

HSBC China Dragon Fund



Interim Report 2007

HSBC 

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Investment Advisor's Report

Period from 20 June 2007 (date of trust deed) to 30 September 2007

Review

The HSBC China Dragon Fund (the "Fund") is a closed-end unit trust governed by its Trust Deed dated 20 June 2007, as amended. The Fund is authorized by the Securities and Futures Commission of Hong Kong under Section 104 of the Hong Kong Securities and Futures Ordinance. The Fund is also listed on The Stock Exchange of Hong Kong Limited.

The Fund's net asset value per unit rose by 33.4%* during the period from 20 July 2007 (the listing date) to 30 September 2007 on the back of a strong China market. China shares surged to record highs with the release of good economic data, impressive interim earnings results and abundant liquidity inflow. China A-share companies posted an average earnings growth of 75% which triggered further market rise. China shares listed in Hong Kong such as H shares and red chip stocks were boosted by the announcement that domestic insurance companies will be allowed to invest 15% of their total assets in overseas market in July 2007. Property developers performed well due to rising property price nationwide and active land bank acquisitions. In addition, shipping stocks rose on parent asset injection potentials, better shipping rate outlook and improving demand and supply dynamics. In August, H share and red chips experienced massive sell-offs triggered by the US sub-prime crisis. However, the market quickly reversed its downtrend following the announcement on 20 August by the State Administration of Foreign Exchange allowing mainland citizens to invest directly into the Hong Kong stock market. The policy caused some jitters in the A-share market, but it did not stop the A-shares from going higher as both the economic and corporate earnings growth remained strong. Over-whelming subscriptions to the two new QDII funds launched by mainland domestic fund houses in September 2007 which raised a total of US\$8bn created positive sentiments and led the market higher. The restructuring story of China telecom sector recurred in September and lifted the performance of telecom stocks. Airline stocks also rose significantly on M&A speculations. On the economic front, CPI rose 3.9% over the first eight months of 2007 mainly driven by higher food prices. PBOC raised interest rates in September,

the 5th such rise this year. The benchmark one-year deposit and lending rates increased to 3.87% and 7.29% respectively. China's domestic consumption remained robust with retail sales registering a cumulative total of US\$741.5 billion year from January to September 2007, up 15.7% over the same period last year.

Market Outlook

We believe potential fund inflows into Hong Kong on the back of new QDII funds raised and the lifting of investment restrictions for Chinese individuals will provide further liquidity support for the China shares listed in Hong Kong which are still trading at steep discounts to their A share counterparts. The A share market will also be well-supported by China's favourable macroeconomic environment and strong corporate earnings growth. Potential delay in the implementation of the individual investment scheme and possible announcement of new austerity measures after the 17th party congress meeting in mid-October may lead to short term market corrections. However, over the longer term, we believe renminbi appreciation, anticipated fund inflow from the implementation of QDII and individual investment schemes, corporate M & A, establishment of management incentive plans and corporate tax cuts in 2008 will continue to be positive factors on the market.

Halbis Capital Management (Hong Kong) Limited

31 October 2007

* Source: HSBC Investments (Hong Kong) Limited. Represents the percentage change in net asset value per unit during the period. The Net Offer Price (as defined in the Fund's Offering Circular) of HK\$9.65 per unit is being used as the starting net asset value per unit in the calculation.

Condensed interim statement of assets and liabilities and unitholders equity

As at 30th September 2007

(Expressed in Hong Kong dollars)

	Note	(Unaudited) HK\$
Assets		
Equity investments		4,740,620,267
Dividends receivable		2,462,647
Interest receivables		175,080
Amount receivable from sale of investments		107,660,263
Cash and cash equivalents	7(d)	82,550,897
		<u>4,933,469,154</u>
Liabilities		
Management fee payable	7(a)	5,097,349
Trustee fee payable	7(b)	351,749
Transaction and QFII custodian fee payable	7(c)	8,977
Amount payable on purchase of investments		132,447,001
Tax liabilities	5	7,449,634
		<u>145,354,710</u>
Net assets attributable to unitholders (at bid market prices)	4	<u><u>4,788,114,444</u></u>
Equity		
Issued units	4	3,719,100,000
Retained earnings		1,069,014,444
		<u>4,788,114,444</u>

Condensed interim income statement

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

	Note	(Unaudited) HK\$
Dividends		3,725,510
Bank interest	7(d)	7,994,703
Gains on investments	3	1,268,051,478
Losses on investments	3	(28,415,214)
Net foreign exchange loss		(3,408,561)
Net investment income		<u>1,247,947,916</u>
Management fee	7(a)	11,563,013
Trustee fee	7(b)	801,533
Transaction costs		30,405,315
Preliminary expenses	6	128,385,708
Other operating expenses		328,269
Total operating expenses		<u>171,483,838</u>
Net operating income before tax		1,076,464,078
Tax expenses	5	7,449,634
Net profit for the year		<u>1,069,014,444</u>

Condensed interim statement of changes in equity

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

	(Unaudited) HK\$
Total equity at the beginning of the period	–
Proceeds from issue of units	3,719,100,000
	<hr/>
	3,719,100,000
Increase in net assets	1,069,014,444
	<hr/>
Total equity at the end of the period	<u><u>4,788,114,444</u></u>

Condensed interim statement of cash flows

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

	(Unaudited) HK\$
Cash flows from operating activities	
Dividends received	1,262,863
Bank interest received	7,994,703
Management fee paid	(6,465,664)
Trustee fee paid	(449,784)
Transaction costs on investments paid	(146,430)
Bank charges paid	(272,269)
Other operating expenses paid	(56,000)
	<hr/>
Net cash generated from operating activities	1,867,419
Investing activities	
Proceeds on sale of investments	784,525,513
Purchase of investments	(4,290,102,471)
	<hr/>
Net cash used in investing activities	(3,505,576,958)
Cash flows from financing activities	
Proceeds from issue of units*	3,590,539,212
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Net cash generated from financing activities	3,590,539,212
	<hr/>
Net increase in cash and cash equivalents	86,829,673
Effect of exchange rate changes	(4,278,776)
	<hr/>
Cash and cash equivalents at the end of the period	82,550,897
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* Non cash item

The preliminary expenses of \$128,385,708 (out of which the total underwriting commission amounted to \$111,573,000) were netted from the subscription proceeds.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

1. General information

HSBC China Dragon Fund (the "Fund") is a closed-end unit trust governed by its Trust Deed dated 20 June 2007 (the "Trust Deed"), as amended. The Fund is authorized by the Securities and Futures Commission of Hong Kong under Section 104 of the Hong Kong Securities and Futures Ordinance. The Fund is also listed on The Stock Exchange of Hong Kong Limited (a subsidiary of the Hong Kong Exchanges and Clearing Limited).

The investment objective of the Fund is to achieve long-term capital growth by investing primarily in listed companies established or operating in the People's Republic of China (PRC) or listed companies that are positioned to benefit from the strong economic growth potential and promising investment opportunities in the PRC, including but not limited to A Shares, B Shares, H Shares and shares issued by Red Chip Companies and other companies which carry out a significant proportion of their business activities in the PRC.

Under the prevailing regulations in the PRC, foreign investors can invest in the PRC A-Share market through institutions that have obtained qualified foreign institutional investor (QFII) status in the PRC. The Fund itself is not a QFII, but may invest directly in A Shares via the US\$200 million QFII investment quota obtained by the Manager.

2. Basis of preparation and accounting policies

(a) Statement of compliance

These condensed interim financial statements ("Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants.

This interim report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since its inception. The condensed interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Fund is the Hong Kong Dollar reflecting the fact that the units of the Fund are issued in Hong Kong Dollars.

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

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.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the interim 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. Prior interim periods are not restated.

(c) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong Dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong Dollars at the foreign exchange rates ruling at the date of the statement of assets and liabilities and unitholders equity. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Hong Kong Dollars at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value through profit or loss are included in gains or losses on investments. All other foreign currency exchange differences relating to monetary items are presented separately in the income statement.

(d) Financial instruments

(i) Classification

The Fund designated all its investments into the financial assets at fair value through profit or loss category.

All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities.

Financial assets that are classified as receivables include amounts receivable on sale of investments, subscriptions receivable, and interest and dividends receivable.

Financial liabilities that are not at fair value through profit or loss include amounts payable on purchase of investments and other payables.

(ii) Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase 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.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

(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 value recognised in the income statement.

Financial assets classified as receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities other than those at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the date of the statement of assets and liabilities and unitholders equity without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where pricing models are used, inputs are based on market data at the date of the statement of assets and liabilities and unitholders equity. Fair values for unquoted equity instruments are estimated, if possible, using applicable price/ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Investments in other unlisted open-ended investment funds are recorded at the net asset value per share as reported by the Managers of such funds.

(v) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of assets and liabilities and unitholders equity to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the income statement 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 the income statement.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39.

The Fund uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities and unitholders equity when the Fund has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or simultaneously, e.g. through a market clearing mechanism.

(viii) Specific instruments

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(e) Revenue recognition

Provided it is probable that the economic benefits will flow to the Fund and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividends from other investments are recognised in the income statement as dividend income when declared.

In some cases, the Fund may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases, the Fund recognises the dividend income for the amount of the equivalent cash dividend with the corresponding debit treated as an additional investment.

(ii) Interest income

Interest income is recognised in the income statement as it accrues, using the original effective interest rate method.

(f) Preliminary expenses

Preliminary expenses of the Fund are charged to the income statement as incurred.

(g) Other expenses

All other expenses are recognised in the income statement on an accrual basis.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

(h) Related parties

For the purposes of these financial statements, a party is considered to be related to the Fund if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Fund or exercise significant influence over the Fund in making financial and operating policy decisions, or has joint control over the Fund;
- (ii) the Fund and the party are subject to common control;
- (iii) the party is a subsidiary, an associate of the Fund or a joint venture in which the Fund is a venturer;
- (iv) the party is a member of key management personnel of the Fund or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

(i) Foreign exchange gains and losses

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised together with other changes in the fair value. Included in the profit or loss line item *Net foreign exchange gain/loss* are net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

3. Gains and losses on investments

	(Unaudited) For the period from 20 June 2007 (date of Trust Deed) to 30 September 2007 HK\$
Realised gains	147,431,433
Unrealised gains	1,120,620,045
Total gains on investments	<u>1,268,051,478</u>
Realised losses	(8,281,733)
Unrealised losses	(20,133,481)
Total losses on investments	<u>(28,415,214)</u>

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

4. Number of units in issue and net assets attributable to unitholders per unit

	(Unaudited) Units for the period from 20 June 2007 (date of Trust Deed) to 30 September 2007
Balance as at 20 June 2007	–
Issue of 323,400,000 units at HK\$10 each from initial subscription	323,400,000
Issue of 48,510,000 units at HK\$10 each from the over-allotment options	48,510,000
	<hr/>
	371,910,000
	<hr/> <hr/>
Net assets attributable to unitholders	HK\$ 4,788,114,444
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Net assets attributable to unitholders per unit	HK\$ 12.87
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The Fund is a closed-end unit trust. There was no redemption of units during the period from 20 June 2007 (date of Trust Deed) to 30 September 2007.

5. Taxation

No provision for Hong Kong profits tax has been made as the interest, dividend income and realised gains on disposal of investments of the Fund are excluded from the charge to profits tax under Section 14, Section 26 or Section 26A of the Hong Kong Inland Revenue Ordinance.

Under current tax law in the PRC, a foreign company that does not have any establishment in the PRC but earns interest, royalty, rental or other income (including capital gains), directly from sources in the PRC is liable to pay a withholding tax at a rate of 20%. This rate was reduced to 10% under the notice Guofa (2000) No 37 for certain specified sources of income.

In 2007, a PRC-Hong Kong double taxation agreement (tax treaty) was issued which transfers taxing rights to Hong Kong on gains derived by a Hong Kong resident on the transfer of certain PRC-sourced shares to Hong Kong.

The Offering Circular of the Fund gives the Manager the right to provide for withholding tax on such gains or income and withhold the tax for the account of the Fund. In the absence of any precedent on the actual tax treatment of such gains to holders of QFII quota, but on the basis of the available information, the Manager has determined that it is appropriate to provide for realised gains on A-shares at the rate of 10% in these condensed interim financial statements.

6. Preliminary expenses

The preliminary establishment expenses of the Fund, including the Stock Exchange initial listing fees, legal and other professional fees, underwriting commission, SFC application fee, SFC authorisation fee and printing and other expenses relating to the Global Offering and establishment of the Fund, which amounted to HK\$128 million, were borne by the Fund and were written off immediately on the first Valuation Day of the Fund.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

7. Transactions with the Manager and its Connected Persons

Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities & Futures Commission of Hong Kong (the "SFC Code"). All transactions entered into during the period between the Fund and the Manager and its Connected Persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with Connected Persons except for what is disclosed below.

(a) Management fee

The fee payable to the Manager is calculated at the rate of 1.5% per annum of the net asset value of the Fund payable monthly in arrears. Any fees payable to the Investment Adviser should be borne by the Manager. The management fee charged and payable by the Fund in respect of the period amounted to \$11,563,013 and \$5,097,349 respectively.

The Fund has invested directly in A Shares via the US\$200 million QFII investment quota obtained by the Manager.

(b) Trustee fee

The fee payable to the Trustee is calculated at the rate of 0.125% per annum for the first HK\$390 million of the net asset value, and 0.1% per annum thereafter. The trustee fee is accrued daily and payable in arrears on a monthly basis. The trustee fee charged and payable by the Fund in respect of the period amounted to \$801,533 and \$351,749 respectively.

(c) Custody fee

The custody fee is calculated at the rate of 0.1% per annum of the net asset value of the assets held by the QFII custodian as determined by the QFII custodian (based on the actual number of calendar days in a year). The custodian fee charged and payable by the Fund in respect of the period amounted to HK\$272,269 and HK\$4,827 respectively.

(d) Bank balances

Bank balances are maintained with the Trustee. The bank balances held with the Trustee as at 30 September 2007 amounted to HK\$82,550,897. During the period, interest earned on the above bank balances was HK\$7,994,703.

(e) Underwriting fee and commission and fee of the Receiving Banker

The Hongkong and Shanghai Banking Corporation Limited was one of the Underwriters of the Global Offering of the Fund. The Underwriters in total received underwriting commission of HK\$111,573,000 (HK\$0.30 for each unit) in relation to the units offered under the Placing and the Hong Kong Public Offering and the units issued pursuant to the exercise of the Over-allotment Option, out of which they might share part or all of the underwriting commission with intermediaries which introduced investors to subscribe for units under the Global Offering. In addition, The Hongkong and Shanghai Banking Corporation Limited also acted as the Receiving Banker under the Hong Kong Public Offering, and received a fee of HK\$658,293.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

- (f) In its purchases and sales of investments, the Fund utilises the brokerage services of The Hongkong and Shanghai Banking Corporation Limited. Details of transactions effected through this company are as follows:

	The Hongkong and Shanghai Banking Corporation Limited 2007 HK\$
Commission paid for the year	569,452
Average rate of commission	0.12%
Total aggregate value of such transactions for the year	452,844,440
Percentage of such transactions in value to total transactions for the year	8.56%

8. Soft dollar practices

The Manager, the Investment Adviser or any of its connected persons may effect transactions by or through the agency of another person (or person connected with him) with whom it has an arrangement under which that party will from time to time provide it with or procure for it goods, services or other benefits (such as research and advisory services, portfolio analysis or computer hardware and software incidental to such goods or services) the nature of which is such that their provision is of demonstrable benefit to the unitholders as a whole and for which no direct payment is made but instead the Manager, the Investment Adviser or any of its connected persons undertake to place business with that party. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

9. Financial risk management

The investment objective of the Fund is to achieve long-term capital growth by investing primarily in listed companies established or operating in the PRC or listed companies that are positioned to benefit from the strong economic growth potential and promising investment opportunities in the PRC, including but not limited to A Shares, B Shares, H Shares and shares issued by Red Chip Companies and other companies which carry out a significant proportion of their business activities in the PRC. The risk exposures inherent in the Fund as at 30 September 2007 are summarized below.

(a) Market price risk

The Fund's investments are subject to the securities price risk inherent in all securities i.e. the value of holdings may fall as well as rise. The Fund's market risk is managed through deliberate stock selection and diversification of the investment portfolio within its investment objective.

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due.

The Fund's financial assets which are potentially subject to concentrations of credit risk consist principally of securities and bank balances.

Notes to the unaudited condensed interim financial statements

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

The Fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activity with well established broker-dealers, banks with high credit ratings and regulated exchanges.

The majority of the Fund's transactions in securities are settled / paid for upon delivery using approved and reputable brokers. Under such transactions, the risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail.

Accordingly, the Fund has no significant concentration of credit risk.

(c) Interest rate risk

The Fund is exposed to minimal interest rate risk as the Fund invests mainly in equity securities and only the bank balances are exposed to interest rate risk.

(d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to the changes in foreign exchange rates.

As the Fund holds securities which are denominated in Chinese Renminbi, the Fund is exposed to currency risk related to the Hong Kong Dollar against Chinese Renminbi.

(e) Fair values of financial instruments

The Fund's carrying amounts of securities, other assets and liabilities approximate to their fair values. Other assets and liabilities include bank balances, accruals and other payables which are realised or settled within a short period of time.

Investment portfolio

As at 30th September 2007

(Expressed in Hong Kong dollars)

	<i>(Unaudited)</i>		
	Holdings	Market Value HK\$	% of NAV
Equities			
Listed Investments			
<i>Hong Kong</i>			
Agile Property Holdings Ltd	1,000,000	16,320,000	0.34
Aluminum Corp of China Ltd	368,000	8,206,400	0.17
Beijing Enterprises Holdings Ltd	532,000	20,960,800	0.44
China Coal Energy Co	11,900,000	274,295,000	5.73
China Cosco Holdings Co Ltd	5,700,000	138,225,000	2.89
China Life Insurance Co Ltd	5,940,000	264,627,000	5.53
China Merchants Bank Co Ltd	2,375,000	80,868,750	1.69
China Mobile Ltd	800,000	101,680,000	2.12
China National Building Material	2,380,000	60,333,000	1.26
China Oilfield Services Ltd	10,700,000	191,316,000	4.00
China Overseas Land & Investment Ltd	6,435,001	114,285,618	2.39
China Southern Airlines	11,206,000	135,144,360	2.82
China Travel International Investment Hong Kong Ltd	7,134,000	40,949,160	0.86
CNOOC Ltd	6,000,000	78,360,000	1.64
Hangzhou Steam Turbine Co	2,729,991	60,987,999	1.27
Hidili Industry International Development Ltd	47,000	579,040	0.01
Huadian Power International Co	23,800,000	118,286,000	2.47
Jiangsu Expressway Co Ltd	8,320,000	83,033,600	1.73
Lenovo Group Ltd	19,000,000	113,620,000	2.37
Maanshan Iron & Steel Co Ltd	11,900,000	100,793,000	2.10
PetroChina Co Ltd	14,000,000	206,080,000	4.30
Ping An Insurance (Group) Co of China Ltd	1,900,000	203,870,000	4.26
Sino-Ocean Land Holdings Ltd	549,500	6,044,500	0.13
Yantai Changyu Pioneer Wine Co Ltd	688,775	34,438,750	0.72
Zhejiang Expressway Co Ltd	13,080,000	143,880,000	3.00
		<u>2,597,183,977</u>	<u>54.24</u>

Investment portfolio

As at 30th September 2007

(Expressed in Hong Kong dollars)

	<i>(Unaudited)</i>		
Holdings	Market Value HK\$	% of NAV	
Equities			
Listed Investments			
<i>PRC</i>			
Baoshan Iron & Steel Co Ltd	7,639,959	143,463,421	3.00
Chengdu B-Ray Media Co Ltd	1,815,906	66,154,970	1.38
China Enterprise Co Ltd	1,508,000	48,212,539	1.01
China International Marine Containers Ltd	2,000,000	33,400,000	0.70
China Minsheng Banking Corp Ltd	5,571,000	90,867,316	1.90
China Southern Airlines Co Ltd	8,422,954	208,512,004	4.35
China United Telecommunications Corp	11,800,000	113,774,867	2.38
China Vanke Co Ltd	2,932,900	91,436,933	1.91
Chongqing Changan Automobile Co Ltd	9,271,195	223,002,171	4.66
Citic Guoan Information Industry Co Ltd	1,558,417	63,000,473	1.31
Citic Securities Co Ltd	671,556	67,038,789	1.40
Fuzhou Tianyu Electric Co Ltd	2,635,271	96,195,553	2.01
Kingdream Public Ltd Co	3,939,808	115,426,334	2.41
Offshore Oil Engineering Co Ltd	3,099,154	155,743,949	3.25
Ping An Insurance Group Co	182,000	25,360,526	0.53
Shanghai Pudong Development Bank Co Ltd	3,050,000	165,301,425	3.45
Shanghai Zhenhua Port Machinery Co Ltd	2,377,611	50,826,969	1.06
Shanxi Xishan Coal & Electricity Power Co Ltd	1,407,950	103,908,239	2.17
Tbea Co Ltd	6,252,870	156,598,519	3.27
Xinjiang Joinworld Co Ltd	2,469,046	86,049,643	1.80
Zte Corp	685,000	39,161,650	0.82
		<u>2,143,436,290</u>	<u>44.77</u>
Total investments		4,740,620,267	99.01
Other net assets		<u>47,494,177</u>	<u>0.99</u>
Total net assets		<u>4,788,114,444</u>	<u>100.00</u>
Total cost of investments		<u>3,662,348,721</u>	

Statement of movements in investment portfolio

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

	<i>(Unaudited)</i>		
	<i>Additions</i>	<i>Disposal</i>	<i>Total as at 30 September 2007</i>
Equities			
Listed Investments			
<i>Hong Kong</i>			
Agile Property Holdings Ltd	1,000,000		1,000,000
Aluminum Corp of China Ltd	368,000		368,000
Beijing Enterprises Holdings Ltd	532,000		532,000
China Coal Energy Co	11,900,000		11,900,000
China Cosco Holdings Co Ltd	10,700,000	5,000,000	5,700,000
China Life Insurance Co Ltd	5,940,000		5,940,000
China Merchants Bank Co Ltd	2,375,000		2,375,000
China Mobile Ltd	800,000		800,000
China National Building Material	2,380,000		2,380,000
China Oilfield Services Ltd	10,700,000		10,700,000
China Overseas Land & Investment Ltd	6,435,001		6,435,001
China Southern Airlines	22,525,500	11,319,500	11,206,000
China Travel International Investment Hong Kong Ltd	7,134,000		7,134,000
CNOOC Ltd	6,000,000		6,000,000
Hangzhou Steam Turbine Co	2,729,991		2,729,991
Hidili Industry International Development Ltd	47,000		47,000
Huadian Power International Co	23,800,000		23,800,000
Jiangsu Expressway Co Ltd	8,320,000		8,320,000
Lenovo Group Ltd	19,000,000		19,000,000
Maanshan Iron & Steel Co Ltd	11,900,000		11,900,000
Minmetals Resources Ltd	9,500,000	9,500,000	–
PetroChina Co Ltd	14,000,000		14,000,000
Ping An Insurance (Group) Co of China Ltd	1,900,000		1,900,000
Shanghai Industrial Holdings Ltd	2,380,000	2,380,000	–
Shougang Concord International Enterprises Co Ltd	45,700,000	45,700,000	–
Sino-Ocean Land Holdings Ltd	549,500		549,500
Yantai Changyu Pioneer Wine Co Ltd	1,188,775	500,000	688,775
Zhejiang Expressway Co Ltd	13,080,000		13,080,000

Statement of movements in investment portfolio

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

	<i>(Unaudited)</i>		
	<i>Additions</i>	<i>Disposal</i>	<i>Total as at 30 September 2007</i>
Equities			
Listed Investments			
<i>PRC</i>			
Baoshan Iron & Steel Co Ltd	7,639,959		7,639,959
Chengdu B-Ray Media Co Ltd	2,769,906	954,000	1,815,906
China Enterprise Co Ltd	1,508,000		1,508,000
China International Marine Containers Ltd	2,000,000		2,000,000
China Minsheng Banking Corp Ltd	5,571,000		5,571,000
China Southern Airlines Co Ltd	8,422,954		8,422,954
China United Telecommunications Corp	11,800,000		11,800,000
China Vanke Co Ltd	2,932,900		2,932,900
Chongqing Changan Automobile Co Ltd	9,271,195		9,271,195
Citic Guoan Information Industry Co Ltd	1,558,417		1,558,417
Citic Securities Co Ltd	671,556		671,556
Fuzhou Tianyu Electric Co Ltd	2,635,271		2,635,271
Han's Laser Technology Co Ltd	1,413,832	1,413,832	–
Huadong Medicine Co Ltd	3,182,437	3,182,437	–
Industrial Bank Co Ltd	1,586,000	1,586,000	–
Kingdream Public Ltd Co	3,939,808		3,939,808
Maanshan Iron & Steel Co Ltd	17,940,000	17,940,000	–
Offshore Oil Engineering Co Ltd	3,099,154		3,099,154
Ping An Insurance Group Co	182,000		182,000
Shanghai Pudong Development Bank Co Ltd	3,050,000		3,050,000
Shanghai Zhenhua Port Machinery Co Ltd	2,377,611		2,377,611
Shanxi Xishan Coal & Electricity Power Co Ltd	1,407,950		1,407,950
Tbea Co Ltd	6,252,870		6,252,870
Xinjiang Joinworld Co Ltd	2,469,046		2,469,046
Zte Corp	685,000		685,000

Performance table

For the period from 20th June 2007 (date of trust deed) to 30th September 2007

(Expressed in Hong Kong dollars)

		(Unaudited)
		HK\$
(a)	Total net asset value	4,788,114,444
(b)	Net asset value per unit	12.87
(c)	Net asset value per unit record :	
		Lowest Highest
	2007 (since inception)	9.10 12.88

The Fund is a closed-end fund listed on The Stock Exchange of Hong Kong Limited and no unitholders may demand redemption of their units. In general, closed-end funds may trade on the exchange at a discount or at a premium to their net asset value. There is no assurance that the units will be traded at a price that is equal to the Net Asset Value. As the market price of the units may be determined by factors such as the Net Asset Value and market supply and demand for the units, there is a risk that the units will be traded at a discount to its Net Asset Value. In times of market disruption or when there is an insufficient number of buyers and/or sellers of the units, the bid/ask spread of the market price of the units may widen significantly.

Administration and management

Directors of the Manager

Executive Directors:

APENBRINK, Rudolf Eduard Walter

AU, King Lun

LAM, Po Yee

LOUIE, Ngar Yee

STOKES, Edmund Richard

Non-Executive Directors:

CHEUNG, Hoi Chuen

CHEANG, Wai Wan Louisa

ENGEL, Conrado

FRIED, David Lawrence

LEECH, Paul Ernest

LEUNG, Margaret Ko May Yee

LEUNG, William Wing Cheung

McCOMBE, Mark Seumas

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Certified Public Accountants

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Central

Hong Kong