

**ABF Hong Kong Bond Index Fund  
Annual Report 2009**



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# Investment Adviser's Report

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

### **Market review**

For the year ended 31 July 2009, the Fund delivered a positive return, closely tracking the benchmark index performance. During the year, the Fund experienced high transaction costs in bond trading as bid-offer spread rose to a high level. The Fund's investment holdings are mainly high-quality issuers such as the Hong Kong SAR Government, quasi-government entities in Hong Kong, and multilateral international agency entities. The good Fund performance during the review year can be attributable to a strong bond market rally, especially in the government bond segment because of risk aversion and a decline in interest rates. In response to the financial market turmoil and economic recession, the U.S. Federal Reserve continued an aggressive easing cycle. As a result, the yield on the U.S. two-year Treasury notes fell during the review period, while the 10-year yield dropped by less.

## **HSBC Global Asset Management (Hong Kong) Limited**

31 August 2009

# Trustee’s report

## ABF Hong Kong Bond Index Fund (“the Trust”)

We hereby confirm that, in our opinion, the Manager of the Trust has, in all material respects, managed the Trust in accordance with the provisions of the Trust Deed dated 10 June 2005, for the year ended 31 July 2009.

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

# Independent auditor's report to the unitholders of ABF Hong Kong Bond Index Fund ("the Trust")

We have audited the financial statements of the Trust set out on pages 5 to 18, which comprise the statement of assets and liabilities as at 31 July 2009, and the income statement, the statement of changes in net assets attributable to unitholders, the cash flow statement and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **Manager's and Trustee's responsibilities for the financial statements**

The Manager and Trustee are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for ensuring that the financial statements comply with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Trust as at 31 July 2009, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards, and have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements of the Code.

## **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
20 November 2009

# Statement of Assets and Liabilities

## ABF Hong Kong Bond Index Fund

as at 31 July 2009

(Expressed in Hong Kong dollars)

	Note	2009 HKD	2008 HKD
<b>ASSETS</b>			
Cash and cash equivalents	8(b)	3,557,822	3,353,623
Investments	6	2,164,677,599	2,360,041,133
Interest receivable		17,604,426	20,451,613
Amounts due from brokers	7	40,777,060	69,417,019
		<u>2,226,616,907</u>	<u>2,453,263,388</u>
<b>LIABILITIES</b>			
Amounts due to brokers	7	-	20,742,537
Distributions payable	11	41,120,242	51,244,442
Other payables	8(a), 8(c)	582,021	601,475
		<u>41,702,263</u>	<u>72,588,454</u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)</b>			
	14	<u>2,184,914,644</u>	<u>2,380,674,934</u>
<b>Total number of units in issue</b>	10	<u>21,196,001</u>	<u>23,946,001</u>
<b>Net asset value per unit at bid price</b>		<u>103.08</u>	<u>99.42</u>

Approved by the Trustee and the Manager on 20 November 2009

	)	
Keith CHEUNG	)	For and on behalf of
Gary LEUNG	)	HSBC Institutional Trust Services
	)	(Asia) Limited
	)	
	)	
LAM Po Yee	)	For and on behalf of
LIM Kean Kee	)	HSBC Investment Funds
	)	(Hong Kong) Limited
	)	

The notes on pages 10 to 18 form part of these financial statements.

# Income Statement

## ABF Hong Kong Bond Index Fund

for the year ended 31 July 2009

(Expressed in Hong Kong dollars)

	Note	2009 HKD	2008 HKD
Interest income	8(b)	2,168	51,537
Sundry income		95,609	674,870
Gains on investments	4	206,002,814	176,127,143
Losses on investments	4	(19,575,601)	(11,507,386)
Net foreign exchange loss		(119)	(93)
<b>NET INVESTMENT INCOME</b>		<b>186,524,871</b>	<b>165,346,071</b>
Management fees	8(a)	3,235,663	3,594,001
Trustee's fees	8(c)	1,153,193	1,284,870
Auditor's remuneration		200,872	209,160
Transaction fees	8(c)	24,896	33,845
Miscellaneous expenses		677,578	573,001
<b>OPERATING EXPENSES</b>		<b>5,292,202</b>	<b>5,694,877</b>
<b>NET INCOME FROM OPERATIONS BEFORE FINANCE COSTS</b>		<b>181,232,669</b>	<b>159,651,194</b>
Distributions to unitholders during the year	11	(82,802,784)	(93,389,404)
<b>Change in net assets attributable to unitholders</b>		<b>98,429,885</b>	<b>66,261,790</b>

The notes on pages 10 to 18 form part of these financial statements.

# Statement of Changes in Net Assets Attributable to Unitholders

## ABF Hong Kong Bond Index Fund

for the year ended 31 July 2009

(Expressed in Hong Kong dollars)

	Note	2009 HKD	2008 HKD
<b>Subscriptions received from units issued (excluding equalisation)</b>		26,049,500	278,612,975
<b>Less: Redemptions (excluding equalisation)</b>		(315,796,500)	(122,918,300)
		(289,747,000)	155,694,675
Change in net assets attributable to unitholders		98,429,885	66,261,790
Income equalisation on subscription and redemption of units	12	(4,443,175)	2,497,625
		(195,760,290)	224,454,090
<b>Net assets attributable to unitholders, beginning of year</b>		2,380,674,934	2,156,220,844
<b>Net assets attributable to unitholders, end of year</b>		2,184,914,644	2,380,674,934

The notes on pages 10 to 18 form part of these financial statements.



# Cash Flow Statement

## ABF Hong Kong Bond Index Fund

for the year ended 31 July 2009

(Expressed in Hong Kong dollars)

Note	2009 HKD	2008 HKD
<b>OPERATING ACTIVITIES</b>		
Interest received	2,557	61,390
Sundry income received	95,609	674,870
Management fees paid	(3,256,930)	(3,306,925)
Trustee's fees paid	(1,162,054)	(1,181,817)
Other operating expenses paid	(892,791)	(985,969)
<b>Cash flows used in operating activities</b>	<b>(5,213,609)</b>	<b>(4,738,451)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(484,576,937)	(727,856,907)
Proceeds from sale of investments	877,111,904	663,311,424
<b>Cash flows generated from/(used in) investing activities</b>	<b>392,534,967</b>	<b>(64,545,483)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of units and equalisation	26,243,775	282,061,450
Payment on redemption of units and equalisation	(320,433,950)	(123,869,150)
Distributions paid	(92,926,984)	(89,281,564)
<b>Cash flows (used in)/generated from financing activities</b>	<b>(387,117,159)</b>	<b>68,910,736</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>204,199</b>	<b>(373,198)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>3,353,623</b>	<b>3,726,821</b>
<b>Cash and cash equivalents at end of year</b>	<b>3,557,822</b>	<b>3,353,623</b>

The notes on pages 10 to 18 form part of these financial statements.

# Distribution Statement

## ABF Hong Kong Bond Index Fund

for the year ended 31 July 2009

(Expressed in Hong Kong dollars)

	Note	2009 HKD	2008 HKD
<b>Amount available for distribution brought forward</b>		4,115,436	3,235,893
Profit for the year available for distribution		85,105,702	91,771,322
Income equalisation on subscriptions and redemptions of units		(4,443,175)	2,497,625
Distributions to unitholders	11	(82,802,784)	(93,389,404)
<b>Amount available for distribution carried forward</b>		1,975,179	4,115,436

## Distribution history

Interim distribution per unit	1.99	1.76
Date of distribution	29 January 2009	30 January 2008
Final distribution per unit	1.94	2.14
Date of distribution	30 July 2009	30 July 2008

The notes on pages 10 to 18 form part of these financial statements.

# Notes to the Financial Statements

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

### **1 The Trust**

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

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

### **2 Significant accounting policies**

#### ***(a) Statement of compliance***

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

#### ***(b) Basis of preparation of the financial statements***

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

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

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

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

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

#### ***(c) Foreign currency translation***

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of assets and liabilities. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets 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.

# Notes to the Financial Statements

All other foreign currency exchange differences relating to monetary items including cash and cash equivalents are presented separately in the income statement.

## **(d) Financial instruments**

### **(i) Classification**

All of the Trust's investments are classified as financial assets or financial liabilities at fair value through profit or loss. This category comprises financial instruments held for trading, which are instruments that the Trust has acquired principally for the purpose of short-term profit-taking. These include investments in debt securities.

Financial assets that are classified as receivables include interest receivable and amounts due from brokers.

Financial liabilities include amounts due to brokers, distributions payable 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.

# Notes to the Financial Statements

## (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.

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.

## **(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 effective interest rate method. Interest income on bank deposits is disclosed separately on the face of the income statement. Interest income on debt securities is included in gains on investments.

## **(f) Expenses**

All expenses are recognised in the income statement on an accruals 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 or losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

## **(h) Related parties**

For the purposes of these financial statements, a party is considered to be related to the Trust if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Trust or exercise significant influence over the Trust in making financial and operating policy decisions, or has joint control over the Trust;

# Notes to the Financial Statements

- (ii) the Trust and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Trust or a joint venture in which the Trust is a venturer;
- (iv) the party is a member of key management personnel of the Trust or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Trust.

## **(i) Subscriptions and redemptions**

The Trust recognises unitholders' subscriptions and allots units upon receipt of a valid subscription application and derecognises them upon receipt of a valid redemption application.

## **(j) Units issued to investors**

All redeemable units issued by the Trust provide the respective unitholders with the right to require redemption for cash at the value proportionate to the unitholders' share in the Trust's net assets at the redemption date. In accordance with HKAS 32, such right gives rise to a financial liability for the present value of the redemption amount. See reconciliation of bid pricing net asset value to trade pricing net asset value in note 14.

## **(k) Finance costs**

Distributions payable on redeemable units are recognised in the income statement as finance costs.

## **3 Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Trust. There have been no significant changes to the

accounting policies adopted in these financial statements for the years presented as a result of these developments.

The Trust has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15).

## **4 Gains and losses on investments**

	2009 HKD	2008 HKD
Realised gains	117,242,719	108,653,531
Unrealised gains	88,760,095	67,473,612
Total gains on investments	206,002,814	176,127,143
Realised losses	(6,285,330)	(3,557,090)
Unrealised losses	(13,290,271)	(7,950,296)
Total losses on investments	(19,575,601)	(11,507,386)

## **5 Taxation**

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

## **6 Investments**

	2009 HKD	2008 HKD
<b>Debt securities</b>		
Listed bonds	1,835,121,797	1,627,357,226
Unlisted but quoted bonds	329,555,802	732,683,907
	2,164,677,599	2,360,041,133
Investments, at cost	2,082,992,623	2,356,672,780
Unrealised appreciation in value of investments	81,684,976	3,368,353
Investments, at market value	2,164,677,599	2,360,041,133

# Notes to the Financial Statements

## 7 Amounts due from/(to) brokers

	2009 HKD	2008 HKD
<b>Balances due from brokers</b>		
Amounts receivable on sale of investments	40,777,060	69,417,019

### Balances due to brokers

Amounts payable on purchase of investments	-	20,742,537
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## 8 Related parties transactions

The following is a summary of transactions with related parties for the year. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

- (a) The Trust is managed by HSBC Investment Funds (Hong Kong) Limited ("the Manager"), which receives a management fee, payable monthly in arrears, equivalent to 0.15% per annum of the average daily net assets of the Trust (in respect of the first \$1,560 million) and 0.12% per annum (thereafter).

In addition, the Manager acts as the listing agent of the Trust. The fee is paid out of the manager fees.

	2009 HKD	2008 HKD
(i) Management fees for the year	3,235,663	3,594,001
(ii) Management fees payable at year end	265,809	287,076

- (b) A bank account is maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group. The balance of this account amounted to \$3,557,822 (2008: \$3,353,623)

at the year end. Interest income arising from these accounts amounted to \$2,168 (2008: \$51,537).

- (c) The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited, a fellow subsidiary of the Manager within the HSBC Group, which receives a trustee fee, payable monthly in arrears, equivalent to 0.05% per annum of the average daily net assets of the Trust. In addition, the Trustee is entitled to a transaction fee of \$389 (2008: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities.

	2009 HKD	2008 HKD
(i) Trustee's fees for the year	1,153,193	1,284,870
(ii) Transaction fee for the year	24,896	33,845
(iii) Trustee's fees payable at year end	94,192	103,053
(iv) Transaction fee payable at year end	2,723	2,334

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

	2009 HKD	2008 HKD
Commission paid for the year	-	-
Average rate of commission	-	-
Total aggregate value of such transactions for the year	673,363,740	888,581,898
Percentage of such transactions in value to total transactions for the year	74.31%	74.03%

The figures for commission paid do not include any trading margin which may be reflected in the market price of transactions with these entities on any transactions by the Trust during the year.

# Notes to the Financial Statements

## 9 Soft commission arrangements

No soft commission arrangements were entered into with brokers during the year (2008: Nil).

## 10 Units issued and redeemed

	2009 HKD	2008 HKD
Number of units in issue brought forward	23,946,001	22,446,001
Units issued during the year	250,000	2,750,000
Units redeemed during the year	(3,000,000)	(1,250,000)
Number of units in issue carried forward	21,196,001	23,946,001

## 11 Distributions

### *Distributions attributable to the year*

	2009 HKD	2008 HKD
Interim dividend of 1.99 per unit on 20,946,001 units declared and paid (2008: 1.76 per unit on 23,946,001 units)	41,682,542	42,144,962
Final dividend of 1.94 per unit on 21,196,001 units declared and unpaid (2008: 2.14 per unit on 23,946,001 units)	41,120,242	51,244,442
	82,802,784	93,389,404

## 12 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.

## 13 Financial instruments and associated risks

The Trust maintains investment portfolios in a variety of listed and unlisted financial instruments as dictated by its investment management strategy. The Trust's investment portfolio comprises debt securities.

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

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

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

### **(a) Price risk**

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

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



# Notes to the Financial Statements

## (b) Interest rate risk

Interest rate risk arises from change in interest rates which may inversely affect the value of debt instruments and therefore result in potential gain or loss to the Trust. The Trust's interest rate risk is managed on an ongoing basis by the Manager.

In general, if interest rates rise, the 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 period in which the interest bearing assets and liabilities mature at the date of statement of assets and liabilities.

	2009				
	1 year or less	Over 1 year to 5 years	More than 5 years	Non-interest bearing	Total
	HKD	HKD	HKD	HKD	HKD
<b>Assets</b>					
Cash and cash equivalents	3,558	-	-	-	3,558
Investments	85,790	1,517,223	561,665	-	2,164,678
Interest receivable	-	-	-	17,604	17,604
Amounts due from brokers	-	-	-	40,777	40,777
<b>Total assets</b>	<b>89,348</b>	<b>1,517,223</b>	<b>561,665</b>	<b>58,381</b>	<b>2,226,617</b>
<b>Liabilities</b>					
Amounts due to brokers	-	-	-	-	-
Distributions payable	-	-	-	41,120	41,120
Other payables	-	-	-	582	582
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,702</b>	<b>41,702</b>
<b>Total interest sensitivity gap</b>	<b>89,348</b>	<b>1,517,223</b>	<b>561,665</b>		

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

## Interest rate sensitivity

At the date of statement of assets and liabilities, assuming all other factors unchanged, it is estimated that an increase in interest rates of 50 basis points would result in a decrease in the net assets attributable to unitholders and change in net assets attributable to unitholders from operations by \$40,040,657 (2008: \$40,704,904); an equal change in the opposite direction would result in an increase in the net assets attributable to unitholders by an equal amount. The analysis is performed on the same basis for 2008.

## (c) Currency risk

As all the Trust's financial instruments at 31 July 2009 and 2008 were denominated in Hong Kong dollars, no significant currency risk is associated with the Trust.

# Notes to the Financial Statements

**(d) Credit risk**

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

At 31 July 2009, all of the Trust's financial assets were exposed to credit risk. These include investments and cash and cash equivalents placed with banks and the Custodian.

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

**As at 31 July 2009**

	% of net assets
<b>Rating (Moody's/S&amp;P)</b>	
Aaa/AAA	6.15
Aa2/AA	92.92
Total	99.07

**As at 31 July 2008**

	% of net assets
<b>Rating (Moody's/S&amp;P)</b>	
Aaa/AAA	12.48
Aa2/AA	86.65
Total	99.13

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

Credit risk arising from transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

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

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

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

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

At both 31 July 2009 and 2008, there were no significant concentrations of credit risk to counterparties except to the Custodian.

**(e) Liquidity risk**

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

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

The Trust's listed investments are considered to have insignificant exposure to liquidity risk as they are all readily realisable on the stock exchange of which they are listed. The Trust, however, also invest in unlisted investments such as unlisted bonds, which are not publicly traded on exchanges and may be illiquid. The total value of unlisted investments at the year end was \$329,555,802 (2008: \$732,683,907).

# Notes to the Financial Statements

As at 31 July 2009 and 2008, the Trust's financial liabilities are due within three months, except for redemption payable which is repayable on demand.

## (f) Fair value information

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

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

## 14 Reconciliation of net assets values

The net asset value presented in the financial statements and that quoted for pricing purposes at the year end ("Dealing NAV") are different as the principles for calculating the Dealing NAV as set out in the prospectus are different from that required for financial reporting purposes under HKFRSs. The following reconciliation provides details of these differences:

**HKD**

NAV as reported in the financial statements as at 31 July 2009	2,184,914,644
Adjustments for different bases adopted by the Trust in arriving at the Dealing NAV:	
- Deferred formation expenses	318,127
Dealing NAV as at 31 July 2009	<u>2,185,232,771</u>

## 15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 July 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 July 2009 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Trust's operations and financial statements:

Effective for accounting periods beginning on or after		
Revised HKAS 1	Presentation of financial statements	1 January 2009
Amendments to HKAS 32	Financial instruments: Presentation	1 January 2009
Amendments to HKFRS 7	Financial instruments: Disclosures	1 January 2009

The Trust is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Trust's results of operations and financial position.

# Portfolio Statement (Unaudited)

**ABF Hong Kong Bond Index Fund**  
as at 31 July 2009

	Maturity date	Holdings	Market value HKD	% of NAV
<b>Debt securities</b>				
<b>Listed investments</b>				
HONG KONG MONETARY AUTHORITY 1.61% EXCHANGE FUND NOTES 2018	10 DECEMBER 2018	42,000,000	39,659,760	1.82
HONG KONG MONETARY AUTHORITY 1.67% EXCHANGE FUND NOTES 2013	19 DECEMBER 2013	25,000,000	25,103,332	1.15
HONG KONG MONETARY AUTHORITY 1.73% EXCHANGE FUND NOTES 2024	20 FEBRUARY 2024	25,000,000	22,806,582	1.04
HONG KONG MONETARY AUTHORITY 2.64% EXCHANGE FUND NOTES 2019	10 JUNE 2019	20,000,000	20,569,000	0.94
HONG KONG MONETARY AUTHORITY 2.71% EXCHANGE FUND NOTES 2023	20 FEBRUARY 2023	23,000,000	23,835,015	1.09
HONG KONG MONETARY AUTHORITY 3.12% EXCHANGE FUND NOTES 2011	25 NOVEMBER 2011	48,550,000	51,297,930	2.35
HONG KONG MONETARY AUTHORITY 3.14% EXCHANGE FUND NOTES 2012	24 FEBRUARY 2012	72,550,000	76,844,416	3.52
HONG KONG MONETARY AUTHORITY 3.19% EXCHANGE FUND NOTES 2010	28 MAY 2010	18,300,000	18,751,022	0.86
HONG KONG MONETARY AUTHORITY 3.27% EXCHANGE FUND NOTES 2011	25 FEBRUARY 2011	84,950,000	88,895,715	4.07
HONG KONG MONETARY AUTHORITY 3.50% EXCHANGE FUND NOTES 2015	22 JUNE 2015	47,500,000	51,772,164	2.37
HONG KONG MONETARY AUTHORITY 3.51% EXCHANGE FUND NOTES 2014	8 DECEMBER 2014	10,000,000	10,868,972	0.50
HONG KONG MONETARY AUTHORITY 3.52% EXCHANGE FUND NOTES 2017	5 DECEMBER 2017	26,000,000	28,633,540	1.31
HONG KONG MONETARY AUTHORITY 3.56% EXCHANGE FUND NOTES 2018	25 JUNE 2018	38,000,000	42,044,150	1.92
HONG KONG MONETARY AUTHORITY 3.61% EXCHANGE FUND NOTES 2012	28 MAY 2012	1,850,000	1,986,266	0.09
HONG KONG MONETARY AUTHORITY 3.63% EXCHANGE FUND NOTES 2011	19 DECEMBER 2011	24,000,000	25,661,100	1.17
HONG KONG MONETARY AUTHORITY 3.73% EXCHANGE FUND NOTES 2013	5 JUNE 2013	55,450,000	60,301,138	2.76
HONG KONG MONETARY AUTHORITY 3.78% EXCHANGE FUND NOTES 2016	6 DECEMBER 2016	22,000,000	24,507,195	1.12
HONG KONG MONETARY AUTHORITY 3.79% EXCHANGE FUND NOTES 2010	20 SEPTEMBER 2010	40,700,000	42,357,678	1.94

# Portfolio Statement (Unaudited)

## ABF Hong Kong Bond Index Fund

as at 31 July 2009

	Maturity date	Holdings	Market value HKD	% of NAV
HONG KONG MONETARY AUTHORITY 3.83% EXCHANGE FUND NOTES 2013	22 NOVEMBER 2013	26,000,000	28,457,198	1.30
HONG KONG MONETARY AUTHORITY 3.92% EXCHANGE FUND NOTES 2010	20 AUGUST 2010	68,550,000	71,240,663	3.26
HONG KONG MONETARY AUTHORITY 3.93% EXCHANGE FUND NOTES 2011	26 AUGUST 2011	38,150,000	40,832,338	1.87
HONG KONG MONETARY AUTHORITY 3.95% EXCHANGE FUND NOTES 2010	26 NOVEMBER 2010	55,550,000	58,260,251	2.67
HONG KONG MONETARY AUTHORITY 3.97% EXCHANGE FUND NOTES 2011	19 SEPTEMBER 2011	44,000,000	47,181,090	2.16
HONG KONG MONETARY AUTHORITY 4.00% EXCHANGE FUND NOTES 2012	27 AUGUST 2012	40,000,000	43,541,504	1.99
HONG KONG MONETARY AUTHORITY 4.04% EXCHANGE FUND NOTES 2014	30 MAY 2014	25,000,000	27,685,930	1.27
HONG KONG MONETARY AUTHORITY 4.13% EXCHANGE FUND NOTES 2013	22 FEBRUARY 2013	41,500,000	45,620,742	2.09
HONG KONG MONETARY AUTHORITY 4.26% EXCHANGE FUND NOTES 2010	20 DECEMBER 2010	41,300,000	43,587,793	1.99
HONG KONG MONETARY AUTHORITY 4.32% EXCHANGE FUND NOTES 2013	2 DECEMBER 2013	36,400,000	40,593,098	1.86
HONG KONG MONETARY AUTHORITY 4.33% EXCHANGE FUND NOTES 2015	7 DECEMBER 2015	12,000,000	13,700,227	0.63
HONG KONG MONETARY AUTHORITY 4.49% EXCHANGE FUND NOTES 2012	26 NOVEMBER 2012	61,000,000	67,581,747	3.09
HONG KONG MONETARY AUTHORITY 4.50% EXCHANGE FUND NOTES 2011	27 MAY 2011	96,800,000	104,023,942	4.76
HONG KONG MONETARY AUTHORITY 4.50% EXCHANGE FUND NOTES 2012	4 DECEMBER 2012	65,800,000	72,947,690	3.34
HONG KONG MONETARY AUTHORITY 4.65% EXCHANGE FUND NOTES 2022	29 AUGUST 2022	26,550,000	33,281,044	1.52
HONG KONG MONETARY AUTHORITY 4.82% EXCHANGE FUND NOTES 2014	2 JUNE 2014	56,500,000	64,611,564	2.96
HONG KONG MONETARY AUTHORITY 4.83% EXCHANGE FUND NOTES 2016	7 JUNE 2016	15,500,000	18,268,714	0.84
HONG KONG MONETARY AUTHORITY 4.85% EXCHANGE FUND NOTES 2017	27 JUNE 2017	13,000,000	15,541,403	0.71
HONG KONG MONETARY AUTHORITY 5.80% EXCHANGE FUND NOTES 2012	19 JUNE 2012	92,800,000	105,460,704	4.83
HONG KONG MONETARY AUTHORITY 5.92% EXCHANGE FUND NOTES 2011	5 DECEMBER 2011	68,500,000	76,821,510	3.52

# Portfolio Statement (Unaudited)

## ABF Hong Kong Bond Index Fund

as at 31 July 2009

	Maturity date	Holdings	Market value HKD	% of NAV
HONG KONG MONETARY AUTHORITY 6.13% EXCHANGE FUND NOTES 2011	20 JUNE 2011	67,600,000	74,831,179	3.42
HONG KONG MONETARY AUTHORITY 7.01% EXCHANGE FUND NOTES 2010	6 DECEMBER 2010	31,300,000	34,149,399	1.56
HONG KONG MONETARY AUTHORITY 7.31% EXCHANGE FUND NOTES 2010	21 JUNE 2010	24,300,000	25,831,726	1.18
KOWLOON-CANTON RAILWAY 4.65% THE GOVERNMENT OF THE HKSAR OF THE PRC 5.125% NOTES DUE 2019	10 JUNE 2013	10,000,000	10,671,565	0.49
	23 JULY 2019	12,500,000	14,503,801	0.66
			<u>1,835,121,797</u>	<u>83.99</u>
<b>Unlisted but quoted investments</b>				
Eurofima 4.18% EMTN	8 June 2015	46,000,000	49,447,304	2.26
Hong Kong Mortgage Corp 3.80%	6 April 2011	32,500,000	33,806,500	1.55
Hong Kong Mortgage Corp 3.80% EMTN	6 April 2011	1,000,000	1,040,835	0.05
Hong Kong Mortgage Corp 4.10% MTN	9 January 2012	5,500,000	5,673,735	0.26
Inter-American Development Bank 4.20%	24 March 2014	41,000,000	43,787,196	2.00
MTR Corp (Cayman Islands) 4.28% EMTN	6 July 2020	8,000,000	8,638,201	0.39
MTR Corp (Cayman Islands) 4.50%	11 May 2015	33,500,000	36,225,567	1.66
MTR Corp (Cayman Islands) 4.60%	3 June 2013	25,500,000	27,478,425	1.26
MTR Corp (Cayman Islands) 4.75%	11 May 2020	66,000,000	73,829,376	3.38
MTR Corp (Cayman Islands) 4.90%	25 June 2018	7,000,000	7,871,657	0.36
MTR Corp (Cayman Islands) 5.25%	21 May 2013	500,000	549,850	0.02
Nordic Investment Bank 3.77%	12 July 2010	40,000,000	41,207,156	1.89
			<u>329,555,802</u>	<u>15.08</u>
<b>Debt securities (Total)</b>			<u>2,164,677,599</u>	<u>99.07</u>
<b>Total investments</b>			<u>2,164,677,599</u>	<u>99.07</u>
<b>Other net assets</b>			<u>20,237,045</u>	<u>0.93</u>
<b>Total net assets</b>			<u>2,184,914,644</u>	<u>100.00</u>
<b>Total cost of investments</b>			<u>2,082,992,623</u>	

# Statement of Movements in Portfolio Holdings (Unaudited)

## ABF Hong Kong Bond Index Fund

as at 31 July 2009

	<b>% of NAV 2009</b>	<b>% of NAV 2008</b>
<b>Debt securities</b>		
Listed investments	83.99	68.35
Unlisted but quoted investments	15.08	30.78
<b>Debt securities (Total)</b>	<b>99.07</b>	<b>99.13</b>
<b>Total investments</b>	<b>99.07</b>	<b>99.13</b>
<b>Other net assets</b>	<b>0.93</b>	<b>0.87</b>
<b>Total net assets</b>	<b>100.00</b>	<b>100.00</b>

# Performance Record (Unaudited)

## ABF Hong Kong Bond Index Fund

### (a) Price record (Dealing NAV)

The Trust is an index fund which seeks investment results that correspond closely to the total return of the iBoxx ABF Hong Kong Index ("the Index"). There was no index constituent security of the Index that accounted for more than 10% of the Index as at 31 July 2009.

Year	Net asset value (Dealing NAV) per unit	
	Lowest HKD	Highest HKD
2009	99.69	108.45
2008	96.32	105.99
2007	96.10	100.69
2006	95.52	100.33

### (b) Total net asset value (at bid prices)

	2009 HKD	2008 HKD	2007 HKD	2006 HKD
Total net asset value	\$2,184,914,644	\$2,380,674,934	\$2,156,220,844	\$2,109,496,388

### (c) Total net asset value per unit (at bid prices)

	2009 HKD	2008 HKD	2007 HKD	2006 HKD
Net asset value per unit	\$103.08	\$99.42	\$96.06	\$96.12

### (d) Performance

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

	2009	2008
ABF Hong Kong Bond Index Fund	(a) 7.61%	7.50%
iBoxx ABF Hong Kong Index	(b) 7.96%	7.79%

- (a) The Trust's returns are calculated on Net Asset Value (NAV) to NAV basis, i.e. dividends reinvested. The NAV presented in the financial statements is different from the NAV used to calculate the Trust's returns because the principles used for calculating the Trust's returns as set out in the prospectus were different from those required for financial reporting purposes under the Hong Kong Financial Reporting Standards as detailed on note 14 on the financial statements.
- (b) The benchmark returns are stated on a total return basis. Unlike the Trust, the benchmark returns do not include the impact of Trust expenses or Trust transaction costs.

Investor should note that investment involves risk and past performance may not be indicative of future performance. Investors 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  
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1 Queen's Road Central  
Hong Kong

### **Directors of the manager**

Edmund Richard STOKES  
Po Yee LAM  
Rudolf Eduard Walter APENBRINK  
Patrice Pierre Henri CONXICOEUR  
(appointed on 1 August 2008)  
Ayaz Hatim EBRAHIM  
(appointed on 13 August 2008)  
Lim Kean Kee  
(appointed on 2 July 2009)  
King Lun AU  
(resigned on 1 August 2008)  
Ngar Yee LOUIE  
(resigned on 2 July 2009)

### **Members of supervisory committee**

Anthony YUEN  
Andrew MALCOLM  
Carmen L K CHU  
Stephen Y L Cheung

### **Investment adviser**

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### **Investment sub-adviser**

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