

ABF Hong Kong Bond Index Fund Interim Report 2010



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Investment Adviser's Report

ABF Hong Kong Bond Index Fund

For the six months ended 31 January 2010, the fund delivered a positive return. The small deviation from benchmark's performance could mainly be attributed to transaction cost. Despite improved market liquidity, the bid-ask spread remained relatively large and resulted in high transaction cost. The fund's investment holdings continued to compose of high quality issuers, such as the Hong Kong SAR Government, quasi-government entities in Hong Kong as well as multilateral international agency entities. This reflected the characteristics of the fund of being a conservative investment which aims to achieve investment return and distribute potential income on a semi-annual basis. During the period, the US federal funds rate remained at a low range of 0% to 0.25% as a result of the Fed's aggressive easing cycle in response to the financial market turmoil. The U.S. monetary easing policies also created a flush liquidity position which keeps local rate low.

Statement of Financial Position

ABF Hong Kong Bond Index Fund

| | 31 January 2010 HKD | 31 July 2009 HKD |
|-------------------------------------|------------------------|----------------------|
| ASSETS | | |
| Investments | 2,311,587,822 | 2,164,677,599 |
| Accounts receivable | 86,125,325 | 58,381,486 |
| Cash at banks | 739,329 | 3,557,822 |
| Total assets | 2,398,452,476 | 2,226,616,907 |
| LIABILITIES | | |
| Accounts payable | 26,050,469 | 582,021 |
| Distribution payable | 41,991,182 | 41,120,242 |
| Total liabilities | 68,041,651 | 41,702,263 |
| TOTAL NET ASSETS | 2,330,410,825 | 2,184,914,644 |
| EQUITY | | |
| Capital attributable to unitholders | 2,330,410,825 | 2,184,914,644 |
| TOTAL EQUITY | 2,330,410,825 | 2,184,914,644 |
| Number of units outstanding | 22,946,001 | 21,196,001 |
| Net asset value per unit | 101.56 | 103.08 |

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2010

| | Holdings | Market value HKD | % of NAV | | Holdings | Market value HKD | % of NAV |
|------------------------|-------------|------------------------|-------------|-------------------------|------------|------------------------|-------------|
| Debt Securities | | | | HK GOVERNMENT EX FD | | | |
| EUROFIMA 4.18% EMTN | | | | NT 1312 4.32% 2DEC13 | 36,400,000 | 40,273,630 | 1.73 |
| 8JUN2015 | 46,000,000 | 49,513,002 | 2.12 | HK GOVERNMENT EX FD | | | |
| HK GOVERNMENT | | | | NT 1406 4.82% 2JUN14 | 56,500,000 | 64,010,042 | 2.75 |
| 4.49% 26NOV2012 7211 | 61,000,000 | 66,978,067 | 2.87 | HK GOVERNMENT EX FD | | | |
| HK GOVERNMENT BOND | | | | NT 7102 3.27% 25FEB11 | 20,400,000 | 21,049,197 | 0.90 |
| 1412 3.51% 8DEC2014 | 10,000,000 | 10,787,579 | 0.46 | HK GOVERNMENT EX FD | | | |
| HK GOVERNMENT BOND | | | | NT 7105 4.5% 27MAY11 | 96,800,000 | 102,046,870 | 4.38 |
| 3.56% 25JUN2018 | 38,000,000 | 40,765,902 | 1.75 | HK GOVERNMENT SER | | | |
| HK GOVERNMENT BOND | | | | 1506 3.5% 22JUN2015 | 47,500,000 | 51,242,435 | 2.20 |
| 3.63% 19DEC2011 5112 | 24,000,000 | 25,364,885 | 1.09 | HK GOVERNMENT SER | | | |
| HK GOVERNMENT BOND | | | | 7208 4% 27AUG2012 | 58,500,000 | 63,149,750 | 2.71 |
| 3.78% 6DEC2016 1612 | 22,000,000 | 24,055,711 | 1.03 | HK MORTGAGE CORP | | | |
| HK GOVERNMENT BOND | | | | 3.8% 6APR2011 EMTN | 1,000,000 | 1,036,200 | 0.04 |
| 3.97% 19SEP2011 5109 | 44,000,000 | 46,480,993 | 1.99 | HKSAR GOVERNMENT | | | |
| HK GOVERNMENT BOND | | | | 5.125% 23JUL2019 | 12,500,000 | 14,584,041 | 0.63 |
| 4.13% 22FEB2013 7302 | 41,500,000 | 45,303,492 | 1.94 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 0.43% 17AUG2011 | 26,500,000 | 26,487,200 | 1.14 |
| 4.33% 7DEC2015 1512 | 12,000,000 | 13,495,493 | 0.58 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 0.92% 5SEP2011 | 17,000,000 | 17,122,400 | 0.74 |
| 4.53% 18JUN2012 | 111,000,000 | 120,790,200 | 5.18 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 05Y1312 1.67% 19DEC2013 | 42,000,000 | 42,294,424 | 1.82 |
| 4.57% 13JUN2011 5106 | 92,000,000 | 97,224,036 | 4.17 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 1.61% 10DEC2018 | 42,000,000 | 38,530,540 | 1.65 |
| 4.83% 7JUN2016 1606 | 15,500,000 | 17,921,832 | 0.77 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 1.69% 22DEC2014 | 71,000,000 | 70,571,515 | 3.03 |
| 7108 3.93% 26AUG2011 | 61,150,000 | 64,444,395 | 2.77 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 1.73% 20FEB2024 | 25,000,000 | 21,627,642 | 0.93 |
| 7111 3.12% 25NOV2011 | 48,550,000 | 50,793,010 | 2.18 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 2.07% 3NOV2014 | 47,000,000 | 47,198,965 | 2.03 |
| 7202 3.14% 24FEB2012 | 72,550,000 | 76,230,403 | 3.27 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT BOND | | | | 2.16% 9DEC2019 | 45,000,000 | 42,500,556 | 1.82 |
| 7205 3.61% 28MAY2012 | 1,850,000 | 1,971,011 | 0.08 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT EX FD | | | | 2.64% 10JUN2019 | 20,000,000 | 19,836,284 | 0.85 |
| NT 1106 6.13% 20JUN11 | 67,600,000 | 72,940,076 | 3.13 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT EX FD | | | | 2.71% 20FEB2023 | 23,000,000 | 22,565,530 | 0.97 |
| NT 1112 5.92% 5DEC11 | 68,500,000 | 75,201,506 | 3.23 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT EX FD | | | | 3.52% 5DEC2017 | 32,500,000 | 34,848,921 | 1.50 |
| NT 1206 5.8% 19JUN12 | 92,800,000 | 103,747,514 | 4.45 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT EX FD | | | | 3.83% 22NOV2013 | 26,000,000 | 28,289,365 | 1.21 |
| NT 1212 4.5% 4DEC12 | 65,800,000 | 72,289,459 | 3.10 | HONG KONG (GOVT OF) | | | |
| HK GOVERNMENT EX FD | | | | 4.04% 30MAY2014 | 52,000,000 | 57,215,938 | 2.46 |
| NT 1306 3.73% 5JUN13 | 55,450,000 | 60,001,963 | 2.58 | HONG KONG (GOVT OF) | | | |
| | | | | 4.65% 29AUG2022 | 41,550,000 | 49,296,698 | 2.12 |

Portfolio Statement

ABF Hong Kong Bond Index Fund

as at 31 January 2010

| | Holdings | Market value HKD | % of NAV |
|---------------------------------|------------|------------------------|-------------|
| HONG KONG (GOVT OF) | | | |
| 4.85% 27JUN2017 | 13,000,000 | 15,129,400 | 0.65 |
| HONG KONG MTG CORP | | | |
| 3.6% 10JAN2011 MTN | 37,000,000 | 38,017,500 | 1.63 |
| HONG KONG MTG CORP | | | |
| 3.8% 6APR2011 | 32,500,000 | 33,647,250 | 1.44 |
| HONG KONG MTG CORP | | | |
| 4.1% 9JAN2012 MTN | 5,500,000 | 5,800,940 | 0.25 |
| INTER-AMERICAN DEV BANK | | | |
| 4.2% 24MAR2014 | 41,000,000 | 44,308,286 | 1.90 |
| KOWLOON-CANTON RAILWAY | | | |
| 4.65% 10JUN2013 | 10,000,000 | 10,791,802 | 0.46 |
| MTR CORP (C.L.) 4.28% | | | |
| 6JUL2020 EMTN | 8,000,000 | 8,368,976 | 0.36 |
| MTR CORP (C.L.) 4.5% | | | |
| 11MAY2015 | 33,500,000 | 36,277,277 | 1.56 |
| MTR CORP (C.L.) 4.6% | | | |
| 3JUN2013 | 25,500,000 | 27,711,589 | 1.19 |
| MTR CORP (C.L.) 4.75% | | | |
| 11MAY2020 | 66,000,000 | 71,160,137 | 3.05 |
| MTR CORP (C.L.) 4.9% | | | |
| 25JUN2018 | 7,000,000 | 7,743,443 | 0.33 |
| MTR CORP (C.L.) 5.25% | | | |
| 21MAY2013 | 500,000 | 552,550 | 0.02 |
| Total Investments | | 2,311,587,822 | 99.19 |
| Other Net Assets | | 18,823,003 | 0.81 |
| Total Net Assets | | 2,330,410,825 | 100.00 |
| Total Cost of Investment | | 2,266,723,168 | |

Statement of Movements in Portfolio Holdings

ABF Hong Kong Bond Index Fund

| | % of NAV 31 January 2010 | % of NAV 31 July 2009 |
|--------------------------|---|--------------------------------------|
| Debt Securities | 99.19 | 99.07 |
| Total Investments | 99.19 | 99.07 |
| Other Net Assets | 0.81 | 0.93 |
| Total Net Assets | 100.00 | 100.00 |

Performance Record

ABF Hong Kong Bond Index Fund

| | Net asset value per unit | |
|----------------------------------|--------------------------------|-----------------------------|
| | Lowest HKD | Highest HKD |
| 2008 | 96.32 ^(a) | 105.99 ^(a) |
| 2009 | 99.69 ^(a) | 108.45 ^(a) |
| 1 August 2009 to 31 January 2010 | 101.45 ^(a) | 104.67 ^(a) |
| | 31 January 2010 HKD | 31 July 2009 HKD |
| Total net asset value | 2,330,410,825 | 2,184,914,644 |
| Net asset value per unit | 101.56 | 103.08 |

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

| | 6 months ended 31 January 2010 | 12 months ended 31 July 2009 |
|-------------------------------|-----------------------------------|---------------------------------|
| ABF Hong Kong Bond Index Fund | 0.27% ^{(a) (b)} | 7.61% ^{(a) (b)} |
| iBoxx ABF Hong Kong Index | 0.51% ^(c) | 7.96% ^(c) |

- (a) The net asset value presented in the financial statements and that quoted for pricing and performance calculation purposes ("Dealing NAV") are different due to the principles for calculating the Dealing NAV as set out in the prospectus being different from that required for financial reporting purposes under Hong Kong Financial Reporting Standards. The following reconciliation provides details of these differences:

| | As at 31 January 2010 HKD | As at 31 July 2009 HKD |
|---|---------------------------------|------------------------------|
| Net asset value as reported in the financial statements | 2,330,410,825 | 2,184,914,644 |
| Adjustments for different bases adopted by the Trust | | |
| in arriving at the Dealing NAV: | | |
| – Deferred formation expenses | 153,238 | 318,127 |
| Dealing NAV | 2,330,564,063 | 2,185,232,771 |

Performance Record

ABF Hong Kong Bond Index Fund

The statistics of lowest and highest net asset value per unit and the performance of the Trust disclosed above are calculated accordingly to the Dealing NAV calculated on the relevant Dealing Days of the Trust.

- (b) The Trust's returns are calculated on NAV-to-NAV basis (Dealing NAV on the relevant Dealing Day), dividends reinvested.
- (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.

Distribution Disclosure

ABF Hong Kong Bond Index Fund

| | Date of Ex-distribution | Date of Payment | Distribution Per Unit HKD | Total Distribution HKD |
|---------------------------|------------------------------------|----------------------------|--|---------------------------------------|
| 2010 Interim Distribution | 28 January 2010 | 8 February 2010 | 1.83 | 41,991,182 |
| 2009 Final Distribution | 30 July 2009 | 10 August 2009 | 1.94 | 41,120,242 |
| 2009 Interim Distribution | 29 January 2009 | 9 February 2009 | 1.99 | 41,682,542 |

Administration

ABF Hong Kong Bond Index Fund

Manager and Listing Agent

HSBC Investment Funds (Hong Kong) Limited
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