

**ABF Hong Kong Bond Index Fund
Annual Report 2008**



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Investment Adviser's Report

ABF Hong Kong Bond Index Fund

A fall in interest rates helped the Trust to deliver a total return of 7.5% for the twelve-month period ended 31 July 2008.

In response to the financial market turmoil that started in summer of 2007, the U.S. Federal Reserve began an aggressive easing cycle that brought the Fed Funds Target rate from 5.25 percent to 2.00 percent by April 2008. With an interval meeting cut of 75 bps in mid-January 2008, and an another assertive cut of 75 basis points in March, the Fed Funds rate was lowered to the current 2 percent after seven consecutive rate cuts since September 2007. As a result, the U.S. Treasury curve steepened dramatically with short-end outperforming. During the review period, the yield on the U.S. two-year Treasury notes fell by over 200 basis points to 2.50% while the 10-year yield dropped by 79 basis points to 3.95%, with the latter reaching a near five-year historical low of 3.31% in March 2008.

Rate cuts in the U.S. spurred Hong Kong banks to follow suit. HSBC, the bank with the largest network in Hong Kong, has cut its prime lending rate seven times since September 2007 to 5.25%. Funding costs were also reduced with the three-month HIBOR (daily fixings) falling 207 basis points over the period, ending July 2008 at 2.31%. Yet, for a brief period, funds continued to flow out of Hong Kong removing the ample liquidity that had persisted in the market. This added pressure to the HIBOR and heightened speculations that Hong Kong banks might need to increase their prime lending rates after lowering the year's mortgage rebates for new businesses.

Hong Kong dollar interest rates recorded stellar performance throughout the period. A bullish upward trend from the U.S. flowed through to the Hong Kong dollar government bond and swap markets. The confluence of a market flushed with liquidity, banks needing to satisfy statutory liquidity requirements, and a rally in U.S. Treasuries drove local rates down. Hong Kong government exchange fund bills and notes (EFB/EFNs) outperformed swaps, while Hong Kong dollar swaps lagged U.S. swaps. One- and five-year Hong Kong dollar swap rates fell by 164 and 65 basis points versus U.S. swaps falling 199 and 109 basis points respectively.

For three weeks in December 2007, Hong Kong's money market rates slipped into negative territory due to strong technical demand from banks needing to square their short front-end positions to satisfy statutory liquidity requirements. One-week EFBs traded as low as -2.5% while one-month EFBs reached -1.15%. The Hong Kong Monetary Authority (HKMA), the territory's de-facto central bank, stabilised the situation by issuing HKD 6 billion of three-month EFBs in early January 2008. In October 2008, we saw the 12-month Hong Kong dollar TT forward briefly reaching par for the first time since October 2005, however, the HKMA intervened aggressively and bought U.S. dollars to defend the currency peg; the forward subsequently fell back to a discount. It ended at -330 pips by the end of July 2008.

Fundamentals in Hong Kong remain resilient amid a global slowdown. Inflation from surging food prices pushed the year-on-year Consumer Price Index to 6.3% in July 2008, matching that of February 2008, the highest points since 1997. However, domestic demand is showing signs of weakness as consumption spending moderated after a long period of exceptionally strong performance. While the firm labor market remained a supportive factor, headwinds from the stock market correction, rising inflation and muted global economic prospects may dampen consumer sentiment.

HSBC Global Asset Management (Hong Kong) Limited
31 August 2008

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 2008.

Keith CHEUNG)	
)	For and on behalf of
Gary LEUNG)	HSBC Institutional Trust Services
)	(Asia) Limited
)	

Independent auditors' 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 18, which comprise the statement of assets and liabilities as at 31 July 2008, 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 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, 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 of 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 auditors' 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 2008 and of its financial performance and its 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, 25 November 2008

Statement of Assets and Liabilities

ABF Hong Kong Bond Index Fund

as at 31 July 2008

	Note	2008 HKD	2007 HKD
ASSETS			
Cash and cash equivalents	7(b)	3,353,623	3,726,821
Investments	6	2,360,041,133	2,136,047,869
Interest receivable		20,451,613	19,586,607
Amounts receivable from sale of investments		69,417,019	44,377,365
		<hr/> 2,453,263,388	<hr/> 2,203,738,662
LIABILITIES			
Amounts payable on purchases of investments		20,742,537	–
Distributions payable	10	51,244,442	47,136,602
Other payables	7(a), 7(c)	601,475	381,216
		<hr/> 72,588,454	<hr/> 47,517,818
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)			
		<hr/> 2,380,674,934	<hr/> 2,156,220,844
Total number of units in issue			
	9	<hr/> 23,946,001	<hr/> 22,446,001
Net asset value per unit at bid price			
		<hr/> 99.42	<hr/> 96.06

Approved by the Trustee and the Manager on 25 November 2008

)	
Keith CHEUNG)	For and on behalf of
Gary LEUNG)	HSBC Institutional Trust Services
)	(Asia) Limited
)	
)	
Patrice P H CONXICOEUR)	For and on behalf of
Edmund R STOKES)	HSBC Investment Funds
)	(Hong Kong) Limited
)	

The notes on pages 9 to 18 form part of these financial statements.

Income Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2008

	Note	2008 HKD	2007 HKD
Interest income	7(b)	51,537	320,284
Sundry income		674,870	623,200
Gains on investments	4	176,127,143	129,117,275
Losses on investments	4	(11,507,386)	(35,292,489)
Net foreign exchange loss		(93)	–
NET INVESTMENT INCOME		165,346,071	94,768,270
Management fees	7(a)	3,594,001	2,855,213
Trustee's fees	7(c)	1,284,870	1,023,797
Auditors' remuneration		209,160	127,726
Transaction fees	7(c)	33,845	22,174
Miscellaneous expenses		573,001	865,220
OPERATING EXPENSES		5,694,877	4,894,130
NET INCOME FROM OPERATIONS BEFORE FINANCE COSTS		159,651,194	89,874,140
Distributions to unitholders during the year	10	(93,389,404)	(91,084,684)
		66,261,790	(1,210,544)
Income equalisation on subscription and redemption for units	11	2,497,625	(637,500)
Change in net assets attributable to unitholders		68,759,415	(1,848,044)

The notes on pages 9 to 18 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 2008

	Note	2008 HKD	2007 HKD
Subscriptions received from units issued (excluding equalisation)		278,612,975	243,212,500
Less: Redemptions (excluding equalisation)		(122,918,300)	(194,640,000)
		155,694,675	48,572,500
Change in net assets attributable to unitholders		68,759,415	(1,848,044)
		224,454,090	46,724,456
Net assets attributable to unitholders, beginning of year		2,156,220,844	2,109,496,388
Net assets attributable to unitholders, end of year	13	2,380,674,934	2,156,220,844

The notes on pages 9 to 18 form part of these financial statements.

Cash Flow Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2008

Note	2008 HKD	2007 HKD
OPERATING ACTIVITIES		
Interest received	61,390	317,002
Sundry income received	674,870	623,200
Management fees paid	(3,306,925)	(3,112,558)
Trustee's fees paid	(1,181,817)	(1,114,462)
Other operating expenses paid	(985,969)	(994,325)
Cash flows used in operating activities	(4,738,451)	(4,281,143)
INVESTING ACTIVITIES		
Payments on purchase of investments	(727,856,907)	(897,271,660)
Proceeds from sale of investments	663,311,424	943,335,874
Cash flows (used in)/generated from investing activities	(64,545,483)	46,064,214
FINANCING ACTIVITIES		
Proceeds from issue of units and equalisation	282,061,450	244,575,000
Payment on redemption of units and equalisation	(123,869,150)	(196,640,000)
Distributions paid	(89,281,564)	(90,473,604)
Cash flows generated from/(used in) financing activities	68,910,736	(42,538,604)
Net decrease in cash and cash equivalents	(373,198)	(755,533)
Cash and cash equivalents at beginning of year	3,726,821	4,482,354
Cash and cash equivalents at end of year	3,353,623	3,726,821

The notes on pages 9 to 18 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 the 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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Trust. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Trust for the current and prior accounting periods reflected in these financial statements.

(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.

The accounting policies have been applied consistently by the Fund and are consistent with those used in the previous year.

(c) Foreign currency translation

Foreign currency transactions during the year 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

Notes on the Financial Statements

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 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 interest receivable and amounts receivable from sale of investments.

Financial liabilities include amounts payable on purchases of investments, distributions payable and other payables.

(iii) 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

Notes on the Financial Statements

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 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 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:

Notes on the Financial Statements

Interest income

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

(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.

(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.

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 Trust.

(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 13.

3 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 Trust. There have been no significant changes to the accounting policies adopted in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Trust's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 12.

Notes on the Financial Statements

HKFRS 7 does not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Trust has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 14).

4 Gains and losses on investments

	2008 HKD	2007 HKD
Realised gains	108,653,531	104,109,735
Unrealised gains	67,473,612	25,007,540
Total gains on investments	176,127,143	129,117,275
Realised losses	(3,557,090)	(20,055,005)
Unrealised losses	(7,950,296)	(15,237,484)
Total losses on investments	(11,507,386)	(35,292,489)

5 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.

6 Investments

Debt securities

	2008 HKD	2007 HKD
Listed bonds	1,627,357,226	1,426,580,437
Unlisted but quoted bonds	732,683,907	709,467,432
	2,360,041,133	2,136,047,869
Investments, at cost	2,356,672,780	2,191,327,973
Unrealised appreciation/(diminution) in value of investments	3,368,353	(55,280,104)
Investments, at market value	2,360,041,133	2,136,047,869

7 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.

	2008 HKD	2007 HKD
(i) Management fees for the year	3,594,001	2,855,213
(ii) Management fees payable at year end	287,076	–

- (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 \$3,353,623 (2007: \$3,726,821) at the year end. Interest income arising therefrom amounted to \$51,537 (2007: \$317,782).

- (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 (2007: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities.

Notes on the Financial Statements

	2008 HKD	2007 HKD
(i) Trustee's fees for the year	1,284,870	1,023,797
(ii) Transaction fee for the year	33,845	22,174
(iii) Trustee's fees payable at year end	103,053	–
(iv) Transaction fee payable at year end	2,334	2,334

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

	2008 HKD	2007 HKD
Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	888,581,898	1,121,374,778
Percentage of such transactions in value to total transactions for the year	74.03%	65.91%

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.

8 Soft commission arrangements

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

9 Units issued and redeemed

	2008	2007
Number of units in issue brought forward	22,446,001	21,946,001
Units issued during the year	2,750,000	2,500,000
Units redeemed during the year	(1,250,000)	(2,000,000)
Number of units in issue carried forward	23,946,001	22,446,001

10 Distributions

Distributions attributable to the year

	2008 HKD	2007 HKD
Interim dividend of \$1.76 per unit on 23,946,001 units declared and paid (2007: \$1.98 per unit on 22,196,001 units)	42,144,962	43,948,082
Final dividend of \$2.14 per unit on 23,946,001 units declared and unpaid (2007: \$2.1 per unit on 22,446,001 units)	51,244,442	47,136,602
	93,389,404	91,084,684

11 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.

12 Financial instruments and associated risks

The Trust maintains investment portfolios in a variety of listed and unlisted financial instruments as dictated by its investment management strategy.

The Trust's investment portfolio comprises debt securities. Details of such investments held as at 31 July 2008 are shown in the investment portfolio statement.

Notes on the Financial Statements

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 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 Manager and the Trustee set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Trust. Investors should note that additional information in respect of risks associated with investment in the Trust can be found in the Trust’s offering document of the relevant Trust.

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

(a) Price risk

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

All investments held by the Trust are debt securities and which values are less fluctuated due to change of market prices other than those arising from interest rate risk. As a result, the Trust is not subject to significant price risk due to uncertainties about future prices of the investments.

(b) Interest rate risk

Interest rate risk arises from change in interest rates which may inversely affect the value of debt instruments and

therefore result in potential gain or loss to the Trust. The Trust’s interest rate risk is managed on an ongoing basis by the Manager.

In general, if interest rates rise, 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.

The following table details the Trust’s exposure to interest rate risks. It includes the Trust’s assets and trading liabilities at fair values, categorised by the earlier of contractual repricing or maturity date measured by the carrying value of the assets and liabilities.

	2008				
	1 year or less HKD	Over 1 year to 5 years HKD	More than 5 years HKD	Non-interest bearing HKD	Total HKD
<i>All amounts stated in '000</i>					
Assets					
Cash and cash equivalents	3,354	-	-	-	3,354
Investments	150,196	1,683,152	526,693	-	2,360,041
Interest receivables	-	-	-	20,451	20,451
Amounts receivable from sale of investments	-	-	-	69,417	69,417
Total assets	153,550	1,683,152	526,693	89,868	2,453,263
Liabilities					
Amounts payable on purchases of investments	-	-	-	20,743	20,743
Distributions payable	-	-	-	51,244	51,244
Other payables	-	-	-	601	601
Total liabilities	-	-	-	72,588	72,588
Total interest sensitivity gap	153,550	1,683,152	526,693		

Notes on the Financial Statements

All amounts stated in '000	2007				
	1 year or less	Over 1 year to 5 years	More than 5 years	Non-interest bearing	Total
	HKD	HKD	HKD	HKD	HKD
Assets					
Cash and cash equivalents	3,726	-	-	-	3,726
Investments	4,494	1,591,603	539,951	-	2,136,048
Interest receivables	-	-	-	19,587	19,587
Amounts receivable from sale of investments	-	-	-	44,378	44,378
Total assets	8,220	1,591,603	539,951	63,965	2,203,739
Liabilities					
Amounts payable on purchases of investments	-	-	-	-	-
Distributions payable	-	-	-	47,137	47,137
Other payables	-	-	-	381	381
Total liabilities	-	-	-	47,518	47,518
Total interest sensitivity gap	8,220	1,591,603	539,951		

Interest rate sensitivity

At the date of Statement of assets and liabilities, assuming all other factors unchanged, it is estimated that an increase in interest rates of 50 basis points would result in a decrease in the net assets attributable to unitholders and change in net assets attributable to unitholders from operations of the Fund by \$40,704,904 (2007: \$37,791,118); an equal change in the opposite direction would result in an increase in the net assets attributable to unitholders by an equal amount. The analysis is performed on the same basis for 2007.

(c) Currency risk

As all the Trust's financial instruments at 31 July 2008 and 2007 were denominated in HKD, no significant currency risk is associated with the Trust.

(d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis.

At 31 July 2008, all of the Trust's financial assets were exposed to credit risk. These include investments and cash and cash equivalents placed with banks and the Custodian.

At the date of statement of assets and liabilities, the Trust invested in debt securities with the following credit quality expressed as a percentage of net assets:

As at 31 July 2008

	% of net assets
Rating (Moody/S&P)	
Aaa/AAA	12.48
Aa2/AA	86.65
Total	99.13

As at 31 July 2007

	% of net assets
Rating (Moody/S&P)	
Aaa/AAA	14.31
Aa2/AA	84.75
Total	99.06

Credit risk is managed by the reviewing and monitoring of the credit quality of debt securities held by the Trust or the issuers of the debt securities held by the Trust on an ongoing basis.

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short

Notes on the Financial Statements

settlement period involved and the high credit quality of the brokers used.

The Trust is also subject to credit risk arising on debt securities which is according to the Trust's investment restrictions mitigated through diversification and control on exposure to any single issue in the Trust.

The majority of the cash held by the Trust are deposited with HSBC Group. Bankruptcy or insolvency of the bank may cause the Trust's rights with respect to the cash held by the bank to be delayed or limited. The Trust monitors the credit rating of the bank on an ongoing basis.

Substantially all of the assets of the Trust are held by the Custodian. Bankruptcy or insolvency of the Custodian may cause the Trust's rights with respect to securities held by the Custodian to be delayed or limited. The Custodian is a group company of the HSBC, which credit risk is considered insignificant.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the date of statement of assets and liabilities.

At both 31 July 2008 and 2007, there were no significant concentrations of credit risk to counterparties except to the Custodian.

(e) Liquidity risk

Liquidity risk arises from the risk the Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner.

The Trust's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

The Trust's listed investments are considered to have insignificant exposure to liquidity risk as they are all readily realisable on the stock exchange of which they are listed. The Trust, however, also invest in unlisted investments such as unlisted bonds, which are not publicly traded on exchanges and may be illiquid. The total value of unlisted investments at the year end was \$732,683,907 (2007: \$709,467,432).

As at 31 July 2008 and 2007, the Trust's financial liabilities are due within three months.

(f) Fair value information

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

The carrying amounts of all the financial assets and financial liabilities at the date of statement of assets and liabilities approximated their fair values. For listed investments, the fair values were determined directly, in full or in part, by reference to published price quotations. Unlisted investments are stated at fair values estimated by the Manager or brokers' quotations. For other financial instruments, including amounts due from/to brokers, other account receivables and accounts payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

13 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 as the principles for calculating the Dealing NAV as set out in the prospectus are different from that required for financial reporting purposes under Hong Kong Financing Reporting Standards. The following reconciliation provides details of these differences:

Notes on the Financial Statements

HKD

NAV as reported in the financial statements as at 31 July 2008	2,380,674,934
Adjustments for different bases adopted by the Trust in arriving at the Dealing NAV:	
– Deferred formation expenses	645,214
Dealing NAV as at 31 July 2008	2,381,320,148

14 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 July 2008

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 2008 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
Revised HKAS 1	Presentation of financial statements	1 January 2009
Amendments to HKAS 32	Financial instruments: Presentation	1 January 2009

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 2008

	Holdings	Market value HKD	% of NAV		Holdings	Market value HKD	% of NAV
Debt securities				HK GOVERNMENT BOND 7205			
				3.61% 28 MAY 2012	7,650,000	7,790,148	0.33
Listed investments				HK GOVERNMENT BOND 7211			
				4.49% 26 NOVEMBER 2012	61,000,000	64,166,815	2.70
HK GOVERNMENT BOND				HK GOVERNMENT BOND 7302			
1.77% 17 MAY 2010	15,000,000	14,856,150	0.62	4.13% 22 FEBRUARY 2013	41,500,000	43,062,683	1.81
HK GOVERNMENT BOND 1012				HK GOVERNMENT EX FD NT 1006			
7.01% 6 DECEMBER 2010	31,300,000	34,432,034	1.45	7.31% 21 JUNE 2010	24,300,000	26,499,519	1.11
HK GOVERNMENT BOND 1412				HK GOVERNMENT EX FD NT 1106			
3.51% 8 DECEMBER 2014	37,000,000	37,152,599	1.56	6.13% 20 JUNE 2011	67,600,000	73,704,956	3.10
HK GOVERNMENT BOND 1512				HK GOVERNMENT EX FD NT 1112			
4.33% 7 DECEMBER 2015	27,000,000	28,414,789	1.19	5.92% 5 DECEMBER 2011	68,500,000	74,885,228	3.15
HK GOVERNMENT BOND 1606				HK GOVERNMENT EX FD NT 1206			
4.83% 7 JUNE 2016	20,000,000	21,749,214	0.91	5.80% 19 JUNE 2012	106,800,000	117,175,876	4.92
HK GOVERNMENT BOND 1612				HK GOVERNMENT EX FD NT 1212			
3.78% 6 DECEMBER 2016	22,000,000	22,352,363	0.94	4.50% 4 DECEMBER 2012	65,800,000	69,233,891	2.91
HK GOVERNMENT BOND				HK GOVERNMENT EX FD NT 1306			
2.71% 20 FEBRUARY 2023	20,000,000	17,784,722	0.75	3.73% 5 JUNE 2013	44,750,000	45,630,049	1.92
HK GOVERNMENT BOND				HK GOVERNMENT EX FD NT 1312			
3.52% 5 DECEMBER 2017	26,000,000	25,794,740	1.08	4.32% 2 DECEMBER 2013	43,400,000	45,480,379	1.91
HK GOVERNMENT BOND				HK GOVERNMENT EX FD NT 1406			
4.65% 29 AUGUST 2022	32,750,000	36,174,101	1.52	4.82% 2 JUNE 2014	16,500,000	17,742,772	0.74
HK GOVERNMENT BOND				HK GOVERNMENT EX FD NT 1906			
4.85% 27 JUNE 2017	13,000,000	14,235,586	0.60	7.21% 9 JUNE 2009	46,800,000	48,973,252	2.06
HK GOVERNMENT BOND 5003				HK GOVERNMENT EX FD NT 7005			
3.52% 22 MARCH 2010	5,000,000	5,104,275	0.21	3.19% 28 MAY 2010	28,600,000	29,030,893	1.22
HK GOVERNMENT BOND 5012				HK GOVERNMENT EX FD NT 7011			
4.26% 20 DECEMBER 2010	41,300,000	42,862,474	1.80	3.95% 26 NOVEMBER 2010	55,550,000	57,256,218	2.40
HK GOVERNMENT BOND 5112				HK GOVERNMENT EX FD NT 7102			
3.63% 19 DECEMBER 2011	24,000,000	24,497,518	1.03	3.27% 25 FEBRUARY 2011	84,950,000	86,136,378	3.62
HK GOVERNMENT BOND 5909				HK GOVERNMENT EX FD NT 7911			
3.18% 28 SEPTEMBER 2009	51,150,000	51,908,800	2.18	3.96% 30 NOVEMBER 2009	10,350,000	10,615,035	0.45
HK GOVERNMENT BOND 5912				HK GOVERNMENT NOTE 1912			
2.69% 21 DECEMBER 2009	13,550,000	13,669,435	0.57	7.47% 8 DECEMBER 2009	45,300,000	48,577,627	2.04
HK GOVERNMENT BOND 7002				HK GOVERNMENT SERIES 1506			
3.80% 26 FEBRUARY 2010	65,550,000	67,187,328	2.82	3.50% 22 JUNE 2015	34,300,000	34,349,022	1.44
HK GOVERNMENT BOND 7008				HK GOVERNMENT SERIES 5009			
3.92% 20 AUGUST 2010	68,550,000	70,550,728	2.96	3.79% 20 SEPTEMBER 2010	40,700,000	41,790,125	1.76
HK GOVERNMENT BOND 7202				HK GOVERNMENT SERIES 7208			
3.14% 24 FEBRUARY 2012	72,550,000	72,815,751	3.06	4% 27 AUGUST 2012	40,000,000	41,276,664	1.73

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2008

	Holdings	Market value HKD	% of NAV
HKSAR Government Bond 3.75% 23 July 2009	17,000,000	17,180,387	0.72
HKSAR Government Bond 5.125% 23 July 2019	12,500,000	13,153,381	0.55
Kowloon-Canton Railway 4.65% 10 June 2013	12,000,000	12,103,321	0.51
Listed investments (Total)		<u>1,627,357,226</u>	<u>68.35</u>

Unlisted investments

Asia Development BK 4.28% EMTN 21 September 2009	30,000,000	30,487,161	1.28
Eurofima 4.18% EMTN 8 June 2015	56,000,000	55,440,560	2.33
HK Government Bond 7108 3.93% 26 August 2011	13,550,000	13,955,867	0.59
HK Government Bond 7111 3.12% 25 November 2011	13,550,000	13,615,717	0.57
HK Government EX FD NT 7105 4.50% 27 May 2011	96,800,000	101,167,519	4.25
HK Mortgage Corp 3.53% 23 July 2009	83,500,000	84,042,750	3.53
HK Mortgage Corp 3.80% 6 April 2011	32,500,000	32,435,000	1.36
HK Mortgage Corp 4.10% MTN 9 January 2012	5,500,000	5,502,915	0.23
HK Mortgage Corp EMTN 3.80% 6 April 2011	1,000,000	998,714	0.04
Inter-American Dev Bank 4.20% 24 March 2014	38,000,000	37,876,185	1.59
Intl Finance Corp 4.45% 1 September 2009	97,000,000	98,806,722	4.15
MTR Corp (C.I.) 4.15% 13 November 2009	38,000,000	38,539,961	1.62
MTR Corp (C.I.) 4.50% 11 May 2015	33,500,000	33,394,328	1.41
MTR Corp (C.I.) 4.60% 3 June 2013	25,500,000	25,744,800	1.08

	Holdings	Market value HKD	% of NAV
MTR Corp (C.I.) 4.75% 11 May 2020	76,000,000	76,050,236	3.20
MTR Corp (C.I.) 5.25% 21 May 2013	500,000	518,650	0.02
MTR Corp (C.I.) EMTN 4.28% 6 July 2020	10,000,000	9,548,122	0.40
Nordic Investment Bank 3.77% 12 July 2010	74,000,000	74,558,700	3.13

Unlisted Investments (Total)

	<u>732,683,907</u>	<u>30.78</u>
Total Investments	2,360,041,133	99.13
Other Net Assets	<u>20,633,801</u>	<u>0.87</u>
Total Net Assets	<u>2,380,674,934</u>	<u>100.00</u>
Total Cost of Investments	<u>2,356,672,780</u>	

Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund
for the year ended 31 July 2008

	% of NAV 2008	% of NAV 2007
Bonds		
Listed investments	68.35	66.18
Total listed investments	68.35	66.18
Bonds		
Unlisted (quoted) investments	30.78	32.88
Total Unlisted (Quoted) Investments	30.78	32.88
Total Investments	99.13	99.06
Other Net Liabilities	0.87	0.94
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 2008.

Year	Net asset value (Dealing NAV) per unit	
	Lowest HKD	Highest HKD
2008	96.32	105.99
2007	96.10	100.69
2006	95.52	100.33

(b) Total net asset value

	2008 HKD	2007 HKD	2006 HKD
Total net asset value	2,380,674,934	2,156,220,844	2,109,496,388

(c) Total net asset value per unit

	2008 HKD	2007 HKD	2006 HKD
Net asset value per unit	99.42	96.06	96.12

(d) Performance

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

	2008	2007
ABF Hong Kong Bond Index Fund	^(a) 7.50%	^(a) 4.15%
iBoxx ABF Hong Kong Index	^(b) 7.79%	^(b) 4.45%

Performance Record

(d) Performance (continued)

- (a) The Trust's returns are calculated on Net Asset Value (NAV) to NAV basis, i.e. 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 13 on the financial statements.
- (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

Administration

should refer to the Trust's Prospectus before making any investment decision.

ABF Hong Kong Bond Index Fund

Manager and Listing Agent

HSBC Investment Funds (Hong Kong) Limited
HSBC Main Building
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Hong Kong

Directors of the Manager

Po Yee LAM
Ngar Yee LOUIE
Rudolf Eduard Walter APENBRINK
Edmund Richard STOKES
(appointed on 21 September 2007)
Patrice Pierre Henri CONXICOEUR
(appointed on 1 August 2008)
Ayaz Hatim EBRAHIM (appointed on 13 August 2008)
Simeon Thomas BROWN (resigned on 21 September 2007)
King Lun AU (resigned on 1 August 2008)

Members of Supervisory Committee

Anthony YUEN
Andrew MALCOLM
Carmen L K CHU
Stephen Y L Cheung (appointed on 30 October 2007)

Investment Adviser

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Investment Sub-Adviser

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Trustee, Administrator, Custodian, Receiving Agent and Registrar

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