

# ABF Hong Kong Bond Index Fund

Interim Report 31 January 2006

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# Investment Adviser's Report

## ABF Hong Kong Bond Index Fund

Against a backdrop of rising interest rates, the Fund delivered a total return of 0.03%<sup>Note</sup> since inception (17 June 2005) to 27 January 2006.

During this period, the US Federal Reserve continued the tightening cycle and raised rates by 25bp in each of the six FOMC meetings, bringing the Fed Funds target from 3.00% to 4.50%. US dollar yield curves shifted up with the longer-maturity counters outperforming.

Long-term HK dollar rates largely moved in tandem with their US counterparts in the period. By contrast, short-term HK dollar rates were more affected by fluctuation in domestic liquidity. Short-term HK dollar rates rose sharply early in the period to catch up with the US dollar rates amid fund outflow after the introduction of a two-way convertibility undertaking for the HK dollar by the HKMA in May to curb speculation on a HK dollar revaluation alongside any move on Renminbi.

In July, China abandoned the decade-old peg of Renminbi to US dollar and adopted a managed float with reference to a basket of currencies, together with an initial 2.1% revaluation against the US dollar. The move had limited impact on the HK dollar market initially thanks to HKMA's pre-emptive action. Nevertheless, short-term HK dollar rates softened later due to renewed speculation on further Renminbi revaluation.

HK dollar rates outperformed US dollar rates on the short-end of the yield curve but underperformed on the long-end over the period, with the 2-year and 10-year HK dollar swap rates rising 78bp and 57bp respectively compared with 86bp and 52bp increases in corresponding US dollar rates.

On the economic front, Hong Kong's economy remained on a solid recovery path with robust GDP growth, an improved fiscal balance, a lower unemployment rate and benign inflation. S&P upgraded the foreign currency rating of Hong Kong to AA- from A+ in July in recognition of the improved fundamentals.

Looking ahead, we believe the US Fed is not too far from the end of the tightening cycle, though oil prices remain a wild card for interest rate outlook. We expect short-term HK dollar rates to basically track their US counterparts with intermittent deviation arising from

speculative fund flow related to the Renminbi revaluation theme. On the other hand, the long-dated HK dollar rates should enjoy good support on the back of ongoing strong demand from insurance companies and limited supply.

### *Note: Performance of the Fund*

Performance as of 27 January 2006  
(i.e. the last dealing day for the  
period ended 31 January 2006)

	Since Inception <sup>(a)</sup>
ABF Hong Kong Bond Index Fund	0.03% <sup>(b)</sup>
iBoxx ABF Hong Kong Index	0.22% <sup>(c)</sup>

- (a) Performance inception date is from 17 June 2005 when the units of the Fund were first issued.
- (b) The Fund's returns are calculated on Net Asset Value (NAV) to NAV basis, dividend reinvested. In calculating the Fund's returns, the Fund's set-up costs are being amortized over a period of 5 years according to the terms specified in the Prospectus. Since such set-up costs are being written off in the financial statement according to generally accepted accounting principles of Hong Kong, the NAV shown in the financial statement is different from the NAV used to calculate the Fund's returns. The unamortized set-up costs written off in the financial statement at 31 January 2006 was HKD2,687,671.
- (c) The benchmark returns are stated on a total return basis. Unlike the Fund, the benchmark returns do not include the impact of Fund expenses or Fund transaction costs.

Investment involves risk and past performance figures shown are not indicative of future performance. Please refer to the Prospectus for further details.

**HSBC Investments (Hong Kong) Limited**  
28 February 2006

# Statement of Assets and Liabilities

## **ABF Hong Kong Bond Index Fund**

as at 31 January 2006

**HKD**

### **ASSETS**

Investments	2,069,578,892
Accounts receivable	72,256,364
Cash at banks	1,824,563
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	2,143,659,819

### **LIABILITIES**

Accounts payable	1,098,290
Distribution payable	50,827,022
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	51,925,312

### **NET ASSETS**

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2,091,734,507

**Total number of units in issue**

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21,446,001

**Net asset value per unit**

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97.53

# Portfolio Statement

## ABF Hong Kong Bond Index Fund

as at 31 January 2006

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
<b>Quoted Investments</b>				HK GOVERNMENT BOND			
				7111 3.12% 25NOV2011	13,550,000	12,911,241	0.62
<b>Bonds</b>				HK GOVERNMENT BOND			
				7202 3.14% 24FEB2012	13,550,000	12,893,955	0.62
ASIAN DEVELOPMENT				HK GOVERNMENT BOND			
BANK 2.85% 25JUN2007	58,000,000	56,882,294	2.72	7205 3.61% 28MAY2012	10,500,000	10,240,125	0.49
EUROFIMA 4.18% EMTN				HK GOVERNMENT EX FD			
8JUN2015	12,500,000	12,166,968	0.58	NT 1006 7.31% 21JUN2010	24,300,000	27,533,557	1.32
HK GOVERNMENT 4.27%				HK GOVERNMENT EX FD			
14NOV2007 2711	50,000,000	50,405,000	2.41	NT 1106 6.13% 20JUN2011	11,300,000	12,445,092	0.59
HK GOVERNMENT 4.49%				HK GOVERNMENT EX FD			
26NOV2012 7211	30,000,000	30,726,000	1.47	NT 1112 5.92% 5DEC2011	11,500,000	12,617,161	0.60
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
1012 7.01% 6DEC2010	11,300,000	12,787,027	0.61	NT 1206 5.8% 19JUN2012	11,300,000	12,396,929	0.59
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
1412 3.51% 8DEC2014	11,500,000	10,987,008	0.53	NT 1212 4.5% 4DEC2012	11,300,000	11,582,733	0.55
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
1710 6.93% 29OCT2007	91,750,000	96,565,958	4.62	NT 1306 3.73% 5JUN2013	11,300,000	11,046,385	0.53
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
2702 1.7% 14FEB2007	82,100,000	80,412,221	3.84	NT 1312 4.32% 2DEC2013	38,400,000	38,952,204	1.86
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
2705 2.6% 17MAY2007	14,000,000	13,799,054	0.66	NT 1406 4.82% 2JUN2014	11,300,000	11,864,548	0.57
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
4.33% 7DEC2015 1512	8,000,000	8,122,800	0.39	NT 1707 6.8% 30JUL2007	13,550,000	14,143,143	0.68
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5003 3.52% 22MAR2010	13,550,000	13,319,818	0.64	NT 1801 9.89% 21JAN2008	23,550,000	26,254,746	1.26
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5006 3.33% 14JUN2010	15,400,000	15,001,784	0.72	NT 1807 9.8% 28JUL2008	13,550,000	15,455,799	0.74
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5012 4.26% 20DEC2010	39,000,000	39,438,750	1.89	NT 1906 7.21% 9JUN2009	11,300,000	12,464,758	0.60
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5803 2.98% 17MAR2008	70,700,000	69,503,664	3.32	NT 5703 5.16% 19MAR2007	40,700,000	41,337,761	1.98
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5806 2.47% 16JUN2008	23,550,000	22,828,699	1.09	NT 5706 4.76% 18JUN2007	40,700,000	41,243,378	1.97
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5809 3.27% 25SEP2008	78,200,000	77,072,411	3.68	NT 5709 3.07% 17SEP2007	50,000,000	49,442,410	2.36
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5906 3.7% 23JUN2009	13,550,000	13,460,891	0.64	NT 5712 3.57% 17DEC2007	40,700,000	40,531,889	1.94
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5909 3.18% 25SEP2009	51,150,000	49,845,977	2.38	NT 5812 3.34% 19DEC2008	16,750,000	16,513,825	0.79
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5912 2.69% 21DEC2009	13,550,000	12,935,846	0.62	NT 5903 2.52% 24MAR2009	39,650,000	38,062,125	1.82
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
7002 3.8% 26FEB2010	13,550,000	13,465,582	0.64	NT 7005 3.19% 28MAY2010	13,550,000	13,131,187	0.63
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
7008 3.92% 20AUG2010	13,550,000	13,513,181	0.65	NT 7011 3.95% 26NOV2010	13,550,000	13,521,996	0.65
HK GOVERNMENT BOND							
7108 3.93% 26AUG2011	13,550,000	13,484,876	0.64				

# Portfolio Statement

## ABF Hong Kong Bond Index Fund as at 31 January 2006

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
<b>Quoted Investments</b>				MTR CORP (C.I.) 4.5% 11MAY2015	33,500,000	32,906,290	1.57
<b>Bonds</b>				MTR CORP (C.I.) 4.6% 3JUN2013	25,500,000	25,256,694	1.21
HK GOVERNMENT EX FD NT 7102 3.27%25FEB2011	84,950,000	82,098,033	3.92	MTR CORP (C.I.) 4.75% 11MAY2020	76,000,000	75,575,228	3.61
HK GOVERNMENT EX FD NT 7105 4.5% 27MAY2011	13,550,000	13,861,383	0.66	MTR CORP (C.I.) 5.25% 21MAY2013	500,000	514,450	0.02
HK GOVERNMENT EX FD NT 7911 3.96%30NOV2009	13,550,000	13,554,398	0.65	MTR CORPORATION (C.I.) EMTN 4.28% 6JUL2020	10,000,000	9,454,464	0.45
HK GOVERNMENT NOTE 1704 7.45% 30APR2007	13,550,000	14,157,154	0.68	NORDIC INVESTMENT BANK 3.77% 12JUL2010	29,500,000	28,644,848	1.37
HK GOVERNMENT NOTE 1804 7.7% 28APR2008	58,550,000	63,385,322	3.03	<b>Total Investments</b>		2,069,578,892	98.95
HK GOVERNMENT NOTE 1912 7.47% 8DEC2009	11,300,000	12,708,548	0.61	<b>Other Net Assets</b>		22,155,615	1.05
HK GOVERNMENT SER 1506 3.5% 22JUN2015	15,000,000	14,271,416	0.68	<b>Total Net Assets</b>		2,091,734,507	100.00
HK GOVERNMENT SER 2708 3.28% 15AUG2007	5,000,000	4,963,166	0.24	<b>Total Cost of Investments</b>		2,113,940,605	
HK GOVERNMENT SER 5009 3.79% 20SEP2010	48,700,000	48,285,699	2.31				
HK GOVERNMENT SER 7208 4% 27AUG2012	15,000,000	14,939,646	0.71				
HK MORTGAGE CORP EMTN 3.8% 6APR2011	1,000,000	964,026	0.05				
HKSAR GOVERNMENT 3.75% 23JUL2009	17,000,000	16,711,571	0.80				
HKSAR GOVERNMENT 5.125% 23JUL2019	19,500,000	20,442,230	0.98				
HONG KONG MTG CO 3.55% 9JUN2008 SER C	8,350,000	8,191,350	0.39				
HONG KONG MTG CORP 3.53% 23JUL2009	83,500,000	80,995,000	3.87				
HONG KONG MTG CORP 3.8% 6APR2011	32,500,000	31,203,250	1.49				
INTER-AMERICAN DEV BANK 4.2% 24MAR2014	20,000,000	19,590,456	0.94				
INTL FINANCE CORP 5.18% 8MAR2007	118,000,000	119,165,309	5.70				
INTL FINANCE CORP 7.7% 15AUG2007	78,500,000	82,482,046	3.94				
KOWLOON-CANTON RAILWAY 4.65% 10JUN2013	12,000,000	11,944,162	0.57				

# Statement of Movements in Portfolio Holdings

**ABF Hong Kong Bond Index Fund**  
as at 31 January 2006

	<b>% of NAV</b>
<b>Bonds</b>	
Government	70.47
Quasi Government	13.23
Supranational Financial Institution	15.25
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<b>Total Investments</b>	98.95
<b>Other Net Assets</b>	1.05
	<hr/>
<b>Total Net Assets</b>	100.00
	<hr/>

# Distribution Disclosure

## ABF Hong Kong Bond Index Fund

	<b>Date of Ex-distribution</b>	<b>Date of Payment</b>	<b>Disribution per Unit HKD</b>	<b>Total Distribution HKD</b>
2005/2006 Interim Distribution	26 January 2006	6 February 2006	2.37	50,827,022



# Administration

## **ABF Hong Kong Bond Index Fund**

### **Manager and Listing Agent**

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

### **Directors of the Manager**

K L Au  
S T Brown  
B C Pickerell  
P A Thurston  
A H Ebrahim (resigned on 31 August 2005)  
S S C Lee (resigned on 15 November 2005)  
S Y M Lee (resigned on 30 November 2005)

### **Investment Adviser**

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

### **Investment Sub-Adviser**

HSBC Halbis Partners (Hong Kong) Limited  
HSBC Main Building  
1 Queens' Road Central  
Hong Kong

### **Trustee, Administrator, Custodian, Receiving Agent and Registrar**

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

### **Processing Agent**

HK Convesion Agency Services Limited  
2/F., Vicwood Plaza  
199 Des Voeux Road  
Central  
Hong Kong

### **Legal Adviser**

Clifford Chance  
29/F., Jardine House  
One Cannaught Place  
Central  
Hong Kong

### **Auditors**

KPMG  
8/F., Prince's Building  
10 Chater Road  
Central  
Hong Kong