



# ABF Hong Kong Bond Index Fund

## Annual Report 2016

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# Investment Adviser's Report

## **Market review**

The Trust's investment holdings continue to be composed of high-quality issuers, including bonds issued by the Hong Kong SAR Government, quasi-government entities in Hong Kong. This reflects the characteristics of the Trust of being a conservative investment which aims to achieve investment return and distribute potential income. The Trust delivered a positive return for the year ended 31 July 2016. Both US treasury yields and Hong Kong sovereign yields broadly declined during the period with a slight rise in the yields at the short end of the curves. Although in mid December 2015 the US Federal Reserve (Fed) announced a 25bps hike of the Fed funds rate for the first time in nearly a decade, US treasury yields declined subsequently amid global risk-off sentiment in January and June 2016, the overall Fed dovishness, and inflation well below the Fed's target. For most of the review period, Hong Kong sovereign yields closely tracked the movement in the US treasury yields and fell broadly in line with US treasury yields during the year. Although, there were also times when the Hong Kong government bond market was driven more by the liquidity conditions in the money market. In January 2016, Hong Kong sovereign bond yields rose along the curve, which was mainly attributed to the tightened liquidity conditions in the city and the higher money market rates as a result. Going forward, we expect the Hong Kong dollar bond curve to remain correlated with the US interest rates and hence, expect the Hong Kong dollar bond yields to follow similar movements in the US treasury yields. We believe that the US treasury yields will gradually trend higher as the US economy continues to improve. However, the global market environment in light of the aftermath of Brexit, as well as the quantitative easing programs in Europe and Japan should keep demand for US treasuries well supported.

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

28 November 2016

# Trustee's Report

## ABF Hong Kong Bond Index Fund ("the Trust")

We hereby confirm that, to the best of our knowledge, 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 2016.

)  
)  
Bertha TAM ) For and on behalf of  
Eva WONG ) HSBC Institutional Trust Services  
) (Asia) Limited,  
) Trustee

# Independent Auditor's Report to the Unitholders of ABF Hong Kong Bond Index Fund ("the Trust")

## Report on the financial statements

We have audited the financial statements of ABF Hong Kong Bond Index Fund ("the Trust") set out on page 4 to 19, which comprise the statement of financial position as at 31 July 2016, and the statement of comprehensive income, statement of changes in equity, distribution statement and cash flow 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 responsibilities to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code").

## 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 judgment, 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 2016, 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, 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  
28 November 2016

The accompanying report of KPMG is for sole and exclusive use of the Trust. Further, the report of KPMG is as of 28 November 2016 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

# Statement of Financial Position

as at 31 July 2016

	Note	2016 HKD	2015 HKD
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	5	4,081,262,685	2,979,798,786
Interest receivable		19,467,009	14,003,661
Subscriptions receivable		379,798,875	
Amounts due from brokers	6	30,379,372	31,071,045
Cash and cash equivalents	7(b)	5,188,115	6,326,746
		4,516,096,056	3,031,200,238
<b>LIABILITIES</b>			
Amounts due to brokers	6	388,488,226	9,976,088
Distributions payable	11	30,090,721	26,874,441
Other payables	7(a), 7(c)	806,167	900,160
		419,385,114	37,750,689
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)</b>		4,096,710,942	2,993,449,549
Representing:			
<b>Total equity</b>		4,096,710,942	2,993,449,549
<b>Total number of units in issue</b>	9	40,446,001	30,196,001
<b>Net asset value per unit at bid prices</b>		101.29	99.13

Approved by the Trustee and the Manager on 28 November 2016

	)	
Bertha TAM	)	For and on behalf of
Eva WONG	)	HSBC Institutional Trust
	)	Services (Asia) Limited,
	)	Trustee
	)	
Chun Pong Stephen TAM	)	For and on behalf of
Guillermo Eduardo MALDONADO-CODINA	)	HSBC Investment Funds
	)	(Hong Kong) Limited,
	)	Manager

The notes on pages 9 to 19 form part of these financial statements.

# Statement of Comprehensive Income

for the year ended 31 July 2016

	<b>Note</b>	<b>2016 HKD</b>	<b>2015 HKD</b>
Net gains from financial assets at fair value through profit or loss	3	125,967,918	66,817,588
Net foreign exchange gain/(loss)		13	(369)
Sundry income		50,000	20,000
<b>TOTAL REVENUE</b>		<b>126,017,931</b>	<b>66,837,219</b>
Management fees	7(a)	4,089,919	3,161,087
Transaction fees	7(c)	44,151	18,483
Trustee's fees	7(c)	1,509,667	1,497,654
Auditor's remuneration		43,876	275,312
Miscellaneous expenses		627,413	637,143
<b>TOTAL OPERATING EXPENSES</b>		<b>6,315,026</b>	<b>5,589,679</b>
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>119,702,905</b>	<b>61,247,540</b>

The notes on pages 9 to 19 form part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 July 2016

	<b>2016</b>	<b>2015</b>
<b>Note</b>	<b>HKD</b>	<b>HKD</b>
<b>Balance at the beginning of the year</b>	2,993,449,549	2,938,046,621
<b>Increase in net assets attributable to unitholders and total comprehensive income for the year</b>	119,702,905	61,247,540
Subscriptions of units (excluding equalisation)	1,207,248,000	49,860,300
Redemptions of units (excluding equalisation)	(173,970,775)	–
Income equalisation on subscriptions and redemptions	10 4,476,625	217,150
Distributions to unitholders during the year	11 (54,195,362)	(55,922,062)
	983,558,488	(5,844,612)
<b>Balance at the end of the year</b>	4,096,710,942	2,993,449,549

The notes on pages 9 to 19 form part of these financial statements.



# Cash Flow Statement

for the year ended 31 July 2016

	<b>2016</b>	<b>2015</b>
	<b>HKD</b>	<b>HKD</b>
<b>OPERATING ACTIVITIES</b>		
Management fees paid	(4,043,493)	(3,155,155)
Trustee's fees paid	(1,489,254)	(1,495,182)
Transaction fees paid	(41,817)	(13,815)
Payments on purchase of investments	(1,945,351,622)	(915,139,742)
Proceeds from sale of investments	1,343,596,104	922,085,008
Other operating expenses paid	(834,442)	(1,114,719)
Sundry income received	50,000	20,000
	<hr/>	<hr/>
<b>Cash (used in)/provided by operating activities</b>	(608,114,524)	1,186,395
	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of units including equalisation	832,862,000	50,077,450
Payments on redemption of units including equalisation	(174,907,025)	-
Distributions paid	(50,979,082)	(56,664,902)
	<hr/>	<hr/>
<b>Cash provided by/(used in) financing activities</b>	606,975,893	(6,587,452)
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	(1,138,631)	(5,401,057)
	<hr/>	<hr/>
<b>Cash and cash equivalents at the beginning of the year</b>	6,326,746	11,727,803
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	5,188,115	6,326,746
	<hr/>	<hr/>

The notes on pages 9 to 19 form part of these financial statements.

# Distribution Statement

for the year ended 31 July 2016

	<b>Note</b>	<b>2016 HKD</b>	<b>2015 HKD</b>
<b>Amount available for distribution brought forward</b>		1,159,452	1,168,682
Profit for the year available for distribution*		50,368,364	55,695,682
Income equalisation on subscriptions and redemptions	10	4,476,625	217,150
Distributions to unitholders	11	(54,195,362)	(55,922,062)
<b>Amount available for distribution carried forward</b>		<u>1,809,079</u>	<u>1,159,452</u>
<b>Distribution history</b>			
First distribution	11	<u>0.84</u>	<u>0.97</u>
Second distribution		28 January 2016	29 January 2015
Final distribution per unit	11	<u>0.82</u>	<u>0.89</u>
Date of distribution		28 July 2016	30 July 2015

\* 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 19 form part of these financial statements.

# Notes to the Financial Statements

## 1 The Trust

ABF Hong Kong Bond Index Fund (“the Trust”) was established under a Trust Deed dated 10 June 2005 (“the Trust Deed”) 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.

### (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) Changes in accounting policies

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

### (d) 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 financial position. 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.

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.

# Notes to the Financial Statements

## **(e) 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 loans and receivables include interest receivable, subscription receivable and amounts due from brokers.

Financial liabilities at amortised cost include amount 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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Trust has access at that date. The fair value of a liability reflects its non performance risk.

When available, the Trust measures the fair value of an instrument using the quoted price in an active market for that instrument provided such price is within the bid ask spread. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In circumstances where the quoted price is not within the bid ask spread, the manager of the Trust will determine the points within the bid ask spread that are most representative of the fair value.

When there is no quoted price in an active market, the Trust uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Trust determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Trust measures assets and long positions at a bid price and liabilities and short positions at an ask price.

# Notes to the Financial Statements

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Trust on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Trust recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of financial position 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.

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.

(vii) Derecognition

The Trust derecognises a financial asset when the contractual rights to the cash flows from the financial asset 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 expired.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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.

(ix) 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.

**(f) 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 or losses from financial instruments at fair value through profit or loss.

**(g) Expenses**

All expenses are recognised in profit or loss on an accrual basis.

# Notes to the Financial Statements

## **(h) Foreign exchange gain and loss**

Foreign exchange gain and loss 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 profit or loss line item Net foreign exchange gain/(loss) are net of foreign exchange gain and loss on monetart financial assets and financial liabilities other than those classifies as fair value through profir or loss.

## **(i) Related parties**

- (a) A person, or a close member of that person's family, is related to the Trust if that person:
- (i) has control or joint control over the Trust;
  - (ii) has significant influence over the Trust; or
  - (iii) is a member of the key management personnel of the Trust.
- (b) An entity is related to the Trust if any of the following conditions applies:
- (i) The entity and the Trust are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of an entity related to the Trust.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Trust.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## **(j) 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.

## **(k) 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 Trust'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

# Notes to the Financial Statements

- 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.

## (l) Distribution to holders of redeemable units

Distributions to holders of redeemable units are recognised in the statement of changes in equity.

## (m) 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 relate 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 assets at fair value through profit or loss

	2016 HKD	2015 HKD
Net realised gains	37,818,444	52,342,663
Net unrealised gains	88,149,474	14,474,925
	<u>125,967,918</u>	<u>66,817,588</u>

## 4 Taxation

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

## 5 Financial assets at fair value through profit or loss

	2016 HKD	2015 HKD
<b>Debt securities</b>		
Listed bonds	3,848,565,639	2,734,382,939
Unlisted but quoted bonds	232,697,046	245,415,847
	<u>4,081,262,685</u>	<u>2,979,798,786</u>
Investments, at cost	4,000,758,041	2,981,980,268
Net unrealised appreciation/ (depreciation) in value of investments	80,504,644	(2,181,482)
	<u>4,081,262,685</u>	<u>2,979,798,786</u>
Investments, at fair value	4,081,262,685	2,979,798,786

## 6 Amounts due from/(to) brokers

	2016 HKD	2015 HKD
<b>Balances due from brokers</b>		
Amounts receivable on sale of investments	30,379,372	31,071,045
	<u>30,379,372</u>	<u>31,071,045</u>
<b>Balances due to brokers</b>		
Amounts payable on purchase of investments	388,488,226	9,976,088
	<u>388,488,226</u>	<u>9,976,088</u>

## 7 Related party transactions

The following is a summary of significant related party transactions or transactions entered into during the year between the Trust and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the Code issued by the SFC. All transactions during the year between the Trust and the Manager and its Connected Persons were entered into in the ordinary course of business and under normal commercial terms. To the best of the knowledge of the Trustee and the Manager, the Trust did not have any other transactions with Connected Persons except for those disclosed below.

# Notes to the Financial Statements

- (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.

	2016 HKD	2015 HKD
(i) *Management fees for the year	4,089,919	3,161,087
(ii) Management fees payable at year end	393,695	347,269

- \* Management fees in 2015 included a rebate of unutilised marketing margin of the management fees for period from 2011 to 2014 back to the Trust.

- (b) A bank account is maintained with a member of the HSBC Group. The balance of this account amounted to \$5,188,115 (2015: \$6,326,746) at the year end. There is no interest income arising from these accounts during the year (2015: Nil).

- (c) The trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited ("the Trustee"), 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 (2015: \$389) per transaction (buy/sell) of the underlying index securities and non index securities.

	2016 HKD	2015 HKD
(i) Trustee's fees for the year	1,509,667	1,497,654
(ii) Trustee's fees payable at year end	148,547	128,134
(iii) Transaction fees for the year	44,151	18,483
(iv) Transaction fees payable at year end	7,002	4,668

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

	<b>HSBC Investment Funds (Hong Kong) Limited</b>	
	2016 HKD	2015 HKD
Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	1,443,198,335	–
Percentage of such transactions in value to total transactions for the year	39.77%	–

	<b>The Hongkong and Shanghai Banking Corporation Limited</b>	
	2016 HKD	2015 HKD
Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	–	665,694,180
Percentage of such transactions in value to total transactions for the year	–	36.79%

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 (2015: Nil).



# Notes to the Financial Statements

## 9 Units issued and redeemed

	2016	2015
Number of units in issue brought forward	30,196,001	29,696,001
Units issued during the year	12,000,000	500,000
Units redeemed during the year	(1,750,000)	–
	<hr/>	<hr/>
Number of units in issue carried forward	40,446,001	30,196,001

The Trust is not subject to externally imposed capital requirements.

## 10 Income equalisation on subscriptions and redemptions

Income portion of received and receivable on issue of units or paid and payable on redemption of units is calculated based on the portion of the unit price related to undistributed accumulated net investment income and accumulated expenses of the unit at the date of issue or redemption.

## 11 Distributions

### *Distributions attributable to the year*

	2016 HKD	2015 HKD
Interim dividend of \$0.84 per unit on 28,696,001 units declared and paid (2015: \$0.97 per unit on 29,946,001 units)	24,104,641	29,047,621
Final dividend of \$0.82 per unit on 36,696,001 units declared and unpaid (2015: \$0.89 per unit on 30,196,001 units)	30,090,721	26,874,441
	<hr/>	<hr/>
	54,195,362	55,922,062

## 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.

The Trust's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager and the Trustee set out below the most important types of financial risks inherent in each type of financial instrument. 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 financial position and the risk management policies employed by the Trust are discussed below.

### *(a) Price risk*

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

The Trust held debt securities in both 2016 and 2015. As a result, the Trust was not exposed to significant price risk arising from changes in market price.

# 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 mature and re-price at the date of statement of financial position.

All amounts stated in '000

	2016			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total
	HKD	HKD	HKD	HKD
<b>Assets</b>				
Financial assets at fair value through profit or loss	36,722	2,526,492	1,518,049	4,081,263
<b>Total interest bearing assets</b>	<b>36,722</b>	<b>2,526,492</b>	<b>1,518,049</b>	

	2015			
	1 year or less	Over 1 year to 5 years	Over 5 years	Total
	HKD	HKD	HKD	HKD
<b>Assets</b>				
Financial assets at fair value through profit or loss	156,129	1,936,462	887,208	2,979,799
<b>Total interest bearing assets</b>	<b>156,129</b>	<b>1,936,462</b>	<b>887,208</b>	

## Interest rate sensitivity

At the date of statement of financial position, 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 \$90,805,717 (2015: \$60,592,745); an equal change in the opposite direction would result in an increase in the net assets attributable to unitholders by an approximately equal amount. The analysis is performed on the same basis for 2015.

## (c) Currency risk

As all the Trust's financial instruments at 31 July 2016 and 2015 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 counter party 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 2016 and 2015, 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 financial position, the Trust invested in debt securities with the following credit quality expressed as a percentage of debt securities:

	2016	2015
<b>Rating (Moody's/S&amp;P)</b>		
Aaa/AAA	89.38	96.15
Aa1/AA+	8.40	0.33
Aa2/AA	1.36	–
Aa3/AA	0.86	3.52
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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.

# Notes to the Financial Statements

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 issuer in the Trust.

All of the cash held by the Trust are deposited with the 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 financial position.

At 31 July 2016, 19.66% (2015: 31.33%) and 74.28% (2015: 60.43%) of debt securities were issued by the Hong Kong Monetary Authority and the Government of the Hong Kong Special Administrative Region ("HKSAR") respectively. There was no other significant concentration of credit risk at both 31 July 2016 and 2015.

## **(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 under normal market conditions. The Trust, however, also invests in unlisted investments such as unlisted bonds, which are not publicly traded on exchanges and may be illiquid.

As at 31 July 2016 and 2015, the Trust's financial liabilities are due within three months.

## **(f) Capital management**

The Trust's capital as at the year end date is represented by its redeemable units.

The Trust's objective in managing the capital is to ensure a stable and strong base to provide investment results that correspond closely to the total return of the underlying index to all investors, and to manage liquidity risk arising from the redemptions. The Manager manages the capital of the Trust in accordance with the Trust's investment objectives and policies stated in the Trust's Prospectus.

There were no changes in the policies and procedures during the year with respect to the Trust's approach to its capital management.

The amount and the movement of equity are stated in the statement of changes in equity. As the redeemable units are redeemed on demand at the unitholders' option, the actual level of redemption may differ significantly from historical experience.

## **13 Fair value information**

The Trust's financial instruments are measured at fair value on the date of the statement of financial position. 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, subscription receivable, amounts due from brokers, amounts due to brokers, distributions 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(e)(iv).

The Trust measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

# Notes to the Financial Statements

- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted market price 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 in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

When fair values of listed and quoted investments at the reporting date are based on quoted market prices or binding dealer price quotations in an active market, without any deduction for transactions costs, the instruments are included within Level 1 of the hierarchy. When fair values of debt securities at the reporting date represent quoted prices in markets that are considered less than active or consensus prices derived by third parties using valuation techniques where all significant inputs are directly or indirectly observable from market data, those debt securities are included within Level 2 of the hierarchy. For all other financial instruments, the Trust determines fair value using valuation techniques.

The Trust uses widely recognised valuation models for determining the fair value of the debt securities which do not have quoted market prices in active markets.

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 financial position, by the level in the fair value hierarchy into which the fair value measurement is categorised.

*Financial asset at fair value through profit or loss*

## 31 July 2016

	Level 1 HKD	Level 2 HKD	Level 3 HKD	Total HKD
Listed debt securities	-	3,848,565,639	-	3,848,565,639
Unlisted but quoted debt securities	-	232,697,046	-	232,697,046
	-	4,081,262,685	-	4,081,262,685

## 31 July 2015

	Level 1 HKD	Level 2 HKD	Level 3 HKD	Total HKD
Listed debt securities	-	2,734,382,939	-	2,734,382,939
Unlisted but quoted debt securities	-	245,415,847	-	245,415,847
	-	2,979,798,786	-	2,979,798,786

These were no transfer of financial instruments between Level 1 and Level 2 during the year. During the year ended 31 July 2015, debt securities amounting to \$1,132,945,329 were transferred from Level 1 to Level 2 because consensus prices derived by third parties were used for valuation of debt securities.

## 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 its Prospectus. There were no changes in the operating segment during the year.

# Notes to the Financial Statements

All revenues and losses 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 financial position.

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 and new standards issued but not yet effective for the annual accounting year ended 31 July 2016**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 July 2016, and which have not been adopted in these financial statements. These include the following which may be relevant to the Trust:

	<b>Effective for accounting periods beginning on or after</b>
Annual Improvements to HKFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Trust is in the process of making an assessment of what the impact of these amendments and new standards 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)

as at 31 July 2016

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
<b>Debt securities</b>				HONG KONG MONETARY AUTHORITY			
				2.71% EXCHANGE FUND NOTES 20 FEBRUARY 2023	62,000,000	70,024,325	1.71
<b>Listed investments</b>				HONG KONG MONETARY AUTHORITY			
HONG KONG MONETARY AUTHORITY				2.95% EXCHANGE FUND NOTES 24 FEBRUARY 2025	25,700,000	30,285,507	0.74
0.53% EXCHANGE FUND NOTES 19 MARCH 2018	35,000,000	35,037,958	0.86	HONG KONG MONETARY AUTHORITY			
HONG KONG MONETARY AUTHORITY				3.52% EXCHANGE FUND NOTES 5 DECEMBER 2017	74,500,000	77,577,684	1.89
0.80% EXCHANGE FUND NOTES 27 AUGUST 2027	18,500,000	18,244,408	0.45	HONG KONG MONETARY AUTHORITY			
HONG KONG MONETARY AUTHORITY				4.65% EXCHANGE FUND NOTES 29 AUGUST 2022	50,000,000	61,859,575	1.51
0.97% EXCHANGE FUND NOTES 20 JUNE 2022	4,000,000	4,073,501	0.10	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				0.42% 20 NOVEMBER 2017	9,150,000	9,148,934	0.22
1.51% EXCHANGE FUND NOTES 24 FEBRUARY 2027	20,000,000	21,228,800	0.52	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				0.67% 21 MAY 2018	17,650,000	17,709,793	0.43
1.61% EXCHANGE FUND NOTES 10 DECEMBER 2018	69,300,000	71,070,185	1.73	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				0.91% 05 NOVEMBER 2020	187,300,000	189,109,318	4.62
1.73% EXCHANGE FUND NOTES 20 FEBRUARY 2024	34,000,000	36,471,752	0.89	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				0.93% 19 FEBRUARY 2018	44,000,000	44,322,577	1.08
1.96% EXCHANGE FUND NOTES 3 JUNE 2024	55,000,000	60,041,845	1.47	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				1.35% 25 MARCH 2019	50,450,000	51,532,102	1.26
2.16% EXCHANGE FUND NOTES 9 DECEMBER 2019	55,000,000	57,926,858	1.41	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				1.49% 22 FEBRUARY 2028	30,000,000	31,724,478	0.77
2.31% EXCHANGE FUND NOTES 21 JUNE 2021	40,300,000	43,624,347	1.06	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				1.68% 21 JANUARY 2026	77,950,000	82,431,346	2.01
2.39% EXCHANGE FUND NOTES 20 AUGUST 2025	34,300,000	39,001,899	0.95	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				2.07% 26 AUGUST 2026	18,500,000	20,641,895	0.50
2.48% EXCHANGE FUND NOTES 28 FEBRUARY 2029	53,000,000	62,048,414	1.51	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				2.22% 07 AUGUST 2024	157,000,000	172,177,975	4.20
2.49% EXCHANGE FUND NOTES 22 AUGUST 2028	65,000,000	76,012,606	1.86	THE GOVERNMENT OF THE HKSAR OF THE PRC			
HONG KONG MONETARY AUTHORITY				2.53% 22 JUNE 2020	20,000,000	21,508,408	0.53
2.6% EXCHANGE FUND NOTES 20 AUGUST 2024	36,000,000	41,151,629	1.00	THE GOVERNMENT OF THE HKSAR OF THE PRC			
				2.64% 10 JUNE 2019	130,000,000	137,716,436	3.36
				THE GOVERNMENT OF THE HKSAR OF THE PRC			
				3.56% 25 JUNE 2018	85,000,000	89,923,557	2.20
				THE GOVERNMENT OF THE HKSAR OF THE PRC			
				0.25% 18 SEPTEMBER 2017	94,800,000	94,628,914	2.31
				THE GOVERNMENT OF THE HKSAR OF THE PRC			
				0.27% 18 DECEMBER 2017	43,000,000	42,901,534	1.05
				THE GOVERNMENT OF THE HKSAR OF THE PRC			
				0.61% 5 FEBRUARY 2018	261,050,000	261,674,875	6.39
				THE GOVERNMENT OF THE HKSAR OF THE PRC			
				0.79% 18 JUNE 2018	35,000,000	35,196,830	0.86

# Portfolio Statement (Unaudited)

as at 31 July 2016

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
THE GOVERNMENT OF THE HKSAR OF THE PRC 0.83% 6 NOVEMBER 2017	110,000,000	110,559,856	2.70				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.06% 05 FEBRUARY 2020	90,300,000	91,873,134	2.24				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.1% 17 JANUARY 2023	200,000,000	205,272,880	5.01				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.17% 19 DECEMBER 2018	53,000,000	53,815,071	1.31				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.19% 06 DECEMBER 2021	25,000,000	25,749,838	0.63				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.32% 23 DECEMBER 2019	33,000,000	33,845,483	0.83				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.34% 24 JUNE 2019	60,000,000	61,369,848	1.50				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.47% 20 FEBRUARY 2019	355,100,000	363,572,047	8.88				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.49% 30 SEPTEMBER 2019	57,600,000	59,289,500	1.45				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.52% 25 SEPTEMBER 2018	35,000,000	35,754,695	0.87				
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.84% 09 DECEMBER 2024	57,000,000	61,875,079	1.51				
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.13% 16 JULY 2030	60,000,000	67,035,600	1.64				
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.24% 27 AUGUST 2029	92,000,000	105,207,548	2.57				
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.44% 07 DECEMBER 2020	36,400,000	39,306,409	0.96				
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.46% 4 AUGUST 2021	158,000,000	172,498,996	4.21				
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.93% 13 JANUARY 2020	221,500,000	239,409,360	5.84				
THE GOVERNMENT OF THE HKSAR OF THE PRC 5.125% 23 JULY 2019	12,500,000	14,100,030	0.34				
		<u>3,848,565,639</u>	<u>93.94</u>				
				<b>Unlisted but quoted investments</b>			
				CHINA DEVELOPMENT BANK CORP 2.1% CD 23 JANUARY 2017	30,000,000	30,153,000	0.74
				CHINA DEVELOPMENT BANK CORP 2.95% CD 20 MARCH 2017	5,000,000	5,055,500	0.12
				KOREA GAS CORP 2.6% 20 JUNE 2017	1,500,000	1,513,500	0.04
				KOREA LAND & HOUSING CORP 4.2% 18 JANUARY 2022	20,000,000	22,060,530	0.54
				KOREA NATIONAL OIL CORP 1.8% 22 JANUARY 2018	32,000,000	32,003,200	0.78
				MTR CORP (CAYMAN ISLANDS) 2.25% 12 OCTOBER 2022	30,000,000	30,928,638	0.76
				MTR CORP (CAYMAN ISLANDS) 4.28% 6 JULY 2020	7,500,000	8,312,610	0.20
				MTR CORP (CAYMAN ISLANDS) 4.75% 11 MAY 2020	83,000,000	93,114,695	2.27
				MTR CORP (CAYMAN ISLANDS) 4.90% 25 JUNE 2018	7,000,000	7,525,070	0.18
				URBAN RENEWAL AUTHORITY 1.65% 17 JANUARY 2020	1,000,000	1,013,237	0.02
				URBAN RENEWAL AUTHORITY 1.75% 02 AUGUST 2019	1,000,000	1,017,066	0.03
						<u>232,697,046</u>	<u>5.68</u>
				<b>Debt securities (total)</b>		<u>4,081,262,685</u>	<u>99.62</u>
				<b>Total investments</b>			
				<i>(Total cost of investments \$4,000,758,041)</i>		4,081,262,685	99.62
				<b>Other net assets</b>		<u>15,448,257</u>	<u>0.38</u>
				<b>Total net assets</b>		<u>4,096,710,942</u>	<u>100.00</u>

# Statement of Movements in Portfolio Holdings (Unaudited)

for the year ended 31 July 2016

	<b>% of net asset value 2016</b>	<b>% of net asset value 2015</b>
<b>Financial assets</b>		
<b>Bonds</b>		
Listed investments	93.94	91.34
Unlisted but quoted investments	5.68	8.20
	<hr/> 99.62	<hr/> 99.54
<b>Total investments</b>	99.62	99.54
<b>Other net assets</b>	0.38	0.46
<b>Total net assets</b>	<hr/> 100.00	<hr/> 100.00



# Performance Record (Unaudited)

## (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 2016.

Year	Lowest HKD	Highest HKD
2016	98.44	102.30
2015	98.64	101.48
2014	98.08	100.42
2013	98.92	104.92
2012	102.13	105.54
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)

	2016 HKD	2015 HKD	2014 HKD	2013 HKD
Total net asset value	4,096,710,942	2,993,449,549	2,938,046,621	2,962,186,668

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

	2016 HKD	2015 HKD	2014 HKD	2013 HKD
Total net asset value	101.29	99.13	98.94	98.92

## (d) Total expenses ratio

	2016 HKD
Average net asset value	3,030,833,878
Total expenses	6,315,026
Total expenses ratio	0.21%

# Performance Record (Unaudited)

## (e) 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.

	<b>2016</b>	<b>2015</b>
ABF Hong Kong Bond Index Fund	<sup>(a)</sup> 3.87%	<sup>(a)</sup> 2.07%
Markit iBoxx ABF Hong Kong Index	<sup>(b)</sup> 4.01%	<sup>(b)</sup> 2.45%

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(a) Performance is calculated in base currency with Unit-Price to Unit-Price, dividend (if any) reinvested.

(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.

Investors 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

## **Manager and listing agent**

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

## **Directors of the Manager**

Stuart Glenn BERRY  
Pedro Augusto BOTELHO BASTOS  
Patrice Pierre Henri CONXICOEUR  
(resigned on 27 November 2015)  
Guillermo Eduardo MALDONADO-CODINA  
Chun Pong Stephen TAM  
Ka Yin Joanne LAU

## **Members of supervisory committee**

Stephen Y L CHEUNG  
Gillian HUI  
Andrew MALCOLM  
Anthony YUEN

## **Investment adviser**

HSBC Global Asset Management (Hong Kong) Limited  
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**

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Hong Kong

## **Legal adviser**

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## **Auditors**

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Issued by HSBC Global Asset Management (Hong Kong) Limited