Trust are charged to the income statement as incurred.

(k) Units issued to investors

All redeemable units issued by the Trust provide the respective unitholders with the right to require redemption for cash at the value proportionate to the unitholders' share in the Trust's net assets at the redemption date. In accordance with HKAS 32, such right gives rise to a financial liability for the present value of the redemption amount. See reconciliation of bid pricing net asset value to trade pricing net asset value in note 12.

3 Gains and losses on investments

	Period from 10 June 2005 (date of inception) to Year ended 31 July 2007 HKD		Year ended 31 July 2006 HKD
Realised gains	104,109,735		79,980,901
Unrealised gains	25,007,540		22,569,851
Total gains on investments	129,117,275		102,550,752
Realised losses	(20,055,005)		(11,691,439)
Unrealised losses	(15,237,484)		(68,043,646)
Total losses on investments	(35,292,489)		(79,735,085)

4 Taxation

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

5 Investments

	Period from 10 June 2005 (date of inception) to Year ended 31 July 2007 HKD		Year ended 31 July 2006 HKD
Debt securities			
Listed bonds	1,426,580,437		1,495,931,638
Unlisted but quoted bonds	709,467,432		592,084,913
	2,136,047,869		2,088,016,551
Investments, at cost	2,191,327,973		2,155,181,378
Unrealised diminution in value of investments	(55,280,104)		(67,164,827)
Investments, at market value	2,136,047,869		2,088,016,551

Notes on the Financial Statements

6 Related parties transactions

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

- (a) The Trust is managed by HSBC Investment Funds (Hong Kong) Limited ("the Manager"), which receives a management fee, payable monthly in arrears, equivalent to 0.15% per annum of the average daily net assets of the Trust (in respect of the first \$1,560 million) and 0.12% per annum (thereafter).

In addition, the Manager acts as the listing agent of the Trust. The fee is paid out of the manager fees.

	Year ended 31 July 2007 HKD	Period from 10 June 2005 (date of inception) to 31 July 2006 HKD
(i) Management fees for the year/period	2,855,213	3,279,698
(ii) Management fees payable at year/ period end	-	257,345

- (b) A bank account is maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group. The balance of this account amounted to \$3,726,821 (2006: \$4,482,354) at the year end. Interest income arising therefrom amounted to \$317,782 (2006: \$138,679).

- (c) The trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, a fellow subsidiary of the Manager within the HSBC Group, which receives a trustee fee, payable monthly in arrears, equivalent to 0.05% per annum of the average daily net assets of the Trust. In addition, the trustee is entitled to a transaction fee of \$389 (2006: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities.

	Year ended 31 July 2007 HKD	Period from 10 June 2005 (date of inception) to 31 July 2006 HKD
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(i) Trustee's fees for the year/period	1,023,797	1,148,178
(ii) Transaction fee for the year/period	22,174	58,739
(iii) Trustee's fees payable at year/period end	-	90,666
(iv) Transaction fee payable at year/period end	2,334	2,335

- (d) In its purchases and sales of investments, the Trust utilizes the brokerage services of the Manager and The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group. Details of transactions effected are as follows:

	HSBC Investment Fund (Hong Kong) Limited		The Hongkong and Shanghai Banking Corporation Limited	
	Period from 10 June 2005 (date of inception) to Year ended 31 July 2007 HKD		Period from 10 June 2005 (date of inception) to Year ended 31 July 2006 HKD	
Commission paid for the year/period	-	-	-	-
Average rate of commission	-	-	-	-
Total aggregate value of such transactions for the year/period	-	797,246,475	1,121,374,778	-
Percentage of such transactions in value to total transactions for the year/period	N/A	50%	65.91%	N/A

Notes on the Financial Statements

The figures for commission paid do not include any trading margin which may be reflected in the market price of transactions with these entities on any transactions by the Trust during the year.

7 Soft commission arrangements

No soft commission arrangements were entered into with brokers during the year.

8 Units issued and redeemed

	2007	2006
Number of units in issue brought forward	21,946,001	–
Units issued during the year	2,500,000	21,946,001
Units redeemed during the year	(2,000,000)	–
Number of units in issue carried forward	22,446,001	21,946,001

9 Distributions

Distributions attributable to the year

	2007 HKD	2006 HKD
Interim dividend of \$1.98 per unit on 22,196,001 units declared and paid (2006: \$2.37 per unit on 21,446,001 units)	43,948,082	50,827,022
Final dividend of \$2.1 per unit on 22,446,001 units declared and unpaid (2006: \$2.12 per unit on 21,946,001 units)	47,136,602	46,525,522
	91,084,684	97,352,544

10 Income equalisation

This is the proportion of the unit price which relates to the contributed accrued net expense or the undistributed accrued net income of the Trust at the date of issue or redemption of units.

11 Financial instruments and associated risks

The Trust's 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 Trust is exposed are market risk, credit risk and liquidity risk.

The Trust's investments are monitored by the Trust's Investment Manager who manages the distribution of the assets to achieve the investment objectives.

The Trust is an index fund and is not actively managed. Therefore, the Trust will not adjust the composition of its portfolio except in order to seek to closely correspond to the duration and total return of the underlying index. The Trust does not try to "beat" the market it tracks and does not seek temporary defensive positions when markets decline or when the market is judged to be overvalued. Accordingly, a fall in the underlying index will result in a corresponding fall in the net asset value of the Trust.

The nature and extent of the financial instruments outstanding at the date of the statement of assets and liabilities and the risk management policies employed by the Trust are discussed below.

(a) Market risk

Market risk embodies the potential for both losses and gains and includes interest rate risk and price risk.

Interest rate risk

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

Notes on the Financial Statements

The following table indicates the effective interest rates and the year in which they mature for interest bearing assets.

	2007		2006	
	Effective rate %	HKD'000	Effective rate %	HKD'000
Assets				
Financial assets designated at fair value through profit or loss				
– 1 year or less	3.90	4,494	4.14	19,494
– over 1 year to 5 years	4.32	1,591,603	4.38	1,516,615
– over 5 years to 10 years	4.73	440,360	4.66	452,517
– over 10 years	5.39	99,591	5.36	99,391
		2,136,048		2,088,017
Non-interest bearing assets		67,690	-	90,053
Total assets		2,203,738		2,178,070
Liabilities				
Non-interest-bearing liabilities		47,518	-	68,574
Total liabilities		47,518		68,574
Total net assets		2,156,220		2,109,496

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or its issuer, or factors affecting all instruments traded in the market. The Trust is exposed to market risk as changes in market prices of its investments will affect the Trust.

(b) Credit risk

Credit risk includes the risk that a counterparty trading with the Trust will fail to discharge an obligation to pay its dues on time. The Trust's 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 Trust is also subject to credit risk arising on debt instruments which is according to the Trust's investment restrictions mitigated through diversification and control on exposure to any single issue in the Trust.

(c) Liquidity risk

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. The Trust's financial instruments include mainly investments in quoted debt securities which are generally subject to less liquidity risk relative to unquoted securities.

(d) Fair value information

Estimation of fair value

The major method and assumption used in estimating the fair values of financial instruments were disclosed in note 2(d).

At 31 July 2007 the fair values of all quoted investments were determined directly, in full or in part, by reference to published price quotations.

12 Net asset value for the Trust

The Trustee and the Manager would like to highlight that the net asset value presented in the financial statements and that quoted for pricing purposes at the period end ("Dealing NAV") are different due to the principles for calculating the Dealing NAV as set out in the prospectus being different from that required for financial reporting purposes under Hong Kong Financing Reporting Standards. The following reconciliation provides details of these differences:

	HKD
NAV as reported in the financial statements as at 31 July 2007	2,156,220,844
Adjustments for different bases adopted by the Fund in arriving at the Dealing NAV:	
– Deferred formation expenses	1,783,561
– Adjustment from bid-prices at year end to last traded prices	(967,652)
Dealing NAV as at 31 July 2007	2,157,036,753

Notes on the Financial Statements

13 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 July 2007

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 accounting year ended 31 July 2007 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Trust's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007

The Trust 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 while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Trust's results of operations and financial position.

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2007

	Holdings	Market value HKD	% of NAV		Holdings	Market value HKD	% of NAV
Fixed Income Instruments							
Listed Investments							
HK GOVERNMENT BOND 1012 7.01%				HK GOVERNMENT BOND 5809 3.27%			
6 DECEMBER 2010	11,300,000	12,258,277	0.57	25 SEPTEMBER 2008	78,200,000	77,535,933	3.60
HK GOVERNMENT BOND 1512 4.33%				HK GOVERNMENT BOND 5909 3.18%			
7 DECEMBER 2015	18,000,000	17,725,277	0.82	28 SEPTEMBER 2009	51,150,000	50,110,929	2.32
HK GOVERNMENT BOND 1606 4.83%				HK GOVERNMENT BOND 5912 2.69%			
7 JUNE 2016	13,000,000	13,245,007	0.61	21 DECEMBER 2009	13,550,000	13,100,381	0.61
HK GOVERNMENT BOND 1612 3.78%				HK GOVERNMENT BOND 7002 3.80%			
6 DECEMBER 2016	30,000,000	28,163,365	1.31	26 FEBRUARY 2010	65,550,000	64,877,234	3.01
HK GOVERNMENT BOND 3.90%				HK GOVERNMENT BOND 7008 3.92%			
18 MAY 2009	50,000,000	49,931,165	2.32	20 AUGUST 2010	13,550,000	13,410,367	0.62
HK GOVERNMENT BOND 4.00%				HK GOVERNMENT BOND 7202 3.14%			
16 FEBRUARY 2009	93,500,000	93,454,288	4.33	24 FEBRUARY 2012	72,550,000	68,745,130	3.19
HK GOVERNMENT BOND 4.85%				HK GOVERNMENT BOND 7205 3.61%			
27 JUNE 2017	13,000,000	13,281,905	0.62	28 MAY 2012	10,500,000	10,139,165	0.47
HK GOVERNMENT BOND 5003 3.52%				HK GOVERNMENT BOND 7211 4.49%			
22 MARCH 2010	13,550,000	13,323,739	0.62	26 NOVEMBER 2012	30,000,000	30,031,734	1.39
HK GOVERNMENT BOND 5006 3.33%				HK GOVERNMENT BOND 7302 4.13%			
14 JUNE 2010	15,400,000	15,067,463	0.70	22 FEBRUARY 2013	27,000,000	26,541,934	1.23
HK GOVERNMENT BOND 5012 4.26%				HK GOVERNMENT EX FD NT 1006 7.31%			
20 DECEMBER 2010	41,300,000	41,224,504	1.91	21 JUNE 2010	24,300,000	26,327,410	1.22
HK GOVERNMENT BOND 5112 3.63%				HK GOVERNMENT EX FD NT 1106 6.13%			
19 DECEMBER 2011	35,000,000	33,921,423	1.57	20 JUNE 2011	21,300,000	22,658,563	1.05
HK GOVERNMENT BOND 5806 2.47%				HK GOVERNMENT EX FD NT 1112 5.92%			
16 JUNE 2008	4,550,000	4,494,344	0.21	5 DECEMBER 2011	36,500,000	38,713,703	1.80
				HK GOVERNMENT EX FD NT 1206 5.80%			
				19 JUNE 2012	66,300,000	70,189,662	3.26

Portfolio Statement

ABF Hong Kong Bond Index Fund
as at 31 July 2007

	Holdings	Market value HKD	% of NAV		Holdings	Market value HKD	% of NAV
Fixed Income Instruments				HK GOVERNMENT SERIES			
Listed Investments				1506 3.50%	15,000,000	13,978,322	0.65
				22 JUNE 2015			
HK GOVERNMENT EX FD	50,800,000	50,868,534	2.36	HK GOVERNMENT SERIES			
NT 1212 4.50%				5009 3.79%	48,700,000	48,039,321	2.23
4 DECEMBER 2012	20 SEPTEMBER 2010						
HK GOVERNMENT EX FD	16,300,000	15,692,357	0.73	HK GOVERNMENT SERIES			
NT 1306 3.73%				7208 4%	15,000,000	14,692,482	0.68
5 JUNE 2013	27 AUGUST 2012						
HK GOVERNMENT EX FD	38,400,000	38,165,034	1.77	HKSAR GOVERNMENT BOND			
NT 1312 4.32%				3.75%	17,000,000	16,755,693	0.78
2 DECEMBER 2013	23 JULY 2009						
HK GOVERNMENT EX FD	16,500,000	16,789,727	0.78	HKSAR GOVERNMENT BOND			
NT 1406 4.82%				5.125%	19,500,000	19,519,982	0.91
2 JUNE 2014	23 JULY 2019						
HK GOVERNMENT EX FD	115,000,000	121,406,972	5.63	KOWLOON-CANTON RAILWAY			
NT 1906 7.21%				4.65%	12,000,000	11,669,054	0.54
9 JUNE 2009	10 JUNE 2013						
HK GOVERNMENT EX FD				Listed Investments (Total)			
NT 5812 3.34%					1,426,580,437	66.18	
19 DECEMBER 2008	16,750,000	16,588,684	0.77	Unlisted Investments			
HK GOVERNMENT EX FD	61,250,000	59,715,026	2.77	ASIA DEVELOPMENT BK 4.28%			
NT 5903 2.52%				EMTN	30,000,000	29,758,584	1.38
24 MARCH 2009	21 SEPTEMBER 2009						
HK GOVERNMENT EX FD	13,550,000	13,190,891	0.61	EUROFIMA 4.18% EMTN			
NT 7005 3.19%				8 JUNE 2015	58,500,000	54,922,421	2.55
28 MAY 2010	EUROPEAN INVESTMENT BANK						
HK GOVERNMENT EX FD	13,550,000	13,416,133	0.62	4.08%			
NT 7011 3.95%				17 OCTOBER 2008	35,000,000	34,814,521	1.62
26 NOVEMBER 2010	HK GOVERNMENT BOND						
HK GOVERNMENT EX FD	84,950,000	81,988,337	3.80	5906 3.70%			
NT 7102 3.27%				23 JUNE 2009	13,550,000	13,454,065	0.62
25 FEBRUARY 2011	HK GOVERNMENT BOND						
HK GOVERNMENT EX FD	13,550,000	13,493,640	0.63	7108 3.93%			
NT 7911 3.96%				26 AUGUST 2011	13,550,000	13,323,829	0.62
30 NOVEMBER 2009	HK GOVERNMENT BOND						
HK GOVERNMENT NOTE	11,300,000	12,137,346	0.56	7111 3.12%			
1912 7.47%				25 NOVEMBER 2011	13,550,000	12,891,455	0.60
8 DECEMBER 2009							

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2007

	Holdings	Market value HKD	% of NAV
Fixed Income Instruments			
Unlisted Investments			
HK GOVERNMENT EX FD			
NT 7105 4.50%			
27 MAY 2011	96,800,000	97,273,575	4.51
HK MORTGAGE CORP EMTN 3.80%			
6 APRIL 2011	1,000,000	962,702	0.04
HK MORTGAGE CORP 3.53%			
23 JULY 2009	83,500,000	81,813,300	3.79
HK MORTGAGE CORP 3.80%			
6 APRIL 2011	32,500,000	31,326,750	1.45
HK MORTGAGE CORP 4.10% MTN			
9 JANUARY 2012	13,000,000	12,538,119	0.58
INTER-AMERICAN DEV BANK 4.20%			
24 MARCH 2014	39,000,000	37,288,306	1.73
Intl Finance Corp 4.45%			
1 September 2009	100,000,000	99,664,590	4.62
MTR Corp (C.I.) 4.50%			
11 May 2015	33,500,000	31,927,932	1.48
MTR Corp (C.I.) 4.60%			
3 June 2013	25,500,000	24,872,700	1.15
MTR Corp (C.I.) 4.75%			
11 May 2020	76,000,000	71,154,270	3.30
MTR Corp (C.I.) 5.25%			
21 May 2013	500,000	503,750	0.02
MTR Corp (C.I.) EMTN 4.28%			
6 July 2020	10,000,000	8,916,842	0.41
Nordic Investment Bank 3.77%			
12 July 2010	53,500,000	52,059,721	2.41
Unlisted Investments (Total)		<u>709,467,432</u>	<u>32.88</u>
Total Investments		<u>2,136,047,869</u>	<u>99.06</u>
Other Net Assets		<u>20,172,975</u>	<u>0.94</u>
Total Net Assets		<u>2,156,220,844</u>	<u>100.00</u>
Total Cost of Investment		2,191,327,973	

Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund
for the year ended 31 July 2007

	% of NAV 2007	% of NAV 2006
Bonds		
Listed investments	66.18	70.91
Total listed investments	66.18	70.91
Bonds		
Unlisted (quoted) investments	32.88	28.07
Total Unlisted (Quoted) Investments	32.88	28.07
Total Investments	99.06	98.98
Other Net Liabilities	0.94	1.02
Total Net Assets	100.00	100.00

Performance Record

ABF Hong Kong Bond Index Fund

(a) Price record

The Trust is an index fund which seeks investment results that correspond closely to the total return of the iBoxx ABF Hong Kong Index ("the Index"). There was no index constituent security of the Index that accounted for more than 10% of the Index as at 31 July 2007.

Year	Net asset value (Dealing NAV) per unit	
	Lowest HKD	Highest HKD
2007	96.10	100.69
2006	95.52	100.33

(b) Total net asset value

	2007 HKD	2006 HKD
Total net asset value	2,156,220,844	2,109,496,388

(c) Total net asset value per unit

	2007 HKD	2006 HKD
Net asset value per unit	96.06	96.12

(d) Performance

In accordance with chapter 8.6(l) of the Code on UnitTrusts and Mutual Funds, the Trustee is required to provide a comparison of the Trust performance and the actual index performance over the relevant period.

	Year ended 31 July 2007	Period from 17 June 2005 (the date the units were first issued) to 31 July 2006
ABF Hong Kong Bond Index Fund	^(a) 4.15%	^(a) 0.72%
iBoxx ABF Hong Kong Index	^(b) 4.45%	^(b) 0.98%

- (a) The Trust’s returns are calculated on Net Asset Value (NAV) to NAV basis, ie dividends reinvested. The NAV, presented in the financial statements, is different from the NAV used to calculate the Trust’s returns because the principles used for calculating the Trust’s returns as set out in the prospectus were different from those required for financial reporting purposes under the Hong Kong Financial Reporting Standards as detailed on Note 12 of the financial statement.

Performance Record

- (b) The benchmark returns are stated on a total return basis. Unlike the Trust, the benchmark returns do not include the impact of Trust expenses or Trust transaction costs.

Investor should note that investment involves risk and past performance may not be indicative of future performance. Investors should refer to the Trust's Prospectus before making any investment decision.

Administration

ABF Hong Kong Bond Index Fund

Manager and Listing Agent

HSBC Investment Funds (Hong Kong) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Directors of the Manager

King Lun AU
Po Yee LAM
Ngar Yee LOUIE
Rudolf APENBRINK (appointed on 16 July 2007)
Edmund STOKES (appointed on 21 September 2007)
Simeon BROWN (resigned on 21 September 2007)
Blair PICKERELL (resigned on 31 May 2007)
Paul THURSTON (resigned on 31 December 2006)

Members of Supervisory Committee

Anthony YUEN
Andrew MALCOLM
Carmen L K CHU

Investment Adviser

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Investment Sub-Adviser

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