

**ABF Hong Kong Bond Index Fund
Annual Report 2011**



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Investment Adviser's Report

ABF Hong Kong Bond Index Fund

Market review

For the year ending July 2011, the fund delivered a positive return, closely tracking the benchmark index performance. The Fund's investment holdings are mainly high-quality issuers such as the Hong Kong SAR Government, quasi-government entities in Hong Kong, as well as multilateral international agency entities. During the first half of the review period, the Fund's performance was negatively affected by the re-rating of US growth prospects, which saw a savage sell-off in US and Hong Kong bonds. The losses were later reversed during 2011 as US Treasury yields moved lower amid a slowing global growth outlook, the downgrading of US Treasuries by Standard & Poor's, and the growing European sovereign debt crisis.

HSBC Global Asset Management (Hong Kong) Limited

22 November 2011

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 2011.

)	
Amy FUNG)	For and on behalf of
Bertha TAM)	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 ABF Hong Kong Bond Index Fund ("the Trust") set out on pages 4 to 18, which comprise the statement of assets and liabilities as at 31 July 2011, the statement of comprehensive income, statement of changes in equity, cash flow statement and distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Manager and the Trustee are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Manager and the Trustee also have responsibility to ensure 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").

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 about whether the financial statements are free from 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 of the financial statements that give a true and fair view 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 2011 and of its transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on disclosure requirements under the Code

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in the Code.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 November 2011

Statement of Assets and Liabilities

ABF Hong Kong Bond Index Fund

as at 31 July 2011

	Note	2011 HKD	2010 HKD
ASSETS			
Financial assets at fair value through profit or loss	5	2,577,333,343	2,339,895,514
Interest receivable		14,536,343	15,439,648
Amounts due from brokers	6	69,036,250	43,150,508
Cash and cash equivalents	7(b)	3,286,191	3,704,543
		<hr/> 2,664,192,127	<hr/> 2,402,190,213
LIABILITIES			
Amounts due to brokers	6	36,680,035	7,313,504
Distributions payable	10	34,352,101	39,008,202
Other payables	7(a), 7(c)	740,587	705,342
		<hr/> 71,772,723	<hr/> 47,027,048
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)		<hr/> 2,592,419,404	<hr/> 2,355,163,165
Representing:			
Total equity		<hr/> 2,592,419,404	<hr/> 2,355,163,165
Total number of units in issue	9	<hr/> 25,446,001	<hr/> 22,946,001
Net asset value per unit at bid price		<hr/> 101.88	<hr/> 102.64

Approved by the Trustee and the Manager on 22 November 2011

)	
Amy FUNG)	For and on behalf of
Bertha FUNG)	HSBC Institutional Trust Services
)	(Asia) Limited
)	
)	
Edgar Kai Man NG)	For and on behalf of
Julie J KOO)	HSBC Investment Funds
)	(Hong Kong) Limited
)	

The notes on pages 9 to 18 form part of these financial statements.

Statement of Comprehensive Income

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2011

	Note	2011 HKD	2010 HKD
Sundry income		20,000	93,798
Net foreign exchange loss		(121)	(47)
Net gains from financial instruments at fair value through profit or loss	3	58,866,145	73,737,239
TOTAL REVENUE		58,886,024	73,830,990
Management fees	7(a)	3,462,253	3,233,494
Trustee's fees	7(c)	1,248,140	1,152,824
Auditor's remuneration		219,702	227,078
Transaction costs	7(c)	22,173	16,338
Miscellaneous expenses		637,649	645,802
TOTAL OPERATING EXPENSES		5,589,917	5,275,536
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		53,296,107	68,555,454

The notes on pages 9 to 18 form part of these financial statements.

Statement of Changes in Equity

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2011

	Note	2011 HKD	2010 HKD
Balance at the beginning of year		2,355,163,165	2,184,914,644
Increase in net assets attributable to unitholders and total comprehensive income for the year		53,296,107	68,555,454
Transactions with owners, recorded directly in equity			
Subscriptions of units (excluding equalisation)		253,219,250	206,185,575
Redemptions of units (excluding equalisation)		–	(25,509,525)
Income equalisation on subscriptions and redemptions	11	2,635,025	2,016,400
Distributions to unitholders during the year	10	(71,894,143)	(80,999,383)
Total transactions with owners		183,960,132	101,693,067
Balance at the end of the year		2,592,419,404	2,355,163,165

The notes on pages 9 to 18 form part of these financial statements.

Cash Flow Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2011

	2011 HKD	2010 HKD
OPERATING ACTIVITIES		
Sundry income received	20,000	93,798
Management fees paid	(3,448,713)	(3,226,013)
Trustee's fees paid	(1,241,964)	(1,149,173)
Transaction costs paid	(22,173)	(16,338)
Other operating expenses paid	(841,943)	(760,738)
Cash used in operating activities	(5,534,793)	(5,058,464)
INVESTING ACTIVITIES		
Payments on purchase of investments	(1,112,566,019)	(908,299,021)
Proceeds from sale of investments	938,378,429	813,923,179
Cash used in investing activities	(174,187,590)	(94,375,842)
FINANCING ACTIVITIES		
Proceeds from issue of units including equalisation	255,854,275	208,579,875
Payment on redemption of units including equalisation	—	(25,887,425)
Distributions paid	(76,550,244)	(83,111,423)
Cash generated from financing activities	179,304,031	99,581,027
Net (decrease)/increase in cash and cash equivalents	(418,352)	146,721
Cash and cash equivalents at the beginning of year	3,704,543	3,557,822
Cash and cash equivalents at the end of year	3,286,191	3,704,543

The notes on pages 9 to 18 form part of these financial statements.

Distribution Statement

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2011

	Note	2011 HKD	2010 HKD
Amount available for distribution brought forward		1,847,951	1,975,179
Profit for the year available for distribution*		69,710,807	78,855,755
Income equalisation on subscriptions and redemptions	11	2,635,025	2,016,400
Distributions to unitholders	10	(71,894,143)	(80,999,383)
Amount available for distribution carried forward		2,299,640	1,847,951
Distribution history			
Interim distribution per unit		1.49	1.83
Date of distribution		28 January 2011	28 January 2010
Final distribution per unit		1.35	1.70
Date of distribution		28 July 2011	29 July 2010

* Profit for the year available for distribution is the adjusted total comprehensive income for the year, for which the calculation basis is in accordance with the relevant clauses of the Trust Deed.

The notes on pages 9 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 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 Markit iBoxx ABF Hong Kong Index which is compiled by the Markit Indices Limited.

The Trust is authorised by the Hong Kong Securities and Futures Commission (“SFC”) under section 104 of the Hong Kong Securities and Futures Ordinance (“HKSF”). 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 SFC. A summary of the significant accounting policies adopted by the Trust is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Trust. There have been no significant changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

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

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Trust is the Hong Kong dollars 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.

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 profit or loss. 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.

Notes to the Financial Statements

Foreign currency exchange differences relating to investments at fair value through profit or loss are included in net gains/ (losses) on financial assets at fair value through profit or loss. All other foreign currency exchange differences relating to monetary items including cash and cash equivalents are presented separately in profit or loss.

(d) Financial instruments

(i) Classification

All of the Trust's investments are classified as financial assets 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 that are not at fair value through profit or loss 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 or sale 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 profit or loss.

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.

(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/ earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

(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 profit or loss 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 to the Financial Statements

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 profit or loss.

(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 offset 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 profit or loss as follows:

Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest rate method. Interest income on bank deposits is disclosed separately on the face of profit or loss. Interest income on debt securities is included in net gains from financial instruments at fair value through profit or loss.

(f) Expenses

All expenses are recognised in profit or loss 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 statement of comprehensive income 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;
- (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.

Notes to the Financial Statements

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 in issue

The Trust classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Trust has one class of redeemable units in issue. This is the most subordinate class of financial instruments in the Trust and ranks *pari passu* in all material respects and has identical terms and conditions. The redeemable units provide unitholders with the right to require redemption for cash at a value proportionate to the unitholders' share in the Trust's net assets at each redemption date and also in the event of the Trust's liquidation.

A puttable financial instrument that includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset is classified as equity instrument if it meets the following conditions:

- it entitles the holder to a pro rata share of the entity's net assets in the event of the Trust's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Trust to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Trust over the life of the instrument.

The Trust's redeemable units meet all of these conditions and are classified as equity.

(k) Distributions

Distributions payable on redeemable units are recognised in the statement of changes in equity.

(l) Segment reporting

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Trust's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Trust is identified as the Manager, HSBC Investment Funds (Hong Kong) Limited.

3 Net gains from financial instruments at fair value through profit or loss

	2011 HKD	2010 HKD
Unrealised losses	(10,484,886)	(13,236,211)
Realised gains	69,351,031	86,973,450
	58,866,145	73,737,239

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.

Notes to the Financial Statements

5 Financial assets at fair value through profit or loss

	2011 HKD	2010 HKD
Debt securities		
Listed bonds	2,306,321,444	1,988,638,659
Unlisted but quoted bonds	271,011,899	351,256,855
	<u>2,577,333,343</u>	<u>2,339,895,514</u>
Investments, at cost	2,516,301,381	2,269,281,971
Net unrealised appreciation in value of investments	61,031,962	70,613,543
	<u>2,577,333,343</u>	<u>2,339,895,514</u>
Investments, at market value		

6 Amounts due from/(to) brokers

	2011 HKD	2010 HKD
Balances due from brokers		
Amounts receivable on sale of investments	69,036,250	43,150,508
	<u>69,036,250</u>	<u>43,150,508</u>
Balances due to brokers		
Amounts payable on purchase of investments	36,680,035	7,313,504
	<u>36,680,035</u>	<u>7,313,504</u>

7 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 management fees.

	2011 HKD	2010 HKD
(i) Management fees for the year	3,462,253	3,233,494
(ii) Management fees payable at year end	<u>286,830</u>	<u>273,290</u>

- (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 \$3,286,191 (2010: \$3,704,543) at the year end. There is no interest income arising from these accounts during the year (2010: \$Nil).

- (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 trustee's fees, 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 transaction costs of \$389 (2010: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities.

	2011 HKD	2010 HKD
(i) Trustee's fees for the year	1,248,140	1,152,824
(ii) Transaction costs for the year	22,173	16,338
(iii) Trustee's fees payable at year end	104,019	97,843
(iv) Transaction costs payable at year end	<u>3,112</u>	<u>1,945</u>

- (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:

Notes to the Financial Statements

	2011 HKD	2010 HKD
Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	905,331,465	1,019,422,483
Percentage of such transactions in value to total transactions for the year	44.59%	61.53%

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.

8 Soft commission arrangements

No soft commission arrangements were entered into with brokers during the year (2010: Nil).

9 Units issued and redeemed

	2011	2010
Number of units in issue brought forward	22,946,001	21,196,001
Units issued during the year	2,500,000	2,000,000
Units redeemed during the year	–	(250,000)
Number of units in issue carried forward	25,446,001	22,946,001

10 Distributions

Distributions attributable to the year

	2011 HKD	2010 HKD
Interim dividend of \$1.49 per unit on 25,196,001 units declared and paid (2010: \$1.83 per unit on 22,946,001 units)	37,542,042	41,991,181
Final dividend of \$1.35 per unit on 25,446,001 units declared and unpaid (2010: \$1.70 per unit on 22,946,001 units)	34,352,101	39,008,202
	71,894,143	80,999,383

11 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.

12 Financial instruments and associated risks

The Trust maintains an investment portfolio 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 when seeking 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.

Notes to the Financial Statements

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 financial instruments in the Trust can be found in the Trust's offering document.

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 whose 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.

(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 the statement of assets and liabilities.

All amounts stated in '000	2011				Total HKD
	1 year or less HKD	Over 1 year to 5 years HKD	More than 5 years HKD	Non-interest bearing HKD	
Assets					
Financial assets at fair value through profit or loss	33,104	1,771,171	773,059	-	2,577,334
Amounts due from brokers	-	-	-	69,036	69,036
Interest receivable	-	-	-	14,536	14,536
Cash and cash equivalents	-	-	-	3,286	3,286
Total assets	33,104	1,771,171	773,059	86,858	2,664,192
Liabilities					
Amounts due to brokers	-	-	-	36,680	36,680
Distributions payable	-	-	-	34,352	34,352
Other payables	-	-	-	741	741
Total liabilities	-	-	-	71,773	71,773
Total interest sensitivity gap	33,104	1,771,171	773,059		

Notes to the Financial Statements

All amounts stated in '000	2010					Total HKD
	1 year or less HKD	Over 1 year to 5 years HKD	More than 5 years HKD	Non-interest bearing HKD		
Assets						
Financial assets at fair value through profit or loss	71,619	1,682,431	585,845	-	2,339,895	
Amounts due from brokers	-	-	-	43,150	43,150	
Interest receivable	-	-	-	15,440	15,440	
Cash and cash equivalents	-	-	-	3,705	3,705	
Total assets	71,619	1,682,431	585,845	62,295	2,402,190	
Liabilities						
Amounts due to brokers	-	-	-	7,314	7,314	
Distributions payable	-	-	-	39,008	39,008	
Other payables	-	-	-	705	705	
Total liabilities	-	-	-	47,027	47,027	
Total interest sensitivity gap	71,619	1,682,431	585,845			

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 the profit for the year by \$51,271,202 (2010: \$44,709,418); 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 2010.

(c) Currency risk

As all the Trust's financial instruments at 31 July 2011 and 2010 were denominated in Hong Kong dollars, no significant currency risk is associated with the Trust.

(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 2011, 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 the statement of assets and liabilities, the Trust invested in debt securities with the following credit quality expressed as a percentage of debt securities:

As at 31 July 2011

Rating (Moody's/S&P)	% of debt securities
Aaa/AAA	54.93
Aa1/AA+	45.07
Aa2/AA	-
Total	100.00

As at 31 July 2010

Rating (Moody's/S&P)	% of debt securities
Aaa/AAA	4.12
Aa1/AA+	92.12
Aa2/AA	3.76
Total	100.00

Credit risk is managed by reviewing and monitoring the credit quality of debt securities 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.

Notes to the Financial Statements

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 and financial position 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 HSBC, for which credit risk is considered insignificant.

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

At both 31 July 2011 and 2010, 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 they are listed. The Trust, however, also invests 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 \$271,011,899 (2010: \$351,256,855).

As at 31 July 2011 and 2010, the Trust's financial liabilities are due within three months.

13 Fair value information

The Trust's financial instruments are measured at fair value on the date of the statement of assets and liabilities. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including interest receivable, amounts due from brokers, amounts due to brokers, distribution payable and other payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Valuation of financial instruments

The Trust's accounting policy on fair value measurements is detailed in accounting policy in note 2(d)(iv).

The Trust measures fair values using the three levels of fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are as defined as follows:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs.

For debt securities which are listed on recognised stock exchanges or those with daily dealer price quotations, the fair values of them are based on quoted market prices in active market. For all other debt securities, the Trust determines fair value using valuation techniques.

Notes to the Financial Statements

The Trust uses widely recognised valuation models for determining the fair value of the debt securities which do not have quoted market prices in an active market. Valuation techniques include net present value, discounted cash flow models, comparison to similar instruments for which market observable prices exist, comparison to quoted prices for identical instruments that are considered less than active and other valuation models.

The following analyses financial instruments at fair value at the date of the statement of assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31 July 2011

	Level 1 HKD	Level 2 HKD	Total HKD
Listed debt securities	2,306,321,444	–	2,306,321,444
Unlisted but quoted debt securities	93,110,293	177,901,606	271,011,899
Total	2,399,431,737	177,901,606	2,577,333,343

31 July 2010

	Level 1 HKD	Level 2 HKD	Total HKD
Listed debt securities	1,988,638,659	–	1,988,638,659
Unlisted but quoted debt securities	94,716,364	256,540,491	351,256,855
Total	2,083,355,023	256,540,491	2,339,895,514

There are no significant transfers between the levels during the year.

14 Segment information

The Manager makes strategic resource allocation on behalf of the Trust and determines operating segments based on internal reports reviewed which are used to make strategic decisions.

The Manager's asset allocation decisions are based on one single, integrated investment strategy, and the Trust's performance is evaluated on an overall basis. Accordingly the Manager considers that the Trust has one single operating segment which is investing in a portfolio of financial instruments to generate investment returns in accordance with the investment objective stipulated in the Explanatory Memorandum. There were no changes in the operating segment during the year.

All revenues generated from investments by the Trust are disclosed in note 3. The segment information provided to the Manager is the same as that disclosed in profit or loss and the statement of assets and liabilities.

The Trust is domiciled in Hong Kong. All of the Trust's income from investments is from debt securities invested in Hong Kong.

15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 July 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and new standards which are not yet effective for the year ended 31 July 2011, and which have not been adopted in these financial statements. These include the following which may be relevant to the Trust:

	Effective for accounting periods beginning on or after
Improvements to HKFRSs 2010	1 January 2011
HKAS 24 (Revised), <i>Related party disclosures</i>	1 January 2011
HKFRS 9, <i>Financial instruments</i>	1 January 2013
HKFRS 13, <i>Fair value measurement</i>	1 January 2013

The Trust is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them 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 2011

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
Debt securities				HONG KONG MONETARY AUTHORITY			
Listed investments				2.07% EXCHANGE FUND NOTES			
				3 NOVEMBER 2014			
				74,500,000	77,815,250	3.00	
				HONG KONG MONETARY AUTHORITY			
				2.16% EXCHANGE FUND NOTES			
				9 DECEMBER 2019			
HONG KONG MONETARY AUTHORITY				45,000,000	45,621,000	1.76	
0.36% EXCHANGE FUND NOTES							
19 NOVEMBER 2012	75,000,000	75,166,500	2.90	HONG KONG MONETARY AUTHORITY			
				2.31% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				21 JUNE 2021			
0.48% EXCHANGE FUND NOTES				41,000,000	41,236,435	1.59	
3 SEPTEMBER 2012	23,000,000	23,092,460	0.89	HONG KONG MONETARY AUTHORITY			
				2.39% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				20 AUGUST 2025			
0.58% EXCHANGE FUND NOTES				18,500,000	18,307,415	0.71	
18 FEBRUARY 2013	55,000,000	55,302,500	2.13	HONG KONG MONETARY AUTHORITY			
				2.53% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				22 JUNE 2020			
0.85% EXCHANGE FUND NOTES				80,000,000	82,960,000	3.20	
4 MARCH 2013	156,000,000	157,700,400	6.08	HONG KONG MONETARY AUTHORITY			
				2.64% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				10 JUNE 2019			
1.43% EXCHANGE FUND NOTES				9,000,000	9,489,600	0.37	
2 DECEMBER 2015	131,000,000	133,233,550	5.14	HONG KONG MONETARY AUTHORITY			
				2.71% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				20 FEBRUARY 2023			
1.57% EXCHANGE FUND NOTES				23,000,000	23,861,734	0.92	
13 JUNE 2016	40,000,000	40,622,668	1.57	HONG KONG MONETARY AUTHORITY			
				2.93% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				13 JANUARY 2020			
1.61% EXCHANGE FUND NOTES				136,500,000	146,068,650	5.63	
10 DECEMBER 2018	42,000,000	41,430,900	1.60	HONG KONG MONETARY AUTHORITY			
				3.50% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				22 JUNE 2015			
1.65% EXCHANGE FUND NOTES				8,500,000	9,364,948	0.36	
15 JUNE 2015	50,000,000	51,550,000	1.99	HONG KONG MONETARY AUTHORITY			
				3.51% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				8 DECEMBER 2014			
1.67% EXCHANGE FUND NOTES				37,000,000	40,498,394	1.56	
19 DECEMBER 2013	42,000,000	43,276,451	1.67	HONG KONG MONETARY AUTHORITY			
				3.52% EXCHANGE FUND NOTES 5			
HONG KONG MONETARY AUTHORITY				DECEMBER 2017			
1.69% EXCHANGE FUND NOTES				48,500,000	54,180,965	2.09	
22 DECEMBER 2014	71,000,000	73,421,100	2.83	HONG KONG MONETARY AUTHORITY			
				3.73% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				5 JUNE 2013			
1.73% EXCHANGE FUND NOTES				55,450,000	58,997,275	2.28	
20 FEBRUARY 2024	62,000,000	57,556,584	2.22	HONG KONG MONETARY AUTHORITY			
				3.78% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				6 DECEMBER 2016			
1.91% EXCHANGE FUND NOTES				22,000,000	24,814,533	0.96	
21 MARCH 2016	40,000,000	41,480,000	1.60	HONG KONG MONETARY AUTHORITY			
				3.83% EXCHANGE FUND NOTES			
HONG KONG MONETARY AUTHORITY				22 NOVEMBER 2013			
2.03% EXCHANGE FUND NOTES				55,000,000	59,378,655	2.29	
18 MARCH 2013	149,500,000	153,885,837	5.94	HONG KONG MONETARY AUTHORITY			
				4.00% EXCHANGE FUND NOTES			
				27 AUGUST 2012			
				58,500,000	60,913,020	2.35	

Portfolio Statement (Unaudited)

ABF Hong Kong Bond Index Fund

as at 31 July 2011

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
HONG KONG MONETARY AUTHORITY 4.04% EXCHANGE FUND NOTES 30 MAY 2014	52,000,000	57,182,315	2.21	Unlisted but quoted investments			
HONG KONG MONETARY AUTHORITY 4.13% EXCHANGE FUND NOTES 22 FEBRUARY 2013	96,500,000	102,386,828	3.95	EUROFIMA 4.18% EMTN 8 JUNE 2015	46,000,000	50,921,126	1.96
HONG KONG MONETARY AUTHORITY 4.32% EXCHANGE FUND NOTES 2 DECEMBER 2013	50,400,000	55,033,428	2.12	INTER-AMERICAN DEVELOPMENT BANK 4.2% 24 MARCH 2014	41,000,000	44,699,184	1.72
HONG KONG MONETARY AUTHORITY 4.33% EXCHANGE FUND NOTES 7 DECEMBER 2015	12,000,000	13,703,040	0.53	KOWLOON-CANTON RAILWAY 3.88% 15 JUNE 2021	16,000,000	17,052,800	0.66
HONG KONG MONETARY AUTHORITY 4.49% EXCHANGE FUND NOTES 26 NOVEMBER 2012	61,000,000	64,466,099	2.49	MTR CORP (CAYMAN ISLANDS) 4.28% 6 JULY 2020 EMTN	8,000,000	8,928,724	0.35
HONG KONG MONETARY AUTHORITY 4.50% EXCHANGE FUND NOTES 4 DECEMBER 2012	65,800,000	69,602,352	2.68	MTR CORP (CAYMAN ISLANDS) 4.5% 11 MAY 2015	33,500,000	37,380,576	1.44
HONG KONG MONETARY AUTHORITY 4.65% EXCHANGE FUND NOTES 29 AUGUST 2022	41,550,000	51,015,090	1.97	MTR CORP (CAYMAN ISLANDS) 4.6% 3 JUNE 2013	25,500,000	27,307,320	1.05
HONG KONG MONETARY AUTHORITY 4.82% EXCHANGE FUND NOTES 2 JUNE 2014	56,500,000	63,395,102	2.44	MTR CORP (CAYMAN ISLANDS) 4.75% 11 MAY 2020	66,000,000	76,097,862	2.94
HONG KONG MONETARY AUTHORITY 4.83% EXCHANGE FUND NOTES 7 JUNE 2016	15,500,000	18,177,237	0.70	MTR CORP (CAYMAN ISLANDS) 4.9% 25 JUNE 2018	7,000,000	8,083,707	0.31
HONG KONG MONETARY AUTHORITY 4.85% EXCHANGE FUND NOTES 27 JUNE 2017	43,000,000	51,239,802	1.98	MTR CORP (CAYMAN ISLANDS) 5.25% 21 MAY 2013	500,000	540,600	0.02
KOWLOON-CANTON RAILWAY 4.65% 10 JUNE 2013	10,000,000	10,676,391	0.41			271,011,899	10.45
THE GOVERNMENT OF THE HKSAR OF THE PRC 0.70% BONDS 5 MARCH 2012	33,000,000	33,103,620	1.28	Debt securities (total)		2,577,333,343	99.42
THE GOVERNMENT OF THE HKSAR OF THE PRC 5.125% NOTES DUE 23 JULY 2019	12,500,000	15,113,316	0.58	Total investments			
		2,306,321,444	88.97	(Total cost of investments		2,577,333,343	99.42
				\$2,516,301,381)			
				Other net assets		15,086,061	0.58
				Total net assets		2,592,419,404	100.00

Statement of Movements in Portfolio Holdings (Unaudited)

ABF Hong Kong Bond Index Fund

for the year ended 31 July 2011

	% of net asset value 2011	% of net asset value 2010
Debt securities		
Listed investments	88.97	84.44
Unlisted but quoted investments	10.45	14.91
Debt securities (Total)	99.42	99.35
Total investments	99.42	99.35
Other net assets	0.58	0.65
Total net assets	100.00	100.00

Performance Record (Unaudited)

ABF Hong Kong Bond Index Fund

(a) Price record (Dealing net asset value per unit)

The Trust is an index fund which seeks investment results that correspond closely to the total return of the Markit iBoxx ABF Hong Kong Index ("the Index"). There was no constituent security of the Index that accounted for more than 10% of the Index as at 31 July 2011.

Year	Lowest HKD	Highest HKD
2011	99.53	103.72
2010	101.39	104.67
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)

	2011 HKD	2010 HKD	2009 HKD	2008 HKD
Total net asset value	2,592,419,404	2,355,163,165	2,184,914,644	2,380,674,934

(c) Net asset value per unit (at bid prices)

	2011 HKD	2010 HKD	2009 HKD	2008 HKD
Net asset value per unit	101.88	102.64	103.08	99.42

(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.

	2011	2010
ABF Hong Kong Bond Index Fund	2.06%	3.04%
Markit iBoxx ABF Hong Kong Index	^(a) 2.23%	^(a) 3.40%

- (a) 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

Director of the manager

Patrice Pierre Henri CONXICOEUR
Po Yee LAM
Stuart Glenn BERRY (appointed on 1 February 2011)
Julie J KOO (appointed on 27 June 2011)
Joanna Mary MUNRO (appointed on 11 May 2011)
Edgar Kai Man NG (appointed on 10 December 2010)
Stephen Chun Pong TAM (appointed on 1 December 2010
and resigned on 10 December 2010)
Rudolf Eduard Walter APENBRINK
(resigned on 1 October 2010)
Ayaz Hatim EBRAHIM (resigned on 13 May 2011)
Kean Kee LIM (resigned on 1 December 2010)
Edmund Richard STOKES (resigned on 19 May 2011)

Members of supervisory committee

Anthony YUEN
Andrew MALCOLM
Stephen Y L Cheung
Gillian HUI (appointed on 21 April 2011)
Carmen L K CHU (resigned on 21 April 2011)

Investment adviser

HSBC Global Asset Management (Hong Kong) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Investment sub-adviser

Halbis Capital Management (Hong Kong) Limited
(resigned on 31 December 2010)
HSBC Main Building
1 Queen's Road Central
Hong Kong

Trustee, custodian, administrator, receiving agent and registrar

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

Processing agent

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

Legal adviser

Clifford Chance
29th Floor, Jardine House
One Connaught Place Central
Hong Kong

Auditor

KPMG
8th Floor, Prince's Building
10 Chater Road Central
Hong Kong

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