

TraHK

Tracker Fund of Hong Kong

Stock Code : 2800

Contents

Statement of Responsibilities of the Manager and the Trustee	1
Report of the Trustee to the Unitholders	2
Independent Auditor's Report	3-4
Statement of Net Assets	5
Statement of Operations	6
Statement of Changes in Net Assets Attributable to Holders of Redeemable Units	7
Statement of Cash Flows	8
Notes to the Financial Statements	9-21
Investment Portfolio (Unaudited)	22-23
Statement of Movements in Investment Portfolio (Unaudited)	24-25
Performance Record (Unaudited)	26
Administration and Management	27

STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE

Manager's responsibilities

The Manager of Tracker Fund of Hong Kong (the "Fund") is required by the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the "SFC Code") and the Trust Deed dated 23rd October 1999 (the "Trust Deed") to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Fund at the end of that year and of the transactions for the year then ended. In respect of these financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are prudent and reasonable; and
- prepare or arrange for the preparation of the financial statements on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the Fund in accordance with the Trust Deed and take reasonable steps for the prevention and detection of fraud and other irregularities.

Trustee's responsibilities

The Trustee of the Fund is required to:

- ensure that the Fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Fund and rights attaching thereto; and
- report to the Unitholders for each annual accounting year on the conduct of the Manager in the management of the Fund.

REPORT OF THE TRUSTEE TO THE UNITHOLDERS OF TRACKER FUND OF HONG KONG

We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed, dated 23rd October 1999 for the year ended 31st December 2007.

State Street Bank and Trust Company

9th April 2008

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF TRACKER FUND OF HONG KONG (THE "FUND")

Report on the financial statements

We have audited the financial statements of the Fund set out on pages 5 to 21, which comprise the Statement of Net Assets as at 31st December 2007, and Statement of Operations, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Manager's responsibility for the financial statements

The Manager (the "Management") of the Fund 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 is responsible for ensuring that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 23rd October 1999 (the "Trust Deed"), and the relevant financial statements disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). 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 and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31st December 2007, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on other legal and regulatory disclosure requirements

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 9th April 2008

STATEMENT OF NET ASSETS

As at 31st December 2007

	Note	2007 HK\$	2006 HK\$
Assets			
Investments	12(b)	32,384,540,488	26,466,204,815
Dividends receivable		42,890,169	60,235,293
Other accounts receivable and prepayments		81,470	189,545
Bank balances	7(d)	72,829,175	76,646,478
Total assets		<u>32,500,341,302</u>	<u>26,603,276,131</u>
Liabilities			
Trustee fee payable		3,430,757	3,243,578
Management fee payable		3,430,757	3,243,578
Index license fee payable		1,280,011	974,691
Registrar fee payable		393,115	304,773
Other accounts payable and accruals		3,104,619	1,193,625
Liabilities (excluding net assets attributable to holders of redeemable units)		<u>11,639,259</u>	<u>8,960,245</u>
Net assets attributable to holders of redeemable units (at bid market prices)		32,488,702,043	26,594,315,886
Adjustments from bid market prices to last traded market prices	5	<u>28,780,005</u>	<u>8,630,309</u>
Net assets attributable to holders of redeemable units (at last traded market prices)	5	<u><u>32,517,482,048</u></u>	<u><u>26,602,946,195</u></u>

State Street Bank and Trust Company

State Street Global Advisors Asia Limited

The notes on pages 9 to 21 form part of these financial statements.

STATEMENT OF OPERATIONS

For the year ended 31st December 2007

	Note	2007 HK\$	2006 HK\$
Income			
Dividends		779,760,160	925,210,301
Bank interest	7(d)	8,590,645	8,422,898
Transaction fee	4(a)	735,000	240,000
Other income	4(b)	4,963,307	6,109,459
Net gain on investments	3	<u>9,787,956,657</u>	<u>7,819,869,472</u>
Total investment income		<u>10,582,005,769</u>	<u>8,759,852,130</u>
Expenses			
Management fee	7(b)	13,497,495	12,638,058
Trustee fee	7(c)	13,497,495	12,638,058
Index license fee	8(c)	4,301,762	3,993,272
Transaction costs on investments		25,137,112	7,474,791
Registrar fee	8(a)	1,701,748	2,031,922
Publication and printing expenses		1,586,196	1,792,205
Conversion agent fee	8(b)	1,272,000	392,000
Audit fee		150,987	109,000
Legal and professional fees		653,007	–
Bank charges		282,387	54,824
Other operating expenses		<u>1,742,928</u>	<u>778,516</u>
Total operating expenses		<u>63,823,117</u>	<u>41,902,646</u>
Net operating profit		<u>10,518,182,652</u>	<u>8,717,949,484</u>
Finance costs			
Distributions to holders of redeemable units	13	<u>(766,075,275)</u>	<u>(859,795,725)</u>
Profit for the year		<u>9,752,107,377</u>	<u>7,858,153,759</u>
Adjustments from bid market prices to last traded market prices	5	<u>20,149,696</u>	<u>(49,959,963)</u>
Increase in net assets attributable to holders of redeemable units		<u><u>9,772,257,073</u></u>	<u><u>7,808,193,796</u></u>

The notes on pages 9 to 21 form part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the year ended 31st December 2007

	Note	2007 HK\$	2006 HK\$
Net assets attributable to holders of redeemable units at 1st January		<u>26,602,946,195</u>	<u>27,048,038,344</u>
Issue of units	9	4,576,794,793	–
Redemption of units	9	(8,434,495,069)	(8,253,275,589)
Net further cash amount received on redemption and issue of units		<u>(20,944)</u>	<u>(10,356)</u>
Net redemption of units		<u>(3,857,721,220)</u>	<u>(8,253,285,945)</u>
		22,745,224,975	18,794,752,399
Increase in net assets attributable to holders of redeemable units		<u>9,772,257,073</u>	<u>7,808,193,796</u>
Net assets attributable to holders of redeemable units at 31st December (at last traded market prices)		<u><u>32,517,482,048</u></u>	<u><u>26,602,946,195</u></u>

The notes on pages 9 to 21 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31st December 2007

	Note	2007 HK\$	2006 HK\$
Cash flows from operating activities			
Proceeds from sale of investments		10,948,621,732	3,130,308,377
Payments for purchase of investments		(10,917,451,965)	(3,118,827,187)
Dividends received		797,105,284	952,499,508
Other income received		4,963,307	6,109,459
Bank interest received		8,605,205	8,415,627
Transaction fee received		660,000	240,000
Management fee paid		(13,310,316)	(12,696,482)
Trustee fee paid		(13,310,316)	(12,696,482)
Index license fee paid		(3,996,442)	(4,052,886)
Registrar fee paid		(1,613,406)	(1,909,262)
Publication and printing expenses paid		(1,383,738)	(1,575,934)
Transaction costs on investments paid		(25,137,112)	(7,474,791)
Conversion agent fee paid		(380,000)	(372,000)
Bank charges paid		(282,387)	(651)
Legal and other professional fees paid		(653,007)	-
Other operating expenses paid		(908,865)	(789,711)
Net cash generated from operating activities		<u>781,527,974</u>	<u>937,177,585</u>
Cash flows from financing activities			
Issue of units	9	21,917,568	-
Redemption of units	9	(41,166,626)	(69,054,669)
Net further cash amount paid on issue of units		(16,718)	-
Net further cash amount paid on redemption of units		(4,226)	(10,357)
Interim distribution paid	13	(263,338,425)	(341,798,500)
Final distribution paid	13	(502,736,850)	(517,997,225)
Net cash used in financing activities		<u>(785,345,277)</u>	<u>(928,860,751)</u>
Net increase in cash and cash equivalents		(3,817,303)	8,316,834
Cash and cash equivalents at the beginning of the year		<u>76,646,478</u>	<u>68,329,644</u>
Cash and cash equivalents at the end of the year		<u><u>72,829,175</u></u>	<u><u>76,646,478</u></u>
Analysis of balances of cash and cash equivalents			
Bank balances	7(d)	<u><u>72,829,175</u></u>	<u><u>76,646,478</u></u>

Please refer to note 9 on page 15 for details of major non-cash transactions.
The notes on pages 9 to 21 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Tracker Fund of Hong Kong (the "Fund") is a unit trust which is governed by its Trust Deed dated on 23rd October 1999 (the "Trust Deed"). The Fund is authorized by the Securities & Futures Commission of Hong Kong under Section 104(1) of the Hong Kong Securities and Futures Ordinance. The Fund is also listed on the Stock Exchange of Hong Kong Limited (a subsidiary of The Hong Kong Exchanges and Clearing Limited).

The Fund's objective is to provide investment results that closely correspond to the performance of the Hang Seng Index (the "Index").

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Standards and amendments to standards effective in current period

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures have been adopted in 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Fund's financial instruments. In accordance with the requirements of the Amendment to HKAS 1, additional disclosures have been provided on the Fund's objectives and policies for its capital, which is represented by the net assets attributable to holders of redeemable units. There is no impact on the classification and measurement of the Fund's capital.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Standards, amendments and interpretations to standards that are not yet effective and have not been early adopted by the Fund

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1st January 2009). HKAS 1 (Revised) requires changes made to the presentation of the financial statements. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRS. The Fund will apply HKAS 1 (Revised) from 1st January 2009.

The statement of net assets presents assets and liabilities in increasing order of liquidity and does not distinguish between current and non-current items.

All references to net assets throughout the financial statements refer to net assets attributable to holders of redeemable units unless otherwise stated.

(b) Investments

All investments have been classified as "financial assets at fair value through profit or loss".

Purchases and sales of investments are accounted for on the trade date basis. Investments are initially recognized at fair value, excluding transaction costs which are expensed as incurred, and are subsequently re-measured at fair value. Realized and unrealized gains and losses on investments are included in the Statement of Operations in the period in which they arise. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Investments that are listed or traded on an exchange are fair valued based on quoted bid market prices.

(c) Income

Dividend income on equity securities is recorded on the ex-dividend date. Dividend income on equity securities where no ex-dividend date is quoted is accounted for when the Fund's right to receive payment is established.

Bank interest income is recognized on a time proportionate basis using the effective interest method. Other income is recognized on an accruals basis.

(d) Expenses

Expenses are accounted for on an accruals basis.

(e) Distributions payable to holders of redeemable units

Proposed distributions to holders of redeemable units are recognized in the Statement of Operations when they are approved by the Trustee. The distribution on these redeemable units is recognized in the Statement of Operations as finance costs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Summary of significant accounting policies (Continued)

(f) Further cash amount

Further cash amount represents the amount included in the issue price or redemption proceeds (as the case may be) of the units issued or redeemed, representing the difference between the net asset value per Creation Unit as calculated by the Manager as of that date, and the value of the Index Basket (based on the nominal closing prices as of that date) and the dividend equivalent amount per Creation Unit.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(h) Translation of foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). The performance of the Fund is measured and reported to the holders of redeemable units in Hong Kong dollar. The Manager considers the Hong Kong dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Hong Kong dollar, which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Operations. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognized in the Statement of Operations within the fair value net gain or loss.

(i) Redeemable units

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as financial liabilities. Redeemable units can only be redeemed in-kind equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the year end date if the holder exercises the right to put the unit back to the Fund. In accordance with the Fund's Trust Deed, the minimum redemption units are 1,000,000 units.

Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of redeemable units with the total number of outstanding redeemable units. In accordance with the provisions of the Fund's Trust Deed, investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for creations and redemptions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**2 Summary of significant accounting policies (Continued)****(j) Segmental information**

In the opinion of the Manager, all activities of the Fund are in the single business of investment activities conducted mainly in Hong Kong. Geographical information is provided in the investment portfolio.

3 Net gain on investments

	2007 <i>HK\$</i>	2006 <i>HK\$</i>
Change in unrealized gain/loss on investments	(1,168,866,962)	3,760,828,811
Realized gain on sale of investments	10,956,823,619	4,059,040,661
	<u>9,787,956,657</u>	<u>7,819,869,472</u>

4 Income**(a) Transaction fee**

With effect from 1st June 2006, the transaction fee with respect to the creation and redemption application has been reduced from HK\$30,000 per application to HK\$15,000 per total aggregate creation and redemption application per day per Participating Dealer. Prior to 1st June 2006, the Fund was entitled to receive a transaction fee of HK\$30,000 per application for the creation or redemption of units.

(b) Other income

Other income represents registrar charges levied on unitholders (other than HKSCC Nominees) who hold units registered in their own names as at each Record Date for the relevant distribution. Currently, these charges amount to HK\$80 per year per unitholder. Such charges are deducted on a half-yearly basis from the half-yearly distributions payable to the relevant unitholders.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**5 Number of units in issue and net assets attributable to holders of redeemable units**

In accordance with the provisions of the Fund's Trust Deed, listed investments and investments with prices quoted in over the counter markets or by market makers are stated at the last traded price on the valuation day for the purpose of determining net asset value per unit for creations and redemptions and for various fee calculations. However, the accounting policy of the Fund for the purpose of compliance with HKAS 39 and for reporting purpose is to value its investments at the relevant bid market prices on the year end date. The difference between the valuation of these investments as stated in the financial statements and the valuation methodology indicated in the Fund's Trust Deed, results in a decrease in value of investments by HK\$28,780,005 (2006: HK\$8,630,309). The amount of the adjustment recognized in the Statement of Operations is HK\$20,149,696 (2006: HK\$49,959,963).

Net assets attributable to holders of redeemable units at last traded market prices represent a liability in the Statement of Net Assets, carried at the redemption amount that would be payable at the year end date if the unitholders exercised the right to redeem the units in the Fund.

	Number of units	
	2007	2006
Units in issue at the beginning of the year	1,321,992,500	1,801,992,500
Creation of units	163,000,000	–
Redemption of units	(323,000,000)	(480,000,000)
	<u>1,161,992,500</u>	<u>1,321,992,500</u>
	<i>HK\$</i>	<i>HK\$</i>
Net assets attributable to holders of redeemable units	<u>32,517,482,048</u>	<u>26,602,946,195</u>
Net assets attributable to holders of redeemable units (per unit)	<u>27.98</u>	<u>20.12</u>
Net asset value per Creation Unit (1 Creation Unit is equivalent to 1,000,000 units)	<u>27,984,244</u>	<u>20,123,371</u>

6 Taxation

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)**7 Transactions with the related parties/Manager and its Connected Persons**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties of the Fund are also the Manager of the Fund and its connected persons. Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the year between the Fund and the Manager and its Connected Persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with Connected Persons except for those disclosed below.

(a) Manager's holding in the Fund

The directors and officers of the Manager may transact in the units of the Fund as principal provided that prior written notice is obtained from the Trustee. As of 31st December 2007, the directors and officers of the Manager together held 8,960 units in the Fund (2006: 27,820 units).

(b) Management fee

The fee payable to the Manager is calculated at the following annual rates of the net asset value of the Fund on the last dealing day in the relevant quarter:

For first HK\$15 billion of the net asset value	0.050%
For next HK\$15 billion of the net asset value	0.045%
For next HK\$15 billion of the net asset value	0.030%
Any amount by which the net asset value exceeds HK\$45 billion	0.025%

The management fee is accrued daily and is payable quarterly in arrears.

(c) Trustee fee

The fee payable to the Trustee is calculated at the following annual rates of the net asset value of the Fund of the last dealing day in the relevant quarter:

For first HK\$15 billion of the net asset value	0.050%
For next HK\$15 billion of the net asset value	0.045%
For next HK\$15 billion of the net asset value	0.030%
Any amount by which the net asset value exceeds HK\$45 billion	0.025%

The trustee fee is accrued daily and payable quarterly in arrears.

(d) Bank balances and interest income

Bank balances are maintained with the Trustee. Bank balances held with the Trustee as at 31st December 2007 was HK\$72,829,175 (2006: HK\$76,646,478). During the year, interest earned on the above bank balances was HK\$8,590,645 (2006: HK\$8,422,898).

NOTES TO THE FINANCIAL STATEMENTS (Continued)**8 Other fees****(a) Registrar fee**

The fee payable to the Registrar is calculated based on the number of unitholders on the register on the first business day of the relevant month at the following fee scale, subject to a monthly maximum aggregate registrar fee of HK\$1,000,000.

	<i>HK\$</i> <i>(per month)</i>
For first 2,000 Unitholders	9,500
For every additional 1,000 Unitholders up to 70,000 Unitholders	2,000
For every additional 1,000 Unitholders up to 100,000 Unitholders	1,700
For every additional 1,000 Unitholders up to 200,000 Unitholders	1,800
For every additional 1,000 Unitholders up to 300,000 Unitholders	1,500
For every additional 1,000 Unitholders above 300,000 Unitholders	1,200

In addition, the Registrar is reimbursed for all of its out-of-pocket expenses incurred in connection with performing its services.

The registrar fee is accrued daily and is payable monthly in advance.

(b) Conversion agent fee

The Conversion Agent received the higher of a monthly retainer fee of HK\$16,000 plus a transaction fee of HK\$12,000 for each creation or redemption application. Prior to 1st June 2006, a minimum monthly fee of HK\$36,000 was applied.

The conversion agent fee is accrued daily and payable monthly in arrears.

(c) Index license fee

The index license fee is calculated at the rate of 0.015% per annum on the daily average net asset value of the Fund, subject to a minimum of US\$10,000 per annum.

The index license fee is accrued daily and is payable quarterly in arrears.

9 Major non-cash transactions

In accordance with the Fund's Trust Deed and since the termination of the Tap agreement, units are issued through an in-kind creation of an Index Basket with the remaining balances in cash and are not through a cash subscription only. For each Creation Unit (of 1,000,000 units), the Fund receives an Index Basket consisting of constituent shares as determined by the Manager on a daily basis. During the year, the Fund issued 163,000,000 units (2006: nil) in exchange for Index Baskets consisting of investments valued at HK\$4,554,877,225 (2006: nil) by the Manager with remaining balances in cash, totaling HK\$4,576,794,793 (2006: nil).

In accordance with the Fund's Trust Deed, units are redeemed in-kind with the remaining balances in cash and are not redeemable for cash only. During the year, the Fund redeemed 323,000,000 units (2006: 480,000,000 units) in exchange for Index Baskets consisting of investments valued at HK\$8,393,328,443 (2006: HK\$8,184,220,919) by the Manager with remaining balances in cash, totaling HK\$8,434,495,069 (2006: HK\$8,253,275,589).

NOTES TO THE FINANCIAL STATEMENTS (Continued)**10 Soft dollar practices**

The Manager may effect transactions, provided that any such transaction is consistent with standards of “best execution”, by or through the agency of another person for the account of the Fund with whom the Manager or any of its Connected Persons have an arrangement under which that party will from time to time provide to or procure for the Manager or any of its Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialized software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund. For the avoidance of doubt, such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employees’ salaries or direct money payments.

Since the inception of the Fund, the Manager had not participated in any soft dollar arrangements in respect of any transactions for the account of the Fund.

11 Investment limitations and prohibitions under the SFC Code

The SFC Code allows the Fund to invest in constituent securities issued by a single issuer for more than 10% of the Fund’s net asset value provided that the investment is limited to any constituent securities that each accounts for more than 10% of the weighting of the Index and the Fund’s holding of any such constituent securities may not exceed their respective weightings in the Index (except as a result of changes in the composition of the Index and the excess is transitional and temporary in nature).

Constituent securities that account for more than 10% of the net asset value of the Fund as at year end were as follows:

	Respective weighting in the Index (%)		% of net asset value	
	2007	2006	2007	2006
HSBC Holdings plc	14.9	23.2	14.9	23.0
China Mobile Ltd.	13.2	19.6	13.2	19.6

12 Financial risk management**(a) Strategy in using financial instruments***Investment objectives*

The Fund’s investment objective is to provide investment results that closely correspond to the performance of the Index. The Manager will seek to achieve the investment objective by investing all, or substantially all, of fund assets in Index Shares in substantially the same weightings as they appear in the Index. The Manager may also invest in certain other permitted investments in seeking to meet the investment objective. The Manager will rebalance the Fund’s portfolio of investments from time to time to reflect any changes to the composition of, or the weighting of shares in, the Index.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(a) Strategy in using financial instruments (Continued)***Investment policies*

The responsibility of the Manager is to reflect changes in the Index by replicating changes to the weightings and composition of the constituent shares in the Index in the portfolio of shares which make up the portfolio.

Since the investment objective is to provide investment results that closely correspond with the performance of the Index, the Manager is required to ensure, insofar as practicable and subject to the Trust Deed, that the assets comprised in the portfolio comprise only, or substantially only, interest in Index Shares and in the relative weightings such Index Shares appear in the Index. Other than cash held for distribution and to meet the fees, expenses and other liabilities, it is unlikely that cash or any other form of securities will form a substantial part of the assets.

The risks and the respective risk management policies employed by the Fund to manage these risks are discussed below.

(b) Market price risk

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

All securities investments present a risk of loss of capital. The Fund's market price risk is managed through diversification of investment portfolio. The Manager monitors the investments on a daily basis and rebalances the portfolio of investments from time to time to reflect any changes to the composition of, or the weighting of shares in, the Index.

As at year end, the overall market exposure was as follows:

	At 31st December			
	2007		2006	
	Fair value HK\$	% of net assets at bid market price	Fair value HK\$	% of net assets at bid market price
Held for trading:				
Listed investments Equities				
– Hong Kong	<u>32,384,540,488</u>	<u>99.59</u>	<u>26,466,204,815</u>	<u>99.49</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(b) Market price risk (Continued)***Net market exposures*

The following table shows the net market exposures of the Fund by industry:

	2007	2006
	%	%
By industry		
– Commerce and industry	43.15	49.42
– Finance	41.13	35.39
– Properties	11.41	10.08
– Utilities	3.90	4.60
	<u>99.59</u>	<u>99.49</u>

All the Fund's equity securities are listed on the Hong Kong Stock Exchange. As the Fund is a Hang Seng Index tracking fund, movements in the index would cause substantially the same percentage change in the Fund's net asset value.

	2007		2006	
	Change in index %	Impact HK\$	Change in index %	Impact HK\$
Hong Kong				
– Hang Seng Index	<u>5%</u>	<u>1,619,227,024</u>	<u>5%</u>	<u>1,323,310,241</u>

(c) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash is invested at short-term market interest rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 Financial risk management (Continued)

(d) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due.

The Fund's financial assets which are potentially subject to credit risk consist principally of securities and bank balances. The Fund limits its exposure to credit risk by transacting with well established broker-dealers and banks with high credit ratings.

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

At 31st December 2007, bank balances of HK\$72,829,175 (2006: HK\$76,646,478) were placed with State Street Bank and Trust Company, the Fund's Trustee and Custodian. The credit rating of the Trustee and Custodian issued by Standard and Poor's was as follows:

	2007	2006
State Street Bank and Trust Company	AA-	AA-

Accordingly, the Fund has no significant credit risk.

(e) Currency risk

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

The Fund has no significant currency risk as substantially all assets and liabilities are denominated in Hong Kong dollar, the Fund's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**12 Financial risk management (Continued)****(f) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in settling a liability, including a redemption request, or selling a financial asset quickly at close to its fair value.

The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund's securities are considered readily realizable, as they are listed on the Hong Kong Stock Exchange. It is the intent of the Manager to monitor the Fund's liquidity position on a daily basis.

The following table gives the undiscounted cash-flow projection of the Fund's financial liabilities. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	1-3 months	Total
At 31st December 2007			
Trustee fee payable	–	3,430,757	3,430,757
Management fee payable	–	3,430,757	3,430,757
Index license fee payable	1,280,011	–	1,280,011
Registrar fee payable	263,828	129,287	393,115
Other accounts payable and accruals	1,944,977	1,159,642	3,104,619
Total financial liabilities (excluding net assets attributable to holders of redeemable units)	<u>3,488,816</u>	<u>8,150,443</u>	<u>11,639,259</u>
At 31st December 2006			
Trustee fee payable	–	3,243,578	3,243,578
Management fee payable	–	3,243,578	3,243,578
Index license fee payable	974,691	–	974,691
Registrar fee payable	152,572	152,201	304,773
Other accounts payable and accruals	286,961	906,664	1,193,625
Total financial liabilities (excluding net assets attributable to holders of redeemable units)	<u>1,414,224</u>	<u>7,546,021</u>	<u>8,960,245</u>

(g) Fair value estimation

The carrying value of assets and liabilities are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 Distribution

	2007 <i>HK\$</i>	2006 <i>HK\$</i>
Interim distribution		
– HK\$0.20 on 1,708,992,500 units paid on 22nd May 2006	–	341,798,500
– HK\$0.21 on 1,253,992,500 units paid on 22nd May 2007	263,338,425	–
Final distribution		
– HK\$0.37 on 1,399,992,500 units paid on 22nd November 2006	–	517,997,225
– HK\$0.42 on 1,196,992,500 units paid on 22nd November 2007	502,736,850	–
Total distributions	<u>766,075,275</u>	<u>859,795,725</u>

14 Approval of financial statements

The financial statements were approved by the Trustee and the Manager on 9th April 2008.

INVESTMENT PORTFOLIO (UNAUDITED)

As at 31st December 2007

	Holdings	Fair value HK\$	% of net assets
Hong Kong			
Listed investments (99.59%)			
Equities (99.59%)			
Properties (11.41%)			
CHEUNG KONG (HOLDINGS) LTD.	7,775,828	1,120,496,815	3.45
CHINA OVERSEAS LAND & INVESTMENT LTD.	20,030,657	322,092,965	0.99
HANG LUNG GROUP LTD.	10,704,576	387,505,651	1.19
HENDERSON LAND DEVELOPMENT CO. LTD.	4,505,371	331,144,768	1.02
SINO LAND CO. LTD.	12,430,233	343,074,431	1.06
SUN HUNG KAI PROPERTIES LTD.	7,284,534	1,204,133,470	3.70
		<hr/>	
		3,708,448,100	11.41
		<hr/>	
Finance (41.13%)			
BANK OF CHINA	157,099,456	590,693,955	1.82
BANK OF CHINA HONG KONG	19,115,787	417,679,946	1.28
BANK OF COMMUNICATIONS CO. LTD.	77,448,988	841,096,010	2.59
BANK OF EAST ASIA LTD.	8,131,994	431,808,881	1.33
CHINA CONSTRUCTION BANK	174,129,967	1,149,257,782	3.53
CHINA LIFE INSURANCE CO. LTD.	38,444,481	1,549,312,584	4.76
HANG SENG BANK LTD.	3,947,132	635,488,252	1.95
HONG KONG EXCHANGES AND CLEARING LTD.	5,528,259	1,220,639,587	3.75
HSBC HOLDINGS PLC	36,892,076	4,858,686,409	14.94
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD.	193,093,483	1,077,461,635	3.31
PING AN INSURANCE (GROUP) CO. OF CHINA LTD.	7,269,217	606,979,620	1.87
		<hr/>	
		13,379,104,661	41.13
		<hr/>	
Utilities (3.90%)			
CHINA LIGHT & POWER HOLDINGS LTD.	9,330,471	496,381,057	1.53
HONG KONG & CHINA GAS CO. LTD., THE	18,784,735	448,955,167	1.38
HONGKONG ELECTRIC HOLDINGS LTD.	7,149,867	320,671,535	0.99
		<hr/>	
		1,266,007,759	3.90
		<hr/>	

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

As at 31st December 2007

	Holdings	Fair value HK\$	% of net assets
Commerce and Industry (43.15%)			
CATHAY PACIFIC AIRWAYS LTD.	6,092,949	123,686,865	0.38
CHEUNG KONG INFRASTRUCTURE HOLDINGS LTD.	2,319,613	67,268,777	0.21
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO. LTD.	5,578,067	269,699,539	0.83
CHINA MOBILE LTD.	31,030,762	4,276,039,004	13.15
CHINA NETCOM GROUP CORP. (HK) LTD.	10,304,717	240,615,142	0.74
CHINA PETROLEUM & CHEMICAL CORPORATION	86,692,525	1,019,504,094	3.14
CHINA RESOURCES ENTERPRISES, LTD.	6,144,873	204,317,027	0.63
CHINA SHENHUA ENERGY CO. LTD.	17,560,235	817,428,939	2.51
CHINA UNICOM LTD.	17,562,115	313,659,374	0.96
CITIC PACIFIC LTD.	6,278,826	270,931,342	0.83
CNOOC LTD.	80,082,005	1,063,489,026	3.27
COSCO PACIFIC LTD.	5,784,229	119,444,329	0.37
ESPRIT HOLDINGS LTD.	5,434,855	635,334,549	1.95
FOXCONN INTERNATIONAL HOLDINGS LTD	10,897,814	190,275,832	0.59
HUTCHISON WHAMPOA LTD.	11,009,890	973,824,771	3.00
LI & FUNG LTD.	11,582,113	364,257,454	1.12
MTR CORPORATION LTD.	7,227,278	206,700,151	0.64
NEW WORLD DEVELOPMENT CO. LTD.	12,472,053	344,852,265	1.06
PACIFIC CENTURY CYBERWORKS LTD.	26,207,898	121,080,489	0.37
PETROCHINA CO. LTD.	109,031,958	1,513,363,577	4.65
SWIRE PACIFIC LTD. (A SHARES)	4,732,230	508,241,502	1.56
WHARF (HOLDINGS) LTD. THE	6,938,278	282,387,915	0.87
YUE YUEN INDUSTRIAL (HOLDINGS) LTD.	3,427,988	95,298,066	0.29
RIGHT ISSUES OF WHARF (HOLDINGS) LTD. THE	867,284	9,279,939	0.03
		<u>14,030,979,968</u>	<u>43.15</u>
Total listed investments		<u>32,384,540,488</u>	<u>99.59</u>
Total investments, at cost		<u>21,195,008,629</u>	

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)*For the year ended 31st December 2007*

	Holdings			2007
	2006	Additions	Disposals	
Hong Kong				
Listed investments				
Equities				
Properties				
CHEUNG KONG (HOLDINGS) LTD.	8,988,321	2,673,335	(3,885,828)	7,775,828
CHINA OVERSEAS LAND & INVESTMENT LTD.	–	20,220,000	(189,343)	20,030,657
HANG LUNG GROUP LTD.	16,074,892	1,756,404	(7,126,720)	10,704,576
HENDERSON LAND DEVELOPMENT CO. LTD.	7,540,312	730,780	(3,765,721)	4,505,371
SINO LAND CO. LTD.	17,433,595	2,176,194	(7,179,556)	12,430,233
SUN HUNG KAI PROPERTIES LTD.	9,671,030	1,162,305	(3,548,801)	7,284,534
Finance				
BANK OF CHINA	88,509,000	136,378,497	(67,788,041)	157,099,456
BANK OF CHINA HONG KONG	41,033,896	3,136,953	(25,055,062)	19,115,787
BANK OF COMMUNICATIONS CO. LTD.	–	105,589,954	(28,140,966)	77,448,988
BANK OF EAST ASIA LTD.	5,993,811	5,718,101	(3,579,918)	8,131,994
CHINA CONSTRUCTION BANK	130,799,503	125,245,459	(81,914,995)	174,129,967
CHINA LIFE INSURANCE CO. LTD.	–	54,600,504	(16,156,023)	38,444,481
HANG SENG BANK LTD.	7,421,117	648,454	(4,122,439)	3,947,132
HONG KONG EXCHANGES AND CLEARING LTD.	4,134,884	3,926,935	(2,533,560)	5,528,259
HSBC HOLDINGS PLC	42,944,102	12,489,117	(18,541,143)	36,892,076
INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD.	–	273,015,512	(79,922,029)	193,093,483
PING AN INSURANCE (GROUP) CO. OF CHINA LTD.	–	10,148,389	(2,879,172)	7,269,217
Utilities				
CHINA LIGHT & POWER HOLDINGS LTD.	9,345,919	4,393,025	(4,408,473)	9,330,471
HONG KONG & CHINA GAS CO. LTD., THE	21,384,052	6,742,080	(9,341,397)	18,784,735
HONGKONG ELECTRIC HOLDINGS LTD.	8,283,732	2,398,717	(3,532,582)	7,149,867

STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (UNAUDITED)
(Continued)

For the year ended 31st December 2007

	Holdings			
	2006	Additions	Disposals	2007
Commerce and Industry				
CATHAY PACIFIC AIRWAYS LTD.	15,274,448	988,328	(10,169,827)	6,092,949
CHEUNG KONG INFRASTRUCTURE HOLDINGS LTD.	8,721,039	377,099	(6,778,525)	2,319,613
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO. LTD.	9,005,633	966,670	(4,394,236)	5,578,067
CHINA MOBILE LTD.	77,405,985	5,333,224	(51,708,447)	31,030,762
CHINA NETCOM GROUP CORP. (HK) LTD.	25,793,116	1,671,443	(17,159,842)	10,304,717
CHINA PETROLEUM & CHEMICAL CORPORATION	65,122,000	60,970,968	(39,400,443)	86,692,525
CHINA RESOURCES ENTERPRISES, LTD.	9,098,989	995,674	(3,949,790)	6,144,873
CHINA SHENHUA ENERGY CO. LTD.	–	17,726,500	(166,265)	17,560,235
CHINA UNICOM LTD.	49,090,999	2,847,438	(34,376,322)	17,562,115
CITIC PACIFIC LTD.	8,494,021	1,197,890	(3,413,085)	6,278,826
CNOOC LTD.	168,157,351	13,064,103	(101,139,449)	80,082,005
COSCO PACIFIC LTD.	8,651,359	937,956	(3,805,086)	5,784,229
ESPRIT HOLDINGS LTD.	4,739,555	3,177,009	(2,481,709)	5,434,855
FOXCONN INTERNATIONAL HOLDINGS LTD	8,107,059	7,688,612	(4,897,857)	10,897,814
HUTCHISON WHAMPOA LTD.	16,544,735	1,807,578	(7,342,423)	11,009,890
LI & FUNG LTD.	13,233,317	3,855,543	(5,506,747)	11,582,113
MTR CORPORATION LTD.	21,536,036	1,171,283	(15,480,041)	7,227,278
NEW WORLD DEVELOPMENT CO. LTD.	14,178,710	4,316,540	(6,023,197)	12,472,053
PACIFIC CENTURY CYBERWORKS LTD.	26,111,901	12,206,988	(12,110,991)	26,207,898
PETROCHINA CO. LTD.	–	110,064,000	(1,032,042)	109,031,958
SWIRE PACIFIC LTD. (A SHARES)	3,610,173	3,304,875	(2,182,818)	4,732,230
WHARF (HOLDINGS) LTD. THE	9,502,814	1,125,370	(3,689,906)	6,938,278
YUE YUEN INDUSTRIAL (HOLDINGS) LTD.	6,718,938	556,817	(3,847,767)	3,427,988
RIGHT ISSUES OF WHARF (HOLDINGS) LTD. THE	–	867,284	–	867,284

PERFORMANCE RECORD (UNAUDITED)**Net asset values**

	Net asset value per unit <i>HK\$</i>	Net asset value of the Fund <i>HK\$</i>
At end of financial year dated		
31st December 2004	14.35	30,722,784,318
31st December 2005	15.01	27,048,038,344
31st December 2006	20.12	26,602,946,195
31st December 2007	27.98	32,517,482,048

Highest and lowest net asset value per unit

	Highest net asset value per unit <i>HK\$</i>	Lowest net asset value per unit <i>HK\$</i>
Financial period ended		
31st December 2000 (since inception)	18.39	13.75
31st December 2001	16.24	9.12
31st December 2002	12.07	9.06
31st December 2003	12.70	8.62
31st December 2004	14.39	11.08
31st December 2005	15.80	13.50
31st December 2006	20.16	15.07
31st December 2007	32.17	18.82

Fund Performance

During the year, the Hang Seng Index increased by 39.31% (2006: 34.20%), while the net asset value per unit of the Fund increased by 39.07% (2006: 34.04%).

ADMINISTRATION AND MANAGEMENT

Directors of the Manager

Mr. Bernard Reilly
Mr. Eric Kam Piu Choi
(Appointed on 14th March 2007)
Ms. Katrina Lee Sly
(Appointed on 14th March 2007)
Mr. Lochiel Crafter
(Appointed on 26th March 2007)
Ms. Yan-Yan Li
(Resigned on 30th March 2007)

Members of the Supervisory Committee

Mr. Marvin Cheung
Mr. Fong Hup
Ms. Karen Kemp
Mr. Lawrence Fok
Prof. Tsang Shu-ki

Trustee and custodian

State Street Bank and Trust Company
68th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Registrar

Computershare Hong Kong
Investor Services Limited
Rooms 1806-1807
18th Floor Hopewell Centre
183 Queen's Road East
Hong Kong

Manager

State Street Global Advisors Asia Limited
68th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Promoter

Exchange Fund Investment Limited
87th Floor Two International Finance Centre
8 Finance Street
Central
Hong Kong

Conversion agent

HK Conversion Agency Services Limited
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Auditor

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong