

# ABF Hong Kong Bond Index Fund

## Annual Report 2021



**HSBC**  
Global Asset  
Management

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# 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, as amended, for the year ended 31 July 2021.

)  
) For and on behalf of  
) 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 5 to 21, which comprise the statement of financial position as at 31 July 2021, the statement of comprehensive income, the statement of changes in equity and the cash flow 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 2021 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.

<b>Existence and valuation of investments</b>	
<i>Refer to notes 5 and 13 to the financial statements and the accounting policies in note 2(e)(iv)</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>As at 31 July 2021 the investment portfolio represented 99.02% 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 existence and 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 year end date is a key performance indicator of the Trust.</p>	<p>Our audit procedures to assess the existence and valuation of investments included the following:</p> <ul style="list-style-type: none"><li>obtaining independent confirmations from the custodians of the investment portfolio held at 31 July 2021, and agreeing the Trust's holdings of investments to those confirmations; and</li><li>assessing the valuations of all assets in the investment portfolio at the year end date by comparing the prices adopted by the Trust with the prices obtained from independent pricing sources or our valuation calculated based on observable market data.</li></ul>

# 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, as amended ("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 HKSAAs 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 HKSAAs, 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, actions taken to eliminate threats or safeguards applied.

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 Cheung Yik Hei.

## **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
[•] November 2021

The accompanying report of KPMG is for sole and exclusive use of the Trust. Further, the report of KPMG is as of [•] November 2021 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 2021

	Note	2021 HKD	2020 HKD
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	5, 13	2,331,015,762	2,386,555,172
Interest receivable		11,717,349	15,563,142
Amounts due from brokers	6	–	5,404,222
Cash and cash equivalents	7(b)	11,448,255	5,608,613
		2,354,181,366	2,413,131,149
<b>LIABILITIES</b>			
Distributions payable	11	10,273,501	10,601,160
Other payables		676,472	669,262
		10,949,973	11,270,422
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (BID PRICES)</b>		2,343,231,393	2,401,860,727
Representing:			
<b>Equity</b>		2,343,231,393	2,401,860,727
<b>Total number of units in issue</b>	9	22,830,001	23,046,001
<b>Net asset value per unit at bid prices</b>	9	102.64	104.22

Approved by the Trustee and the Manager on [•] November 2021

)  
 ) For and on behalf of  
 ) HSBC Institutional Trust  
 ) Services (Asia) Limited,  
 ) Trustee  
  
 )  
 ) For and on behalf of  
 ) HSBC Investment Funds  
 ) (Hong Kong) Limited,  
 ) Manager

The notes on pages 9 to 21 form part of these financial statements.

# Statement of Comprehensive Income

for the year ended 31 July 2021

	<b>Note</b>	<b>2021 HKD</b>	<b>2020 HKD</b>
Net (losses)/gains from financial assets at fair value through profit or loss	3	(13,568,287)	163,335,191
Net foreign exchange loss		(215)	(73)
Refund from the Manager	7(a)	–	2,710,174
Sundry income		4,501	117,453
Interest income	7(b)	218	1,634
<b>TOTAL (LOSS)/REVENUE</b>		<b>(13,563,783)</b>	<b>166,164,379</b>
Management fees	7(a)	3,282,106	3,394,905
Transaction fees	7(c)	26,257	34,817
Trustee's fees	7(c)	1,173,302	1,219,320
Registrar fees	7(c)	21,724	21,012
Legal and professional fees		528,769	124,656
Auditor's remuneration		151,901	152,736
Miscellaneous expenses	7(e)	611,678	537,667
<b>TOTAL OPERATING EXPENSES</b>		<b>5,795,737</b>	<b>5,485,113</b>
<b>(DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(19,359,520)</b>	<b>160,679,266</b>

The notes on pages 9 to 21 form part of these financial statements.



# Statement of Changes in Equity

for the year ended 31 July 2021

	Note	2021 HKD	2020 HKD
<b>Balance at the beginning of the year</b>		2,401,860,727	2,618,526,872
<b>(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year</b>		(19,359,520)	160,679,266
Subscriptions of units (excluding equalisation)		–	107,792,430
Redemptions of units (excluding equalisation)		(22,276,318)	(456,647,350)
Equalisation on subscriptions and redemptions	10	(99,295)	(1,096,050)
Distributions to unitholders during the year	11	(16,894,201)	(27,394,441)
		(39,269,814)	(377,345,411)
<b>Balance at the end of the year</b>		2,343,231,393	2,401,860,727

The movement of number of units in issue during the year was as follows:

<b>Number of units in issue</b>	<b>Units</b>	<b>Units</b>
Number of units in issue brought forward	23,046,001	26,546,001
Units issued during the year	–	1,100,000
Units redeemed during the year	(216,000)	(4,600,000)
<b>Number of units in issue carried forward</b>	9	22,830,001
		23,046,001

The notes on pages 9 to 21 form part of these financial statements.

# Cash Flow Statement

for the year ended 31 July 2021

	<b>2021</b>	<b>2020</b>
	<b>HKD</b>	<b>HKD</b>
<b>OPERATING ACTIVITIES</b>		
Interest received	218	1,634
Management fees paid	(3,295,783)	(3,443,232)
Trustee's fees paid	(1,178,512)	(1,238,343)
Transaction fees paid	(25,479)	(37,540)
Payments on purchase of investments	(749,750,554)	(666,467,354)
Proceeds from sale of investments (including coupon interest received from investments)	800,971,692	1,063,605,210
Other operating expenses paid	(1,288,968)	(933,366)
Refund from the Manager	–	2,710,174
Sundry income received	4,501	117,453
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	45,437,115	394,314,636
	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of units including equalisation	–	108,669,930
Payments on redemption of units including equalisation	(22,375,613)	(458,620,900)
Distributions paid	(17,221,860)	(39,622,842)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	(39,597,473)	(389,573,812)
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	5,839,642	4,740,824
<b>Cash and cash equivalents at the beginning of the year</b>	5,608,613	867,789
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	11,448,255	5,608,613
	<hr/>	<hr/>

The notes on pages 9 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, as amended (“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 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 dollar reflecting the fact that the participating redeemable units of the Trust are issued and redeemed in Hong Kong dollars.

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

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

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

### (c) Changes in accounting policies

The HKICPA has issued a new HKFRS and 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 impact 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.

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

On initial recognition, the Trust classifies financial assets as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Trust are measured at FVTPL.

#### *Business model assessment*

In making an assessment of the objective of the business model in which a financial asset is held, the Trust considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Trust's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Trust's continuing recognition of the assets.

The Trust has determined that it has two business models.

- **Held-to-collect business model:** this includes interest receivable, amounts due from brokers and cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- **Other business model:** this includes debt instruments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

#### *Assessment whether contractual cash flows are SPPI*

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Trust considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Trust considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Trust's claim to cash flows from specified assets (e.g. non-recourse features); and

# Notes to the Financial Statements

- features that modify consideration for the time value of money (e.g. periodical reset of interest rates).

The Trust classifies its investments based on the business model and contractual cash flows assessment. Accordingly, the Trust classifies all its debt instruments into financial assets at FVTPL category. Financial assets measured at amortised cost include interest receivable, amounts due from brokers and cash and cash equivalents. Financial liabilities that are not at fair value through profit or loss included distributions payable and other payables.

## *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the Trust was to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

## (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 HKFRS 9.

## (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 measured at amortised cost 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 prices are 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

The Trust recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Trust measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes

both quantitative and qualitative information and analysis, based on the Trust's historical experience and informed credit assessment and including forward-looking information.

The Trust assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Trust considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Trust in full, without recourse by the Trust to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Trust considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of "investment grade". The Trust considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Trust is exposed to credit risk.

## *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Trust expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

# Notes to the Financial Statements

## *Credit-impaired financial assets*

At each reporting date, the Trust assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

## *Presentation of allowance for ECLs in the statement of assets and liabilities*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

## *Write-off*

The gross carrying amount of a financial asset is written-off when the Trust has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

## (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 HKFRS 9.

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 has 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 and time 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**

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, the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset. Interest income on bank deposits is disclosed separately on the face of the statement of comprehensive income. Interest income on debt securities is included in net gains or losses from financial instruments at fair value through profit or loss.

### *Sundry income*

Sundry income is recognised in the profit or loss on an accrual basis.

## **(g) Expenses**

All expenses are recognised in profit or loss on an accruals 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 loss* is 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.

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
- 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 only has one class of redeemable units in issue and the redeemable units meet all of these conditions and are classified as equity.



# Notes to the Financial Statements

## (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.

## (n) Transaction costs

Transaction costs are costs incurred to acquire/dispose financial assets or liabilities at fair value through profit or loss. They include the bid/ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs are expensed as incurred in the statement of comprehensive income.

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

	2021 HKD	2020 HKD
Net realised gains	50,852,435	46,627,892
Net unrealised (losses)/gains	(64,420,722)	116,707,299
	<u>(13,568,287)</u>	<u>163,335,191</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

	2021 HKD	2020 HKD
<b>Debt securities</b>		
Listed bonds	1,860,878,325	1,803,657,281
Unlisted but quoted bonds	470,137,437	582,897,891
	<u>2,331,015,762</u>	<u>2,386,555,172</u>
Investments, at cost	2,284,995,267	2,279,959,749
Net unrealised appreciation in value of investments	46,020,495	106,595,423
	<u>2,331,015,762</u>	<u>2,386,555,172</u>

## 6 Amounts due from brokers

	2021 HKD	2020 HKD
<b>Balances due from brokers</b>		
Amounts receivable on sale of investments	–	5,404,222

## 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 Hong Kong Code on Unit Trusts and Mutual Funds issued by the SFC. All transactions during the year between the Trust, the Trustee and the Manager and their 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).

# Notes to the Financial Statements

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

	2021 HKD	2020 HKD
(i) Management fees for the year	3,282,106	3,394,905
(ii) Management fees payable at year end	<u>269,971</u>	<u>283,648</u>

During the year ended 31 July 2021, there was no refund management fees (2020: \$2,634,965) and no related interest earned from the Manager (2020: \$75,209) to the Trust regarding the unspent marketing budget for prior years.

(b) A bank account is maintained with a member of the HSBC Group. The balance of this account amounted to \$1,448,255 (2020: \$5,608,613) at the year end. The interest income arising from this account during the year amounted to \$24 (2020: \$1,634).

(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 (2020: \$389) per transaction (buy/sell) of the underlying index securities and non-index securities. The Trustee is entitled to registrar fees of US\$100 per report generation for subscription and redemption reports and US\$200 per month for massive redemption reports.

	2021 HKD	2020 HKD
(i) Trustee's fees for the year	1,173,302	1,219,320
(ii) Trustee's fees payable at year end	96,461	101,670
(iii) Transaction fees for the year	26,257	34,817
(iv) Transaction fees payable at year end	1,945	1,167
(v) Registrar fees for the year	21,724	21,012
(vi) Registrar fees payable at year end	<u>-</u>	<u>-</u>

(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:

	<b>The Hongkong and Shanghai Banking Corporation Limited</b>	
	2021 HKD	2020 HKD
Commission paid for the year	-	-
Average rate of commission	-	-
Total aggregate value of such transactions for the year	<u>801,400,180</u>	<u>615,303,505</u>
Percentage of such transactions in value to total transactions for the year	<u>53.41%</u>	<u>37.01%</u>

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.

(e) During the year, the Trust has incurred other expenses amounting to \$88,740 (2020: \$33,262) paid to the connected persons of the Trustee. Fee payables to Trustee at the year end date was \$26,574 (2020: \$3,410).

## 8 Soft commission arrangements

No soft commission arrangements were entered into with brokers during the year (2020: Nil).

# Notes to the Financial Statements

## 9 Number of units in issue and net assets attributable to unitholders per unit

Net assets attributable to unitholders per unit are calculated based on the net assets attributable to unitholders divided by the total units in issue as at 31 July 2021 and 31 July 2020. The detailed breakdown are as follows:

	2021	2020
Units outstanding at the end of the year	22,830,001	23,046,001
	<b>HKD</b>	<b>HKD</b>
Net assets attributable to unitholders per unit	102.64	104.22

The Trust is not subject to externally imposed capital requirements.

## 10 Equalisation on subscriptions and redemptions

The equalisation 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

The following table shows the distributions statement of the Trust during the year ended 31 July 2021:

	2021	2020
Note	HKD	HKD
<b>Amount available for distribution brought forward</b>	36,529,197	20,054,390
Profit for the year available for distribution*	35,200,348	44,965,298
Equalisation on subscriptions and redemptions	10 (99,295)	(1,096,050)
Distributions to unitholders	11 (16,894,201)	(27,394,441)
<b>Amount available for distribution carried forward</b>	54,736,049	36,529,197

\* 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.

## Distributions attributable to the year

	2021	2020
	HKD	HKD
Interim dividend of \$0.29 per unit on 22,830,001 units declared and paid (2020: \$0.68 per unit on 24,696,000 units)	6,620,700	16,793,281
Final dividend of \$0.45 per unit on 22,830,001 units declared and unpaid (2020: \$0.46 per unit on 23,046,001 units)	10,273,501	10,601,160
	16,894,201	27,394,441

## 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.

# Notes to the Financial Statements

## (a) Equity price risk

Equity 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 only held debt securities in 2021 and 2020. As a result, the Trust was not exposed to significant price risk arising from changes in market prices.

## (b) Interest rate risk

Interest rate risk arises from changes 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 the statement of financial position.

All amounts stated in '000

	2021			
	1 year or less HKD	Over 1 year to 5 years HKD	Over 5 years HKD	Total HKD
Financial assets at fair value through profit or loss	163,430	1,447,752	719,834	2,331,016
<b>Total interest-bearing assets</b>	163,430	1,447,752	719,834	

	2020			
	1 year or less HKD	Over 1 year to 5 years HKD	Over 5 years HKD	Total HKD
Financial assets at fair value through profit or loss	144,586	1,419,737	822,232	2,386,555
<b>Total interest-bearing assets</b>	144,586	1,419,737	822,232	

### 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 50 basis points (2020: 50 basis points) would result in a decrease in the net assets attributable to unitholders by \$48,052,891 (2020: \$52,596,851); 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 2020.

## (c) Currency risk

As all the Trust's financial instruments at 31 July 2021 and 31 July 2020 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 2021 and 2020, 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 ratings equivalent to which provided by Moody's credit rating services expressed as a percentage of debt securities:

# Notes to the Financial Statements

<b>Rating (Moody's)</b>	<b>% of debt securities</b>	
	<b>2021</b>	<b>2020</b>
Aa2	2.21	62.25
Aa3	84.57	19.88
A1	0.67	0.00
A3	2.71	2.67
NR	9.84	15.20
Total	100.00	100.00

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

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

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.

Cash held by the Trust in current account is deposited with the HSBC Group. According to Moody's, the credit rating of HSBC Group is A3 (2020: A2). The Trust held short-term time deposits with the Oversea-Chinese Banking Corporation Limited. According to Moody's, the credit rating of Oversea-Chinese Banking Corporation Limited is Aa3 (2020: Aa3). 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 2021, 6.55% (2020: 10.65%) and 64.17% (2020: 63.13%) 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 2021 and 31 July 2020.

## *Amounts arising from ECL*

Impairment on interest receivable, amounts due to brokers and cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Trusts consider that these exposures have low credit risk based on the external credit ratings and/ or review result of the counterparties.

The Trusts monitor changes in credit risk on these exposures by tracking published external credit ratings of the counterparties and/ or performed ongoing review of the counterparties.

The Manager considers the probability of default to be minimal as the counterparties have a strong capacity to meet their contractual obligations in the near term. There is no impairment allowance recognised on interest receivable, amounts due from brokers and cash and cash equivalents. The amount of the loss allowance did not change during the year ended 31 July 2021.

## **(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 2021 and 31 July 2020, all of the Trust's financial liabilities are due within three months.

# Notes to the Financial Statements

## **(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, 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.

- 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 prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques 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.

# Notes to the Financial Statements

Financial assets at fair value through profit or loss

## 31 July 2021

	Level 1 HKD	Level 2 HKD	Level 3 HKD	Total HKD
<b>Financial assets</b>				
Listed debt securities	-	1,860,878,325	-	1,860,878,325
Unlisted but quoted debt securities	-	470,137,437	-	470,137,437
	-	2,331,015,762	-	2,331,015,762

## 31 July 2020

	Level 1 HKD	Level 2 HKD	Level 3 HKD	Total HKD
<b>Financial assets</b>				
Listed debt securities	-	1,803,657,281	-	1,803,657,281
Unlisted but quoted debt securities	-	582,897,891	-	582,897,891
	-	2,386,555,172	-	2,386,555,172

For all other financial instruments, their carrying amounts approximate fair value due to the intermediate or short-term nature of these financial instruments. There were no transfers of financial instruments between Level 1 and Level 2 during the year (2020: Nil).

## 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 the statement of comprehensive income 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, new standards and interpretations issued but not yet effective for the year ended 31 July 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, which are not yet effective for the year ended 31 July 2021 and which have not been adopted in these financial statements.

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

### Effective for accounting periods beginning on or after

<i>Amendments to HKFRS 3, Reference to the Conceptual Framework</i>	1 January 2022
<i>Annual Improvements to HKFRSs 2018-2020 Cycle</i>	1 January 2022
<i>Amendments to HKAS 1, Classification of Liabilities as Current or Non-current</i>	1 January 2023

The Trust is in the process of making an assessment of what the impact of these developments 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 financial statements.

# Portfolio Statement (Unaudited)

as at 31 July 2021

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
<b>Debt securities</b>				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.09% 5 JUNE 2023	11,500,000	11,714,900	0.50
<b>Listed investments</b>				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.1% 17 JANUARY 2023	267,900,000	271,955,818	11.61
<b>China</b>				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.16% 18 MAY 2022	93,100,000	93,872,730	4.01
CHINA DEVELOPMENT BK/HK 0.55% 12 JANUARY 2023	82,500,000	82,549,211	3.53	THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.25% 29 JUNE 2027	65,300,000	67,693,043	2.89
		<u>82,549,211</u>	<u>3.53</u>	THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.49% 22 FEBRUARY 2028	9,000,000	9,447,642	0.40
<b>Hong Kong</b>				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 1.59% 4 MARCH 2036	42,000,000	43,857,492	1.87
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
1.51% EXCHANGE FUND NOTES 24 FEBRUARY 2027	6,800,000	7,141,106	0.30	THE PRC 1.68% 21 JANUARY 2026	203,200,000	214,278,850	9.14
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
1.73% EXCHANGE FUND NOTES 20 FEBRUARY 2024	85,100,000	88,497,226	3.78	THE PRC 1.84% 9 DECEMBER 2024	13,000,000	13,676,402	0.58
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
1.96% EXCHANGE FUND NOTES 3 JUNE 2024	6,850,000	7,190,112	0.31	THE PRC 1.89% 2 MARCH 2032	43,500,000	47,094,670	2.01
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.39% EXCHANGE FUND NOTES 20 AUGUST 2025	10,000,000	10,807,599	0.46	THE PRC 1.94% 4 DECEMBER 2023	6,500,000	6,773,898	0.29
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.48% EXCHANGE FUND NOTES 28 FEBRUARY 2029	2,500,000	2,801,742	0.12	THE PRC 1.97% 17 JANUARY 2029	116,000,000	125,902,595	5.37
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.49% EXCHANGE FUND NOTES 22 AUGUST 2028	5,000,000	5,589,123	0.24	THE PRC 2.02% 7 MARCH 2034	44,200,000	48,631,103	2.08
HONG KONG MONETARY AUTHORITY				THE GOVERNMENT OF THE HKSAR OF			
2.6% EXCHANGE FUND NOTES 20 AUGUST 2024	29,000,000	31,086,785	1.33	THE PRC 2.07% 26 AUGUST 2026	9,000,000	9,692,041	0.41
HONG KONG MORTGAGE CORP LTD				THE GOVERNMENT OF THE HKSAR OF			
0.5% 9 FEBRUARY 2023	90,000,000	90,175,050	3.85	THE PRC 2.13% 16 JULY 2030	52,100,000	57,540,048	2.46
THE GOVERNMENT OF THE HKSAR OF				THE GOVERNMENT OF THE HKSAR OF			
THE PRC 0.11% 23 NOVEMBER 2022	1,300,000	1,301,179	0.06	THE PRC 2.22% 7 AUGUST 2024	217,400,000	230,273,298	9.83
THE GOVERNMENT OF THE HKSAR OF				THE GOVERNMENT OF THE HKSAR OF			
THE PRC 0.51% 23 OCTOBER 2023	80,000,000	80,685,232	3.44	THE PRC 2.24% 27 AUGUST 2029	74,000,000	81,765,212	3.49
THE GOVERNMENT OF THE HKSAR OF				THE GOVERNMENT OF THE HKSAR OF			
THE PRC 0.55% 5 DECEMBER 2022	4,000,000	4,027,174	0.17	THE PRC 2.71% 20 FEBRUARY 2023	3,000,000	3,123,626	0.13
THE GOVERNMENT OF THE HKSAR OF				THE GOVERNMENT OF THE HKSAR OF			
THE PRC 0.97% 20 JUNE 2022	20,000,000	20,145,000	0.86	THE PRC 2.95% 24 FEBRUARY 2025	20,000,000	21,870,854	0.93
				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 3.27% 28 AUGUST 2023	17,150,000	18,277,402	0.78
				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 3.32% 25 FEBRUARY 2026	4,000,000	4,516,853	0.19
				THE GOVERNMENT OF THE HKSAR OF			
				THE PRC 4.65% 29 AUGUST 2022	15,000,000	15,745,869	0.67
						<u>1,747,151,674</u>	<u>74.56</u>



# Portfolio Statement (Unaudited)

as at 31 July 2021

	Holdings	Market value HKD	% of net asset value		Holdings	Market value HKD	% of net asset value
<b>South Korea</b>				<b>Malaysia</b>			
KOREA EXPRESSWAY CORP 3.02% 5 MARCH 2023	30,000,000	31,177,440	1.33	EXPORTIMPORT BANK OF MALAYSIA BHD 2.95% 12 MARCH 2023	61,000,000	63,152,202	2.69
		<u>31,177,440</u>	<u>1.33</u>			<u>63,152,202</u>	<u>2.69</u>
<b>Listed investments total</b>		<u>1,860,878,325</u>	<u>79.42</u>				
<b>Unlisted but quoted investments</b>				<b>South Korea</b>			
<b>Cayman Islands</b>				KOREA LAND & HOUSING CORP 4.2% 18 JANUARY 2022			
MTR CORPORATION CI LTD 2.25% 28 DECEMBER 2024	22,000,000	23,128,894	0.99		20,000,000	20,350,241	0.87
MTR CORPORATION CI LTD 2.46% 20 SEPTEMBER 2032	60,000,000	63,047,082	2.69			<u>20,350,241</u>	<u>0.87</u>
		<u>86,175,976</u>	<u>3.68</u>	<b>Venezuela</b>			
				CORPORACION ANDINA DE FOMENTO 1.81% 2 AUGUST 2021			
					24,000,000	24,000,000	1.02
						<u>24,000,000</u>	<u>1.02</u>
<b>China</b>				<b>Unlisted but quoted investments total</b>			
EXPORTIMPORT BANK OF CHINA 3.13% 22 MARCH 2023	15,000,000	15,620,347	0.67			470,137,437	20.06
		<u>15,620,347</u>	<u>0.67</u>				
<b>Hong Kong</b>				<b>Debt securities (total)</b>			
AIRPORT AUTHORITY HK 1.55% 30 OCTOBER 2027	45,000,000	45,513,260	1.94			<u>2,331,015,762</u>	<u>99.48</u>
AIRPORT AUTHORITY HK 1.95% 16 JUNE 2027	20,000,000	20,721,780	0.88	<b>Total investments</b>			
AIRPORT AUTHORITY HK 2.3% 24 APRIL 2030	47,000,000	49,628,071	2.12	<b>(Total cost of investments</b>			
HONG KONG MORTGAGE CORP LTD 0.8% 15 APRIL 2024	75,000,000	75,233,250	3.21	<b>\$2,284,995,267)</b>			
HONG KONG MORTGAGE CORP LTD 1.92% 10 MAY 2022	5,000,000	5,061,517	0.22			2,331,015,762	99.48
HONG KONG MORTGAGE CORP LTD 3.15% 19 MARCH 2049	30,000,000	33,768,298	1.44	<b>Other net assets</b>			
URBAN RENEWAL AUTHORITY 2.15% 10 MAY 2023	30,000,000	30,912,495	1.32			<u>12,215,631</u>	<u>0.52</u>
		<u>260,838,671</u>	<u>11.13</u>	<b>Total net assets</b>			
						<u>2,343,231,393</u>	<u>100.00</u>

# Statement of Movements in Portfolio Holdings (Unaudited)

for the year ended 31 July 2021

	<b>% of net asset value 2021</b>	<b>% of net asset value 2020</b>
<b>Financial assets</b>		
<b>Bonds</b>		
Listed investments	79.42	75.09
Unlisted but quoted investments	20.06	24.27
	<hr/> 99.48	<hr/> 99.36
<b>Total investments</b>	99.48	99.36
<b>Other net assets</b>	0.52	0.64
	<hr/> 100.00	<hr/> 100.00
<b>Total net assets</b>	100.00	100.00

# Performance record (Unaudited)

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

Year	Lowest HKD	Highest HKD
2021	101.31	104.24
2020	98.42	104.63
2019	95.25	99.98
2018	95.89	100.02
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

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

	2021 HKD	2020 HKD	2019 HKD	2018 HKD
Total net asset value	2,343,231,393	2,401,860,727	2,618,526,872	2,769,129,392

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

	2021 HKD	2020 HKD	2019 HKD	2018 HKD
Total net asset value	102.64	104.22	98.64	96.33

## (d) Total expense ratio

	2021 HKD
Average net asset value	2,355,760,709
Total expenses	5,795,737
Total expense ratio	0.25%

# 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's performance and the actual index performance over the relevant period.

	2021	2020
ABF Hong Kong Bond Index Fund	<sup>(a)</sup> (0.81)%	<sup>(a)</sup> 6.85%
Markit iBoxx ABF Hong Kong Index	<sup>(b)</sup> (0.18)%	<sup>(b)</sup> 6.80%

- (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.

## (f) Constituent securities of the Index

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"). Following is the list of constituent security of the Index that accounted for more than 10% of the Index.

	Weighting
<b>As at 31 July 2021</b>	
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.1% 17 JANUARY 2023	13.51%
<b>As at 31 July 2020</b>	
THE GOVERNMENT OF THE HKSAR OF THE PRC 2.46% 4 AUGUST 2021	11.40%
THE GOVERNMENT OF THE HKSAR OF THE PRC 1.1% 17 JANUARY 2023	13.85%

# Administration (Unaudited)

## **Manager and listing agent**

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

## **Directors of the Manager**

Po Chi Cecilia CHAN (appointed on 1 February 2021)  
Ka Yin Joanne LAU  
Sze Ki YIP (appointed on 1 February 2021)  
Stuart Glenn BERRY (resigned on 28 August 2020)  
Pedro Augusto BOTELHO BASTOS (resigned on 2 June 2021)  
Guillermo Eduardo MALDONADO-CODINA (resigned on 1 February 2021)  
Chun Pong Stephen TAM (resigned on 2 June 2021)

## **Members of supervisory committee**

Stephen Y L CHEUNG  
Kyle HUNG  
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**

HK Conversion Agency Services Limited  
2nd Floor Vicwood Plaza  
199 Des Voeux Road Central  
Hong Kong

## **Legal adviser**

Clifford Chance  
27th Floor, Jardine House  
One Connaught Place Central  
Hong Kong

## **Auditor**

KPMG  
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance  
8th Floor, Prince's Building  
10 Chater Road Central  
Hong Kong

Issued by HSBC Global Asset Management (Hong Kong) Limited