

HSBC CHINA DRAGON FUND
Interim Report 2011



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Manager's report

Interim period ended 30 September 2011

Review

The MSCI China Index lost 28.3 percent, and the MSCI China A Index fell 20.7 percent, both in local currency terms.

Chinese equities were down significantly as weakening global economic data continued to heighten investors' concerns about the global economic growth prospect. The mid-year downgrading of the US Treasury's debt rating from a rating AAA to AA+ by Standard & Poor's triggered uncertainty over the possibility of default. Despite growing worries over the global economic outlook, the People's Bank of China tightened liquidity by broadening the definition of banks' required reserves to include margin deposits. The interpretation was that the central bank would continue to prudently tighten the monetary policy in the near future, with the objectives of taming inflation expectations in China and preventing the inflow of hot money if the US launches additional stimulus measures.

Reports of a significant rise in informal lending and a lack of visibility on policy response brought increasing uncertainties to China's economic growth. Despite September traditionally being considered a peak season, transactions to date were poor, with property sharply underperforming. Building materials also underperformed on demand concerns, and fixed asset investment slowed despite three more regions being added to the "building material to rural areas" scheme.

Outlook

We think the Chinese equity market might continue to face volatility before the European sovereign debt crisis is resolved, and the market can then assess the impact of slower global growth on China's GDP. On the policy front, the status quo is likely to continue for a while. For policy makers to be proactive, they need to see more evidence of a sharp slowdown in China's purchasing managers' index (PMI), industrial and export growth, and more importantly, China's consumer price index (CPI) dropping to below 5 percent in Q4. A meaningful recovery will not take place before the Chinese Government eases off its monetary tightening, like cutting the required reserve ratio (RRR) and relaxing the monetary tightening policy. We think the Chinese Banking sector has already factored in mounting credit costs and non-performing loan (NPL) formation within the banking system in the next few years. However, there might be continued earnings downgrades in the cyclical, energy, consumer discretionary and industrial sectors.

In the short term, we believe the market will trade range-bound, given the lingering concerns over inflation, the potential slowdown in industrial production due to a power shortage in the summer and the debt issue in Europe. In the medium term, given the market has been sold off in recent weeks on the back of hard landing concerns, China equities are trading at attractive valuations for long-term investors to gain positive returns in the next 12 to 24 months.

**For and on behalf of
HSBC Global Asset Management (Hong Kong) Limited**

31 October 2011

Independent review report to the Manager

Interim period ended 30 September 2011

Introduction

We have reviewed the interim financial statements of the Fund set out on pages 3 to 21 which comprise the interim statement of assets and liabilities of the Fund as of 30 September 2011 and the related interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six months period then ended, and a summary of significant accounting policies. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 September 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

Certified Public Accountants

KPMG

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

Interim statement of assets and liabilities (unaudited)

As at 30 September 2011

	Note	30 September 2011 (Unaudited) HK\$	31 March 2011 (Audited) HK\$
Assets			
Investments at fair value through profit or loss	7	2,459,968,177	3,453,504,294
Amounts receivable from brokers		65,114,680	5,066,276
Dividend and other receivables	8(c)	5,054,977	3,968,484
Cash and cash equivalents	8(d)	215,059,457	176,971,669
Total assets		<u>2,745,197,291</u>	<u>3,639,510,723</u>
Liabilities			
Taxation	6	98,597,817	89,975,009
Amounts payable to brokers		16,780,344	24,110,354
Accrued expenses and other payables	8(a), (b) & (c)	4,094,014	5,320,459
Total liabilities		<u>119,472,175</u>	<u>119,405,822</u>
Net assets attributable to unitholders		<u>2,625,725,116</u>	<u>3,520,104,901</u>
Representing:			
Total equity		<u>2,625,725,116</u>	<u>3,520,104,901</u>
Number of units in issue	10	<u>350,137,500</u>	<u>357,034,000</u>
Net asset value per unit		<u>7.50</u>	<u>9.86</u>

Interim statement of comprehensive income (unaudited)

For the period ended 30 September 2011

	Note	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$	Period from 1 April 2010 to 30 September 2010 (Unaudited) HK\$
Dividend income		56,217,267	49,044,213
Interest income on deposits	4, 8(d)	1,762,553	718,809
Net (losses)/gains from investments	5	(848,688,620)	69,669,663
Net foreign exchange gain		<u>2,900,041</u>	<u>484,452</u>
Net investment (loss)/gain		<u>(787,808,759)</u>	<u>119,917,137</u>
Expenses			
Management fees	8(a)	(24,946,623)	(23,960,353)
Transaction costs	8(e)	(13,932,146)	(11,221,380)
Trustee's fees	8(b)	(1,771,847)	(1,706,542)
Custodian fees	8(c)	(1,097,906)	(1,020,287)
Auditor's remuneration		(150,447)	(96,905)
Legal and professional fee		(131,399)	(139,587)
Other operating expenses		<u>(511,661)</u>	<u>(389,610)</u>
Operating expenses		<u>(42,542,029)</u>	<u>(38,534,664)</u>
(Loss)/profit before taxation		(830,350,788)	81,382,473
Taxation	6	<u>(11,740,706)</u>	<u>(10,865,481)</u>
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the period		<u>(842,091,494)</u>	<u>70,516,992</u>

Interim statement of changes in equity (unaudited)

For the period ended 30 September 2011

	Note	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$	Period from 1 April 2010 to 30 September 2010 (Unaudited) HK\$
Balance at the beginning of period		3,520,104,901	3,403,444,993
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the period		(842,091,494)	70,516,992
Repurchase of units during the period	11	<u>(52,288,291)</u>	<u>(80,585,969)</u>
Balance at the end of period		<u><u>2,625,725,116</u></u>	<u><u>3,393,376,016</u></u>

Interim cash flow statement (unaudited)

For the period ended 30 September 2011

	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$	Period from 1 April 2010 to 30 September 2010 (Unaudited) HK\$
Operating activities		
Interest income received	1,762,553	718,809
Dividends income received	55,196,101	47,340,802
Management fees paid	(25,838,380)	(24,402,481)
Trustee's fees paid	(1,839,975)	(1,744,766)
Tax paid	(3,117,898)	(3,748,477)
Other operating expenses paid	(17,141,882)	(14,063,317)
Net cash generated from operating activities	<u>9,020,519</u>	<u>4,100,570</u>
Investing activities		
Payments on purchase of investments	(2,810,780,247)	(2,121,151,336)
Proceeds from sale of investments	2,888,249,330	2,111,237,366
Net cash generated from/(used in) investing activities	<u>77,469,083</u>	<u>(9,913,970)</u>
Financing activities		
Payments on repurchase of units	(52,288,291)	(80,585,969)
Net cash used in financing activities	<u>(52,288,291)</u>	<u>(80,585,969)</u>
Net increase/(decrease) in cash and cash equivalents	34,201,311	(86,399,369)
Cash and cash equivalents at the beginning of the period	176,971,669	165,431,204
Effect of exchange rate fluctuations on cash and cash equivalents	3,886,477	1,371,786
Cash and cash equivalents at the end of the period	<u>215,059,457</u>	<u>80,403,621</u>

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

1. Background

HSBC China Dragon Fund ("the Fund") is a closed-ended unit trust governed by its Trust Deed dated 20 June 2007 ("the Trust Deed"), as amended. The Fund is authorised by the Hong Kong Securities and Futures Commission ("SFC") under Section 104(1) of the Hong Kong Securities and Futures Ordinance ("HKSF"). The Fund is also listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") (a subsidiary of the Hong Kong Exchanges and Clearing Limited). The period fixed for the duration of the Fund is eighty years after the date of inception.

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 HSBC Global Asset Management (Hong Kong) Limited ("the Manager").

Pursuant to the general meeting held on 17 November 2009, an extraordinary resolution was passed to enable the Manager during the "relevant period", as defined below, to repurchase units, not more than 10% of the aggregate number of units in issue. The repurchase is subject to and in accordance with the Trust Deed, the laws of Hong Kong, the Code on Unit Trusts and Mutual Funds and the guidelines issued by the SFC.

The "relevant period" means the period from the date of the passing of this extraordinary resolution until the earlier of:

- (i) the expiration of 12 months following the passing of this extraordinary resolution; and
- (ii) the passing of an ordinary resolution by the holders of the Fund in general meeting revoking or varying the authority given to the Manager by this extraordinary resolution.

A general meeting was held on 11 October 2010 and a resolution was passed to approve the renewal of the previous repurchase mandate until the earlier of:

- (i) the expiration of 12 months following the passing of this resolution; or
- (ii) the passing of this resolution by the holders of the Fund in general meeting revoking or varying the authority given to the Manager by this resolution.

There was repurchase of units by the Manager during the period.

2. Significant accounting policies

(a) Statement of compliance

These 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 ("HKICPA").

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2011, except for the accounting policy changes that are expected to be reflected in the 2011 interim financial statements.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

The interim financial statements are unaudited, but has been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity," issued by the HKICPA. The review report to the Manager of the Fund is included on page 2.

The financial information relating to the financial year ended 31 March 2011 that is included in the interim financial statements as being previously reported information does not constitute the Fund's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on the financial statements for the year ended 31 March 2011 in their report dated 18 July 2011.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

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 and 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 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) Financial instruments

(i) Classification

All of the Fund's investments are classified as financial assets at fair value through profit or loss. This category comprises financial instruments held for trading, which are instruments that the Fund has acquired principally for the purpose of short-term profit-taking. These include investments in equities.

Financial assets that are classified as receivables include amounts receivable from brokers, dividend and other receivables.

Financial liabilities that are not at fair value through profit or loss include amounts payable to brokers, accrued expenses 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 instruments.

A regular way purchase or sale of financial assets and financial liabilities 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 on the unaudited interim financial statements

For the period ended 30 September 2011

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial 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 receivables are carried at amortised cost using the effective interest method less impairment loss, if any.

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

(iv) Fair value measurement principles

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

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

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

Net (losses)/gains from investments is included in profit or loss. Realised gains and losses include net gains or losses on contracts which have been settled or for which offsetting contracts have been entered into.

(v) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of assets and liabilities to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

Assets held for trading that are sold are derecognised and corresponding receivables from the brokers are recognised as of the date the Fund commits to sell the assets.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

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

The Fund uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(vii) Offsetting

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

(viii) Cash and cash equivalents

Cash and cash equivalents comprise 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.

(d) 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 profit or loss as follows:

Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, by using the effective interest rate method. Interest income on bank deposits is disclosed separately on the statement of comprehensive income.

Dividend income

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 profit or loss 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.

(e) Expenses

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

(f) Taxation

Taxation comprises current tax and deferred tax. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

(g) Translation of foreign currency

Foreign currency transactions during the period are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the date of statement of assets and liabilities. Exchange gains and losses are recognised in profit or loss.

(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 an associate of the Fund;
- (iv) the party is a member of key management personnel of the Fund or the Fund's parent, 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.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the Fund.

(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* 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.

(j) Units in issue

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

The Fund has one class of units in issue which is not redeemable by the unitholders. Upon termination of the Fund, the unitholders are entitled to all net cash proceeds derived from the sale or realisation of the assets of the Fund less any liabilities, in accordance with their proportionate interest in the Fund at the date of termination. The units are classified as equity in accordance with HKAS 32.

(k) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Fund'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 Fund is identified as the Manager, HSBC Global Asset Management (Hong Kong) Limited.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

3. Changes in accounting policies

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

4. Interest income on deposits

The Fund earned all its interest income from cash and cash equivalents.

5. Net (losses)/gains from investments

	Period from 1 April 2011 to 30 September 2011 HK\$	Period from 1 April 2010 to 30 September 2010 HK\$
Net (losses)/gains from investments		
– Realised (losses)/gains	(10,591,712)	23,183,329
– Unrealised (losses)/gains	(838,096,908)	46,486,334
	<u>(848,688,620)</u>	<u>69,669,663</u>

Losses and gains presented above exclude dividend income.

6. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Fund is exempted from taxation under section 26A (1A) of the Hong Kong Inland Revenue Ordinance.

Under the current general provisions of the PRC Corporate Income Tax Law and published tax circulars, the Fund would be subject to PRC withholding tax at the rate of 10% in respect of its PRC sourced income earned, including capital gains realised on the sale of PRC listed companies, dividend income derived from PRC listed companies and interest income earned in respect of PRC bank deposits and corporate bonds. This withholding taxation basis should apply as it is intended that the Fund would be managed and operated in such a manner that it would not be considered a tax resident enterprise in China or otherwise as having a taxable permanent establishment in the PRC. The 10% withholding tax rate may be further reduced under an applicable tax treaty which the PRC has entered into with the jurisdiction in which the beneficial owner of the relevant income is a resident. However, in the Fund's case, as the beneficial owners of the Fund may be difficult to identify precisely to the satisfaction of the PRC tax authorities, any preferential tax treatment under an applicable tax treaty/tax arrangement would unlikely to be applied. On this basis, the 10% withholding tax rate would likely be applicable in respect of the Fund's PRC sourced income.

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. On the basis of the available information, the Manager has determined that it is appropriate to provide for PRC taxation at the withholding tax rate of 10% on realised gains on A-shares, dividend income from A, B and H shares and interest income from PRC bank deposits in the financial statements. The Fund has not recognized deferred tax liabilities in respect of unrealized gains on A-shares amounting to \$452,803 for the period ended 30 September 2011 (as at 31 March 2011: \$12,265,403) as the Manager considers the amount to be insignificant to the Fund.

Taxation in the statement of comprehensive income represents:

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

	Period from 1 April 2011 to 30 September 2011 HK\$	Period from 1 April 2010 to 30 September 2010 HK\$
PRC dividend and interest income withholding tax	5,756,290	5,627,337
PRC capital gains tax	5,984,416	5,238,144
	<u>11,740,706</u>	<u>10,865,481</u>

7. Investments at fair value through profit or loss

	As at 30 September 2011 HK\$	As at 31 March 2011 HK\$
Listed equity securities		
– in Hong Kong	1,219,893,392	1,815,268,818
– outside Hong Kong	1,240,074,785	1,638,235,476
	<u>2,459,968,177</u>	<u>3,453,504,294</u>

8. Related parties transactions

The following is a summary of transactions with related parties for the period. All such transactions were entered into the ordinary course of business and on normal commercial terms.

(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 by the Fund in respect of the period and payable at the end of the period amounted to \$24,946,623 (for the period from 1 April 2010 to 30 September 2010: \$23,960,353) and \$3,535,932 (as at 31 March 2011: \$4,427,689) respectively.

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

(b) Trustee's fee

The fee payable to the Trustee is calculated at the rate of 0.125% per annum for the first \$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 by the Fund in respect of the period and payable at the end of the period amounted to \$1,771,847 (for the period from 1 April 2010 to 30 September 2010: \$1,706,542) and \$279,708 (as at 31 March 2011: \$347,836) respectively.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

(c) Custodian fee and deposit placed with Custodian

The custodian 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 by the Fund in respect of the period and payable at the end of the period amounted to \$1,097,906 (for the period from 1 April 2010 to 30 September 2010: \$1,020,287) and \$25,019 (as at 31 March 2011: \$20,748) respectively.

A minimum clearing reserves need to be held with the QFII custodian. As at 30 September 2011, the Fund had \$2,574,552 (as at 31 March 2011: \$2,509,225) deposit held with the QFII custodian.

(d) Bank balances

Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and Bank of Communications Co Ltd, the QFII Custodian of the Fund. The bank balances held as at 30 September 2011 amounted to \$62,529,135 and \$152,530,322 respectively (as at 31 March 2011: \$19,637,367 and \$157,334,302 respectively). During the period, no interest was earned from HSBC Hong Kong (for the period from 1 April 2010 to 30 September 2010: nil). Interest earned from Bank of Communications Co Ltd amounted to \$1,762,553 (for the period from 1 April 2010 to 30 September 2010: \$718,809).

(e) In its purchases and sales of investments, the Fund utilises the brokerage services of The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group. Details of transactions effected through this company are as follows:

	The Hongkong and Shanghai Banking Corporation Limited	
	Period from 1 April 2011 to 30 September 2011 HK\$	Period from 1 April 2010 to 30 September 2010 HK\$
Commission paid for the period	107,293	210,304
Average rate of commission	0.11%	0.11%
Total aggregate value of such transactions for the period	100,473,002	193,757,293
Percentage of such transactions in value to total transactions for the period	1.72%	4.48%

9. 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.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

10. Units in issue

	Period from 1 April 2011 to 30 September 2011 HK\$	Period from 1 April 2010 to 30 September 2010 HK\$
Number of units in issue brought forward	357,034,000	371,910,000
Units repurchased during the period	<u>(6,896,500)</u>	<u>(10,647,000)</u>
Number of units in issue carried forward	<u>350,137,500</u>	<u>361,263,000</u>

The Fund is a closed-end unit trust. Apart from repurchase of its own units, it did not have subscription and redemption of units during the period.

11. Repurchase of units

During the period, the Fund repurchased 6,896,500 of its own units at a total amount of \$52,288,291 on the Stock Exchange. The repurchased units were then cancelled and accordingly the equity of the Fund was reduced by the nominal value of these units.

12. Financial instruments and associated risks

The Fund maintains investment portfolio in a variety of listed financial instruments as dictated by its investment management strategy. 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 2011 are summarised below. Details of such investments held as at 30 September 2011 are shown in the investment portfolio.

The Fund'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 have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund. Investors should note that additional information in respect of risks associated with investment in the Fund can be found in the Fund's offering document.

During the period, the Manager invested in financial instruments which the Manager considered are commensurate with the risk level of the Fund in accordance with its investment objective.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed below.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

(a) Market risk

(i) Price risk

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

The Fund is exposed to price risk arising from changes in market price of equity instruments. Price risk is managed by a diversified portfolio of investments across different industries in accordance with the investment objective of the Fund.

Price sensitivity

The impact on a 5% increase in value of the investments at 30 September 2011, with all other variables held constant, is shown below. An equal change in the opposite direction would have reduced the net assets value by an equal but opposite amount. The analysis is performed on same basis for 31 March 2011.

	30 September 2011			31 March 2011		
	% of total net assets	Change in equity price %	Effect on net assets attributable to the unitholders HK\$	% of total net assets	Change in equity price %	Effect on net assets attributable to the unitholders HK\$
Investment assets						
Listed equity investments:						
– in Hong Kong	46.46	5	60,994,670	51.57	5	90,763,441
– outside Hong Kong	47.23	5	62,003,739	46.54	5	81,911,774
	<u>93.69</u>		<u>122,998,409</u>	<u>98.11</u>		<u>172,675,215</u>

(ii) Interest rate risk

Interest rate risk arises from change in interest rates which may inversely affect the value of debt securities and therefore result in a potential gain or loss to the Fund. The Fund's interest rate risk is managed on an ongoing basis by the Manager in accordance with policies and procedures in place.

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the date of statement of assets and liabilities.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

	30 September 2011		
	1 year or less HK\$	Non-interest bearing HK\$	Total HK\$
Assets			
Investments at fair value through profit or loss	–	2,459,968,177	2,459,968,177
Amounts receivable from brokers	–	65,114,680	65,114,680
Dividend and other receivables	–	5,054,977	5,054,977
Cash and cash equivalents	152,530,322	62,529,135	215,059,457
Total assets	<u>152,530,322</u>	<u>2,592,666,969</u>	<u>2,745,197,291</u>
Liabilities			
Taxation	–	(98,597,817)	(98,597,817)
Amounts payable to brokers	–	(16,780,344)	(16,780,344)
Accrued expenses and other payables	–	(4,094,014)	(4,094,014)
Total liabilities	<u>–</u>	<u>(119,472,175)</u>	<u>(119,472,175)</u>
Total interest sensitivity gap	<u>152,530,322</u>		
	31 March 2011		
	1 year or less HK\$	Non-interest bearing HK\$	Total HK\$
Assets			
Investments at fair value through profit or loss	–	3,453,504,294	3,453,504,294
Amounts receivable from brokers	–	5,066,276	5,066,276
Dividend and other receivables	–	3,968,484	3,968,484
Cash and cash equivalents	157,334,302	19,637,367	176,971,669
Total assets	<u>157,334,302</u>	<u>3,482,176,421</u>	<u>3,639,510,723</u>
Liabilities			
Taxation	–	(89,975,009)	(89,975,009)
Amounts payable to brokers	–	(24,110,354)	(24,110,354)
Accrued expenses and other payables	–	(5,320,459)	(5,320,459)
Total liabilities	<u>–</u>	<u>(119,405,822)</u>	<u>(119,405,822)</u>
Total interest sensitivity gap	<u>157,334,302</u>		

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

Interest rate sensitivity

Assuming all other factors unchanged, for an increase of 50 basis points in interest rates as at the date of the statement of assets and liabilities, the net assets attributable to the unitholders and changes in net assets attributable to unitholders would have increased by \$762,652 (31 March 2011: \$786,672); an equal change in the opposite direction would have reduced the net asset attributable to unitholders by an equal amount. The analysis is performed on the same basis for 31 March 2011.

(iii) Currency risk

The Fund may invest in financial investments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Hong Kong dollars ("HKD").

The fluctuations in the rate of exchange between the currency in which the asset or liability is denominated and the functional currency could result in an appreciation or depreciation in the fair value of that asset or liability. The Manager may attempt to mitigate this risk by using financial derivative instruments.

In accordance with the Fund's policy, the Manager monitors the Fund's currency exposure on an ongoing basis.

At the date of the statement of assets and liabilities the Fund had the following exposure:

	Assets HK\$	Liabilities HK\$	Net exposures HK\$
30 September 2011			
Renminbi	1,441,228,018	(98,682,534)	1,342,545,484
United States dollar	23,482,043	(25,019)	23,457,024
	<u>1,464,710,061</u>	<u>(98,707,553)</u>	<u>1,366,002,508</u>
31 March 2011			
Renminbi	1,758,180,044	(90,212,495)	1,667,967,549
United States dollar	25,644,363	(20,748)	25,623,615
	<u>1,783,824,407</u>	<u>(90,233,243)</u>	<u>1,693,591,164</u>

Amounts in the above table are based on the carrying value of the assets and liabilities.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

Currency sensitivity

As the HKD is pegged to the United States dollars ("USD"), the Fund does not expect any significant movements in USD/HKD exchange rate. At 30 September 2011, had the HKD strengthened by 5% in relation to the above currencies except for USD, with all other variables held constant, net assets attributable to unitholders would have decreased by the amounts shown below.

	HK\$
30 September 2011	
Renminbi	<u>67,127,274</u>
31 March 2011	
Renminbi	<u>83,398,377</u>

A 5% weakening of the HKD against the above currency would have resulted in an equal but opposite effect on the basis that all other variables remain constant.

(b) 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 Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis. At 30 September 2011, all of the Fund's financial assets were exposed to credit risk.

Credit risk arising on 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.

Substantially all of the assets of the Fund are held by the Trustee or Bank of Communications Co., Ltd (the "QFII Custodian"). Bankruptcy or insolvency of the Trustee or the QFII Custodian may cause the Fund's rights with respect to securities held by the Trustee or the QFII Custodian to be delayed or limited.

The majority of the cash held by the Fund is deposited with Bank of Communications Co., Ltd and The Hongkong and Shanghai Banking Corporation Limited (the "banks"). Bankruptcy or insolvency of the banks may cause the Fund's rights with respect to the cash held by the banks to be delayed or limited. The Fund monitors the credit rating of the banks on an ongoing basis.

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

At both 30 September 2011 and 31 March 2011, there were no significant concentrations of credit risk to counterparties except to the Trustee, the QFII Custodian and the banks.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

The Fund's policy to manage liquidity is to have sufficient liquidity to meet its liability without incurring undue losses or risking damage to the Fund's reputation.

The Fund's equity investments are considered to be readily realisable under normal condition as they are all listed on stock exchanges in Hong Kong or the PRC.

The Fund has one class of units in issue which is not redeemable by the unitholders. However, during the period the Manager was allowed to repurchase the units not more than 10% of the aggregate number of units in issue. All financial liabilities have contractual maturities of less than three months, except for redemptions payable which is repayable on demand. At both 30 September 2011 and 31 March 2011, there were no significant exposures to liquidity risk for the Fund.

(d) Capital Management

At 30 September 2011, the Fund had \$2,625,725,116 of capital classified as equity.

The Fund's objective in managing the capital is to ensure a stable and strong base to maximise returns to all investors. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives and policies stated in the Trust Deed.

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

The Fund is not subject to externally imposed capital requirements.

13. Fair value information

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

Valuation of financial instruments

The Fund's accounting policy on fair value measurements is detailed in significant accounting policy in note 2(c)(iv).

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

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

All investments held by the Fund are listed on stock exchanges of Hong Kong or the PRC, their fair values are based on quoted market price in active markets.

Notes on the unaudited interim financial statements

For the period ended 30 September 2011

The following analyses financial instruments measured at fair value at 30 September 2011 by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	
	30 September 2011 HK\$	31 March 2011 HK\$
Listed equities	<u>2,459,968,177</u>	<u>3,453,504,294</u>

There were no significant transfers of financial instruments between fair value hierarchy levels during the period.

14. Segment information

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

The Manager considers that the Fund has one single operating segment based on one single and integrated investment strategy by investing in the securities of companies listed in Hong Kong or listed elsewhere and having substantial business or operations in Hong Kong and the PRC as stipulated in the Trust Deed. There were no changes in the operating segment during the period.

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of assets and liabilities.

The Fund is domiciled in Hong Kong. All of the Fund's income from investments is from equities listed in Hong Kong and the PRC.

15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 September 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and Interpretations and new standards which are not yet effective for the year ended 30 September 2011, and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.:

	Effective for accounting periods beginning on or after
HKFRS 9, <i>Financial instruments</i>	1 January 2013
HKFRS 13, <i>Fair value measurement</i>	1 January 2013

The Fund is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

Investment portfolio (unaudited)

As at 30 September 2011

HSBC China Dragon Fund

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net asset</i>
Equities			
Listed investments			
The People's Republic of China			
Aerospace Information Co Ltd – A Share	617,600	20,316,042	0.77
Agricultural Bank of China – A Share	19,105,500	57,028,577	2.17
Anhui Conch Cement Co Ltd – A Share	2,671,950	55,959,296	2.13
Beijing Orient Landscape Co Ltd – A Share	46,782	5,060,133	0.19
Beijing SL Pharmaceutical Co Ltd – A Share	819,256	32,199,715	1.23
China CAMC Engineering Co Ltd – A Share	402,194	12,774,522	0.49
China CYTS Tours Holding Co Ltd – A Share	776,000	12,829,496	0.49
China Merchants Bank Co Ltd – A Share	6,512,123	87,749,725	3.34
China Merchants Property Development Co Ltd – A Share	311,100	6,341,091	0.24
China National Chemical Engineering Co Ltd – A Share	4,663,900	39,832,291	1.52
China Pacific Insurance Gr Co Ltd – A Share	2,413,300	54,394,011	2.07
China Shenhua Energy Co Ltd – A Share	1,617,668	49,961,492	1.90
China United Network Communications Ltd – A Share	9,130,148	56,952,897	2.17
China Vanke Co Ltd – A Share	5,285,400	46,556,915	1.77
CITIC Securities Co Ltd – A Share	4,684,594	64,208,499	2.44
East China Engineering Science & Technology Co Ltd – A Share	881,755	25,589,260	0.97
Gemdale Corp – A Share	2,171,100	12,855,357	0.49
Gree Electric Appliances Inc – A Share	592,600	14,425,311	0.55
Henan Billions Chemicals Co Ltd – A Share	75,616	7,595,780	0.29
Hubei Fuxing Science and Technology Co Ltd – A Share	2,124,600	20,681,974	0.79
Hubei Yihua Chemical Industry Co Ltd – A Share	790,600	18,541,958	0.71
Industrial Bank Co Ltd – A Share	1,941,900	29,313,401	1.12
Inner Mongolia Baotou Steel Rare-Earth Hi Tech Co Ltd – A Share	818,350	54,826,541	2.09
Jiangsu Yueda Investment Co Ltd – A Share	847,306	15,257,478	0.58
Kweichow Moutai Co Ltd – A Share	223,850	51,956,862	1.98
Nanning Sugar Manufacturing Co Ltd – A Share	647,309	12,121,422	0.46
SAIC Motor Corp Ltd – A Share	759,400	14,775,546	0.56
Shandong Oriental Ocean Sci-Tech Co Ltd – A Share	619,666	10,192,001	0.39
Shanghai Metersbonwe Fashion & Accessories Co Ltd – A Share	153,331	5,084,944	0.19
Shanghai Pudong Development Bank Co Ltd – A Share	1,810,180	18,812,167	0.72
Shenzhen Hongtao Decoration Co Ltd – A Share	376,391	9,263,149	0.35
Shenzhen Inovance Technology Co Ltd – A Share	124,276	10,616,888	0.40
Sichuan New Hope Agribusiness Co Ltd – A Share	2,024,400	47,404,302	1.81
Suning Appliance Co Ltd – A Share	3,125,800	39,644,227	1.51
Suzhou Gold Mantis Construction Decoration Co Ltd – A Share	906,499	42,685,942	1.63
Tianjin Tasly Pharmaceutical Co Ltd – A Share	342,376	16,476,632	0.63
Tibet Tourism Co Ltd – A Share	807,100	12,271,848	0.47
Yantai Changyu Pioneer Wine Co Ltd – B Share	71,200	5,980,800	0.23
Yibin Wuliangye Co Ltd – A Share	1,093,100	48,329,789	1.84

Investment portfolio (unaudited)

As at 30 September 2011

HSBC China Dragon Fund

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net asset</i>
Equities			
Listed investments			
The People's Republic of China			
Zhangzhou Pientzhuang Pharmaceutical Co Ltd – A Share	270,691	20,084,413	0.76
Zhejiang Dahua Technology Co Ltd – A Share	256,558	13,306,298	0.51
Zhejiang Haitong Food Group Co Ltd – A Share	175,100	5,802,606	0.22
Zhenjiang Hisun Pharmaceutical Co Ltd – A Share	517,650	20,730,222	0.79
Zhongtian Urban Development Group Co Ltd – A Share	1,872,360	16,789,401	0.64
ZTE Corp – A Share	386,580	8,901,624	0.34
		1,232,482,845	46.94
Hong Kong			
Agricultural Bank of China – H Share	6,020,000	15,471,400	0.59
AIA Group Ltd	389,200	8,698,620	0.33
Air China Ltd – H Share	3,352,000	18,368,960	0.70
Bank of China Ltd – H Share	20,451,900	49,902,636	1.90
Brilliance China Automotive Holdings Ltd – H Share	5,712,000	34,843,200	1.33
China BlueChemical Ltd – H Share	120,000	720,000	0.03
China Coal Energy Co Ltd – H Share	2,957,000	20,905,990	0.80
China Communications Construction Co Ltd – H Share	2,371,000	12,139,520	0.46
China Construction Bank Corp – H Share	16,029,160	76,619,385	2.92
China Life Insurance Co Ltd – H Share	1,240,000	23,312,000	0.89
China Mengniu Dairy Co Ltd	398,000	9,432,600	0.36
China Mobile Ltd – H Share	1,830,500	141,040,025	5.37
China Overseas Grand Oceans Group Ltd	1,623,000	7,920,240	0.30
China Overseas Land & Investment Ltd	2,012,000	22,735,600	0.87
China Pacific Insurance Group Co Ltd – H Share	756,800	17,103,680	0.65
China Petroleum & Chemical Corp – H Share	8,512,000	65,287,040	2.49
China Resources Cement Holdings Ltd – H Share	1,278,000	6,658,380	0.25
China Resources Enterprise Ltd – H Share	434,000	11,284,000	0.43
China Resources Power Holdings Co Ltd – H Share	600,000	7,044,000	0.27
China Shanshui Cement Group Ltd – H Share	2,074,000	10,992,200	0.42
China Shenhua Energy Co Ltd – H Share	790,500	24,505,500	0.93
China Southern Airlines Co Ltd – H Share	3,660,000	13,285,800	0.51
China Telecom Corp Ltd – H Share	12,546,000	61,977,240	2.36
China Unicom Hong Kong Ltd – H Share	2,872,000	46,526,400	1.77
China Zhengtong Auto Services Holdings Ltd – H Share	2,922,500	20,749,750	0.79
CNOOC Ltd – H Share	3,414,000	44,245,440	1.68
Dah Chong Hong Holdings Ltd – H Share	1,680,000	13,524,000	0.51
Dongfeng Motor Group Co Ltd – H Share	1,814,000	19,337,240	0.74
Dongyue Group Ltd	1,261,000	4,917,900	0.19

Investment portfolio (unaudited)

As at 30 September 2011

HSBC China Dragon Fund

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net asset</i>
Equities			
Listed investments			
Hong Kong			
Evergrande Real Estate Group Ltd – H Share	1,730,000	4,238,500	0.16
Golden Eagle Retail Group Ltd – H Share	222,000	3,538,680	0.13
Gome Electrical Appliances Holdings Ltd – H Share	3,420,000	6,292,800	0.24
Great Wall Motor Co Ltd – H Share	806,000	7,254,000	0.28
Haier Electronics Group Co Ltd – H Share	1,730,000	9,082,500	0.35
Hengan International Group Co Ltd – H Share	238,000	14,910,700	0.57
Huaneng Power International Inc – H Share	1,128,000	3,722,400	0.14
Industrial and Commercial Bank of China – H Share	29,418,245	112,377,696	4.28
Intime Department Store Group Co Ltd – H Share	2,473,000	21,935,510	0.83
Kunlun Energy Co Ltd – H Share	900,000	9,720,000	0.37
Luk Fook Holdings International Ltd – H Share	374,000	8,602,000	0.33
PetroChina Co Ltd – H Share	5,406,000	52,167,900	1.99
PICC Property and Casualty Co Ltd – H Share	1,034,000	8,726,960	0.33
Ping An Insurance (Group) Co of China Ltd – H Share	586,000	25,754,700	0.98
Shenguan Holdings Group Ltd – H Share	702,000	2,808,000	0.11
Skyworth Digital Holdings Ltd – H Share	4,754,000	12,883,340	0.49
TCL Communication Technology Holdings Ltd – H Share	671,000	2,167,330	0.08
Tencent Holdings Ltd – H Share	508,800	83,341,440	3.17
Vinda International Holdings Ltd – H Share	1,246,000	9,768,640	0.37
Weichai Power Co Ltd – H Share	185,000	6,576,750	0.25
Zijin Mining Group Co Ltd – H Share	1,980,000	4,474,800	0.17
		1,219,893,392	46.46
United States of America			
Changyou.Com Ltd ADS Rep CL A	38,500	7,591,940	0.29
		7,591,940	0.29
Total investments		2,459,968,177	93.69
<i>(Total cost of investments: \$2,924,382,551)</i>			
Other net assets		165,756,939	6.31
Total net assets		2,625,725,116	100.00

Statement of movements in portfolio holdings (unaudited)

For the year ended 30 September 2011

	<i>% of total net assets</i>	
	30 September 2011	31 March 2010
Total investments	93.69	98.11
Other net assets	<u>6.31</u>	<u>1.89</u>
Total net assets attributable to unitholders	<u><u>100.00</u></u>	<u><u>100.00</u></u>

Performance table (unaudited)

For the period ended 30 September 2011

(a) Total net asset value (at bid prices)

Year/period end

31 March 2008	HK\$3,370,192,394
30 September 2008	HK\$2,209,306,838
31 March 2009	HK\$2,281,953,432
30 September 2009	HK\$3,014,628,868
31 March 2010	HK\$3,403,444,953
30 September 2010	HK\$3,393,376,016
31 March 2011	HK\$3,520,104,901
30 September 2011	HK\$2,625,725,116

(b) Total net asset value per unit (at bid prices)

Year/period end

31 March 2008	HK\$9.06
30 September 2008	HK\$5.94
31 March 2009	HK\$6.14
30 September 2009	HK\$8.11
31 March 2010	HK\$9.15
30 September 2010	HK\$9.39
31 March 2011	HK\$9.86
30 September 2011	HK\$7.50

(c) Price record (Dealing NAV)

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. During the period, the Manager is allowed to repurchase the units not more than 10% of the aggregate number of units in issue.

Year/period	Lowest HK\$	Highest HK\$
20 June 2007 (date of inception) to 31 March 2008	8.62	13.94
1 April 2008 to 30 September 2008	5.55	10.22
1 April 2008 to 31 March 2009	4.12	10.22
1 April 2009 to 30 September 2009	6.22	9.05
1 April 2009 to 31 March 2010	6.22	9.70
1 April 2010 to 30 September 2010	7.91	9.49
1 April 2010 to 31 March 2011	7.91	10.52
1 April 2011 to 30 September 2011	7.50	10.28

Administration and management

Directors of the Manager

Executive Directors:

BERRY Stuart Glenn

LAM Po Yee

CONXICOEUR Patrice Pierre Henri

(resigned on 27 June 2011 and appointed on 20 October 2011)

KOO Julie J (appointed on 27 June 2011)

MUNRO Joanna (appointed on 11 May 2011)

EBRAHIM Ayaz Hatim (resigned on 13 May 2011)

STOKES Edmund Richard (resigned on 19 May 2011)

Non-Executive Directors:

CHEANG Wai Wan Louisa

FLINT John Michael

FUNG Yuen Mei Anita (appointed on 21 November 2011)

HARVEY-SAMUEL Guy Daniel

PACTON Olivier

FRIED David Lawrence (resigned on 1 October 2011)

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