



Interim Report 2007

ABF Hong Kong Bond Index Fund

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# Investment Adviser's Report

## ABF Hong Kong Bond Index Fund

Hong Kong dollar bond market rallied during this period, and the net return of the Fund was 3.35% <sup>(Note)</sup> for the six months ending 31 January 2007.

US Federal Reserve finally initiated a pause to Fed Funds target rate hike at 5.25% in the August Federal Open Market Committee meeting after hiking it 17 consecutive times. Short-term US dollar interest rates were volatile but ended the period higher while the long end of the US curve fell on weaker than expected economic data.

Hong Kong dollar interest rates also experienced volatility during this period, and reversed its bearish trend from the first half of 2006 on abundant liquidity, strong equity sentiment from record size equity initial public offerings and re-emergence of appreciation pressure on the Renminbi. Subsequently, during this six month period, HK dollar swap rates flattened and outperformed those in the US, with 1-year and 5-year Hong Kong dollar swap rates falling by -25 bps and -37 bps respectively versus -11 bps and -18 bps in the corresponding US swap rates.

The 1-year USD/HKD TT forward rose to as high as -990 pips at year end 2006 as investors anticipate the HKD to be closely linked to the RMB when USD/RMB continue to creep lower and eventually traded through USD/HKD on 11 January 2007. However, this belief was overturned when HKMA issued a report to legislators alerting them that the divergence of USD/RMB and USD/HKD may be a sign that the HKD is no longer used as a RMB proxy, hence reinforcing HKMA's stance that the USD/HKD linked exchange rate system will remain in place. The 1-year USD/HKD TT forward then narrowed back to -750 pips at month-end January.

Ample liquidity should help support the short end of the Hong Kong dollar bond market, while the long-end continued to be supported by buying from local insurance funds. However, we don't expect the recent outperformance of Hong Kong dollar markets against the US to extend much further as the wide spread discount would likely encourage arbitragers to exploit profit opportunities.

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

*Note: Performance of the Fund*

Performance for the 6 months ended 31 January 2007:

ABF Hong Kong Bond Index Fund	3.35% <sup>(a)</sup>
iBoxx ABF Hong Kong Index	3.41% <sup>(b)</sup>

- (a) 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 setup 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 Statement of Assets and Liabilities according to generally accepted accounting principles of Hong Kong, the NAV shown in the Statement of Assets and Liabilities is different from the NAV used to calculate the Fund's returns. The unamortized set-up costs written off in the Statement of Assets and Liabilities at 31 January 2007 was HKD1,692,955.
- (b) 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.

## HSBC Investments (Hong Kong) Limited

28 February 2007

# Statement of Assets and Liabilities

## ABF Hong Kong Bond Index Fund

	31 January 2007 HKD	31 July 2006 HKD
<b>ASSETS</b>		
Investments	2,138,952,739	2,088,016,551
Accounts receivable	64,893,722	85,571,266
Cash at banks	2,334,358	4,482,354
	<hr/>	<hr/>
	2,206,180,819	2,178,070,171
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Accounts payable	940,906	22,048,261
Distribution payable	43,948,082	46,525,522
	<hr/>	<hr/>
	44,888,988	68,573,783
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	2,161,291,831	2,109,496,388
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<b>Number of units outstanding</b>	22,196,001	21,946,001
	<hr/>	<hr/>
<b>Net asset value per unit</b>	97.37	96.12
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# Portfolio Statement

## ABF Hong Kong Bond Index Fund as at 31 January 2007

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
<b>Bonds</b>				HK GOVERNMENT BOND			
				5912 2.69% 21DEC2009	13,550,000	13,061,428	0.60
ASIA DEVELOPMENT BK				HK GOVERNMENT BOND			
4.28% 21SEP2009 EMTN	30,000,000	29,850,771	1.38	7002 3.8% 26FEB2010	13,550,000	13,459,260	0.62
EUROFIMA 4.18% EMTN				HK GOVERNMENT BOND			
8JUN2015	12,500,000	12,201,176	0.56	7008 3.92% 20AUG2010	13,550,000	13,494,253	0.62
EUROPEAN INVESTMENT				HK GOVERNMENT BOND			
BANK 4.08% 17OCT2008	35,000,000	34,821,269	1.61	7108 3.93% 26AUG2011	13,550,000	13,467,830	0.62
HK GOVERNMENT BOND				HK GOVERNMENT BOND			
1012 7.01% 6DEC2010	11,300,000	12,474,798	0.58	7111 3.12% 25NOV2011	13,550,000	12,982,057	0.60
HK GOVERNMENT BOND				HK GOVERNMENT BOND			
1710 6.93% 29OCT2007	31,250,000	31,922,313	1.48	7202 3.14% 24FEB2012	13,550,000	12,965,878	0.60
HK GOVERNMENT BOND				HK GOVERNMENT BOND			
3.63% 19DEC2011 5112	35,000,000	34,301,932	1.59	7205 3.61% 28MAY2012	10,500,000	10,261,834	0.47
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
3.78% 6DEC2016 1612	20,000,000	19,464,670	0.90	NT 1006 7.31%21JUN10	24,300,000	26,790,456	1.24
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
3.8% 13FEB2008 2802	49,700,000	49,615,083	2.30	NT 1106 6.13%20JUN11	21,300,000	23,040,858	1.07
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
4.13% 22FEB2013 7302	92,500,000	92,658,952	4.29	NT 1112 5.92% 5DEC11	11,500,000	12,416,617	0.57
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
4.3% 15MAY2008 2805	41,000,000	41,167,764	1.91	NT 1206 5.8% 19JUN12	11,300,000	12,223,808	0.57
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
4.33% 7DEC2015 1512	18,000,000	18,289,129	0.85	NT 1212 4.5% 4DEC12	16,300,000	16,639,760	0.77
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
4.83% 7JUN2016 1606	13,000,000	13,718,188	0.63	NT 1306 3.73% 5JUN13	16,300,000	15,967,562	0.74
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5003 3.52% 22MAR2010	13,550,000	13,348,322	0.62	NT 1312 4.32% 2DEC13	38,400,000	38,885,157	1.80
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5006 3.33% 14JUN2010	15,400,000	15,061,023	0.70	NT 1801 9.89%21JAN08	23,550,000	24,866,325	1.15
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5012 4.26% 20DEC2010	41,300,000	41,598,644	1.92	NT 1807 9.8% 28JUL08	13,550,000	14,677,070	0.68
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5803 2.98% 17MAR2008	70,700,000	69,939,063	3.24	NT 1906 7.21% 9JUN09	115,000,000	123,160,527	5.70
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5806 2.47% 16JUN2008	23,550,000	23,078,741	1.07	NT 5812 3.34%19DEC08	16,750,000	16,547,596	0.77
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5809 3.27% 25SEP2008	78,200,000	77,296,649	3.58	NT 5903 2.52%24MAR09	61,250,000	59,388,913	2.75
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5906 3.7% 23JUN2009	13,550,000	13,452,708	0.62	NT 7005 3.19%28MAY10	13,550,000	13,196,372	0.61
HK GOVERNMENT BOND				HK GOVERNMENT EX FD			
5909 3.18% 28SEP2009	51,150,000	50,072,065	2.32	NT 7011 3.95%26NOV10	13,550,000	13,499,801	0.62

# Portfolio Statement

## ABF Hong Kong Bond Index Fund as at 31 January 2007

	Holdings	Market Value HKD	% of NAV		Holdings	Market Value HKD	% of NAV
<b>Bonds</b>				MTR CORP (C.I.) 4.6% 3JUN2013	25,500,000	25,347,000	1.17
HK GOVERNMENT EX FD NT 7102 3.27%25FEB11	84,950,000	82,449,837	3.81	MTR CORP (C.I.) 4.75% 11MAY2020	76,000,000	76,307,709	3.53
HK GOVERNMENT EX FD NT 7105 4.5% 27MAY11	96,800,000	98,438,388	4.55	MTR CORP (C.I.) 5.25% 21MAY2013	500,000	514,350	0.02
HK GOVERNMENT EX FD NT 7911 3.96%30NOV09	13,550,000	13,525,160	0.63	MTR CORPORATION (C.I.) EMTN 4.28% 6JUL20	10,000,000	9,575,291	0.44
HK GOVERNMENT NOTE 1804 7.7% 28APR2008	59,750,000	62,406,306	2.89	NORDIC INVESTMENT BANK 3.77% 12JUL2010	53,500,000	52,266,937	2.42
HK GOVERNMENT NOTE 1912 7.47% 8DEC2009	11,300,000	12,336,744	0.57	<b>Total Investments</b>	2,138,952,739	98.97	
HK GOVERNMENT SER 1506 3.5% 22JUN2015	15,000,000	14,357,886	0.66	<b>Other Net Assets</b>	22,339,092	1.03	
HK GOVERNMENT SER 5009 3.79% 20SEP2010	48,700,000	48,277,562	2.23	<b>Total Net Assets</b>	2,161,291,831	100.00	
HK GOVERNMENT SER 7208 4% 27AUG2012	15,000,000	14,930,607	0.69	<b>Total Cost of Investment</b>	2,174,696,983		
HK GOVERNMENT 4.49% 26NOV2012 7211	30,000,000	30,605,547	1.42				
HK MORTGAGE CORP EMTN 3.8% 6APR2011	1,000,000	970,326	0.04				
HKSAR GOVERNMENT 3.75% 23JUL2009	17,000,000	16,756,297	0.78				
HKSAR GOVERNMENT 5.125% 23JUL2019	19,500,000	20,488,471	0.95				
HONG KONG MTG CO 3.55% 9JUN2008 SER C	8,350,000	8,249,800	0.38				
HONG KONG MTG CORP 3.53% 23JUL2009	83,500,000	81,612,900	3.78				
HONG KONG MTG CORP 3.8% 6APR2011	32,500,000	31,492,500	1.46				
INTER-AMERICAN DEV BANK 4.2% 24MAR2014	39,000,000	38,384,533	1.78				
INTL FINANCE CORP 4.45% 1SEP2009	100,000,000	100,447,850	4.65				
KOWLOON-CANTON RAILWAY 4.65% 10JUN2013	12,000,000	11,973,581	0.55				
MTR CORP (C.I.) 4.3% 16FEB2008 EMTN	59,000,000	58,907,706	2.73				
MTR CORP (C.I.) 4.5% 11MAY2015	33,500,000	33,002,833	1.53				

# Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund

	<b>% of NAV 31 January 2007</b>	<b>% of NAV 31 July 2006</b>
<b>Bonds</b>	98.97	98.98
<b>Total Investments</b>	98.97	98.98
<b>Other Net Assets</b>	1.03	1.02
<b>Total Net Assets</b>	100.00	100.00

# Performance Record

## ABF Hong Kong Bond Index Fund

Year	Net asset value per unit	
	Lowest HKD	Highest HKD
2006	95.52	100.33
1 August 2006 to 31 January 2007	96.22	100.69
	<b>31 January 2007 HKD</b>	<b>31 July 2006 HKD</b>
Total net asset value	2,161,291,831	2,109,496,388
Net asset value per unit	97.37	96.12



# Distribution Disclosure

## ABF Hong Kong Bond Index Fund

	<b>Date of Ex-distribution</b>	<b>Date of Payment</b>	<b>Distribution per Unit HKD</b>	<b>Total Distribution HKD</b>
2007 Interim Distribution	30 January 2007	7 February 2007	1.98	43,948,082
2006 Final Distribution	28 July 2006	7 August 2006	2.12	46,525,522
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 Y Lam  
N Y Louie  
P A Thurston (resigned on 31 December 2006)

### **Members of Supervisory Committee**

K C Chan  
Anthony Yuen  
Andrew Malcolm  
Carmen L K Chu

### **Investment Adviser**

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

### **Investment Sub-Adviser**

Halbis Capital Management (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  
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Central  
Hong Kong

### **Auditors**

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