



# **ABF Hong Kong Bond Index Fund**

## **Annual Report 2017**

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# Investment Adviser's Report

## Market review

ABF HK Bond Index Fund's ("the Trust") 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. In line with the benchmark it tracks, the Trust retreated slightly for the year ending at 31 July 2017. US treasury yields ended the year higher across the curve. Largely tracking US treasuries, Hong Kong sovereign yields also rose broadly, although the magnitude was smaller than that in US treasury yields on the back of still ample liquidity in the Hong Kong bank system. Post Trump's victory in the US Presidential Election in November 2016, the market was expecting increasing fiscal stimulus from Trump to lead to a higher fiscal deficit and potentially more US treasury supply. This sent the benchmark 10 year US treasury yield to its 2-year high in mid December 2016. Coming into 2017, the US treasury yield curve flattened, as the Fed has delivered another two rate hikes since December 2016. US treasury yields at the belly to long-end of the curve declined, with no meaningful progress in the pro-growth fiscal policies proposed by Trump and soft inflation persistently below the Fed's 2% target. For most of the review period, Hong Kong sovereign yields closely tracked the movement in US treasury yields and rose broadly in line with US treasury yields during the year. 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.

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

27 November 2017

# 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 2017.

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

# Independent Auditor’s Report to the Unitholders

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of ABF Hong Kong Bond Index Fund (“the Trust”) set out on pages 6 to 21, which comprise the statement of financial position as at 31 July 2017, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the distribution statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial disposition of the Trust as at 31 July 2017 and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments	
Refer to note 13 to the financial statements and the accounting policies in note 2(e)(iv)	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 July 2017 the investment portfolio represented a significant portion of the total assets of the Trust and is the key driver of the Trust’s investment returns.</p> <p>The Trust’s investment portfolio comprises listed and unlisted but quoted bonds, which are classified as Level 2 financial instruments under the fair value hierarchy and are stated at their fair values at the reporting date.</p> <p>We identified the valuation of investments as a key audit matter because of its significance in the context of the Trust’s financial statements and because the value of the investment portfolio at the reporting date is the key performance indicator of the Trust.</p>	<p>Our audit procedures to assess the valuation of investments included utilising our internal valuation specialists to compare the pricing for each investment adopted by the Trust with independent pricing sources or our internal valuation calculated based on market observable data. We carried out this assessment at the reporting date for all the investments in the investment portfolio.</p>

# Independent Auditor's Report to the Unitholders

## Information Other than the Financial Statements and Auditor's Report Thereon

The Manager and the Trustee of the Trust are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Manager and the Trustee of the Trust for the Financial Statements

The Manager and the Trustee of the Trust are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager and the Trustee of the Trust determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee of the Trust are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee of the Trust either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Trust are required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed on 10 June 2005 ("the Trust Deed"), and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Trust have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee of the Trust.

# Independent Auditor's Report to the Unitholders

- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager and the Trustee of the Trust regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager and the Trustee of the Trust with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Manager and the Trustee of the Trust, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code**

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

The engagement partner on the audit resulting in this independent auditor's report is Yiu Tsz Yeung, Arion.

## **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
27 November 2017

The accompanying report of KPMG is for sole and exclusive use of the Trust. Further, the report of KPMG is as of 27 November 2017 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 2017

	Note	2017 HKD	2016 HKD
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	5	2,706,328,401	4,081,262,685
Interest receivable		17,119,879	19,467,009
Subscriptions receivable		–	379,798,875
Amounts due from brokers	6	16,403,406	30,379,372
Cash and cash equivalents	7(b)	5,162,235	5,188,115
		<hr/> 2,745,013,921	<hr/> 4,516,096,056
<b>LIABILITIES</b>			
Amounts due to brokers	6	–	388,488,226
Distributions payable	11	20,310,041	30,090,721
Other payables	7(a), 7(c)	820,360	806,167
		<hr/> 21,130,401	<hr/> 419,385,114
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)</b>		<hr/> 2,723,883,520	<hr/> 4,096,710,942
Representing:			
<b>Equity</b>		<hr/> 2,723,883,520	<hr/> 4,096,710,942
<b>Total number of units in issue</b>	9	<hr/> 27,446,001	<hr/> 40,446,001
<b>Net asset value per unit at bid prices</b>		<hr/> 99.25	<hr/> 101.29

Approved by the Trustee and the Manager on 27 November 2017

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

The notes on pages 11 to 21 form part of these financial statements.



# Statement of Comprehensive Income

for the year ended 31 July 2017

	Note	2017 HKD	2016 HKD
Net (losses)/gains from financial assets at fair value through profit or loss	3	(38,704,860)	125,967,918
Net foreign exchange (loss)/gain		(180)	13
Sundry income		40,000	50,000
Interest income		305	–
<b>TOTAL (LOSS)/REVENUE</b>		<b>(38,664,735)</b>	<b>126,017,931</b>
Management fees	7(a)	4,481,405	4,089,919
Transaction fees	7(c)	57,779	44,151
Trustee's fees	7(c)	1,671,184	1,509,667
Legal and professional fees		93,193	–
Auditor's remuneration		188,191	43,876
Miscellaneous expenses		573,449	627,413
<b>TOTAL OPERATING EXPENSES</b>		<b>7,065,201</b>	<b>6,315,026</b>
<b>(DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(45,729,936)</b>	<b>119,702,905</b>

The notes on pages 11 to 21 form part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 July 2017

	Note	2017 HKD	2016 HKD
<b>Balance at the beginning of the year</b>		4,096,710,942	2,993,449,549
<b>(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year</b>		(45,729,936)	119,702,905
Subscriptions of units (excluding equalisation)		25,252,525	1,207,248,000
Redemptions of units (excluding equalisation)		(1,303,197,275)	(173,970,775)
Income equalisation on subscriptions and redemptions	10	(9,920,975)	4,476,625
Distributions to unitholders during the year	11	(39,231,761)	(54,195,362)
		(1,327,097,486)	983,558,488
<b>Balance at the end of the year</b>		2,723,883,520	4,096,710,942

The notes on pages 11 to 21 form part of these financial statements.

# Cash Flow Statement

for the year ended 31 July 2017

	2017 HKD	2016 HKD
<b>OPERATING ACTIVITIES</b>		
Interest received	305	–
Management fees paid	(4,556,549)	(4,043,493)
Trustee's fees paid	(1,703,563)	(1,489,254)
Transaction fees paid	(62,447)	(41,817)
Payments on purchase of investments	(1,383,266,227)	(1,945,351,622)
Proceeds from sale of investments	2,347,330,521	1,343,596,104
Other operating expenses paid	(728,629)	(834,442)
Sundry income received	40,000	50,000
<b>Cash provided by/(used in) operating activities</b>	957,053,411	(608,114,524)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of units including equalisation	405,095,350	832,862,000
Payments on redemption of units including equalisation	(1,313,162,200)	(174,907,025)
Distributions paid	(49,012,441)	(50,979,082)
<b>Cash (used in)/provided by financing activities</b>	(957,079,291)	606,975,893
<b>Net decrease in cash and cash equivalents</b>	(25,880)	(1,138,631)
<b>Cash and cash equivalents at the beginning of the year</b>	5,188,115	6,326,746
<b>Cash and cash equivalents at the end of the year</b>	5,162,235	5,188,115

The notes on pages 11 to 21 form part of these financial statements.

# Distribution Statement

for the year ended 31 July 2017

	Note	2017 HKD	2016 HKD
<b>Amount available for distribution brought forward</b>		1,809,079	1,159,452
Profit for the year available for distribution*		53,492,773	50,368,364
Income equalisation on subscriptions and redemptions	10	(9,920,975)	4,476,625
Distributions to unitholders	11	(39,231,761)	(54,195,362)
<b>Amount available for distribution carried forward</b>		6,149,116	1,809,079

\* 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.

## Distribution history

	Note	Year ended 31 July 2017		Year ended 31 July 2016	
		Distribution per unit HKD	Date of distribution	Distribution per unit HKD	Date of distribution
First distribution	11	0.57	25 January 2017	0.84	28 January 2016
Second distribution	11	0.74	28 July 2017	0.82	28 July 2016

The notes on pages 11 to 21 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 provisions of the Trust Deed and the relevant disclosure provisions 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 HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Trust. None of these developments have had a material effect on how the Trust’s results and financial position for the current or prior periods have been prepared or presented.

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.

# Notes to the Financial Statements

Foreign currency exchange differences relating to investments at fair value through profit or loss are included in net (losses)/gains 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.

## **(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 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**

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.

# Notes to the Financial Statements

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.

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.

# Notes to the Financial Statements

## **(g) Expenses**

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

## **(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 (loss)/gain are net of foreign exchange gain and loss on monetary financial assets and financial liabilities other than those classified as fair value through profit 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;



# Notes to the Financial Statements

- 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.

## (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 (losses)/gains from financial assets at fair value through profit or loss

	2017 HKD	2016 HKD
Net realised gains	60,311,760	37,818,444
Net unrealised (losses)/gains	(99,016,620)	88,149,474
	(38,704,860)	125,967,918

## 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

	2017 HKD	2016 HKD
<b>Debt securities</b>		
Listed bonds	2,211,569,935	3,848,565,639
Unlisted but quoted bonds	494,758,466	232,697,046
	2,706,328,401	4,081,262,685
Investments, at cost	2,722,493,247	4,000,758,041
Net unrealised (depreciation)/appreciation in value of investments	(16,164,846)	80,504,644
Investments, at fair value	2,706,328,401	4,081,262,685

## 6 Amounts due from/(to) brokers

	2017 HKD	2016 HKD
<b>Balances due from brokers</b>		
Amounts receivable on sale of investments	16,403,406	30,379,372

## Balances due to brokers

Amounts payable on purchase of investments	–	388,488,226
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# Notes to the Financial Statements

## 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.

- (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.

	2017 HKD	2016 HKD
(i) Management fees for the year	4,481,405	4,089,919
(ii) Management fees payable at year end	318,551	393,695

- (b) A bank account is maintained with a member of the HSBC Group. The balance of this account amounted to \$5,162,235 (2016: \$5,188,115) at the year end. The interest income arising from this account during the year amounted to \$305 (2016: \$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 (2016: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities.

	2017 HKD	2016 HKD
(i) Trustee's fees for the year	1,671,184	1,509,667
(ii) Trustee's fees payable at year end	116,168	148,547
(iii) Transaction fees for the year	57,779	44,151
(iv) Transaction fees payable at year end	2,334	7,002

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

### The Hongkong and Shanghai Banking Corporation Limited

	2017 HKD	2016 HKD
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Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	1,457,000,660	1,443,198,335

Percentage of such transactions in value to total transactions for the year	44.59%	39.77%
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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 (2016: Nil).

# Notes to the Financial Statements

## 9 Units issued and redeemed

	2017	2016
Number of units in issue brought forward	40,446,001	30,196,001
Units issued during the year	250,000	12,000,000
Units redeemed during the year	(13,250,000)	(1,750,000)
	<hr/>	<hr/>
Number of units in issue carried forward	27,446,001	40,446,001

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*

	2017 HKD	2016 HKD
Interim dividend of \$0.57 per unit on 33,196,001 units declared and paid (2016: \$0.84 per unit on 28,696,001 units)	18,921,720	24,104,641
Final dividend of \$0.74 per unit on 27,446,001 units declared and unpaid (2016: \$0.82 per unit on 36,696,001 units)	20,310,041	30,090,721
	<hr/>	<hr/>
	39,231,761	54,195,362

## 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 2017 and 2016. 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

	2017			
	1 year or less HKD	Over 1 year to 5 years HKD	Over 5 years HKD	Total HKD
<b>Assets</b>				
Financial assets at fair value through profit or loss	7,234	1,664,306	1,034,789	2,706,329

<b>Total interest bearing assets</b>	7,234	1,664,306	1,034,789
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	2016			
	1 year or less HKD	Over 1 year to 5 years HKD	Over 5 years HKD	Total 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>	36,722	2,526,492	1,518,049
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## Interest rate sensitivity

At the date of statement of financial position, assuming all other factors remain unchanged, it is estimated that an increase in interest rates of 100 basis points (2016: 50 basis points) would result in a decrease in the net assets attributable to unitholders and the profit for the year by \$120,941,990 (2016: \$90,805,717); 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 2016.

## (c) Currency risk

As all the Trust's financial instruments at 31 July 2017 and 31 July 2016 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 2017 and 31 July 2016, 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:

	2017	2016
<b>Rating (Moody's/S&amp;P)</b>		
Aaa/AAA	70.85	89.38
Aa1/AA+	6.93	8.40
Aa2/AA	14.39	1.36
Aa3/AA-	4.33	0.86
A3/A-	2.22	0.00
NR	1.28	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

# Notes to the Financial Statements

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.

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. According to Moody's, the credit rating of HSBC Group is A1 (2016: A1). 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 2017, 14.38% (2016: 19.66%) and 66.81% (2016: 74.28%) of debt securities were issued by the Hong Kong Monetary Authority and the Government of the Hong Kong Special Administrative Region respectively. There was no other significant concentration of credit risk as at 31 July 2017 and 31 July 2016.

## **(e) Liquidity risk**

Liquidity risk arises from the risk that 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 2017 and 31 July 2016, the Trust's financial liabilities are due within three months, except for net assets attributable to unitholders which are repayable on demand.

## **(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.

# Notes to the Financial Statements

## 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.
- 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 transaction 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 2017

	Level 1 HKD	Level 2 HKD	Level 3 HKD	Total HKD
Listed debt securities	-	2,211,569,935	-	2,211,569,935
Unlisted but quoted debt securities	-	494,758,466	-	494,758,466
	-	2,706,328,401	-	2,706,328,401

#### 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

There were no transfer of financial instruments between Level 1 and Level 2 during the year (2016: Nil).

# Notes to the Financial Statements

## 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.

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 derived 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 2017

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 2017, 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**

Amendments to HKAS 7, <i>Statement of cash flows:</i> <i>Disclosure initiative</i>	1 January 2017
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 2017

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
<b>Debt securities</b>				HONG KONG MONETARY AUTHORITY			
				2.95% EXCHANGE FUND NOTES 24			
<b>Listed investments</b>				FEBRUARY 2025	25,700,000	28,622,977	1.05
				THE GOVERNMENT OF THE HKSAR OF			
HONG KONG MONETARY AUTHORITY				THE PRC 0.55% 21 NOVEMBER 2018	750,000	749,505	0.03
0.80% EXCHANGE FUND NOTES 27				THE GOVERNMENT OF THE HKSAR OF			
AUGUST 2027	8,500,000	7,929,703	0.29	THE PRC 1.25% 29 JUNE 2027	30,000,000	29,543,958	1.09
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
1.51% EXCHANGE FUND NOTES 24				THE PRC 1.89% 02 MARCH 2032	5,000,000	5,153,950	0.19
FEBRUARY 2027	47,000,000	47,087,594	1.73	THE GOVERNMENT OF THE HKSAR OF			
HONG KONG MONETARY AUTHORITY				THE PRC 3.27% 28 AUGUST 2023	4,200,000	4,689,440	0.17
1.61% EXCHANGE FUND NOTES 10				THE GOVERNMENT OF THE HKSAR OF			
DECEMBER 2018	19,700,000	19,964,553	0.73	THE PRC 0.91% 05 NOVEMBER 2020	107,050,000	106,751,652	3.92
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
1.73% EXCHANGE FUND NOTES 20				THE PRC 1.06% 05 FEBRUARY 2020	191,800,000	192,702,266	7.07
FEBRUARY 2024	34,000,000	34,916,303	1.28	THE GOVERNMENT OF THE HKSAR OF			
HONG KONG MONETARY AUTHORITY				THE PRC 1.1% 17 JANUARY 2023	137,400,000	136,594,314	5.02
1.96% EXCHANGE FUND NOTES 3				THE GOVERNMENT OF THE HKSAR OF			
JUNE 2024	22,800,000	23,755,564	0.87	THE PRC 1.17% 19 DECEMBER 2018	23,000,000	23,173,287	0.85
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.16% EXCHANGE FUND NOTES 9				THE PRC 1.19% 06 DECEMBER 2021	25,850,000	25,936,569	0.95
DECEMBER 2019	23,000,000	23,712,004	0.87	THE GOVERNMENT OF THE HKSAR OF			
HONG KONG MONETARY AUTHORITY				THE PRC 1.32% 23 DECEMBER 2019	33,000,000	33,380,163	1.23
2.31% EXCHANGE FUND NOTES 21				THE GOVERNMENT OF THE HKSAR OF			
JUNE 2021	66,000,000	69,174,197	2.54	THE PRC 1.34% 24 JUNE 2019	12,300,000	12,433,797	0.46
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.39% EXCHANGE FUND NOTES 20				THE PRC 1.35% 25 MARCH 2019	22,450,000	22,690,727	0.83
AUGUST 2025	25,600,000	27,536,955	1.01	THE GOVERNMENT OF THE HKSAR OF			
HONG KONG MONETARY AUTHORITY				THE PRC 1.47% 20 FEBRUARY 2019	317,800,000	321,703,378	11.81
2.48% EXCHANGE FUND NOTES 28				THE GOVERNMENT OF THE HKSAR OF			
FEBRUARY 2029	53,000,000	58,069,328	2.13	THE PRC 1.49% 22 FEBRUARY 2028	30,000,000	29,860,758	1.10
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.49% EXCHANGE FUND NOTES 22				THE PRC 1.49% 30 SEPTEMBER			
AUGUST 2028	21,000,000	22,988,171	0.84	2019	27,600,000	28,001,964	1.03
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.6% EXCHANGE FUND NOTES 20				THE PRC 1.52% 25 SEPTEMBER			
AUGUST 2024	26,000,000	28,216,757	1.04	2018	25,000,000	25,274,257	0.93



# Portfolio Statement (Unaudited)

as at 31 July 2017

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.68% 21 JANUARY 2026	77,950,000	79,899,194	2.93	KOREA DEVELOPMENT BANK 3.2% 03 OCTOBER 2021	11,000,000	11,375,114	0.42
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.84% 09 DECEMBER 2024	21,000,000	21,718,538	0.80	KOREA LAND & HOUSING CORP 4.2% 18 JANUARY 2022	20,000,000	21,470,330	0.79
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.13% 16 JULY 2030	120,000,000	127,872,672	4.69	MTR CORP (CAYMAN ISLANDS) 2.25% 12 OCTOBER 2022	30,000,000	30,255,000	1.11
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.22% 07 AUGUST 2024	121,000,000	128,690,191	4.72	MTR CORP (CAYMAN ISLANDS) 4.28% 6 JULY 2020	7,500,000	8,053,500	0.30
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.24% 27 AUGUST 2029	57,000,000	61,054,592	2.24	MTR CORP (CAYMAN ISLANDS) 4.75% 11 MAY 2020	89,000,000	96,484,900	3.54
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.44% 07 DECEMBER 2020	45,000,000	47,197,723	1.73	MTR CORP (CAYMAN ISLANDS) 4.90% 25 JUNE 2018	7,000,000	7,233,800	0.27
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.46% 4 AUGUST 2021	93,500,000	98,363,431	3.61	URBAN RENEWAL AUTHORITY 1.64% 11 MAY 2020	2,000,000	2,000,000	0.07
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.53% 22 JUNE 2020	20,000,000	20,935,624	0.77	URBAN RENEWAL AUTHORITY 2.15% 10 MAY 2023	30,000,000	29,904,000	1.10
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.64% 10 JUNE 2019	21,100,000	21,833,202	0.80	URBAN RENEWAL AUTHORITY 1.65% 17 JANUARY 2020	3,000,000	2,999,778	0.11
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.93% 13 JANUARY 2020	180,500,000	189,520,018	6.96	URBAN RENEWAL AUTHORITY 1.75% 02 AUGUST 2019	16,000,000	<u>16,113,096</u>	<u>0.60</u>
THE GOVERNMENT OF THE HKSAR OF THE PRC 3.32% 25 FEBRUARY 2026	9,000,000	10,371,235	0.38			<u>494,758,466</u>	<u>18.17</u>
THE GOVERNMENT OF THE HKSAR OF THE PRC 5.125% 23 JULY 2019	12,500,000	<u>13,499,424</u>	<u>0.50</u>	<b>Debt securities (total)</b>		<u>2,706,328,401</u>	<u>99.36</u>
		<u>2,211,569,935</u>	<u>81.19</u>	<b>Total investments</b>			
<b>Unlisted but quoted investments</b>				<i>(Total cost of investments</i>			
CORPORACION ANDINA DE FOMENTO 1.81% 02 AUGUST 2021	120,000,000	117,280,488	4.30	<i>\$2,722,493,247)</i>		2,706,328,401	99.36
EXPORT-IMPORT BANK OF KOREA 1.5% 02 AUGUST 2019	92,000,000	91,530,800	3.36	<b>Other net assets</b>		<u>17,555,119</u>	<u>0.64</u>
EXPORT-IMPORT BANK OF MALAYSIA BHD 2.95% 12 MARCH 2023	61,000,000	60,057,660	2.20	<b>Total net assets</b>		<u>2,723,883,520</u>	<u>100.00</u>

# Statement of Movements in Portfolio Holdings (Unaudited)

for the year ended 31 July 2017

	% of net asset value 2017	% of net asset value 2016
<b>Financial assets</b>		
<b>Bonds</b>		
Listed investments	81.19	93.94
Unlisted but quoted investments	18.17	5.68
	<hr/>	<hr/>
	99.36	99.62
	<hr/>	<hr/>
<b>Total investments</b>	99.36	99.62
<b>Other net assets</b>	0.64	0.38
	<hr/>	<hr/>
<b>Total net assets</b>	100.00	100.00
	<hr/>	<hr/>

# 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 2017.

Year	Lowest HKD	Highest HKD
2017	97.28	101.52
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

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

	2017 HKD	2016 HKD	2015 HKD	2014 HKD
Total net asset value	2,723,883,520	4,096,710,942	2,993,449,549	2,938,046,621

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

	2017 HKD	2016 HKD	2015 HKD	2014 HKD
Total net asset value	99.25	101.29	99.13	98.94

## (d) Total expense ratio

	2017 HKD
Average net asset value	3,326,694,001
Total expenses	7,065,193
Total expense 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.

	2017	2016
ABF Hong Kong Bond Index Fund	<sup>(a)</sup> (0.70)%	<sup>(a)</sup> 3.87%
Markit iBoxx ABF Hong Kong Index	<sup>(b)</sup> (0.30)%	<sup>(b)</sup> 4.01%

- (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**

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## **Directors of the Manager**

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Pedro Augusto BOTELHO BASTOS  
Guillermo Eduardo MALDONADO-CODINA  
Chun Pong Stephen TAM  
Ka Yin Joanne LAU

## **Members of supervisory committee**

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Gillian HUI  
Andrew MALCOLM  
Anthony YUEN

## **Investment adviser**

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