

ABF Hong Kong Bond Index Fund

*Period from 10 June 2005
(date of inception) to 31 July 2006*

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Investment Adviser's Report

ABF Hong Kong Bond Index Fund

Against a backdrop of rising interest rates, the Trust delivered a total return of 0.72% from 10 June 2005 (date of inception) to 31 July 2006.

During the review period, the US Federal Reserve (the Fed) continued its tightening cycle and raised rates by 25 basis points (bps) at each of the nine Federal Open Market Committee (FOMC) meetings, bringing the Fed Funds target from 3.00% to 5.25%. US dollar yield curves shifted up and flattened with the longer-maturity counters outperforming.

Long-term HK dollar rates moved largely in tandem with their U.S. counterparts in the period. By contrast, short-term HK dollar rates were more affected by fluctuations in domestic liquidity. The discount of short-term HK dollar rates against US dollar rates narrowed sharply, early in the period, amid fund outflow. This followed the HKMA introduction of a two-way convertibility undertaking for the HK dollar in May 2005 to curb speculation on a HK dollar revaluation alongside any move in the Renminbi.

In July 2005, China abandoned the decade-old peg of the Renminbi to the US dollar and adopted a managed float alongside a basket of currencies, together with an initial 2.1% revaluation against the US dollar. Initially, the move had limited impact on the HK dollar market, thanks to HKMA's pre-emptive action. Nevertheless, the discount of short-term HK dollar rates against US dollar rates widened again later, due to fund inflow on renewed Renminbi revaluation speculation.

Over the review period, the HK dollar curve outperformed its US counterpart, especially in the short-end, with the 2-year and 10-year HK dollar swap rates rising 110bps and 99bps respectively compared with 136bps and 106bps against corresponding US dollar rates.

On the economic front, Hong Kong remained on a solid recovery path with robust GDP growth, an improved fiscal balance and a lower unemployment rate, though inflation also crept up due partly to rising rentals. In recognition of Hong Kong's improved fundamentals, Standard and Poor's upgraded Hong Kong twice during the period from A+ to AA while Moody's put the city's A1 rating on review for a possible upgrade.

After 17 consecutive rate hikes, the Fed finally paused in the August FOMC meeting and left the Fed Funds target unchanged at 5.25%. We believe the Fed is near the end of its tightening cycle in view of the moderating economic growth, though any sustainable high oil prices remain a wild card for inflation, and hence interest rate outlook. We expect HK dollar rates movement to continue tracking that of their U.S. counterparts with intermittent deviation in the short-end arising from fund flow related to the Renminbi revaluation theme.

HSBC Investments (Hong Kong) Limited

31 August 2006

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 period ended 31 July 2006.

)	
Keith Cheung)	For and on behalf of
Eddie Wong)	HSBC Institutional Trust Services
)	(Asia) Limited
)	

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

We have audited the financial statements of the Trust on pages 5 to 15 which have been prepared on the basis of accounting principles generally accepted in Hong Kong, the relevant disclosure provisions of the Trust Deed, 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").

Respective responsibilities of the Manager and auditors

The Manager is responsible for the preparation of financial statements for the Trust which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. In addition, the Code requires the financial statements of the Trust to contain the relevant disclosures set out in Appendix E to that Code.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and to report to you on the matters set out above, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Trust, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2006, and of the results of its operations and its cash flows for the period then ended and have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements of the Code.

KPMG

Certified Public Accountants
Hong Kong, 30 November 2006

Statement of Assets and Liabilities

ABF Hong Kong Bond Index Fund as at 31 July 2006

	Note	HKD
ASSETS		
Cash and cash equivalents	6(b)	4,482,354
Investments	5	2,088,016,551
Interest receivable		21,697,992
Amounts receivable from sale of investments		63,873,274
		<hr/>
		2,178,070,171
LIABILITIES		
Amounts payable on purchase of investments		21,339,830
Distribution payables	9	46,525,522
Other payables	6(a), 6(c)	708,431
		<hr/>
		68,573,783
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)		
		<hr/>
		2,109,496,388
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)		
Total number of units in issue	8	21,946,001
		<hr/>
Net asset value per unit at bid prices		96.12
		<hr/>

Approved by the Trustee and the Manager on 30 November 2006

Keith Cheung)	
Eddie Wong)	For and on behalf of
)	HSBC Institutional Trust Services
)	(Asia) Limited
)	
Au King Lun)	
Louie Ngar Yee)	For and on behalf of
)	HSBC Investment Funds
)	(Hong Kong) Limited
)	

The notes on pages 9 to 15 form part of these financial statements.

Income Statement

ABF Hong Kong Bond Index Fund

for the period from 10 June 2005 (date of inception) to 31 July 2006

	Note	HKD
Interest on deposits	6(b)	159,076
Sundry income		1,543,586
Gains on investments	3	102,550,752
Losses on investments	3	(79,735,085)
Net foreign exchange loss		(163)
NET INVESTMENT INCOME		24,518,166
Management fees	6(a)	3,279,698
Preliminary expenses		2,455,819
Trustee's fees	6(c)	1,148,178
Miscellaneous expenses		835,051
Auditors' remuneration		156,876
Transaction costs	6(c)	58,739
OPERATING EXPENSES		7,934,361
NET INCOME FROM OPERATIONS BEFORE FINANCE COSTS		16,583,805
Distributions to unitholders during the period	9	(97,352,544)
		(80,768,739)
Income equalisation on subscription for units	10	3,532,500
Change in net assets attributable to unitholders		(77,236,239)

The notes on pages 9 to 15 form part of these financial statements.

Statement of Changes in Net Assets Attributable to Unitholders

ABF Hong Kong Bond Index Fund

for the period ended 31 July 2006

HKD

Subscriptions received from units issued (excluding equalisation)	2,186,732,627
Change in net assets attributable to unitholders	<u>(77,236,239)</u>
	2,109,496,388
Net assets attributable to unitholders, beginning of period	<u>–</u>
Net assets attributable to unitholders, end of period	<u>2,109,496,388</u>

The notes on pages 9 to 15 form part of these financial statements.

Cash Flow Statement

ABF Hong Kong Bond Index Fund
for the period ended 31 July 2006

	Note	HKD
OPERATING ACTIVITIES		
Interest received		152,116
Sundry income received		1,543,586
Management fees paid		(3,022,353)
Trustee's fees paid		(1,057,513)
Other operating expenses paid		(3,146,227)
Cash flows from operating activities		<u>(5,530,391)</u>
INVESTING ACTIVITIES		
Purchase of investments		(1,310,749,710)
Proceeds from sale of investments		835,377,127
Cash flows used in investing activities		<u>(475,372,583)</u>
FINANCING ACTIVITIES		
Proceeds from issue of units and equalisation		536,212,350
Distributions paid		(50,827,022)
Cash flows from financing activities		<u>485,385,328</u>
Net increase in cash and cash equivalents		4,482,354
Cash and cash equivalents at beginning of period		<u>—</u>
Cash and cash equivalents at end of period		<u>4,482,354</u>

The notes on pages 9 to 15 form part of these financial statements.

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

1. The Trust

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

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

2. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

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

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

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

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

(c) Foreign currency translation

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

(d) Financial instruments

(i) Classification

All non-derivative investments are designated at fair value through profit or loss upon initial recognition.

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

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

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

Financial liabilities include accrued expenses and other payables.

(ii) Recognition

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

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

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

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair values recognised in the income statement.

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

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method. Financial liabilities arising from the redeemable

units issued by the Trust are carried at the redemption amount representing the investors' right to a residual interest in the Trust's assets.

(iv) Fair value measurement principles

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

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

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

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

(v) Impairment

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

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

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

(vi) Derecognition

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

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

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

(vii) Offsetting

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

(viii) Specific instruments

Cash and cash equivalents

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

Investment in debt securities

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

(e) Revenue recognition

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

Interest income

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

(f) Expenses

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

(g) Foreign exchange gains and losses

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

(h) Related parties

For the purposes of these financial statements, parties are considered to be related to the Trust if they have the ability, directly or indirectly, to control or exercise significant influence over the Trust in making financial and operating decisions or where the Trust is subject to common control or significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Trust where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of any entity that is a related party of the Trust.

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

(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. In accordance with the offering document the Trust is contractually obliged to redeem units at the current bid prices, which is in compliance with HKAS 39. See reconciliation of bid pricing net asset value to trade pricing net asset value in note 12.

3. Gains and losses on investments

	2006 HKD
Realised gains	79,980,901
Unrealised gains	<u>22,569,851</u>
Total gains on investments	<u>102,550,752</u>
Realised losses	(11,691,439)
Unrealised losses	<u>(68,043,646)</u>
Total losses on investments	<u>(79,735,085)</u>

4. Taxation

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

5. Investments

	2006 HKD
Debt securities	
Listed bonds	1,495,931,638
Unlisted but quoted bonds	<u>592,084,913</u>
	<u>2,088,016,551</u>
Investments, at cost	2,155,181,378
Unrealised diminution in value of investments	<u>(67,164,827)</u>
Investments, at market value	<u>2,088,016,551</u>

6. Related parties transactions

The following is a summary of transactions with related parties for the period. 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 HKD1,560 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.

	2006 HKD
(i) Management fees for the period	3,279,698
(ii) Management fees payable at period end	<u>257,345</u>
(b) A bank account is maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a branch within the HSBC Group. The balance of this account amounted to HKD4,482,354 at the period end. Interest income arising therefrom amounted to HKD138,679.	
(c) The trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, a fellow subsidiary of the	

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

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 HKD389 per transaction (buy/sell) of the underlying index securities and non-index securities.

	2006 HKD
(i) Trustee's fees for the period	1,148,178
(ii) Transaction fee for the period	58,739
(iii) Trustee's fees payable at period end	90,666
(iv) Transaction fee payable at period end	<u>2,335</u>

- (d) In its purchases and sales of investments, the Trust utilizes the brokerage services of the Manager. Details of transactions effected are as follows:

HSBC Investment Funds (Hong Kong) Limited

**2006
HKD**

Commission paid for the period	—
Average rate of commission	—
Total aggregate value of such transactions for the period	797,246,475
Percentage of such transactions in value to total transactions for the period	<u>50%</u>

7. Soft commission arrangements

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

8. Units issued and redeemed

	2006
Number of units in issue brought forward	—
Units issued during the period	21,946,001
Units redeemed during the period	<u>—</u>
Number of units in issue carried forward	<u>21,946,001</u>

9. Distributions

Distributions attributable to the period

	2006 HKD
Interim dividend of HKD2.37 per unit on 21,446,001 units declared and paid	50,827,022
Interim dividend of HKD2.12 per unit on 21,946,001 units declared and unpaid	<u>46,525,522</u>
	<u>97,352,544</u>

10. Income equalisation

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

11. Financial instruments and associated risks

The Trust's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The most important types of financial risks to which the Trust is exposed are market risk, credit risk and liquidity risk.

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

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

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

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

(a) Market risk

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

Interest rate risk

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

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

	Effective rate %	2006 HKD'000
Assets		
Financial assets designated at fair value through profit or loss		
– 1 year or less	4.14	19,694
– over 1 year to 5 years	4.38	1,516,615
– over 5 years to 10 years	4.66	452,517
– over 10 years	5.36	99,391
		<u>2,088,017</u>
Non-interest bearing assets	–	<u>90,053</u>
Total assets		<u>2,178,070</u>
Liabilities		
Non-interest bearing liabilities	–	<u>68,574</u>
Total liabilities		<u>68,574</u>
Total net assets		<u>2,109,496</u>

Price risk

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

(b) Credit risk

Credit risk includes the risk that a counterparty trading with the Trust will fail to discharge an obligation to pay its dues on time. The Trust's Manager has a credit review process in place. This ensures review and monitoring of credit quality and credit risk exposure on an ongoing basis, which helps protect portfolios from anticipated negative credit events.

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

(c) Liquidity risk

This arises from the risk that the Manager may not be able to convert investments into cash to meet liquidity needs in a timely manner. The Trust's financial instruments include mainly investments in quoted debt securities which are generally subject to less liquidity risk relative to unquoted securities.

(d) Fair value information

Estimation of fair value

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

At 31 July 2006 the fair values of all quoted investments were determined directly, in full or in part, by reference to published price quotations.

12. Net asset value for the Trust

The Trustee and the Manager would like to highlight that the net asset value presented in the financial

Notes on the Financial Statements

ABF Hong Kong Bond Index Fund

statements and that quoted for pricing purposes at the period end (“Dealing NAV”) are different due to the principles for calculating the Dealing NAV as set out in the Explanatory Memorandum document being different from that required for financial reporting purposes under Hong Kong Financing Reporting Standards. The following reconciliation provides details of these differences:

HKD

NAV as reported in the financial statements as at 31 July 2006	<u>2,109,496,388</u>
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Adjustments for different bases adopted by the Fund in arriving at the Dealing NAV:	
– Deferred formation expenses	1,950,813
– Others	<u>(22,445)</u>

Dealing NAV as at 31 July 2006	<u>2,111,424,756</u>
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13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 July 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 July 2006 and which have not been adopted in these financial statements:

Effective for accounting periods beginning on or after

Amendments to HKAS 39	Financial instruments:	
	<i>Recognition and measurement:</i>	
	– The fair value option	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to HKAS 1	Presentation of financial statements	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Trust has not early adopted these amendments and new standards in the financial statements for the period ended 31 July 2006.

The Trust has already commenced an assessment of the impact of these amendments and new standards but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on its results of operations and financial positions.

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2006

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
Fixed Income Instruments				HK GOVERNMENT BOND			
Listed Investments				7202 3.14%			
				24 FEBRUARY 2012	13,350,000	12,678,492	0.60
				HK GOVERNMENT BOND			
				7205 3.61%			
HK GOVERNMENT BOND				28 MAY 2012	10,500,000	10,045,479	0.48
1710 6.93%				HK GOVERNMENT BOND			
29 OCTOBER 2007	91,750,000	94,805,541	4.50	7302 4.13%			
HK GOVERNMENT BOND				22 FEBRUARY 2013			
2802 3.8%				92,500,000	90,572,134	4.29	
13 FEBRUARY 2008	49,700,000	49,422,937	2.34	HK GOVERNMENT BOND			
HK GOVERNMENT BOND				1512 4.33%			
5803 2.98%				7 DECEMBER 2015	18,000,000	17,681,323	0.84
17 MARCH 2008	70,700,000	69,371,681	3.29	HK GOVERNMENT BOND			
HK GOVERNMENT BOND				1606 4.83%			
2805 4.3%				7 JUNE 2016	48,000,000	48,962,400	2.32
15 MAY 2008	41,000,000	41,072,164	1.95	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 1707 6.8%			
5806 2.47%				30 JULY 2007	19,200,000	19,694,300	0.93
16 JUNE 2008	23,550,000	22,818,495	1.08	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 5709 3.07%			
5809 3.27%				17 SEPTEMBER 2007	50,000,000	49,408,715	2.34
25 SEPTEMBER 2008	78,200,000	76,667,178	3.63	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 5712 3.57%			
5909 3.18%				17 DECEMBER 2007	40,700,000	40,378,698	1.91
28 SEPTEMBER 2009	51,150,000	49,448,782	2.34	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 1801 9.89%			
5912 2.69%				21 JANUARY 2008	23,550,000	25,453,167	1.21
21 DECEMBER 2009	13,550,000	12,853,157	0.61	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 1807 9.8%			
7002 3.8%				28 JULY 2008	13,550,000	14,980,117	0.71
26 FEBRUARY 2010	13,550,000	13,307,382	0.63	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 5812 3.34%			
5003 3.52%				19 DECEMBER 2008	16,750,000	16,407,638	0.78
22 MARCH 2010	13,550,000	13,175,250	0.62	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 5903 2.52%			
5006 3.33%				24 MARCH 2009	39,650,000	37,927,243	1.80
14 JUNE 2010	15,400,000	14,836,625	0.70	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 1906 7.21%			
7008 3.92%				9 JUNE 2009	50,000,000	53,878,700	2.55
20 AUGUST 2010	13,550,000	13,321,158	0.63	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 7911 3.96%			
1012 7.01%				30 NOVEMBER 2009	13,550,000	13,396,193	0.64
6 DECEMBER 2010	11,300,000	12,457,650	0.59	HK GOVERNMENT EX FD			
HK GOVERNMENT BOND				NT 7005 3.19%			
5012 4.26%				28 MAY 2010	13,550,000	12,994,427	0.62
20 DECEMBER 2010	41,300,000	41,076,133	1.95				

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2006

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
Fixed Income Instruments				HK GOVERNMENT SERIES			
Listed Investments				7208 4%			
				27 AUGUST 2012	15,000,000	14,620,910	0.69
				HK GOVERNMENT BOND			
HK GOVERNMENT EX FD				2711 4.27%			
NT 1006 7.31%				14 NOVEMBER 2007	50,000,000	50,064,540	2.37
21 JUNE 2010	24,300,000	26,829,654	1.27	HK GOVERNMENT BOND			
HK GOVERNMENT EX FD				7211 4.49%			
NT 7011 3.95%				26 NOVEMBER 2012	30,000,000	29,996,580	1.42
26 NOVEMBER 2010	13,550,000	13,314,990	0.63	HKSAR GOVERNMENT			
HK GOVERNMENT EX FD				BOND 3.75%			
NT 7102 3.27%				23 JULY 2009	17,000,000	16,541,507	0.78
25 FEBRUARY 2011	84,950,000	80,989,410	3.84	HKSAR GOVERNMENT			
HK GOVERNMENT EX FD				BOND 5.125%			
NT 1106 6.13%				23 JULY 2019	19,500,000	19,551,726	0.93
20 JUNE 2011	11,300,000	12,136,755	0.58	KOWLOON-CANTON			
HK GOVERNMENT EX FD				RAILWAY 4.65%			
NT 1112 5.92%				10 JUNE 2013	12,000,000	11,591,002	0.55
5 DECEMBER 2011	11,500,000	12,297,106	0.58				
HK GOVERNMENT EX FD				Listed Investments (Total)	1,495,931,638		70.91
NT 1206 5.8%							
19 JUNE 2012	11,300,000	12,068,896	0.57	Unlisted Investments			
HK GOVERNMENT EX FD				EUROFIMA EMTN 4.18%			
NT 1212 4.5%				8 JUNE 2015			
4 DECEMBER 2012	11,300,000	11,304,688	0.54	12,500,000	11,630,953	0.55	
HK GOVERNMENT EX FD				HK MORTGAGE CORP			
NT 1306 3.73%				EMTN 3.8% 6 APRIL 2011			
5 JUNE 2013	16,300,000	15,555,126	0.74	1,000,000	946,741	0.04	
HK GOVERNMENT EX FD				HK MORTGAGE CORP			
NT 1312 4.32%				SER C 3.55% 9 JUNE 2008			
2 DECEMBER 2013	38,400,000	37,929,243	1.80	8,350,000	8,173,815	0.39	
HK GOVERNMENT NOTE				HK MORTGAGE CORP			
1804 7.7%				3.53% 23 JULY 2009			
28 APRIL 2008	59,750,000	63,228,191	3.00	83,500,000	80,519,050	3.82	
HK GOVERNMENT NOTE				HK MORTGAGE CORP			
1912 7.47%				3.8% 6 APRIL 2011			
8 DECEMBER 2009	11,300,000	12,396,049	0.59	32,500,000	30,826,250	1.46	
HK GOVERNMENT SERIES				HK GOVERNMENT BOND			
1506 3.5%				5906 3.7%			
22 JUNE 2015	15,000,000	13,852,730	0.66	23 JUNE 2009	13,550,000	13,331,735	0.63
HK GOVERNMENT SERIES				HK GOVERNMENT BOND			
2708 3.28%				7108 3.93%			
15 AUGUST 2007	5,000,000	4,956,706	0.23	26 AUGUST 2011	13,550,000	13,241,697	0.63
HK GOVERNMENT SERIES				HK GOVERNMENT BOND			
5009 3.79%				7111 3.12%			
20 SEPTEMBER 2010	48,700,000	47,612,670	2.26	25 NOVEMBER 2011	13,550,000	12,706,518	0.60
				HK GOVERNMENT EX FD			
				NT 7105 4.5%			
				27 MAY 2011	96,800,000	97,126,671	4.61

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 July 2006

	Holdings	Market Value HKD	% of NAV
Fixed Income Instruments			
Unlisted Investments			
INTER-AMERICAN DEV			
BANK 4.2%			
24 MARCH 2014	20,000,000	19,000,572	0.90
INTERNATIONAL FINANCE			
CORP 7.7%			
15 AUGUST 2007	78,500,000	80,887,012	3.84
NORDIC INVESTMENT			
BANK 3.77% 12 JULY 2010	29,500,000	28,293,972	1.34
MTR CORP (C.I.) 4.3%			
EMTN 16 FEBRUARY 2008	59,000,000	58,614,618	2.78
MTR CORP (C.I.) 5.25%			
EMTN 21 MAY 2013	500,000	502,150	0.02
MTR CORP (C.I.) 4.6%			
EMTN 3 JUNE 2013	25,500,000	24,673,800	1.17
MTR CORP (C.I.) 4.5%			
EMTN 11 MAY 2015	33,500,000	31,622,188	1.50
MTR CORP (C.I.) 4.75%			
EMTN 11 MAY 2020	76,000,000	71,074,919	3.37
MTR CORP (C.I.) 4.28%			
EMTN 6 JULY 2020	10,000,000	8,912,252	0.42
Unlisted Investments (Total)		<u>592,084,913</u>	<u>28.07</u>
Total Investments		2,088,016,551	98.98
Other Net Assets		<u>21,479,837</u>	<u>1.02</u>
Total Net Assets		<u>2,109,496,388</u>	<u>100.00</u>

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 HK 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 2006.

Year	Net asset value per unit	
	Lowest	Highest
2006	95.52	100.33

(b) Total net asset value

	2006 HKD
Total net asset value	2,109,496,388

(c) Total net asset value per unit

	2006 HKD
Net asset value per unit	96.12

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.

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

^(a)Since Inception

ABF Hong Kong Bond Index Fund
iBoxx ABF Hong Kong Index

^(b)0.72%

^(c)0.98%

- (a) Performance inception date is from 17 June 2005 when the units of the Trust were first issued.
- (b) The Trust’s returns are calculated on Net Asset Value (NAV) to NAV basis, i.e. dividend reinvested. In calculating the Trust’s returns, the Trust’s setup costs are being amortised 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 statements according to generally accepted accounting principles of Hong Kong, the NAV shown in the financial statements is different from the NAV used to calculate the Trust’s returns.
- (c) The benchmark returns are stated on a total return basis. Unlike the Trust, the benchmark returns do not include the impact of Trust expenses or Trust transaction costs.

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

Administration

ABF Hong Kong Bond Index Fund

Manager and Listing Agent

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

Directors of the Manager

K L Au
S T Brown
B C Pickerell
P A Thurston
P Y Lam (appointed on 24 April 2006)
N Y Louie (appointed on 8 May 2006)
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)

Members of Supervisory Committee

KC Chan
Anthony Yuen
Eddy C Fong
Andrew Malcolm
Carmen L K Chu

Investment Adviser

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Investment Sub-Adviser

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