



HSBC China Dragon Fund

Annual Report 2012

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Manager's report

Review

The MSCI China index lost 15% and the MSCI China A index fell 25%, both in local currency term.

2011 was a disappointing year for Chinese equity markets. Despite GDP growth of 9.2%, China's equity markets declined the most among all other major global economies. Major concerns in China in 2011 included high levels of inflation, a deteriorating housing market, the solvency of local government financing vehicles (LGFV), an increase in shadow banking activities, weakening exports, and lastly the possibility of a hard landing.

2012 however has been a different story. In January and February equity markets rallied. The People's Bank of China cut the Reserve Requirement Ratio (RRR) by 50bp and the Shanghai Interbank Offered Rate fell to recent lows, signaling that policymakers will take necessary and well-paced loosening actions to stabilize growth. In March, equities fell as Premier Wen set a lowered GDP growth target for the year at 7.5%yoy.

However, data in China has shown improvements with the March manufacturing PMI released on April 1st surprising the market on the upside, picking up strongly to 53.1 from 51.0 in Feb. China's CPI inflation further eased to 3.2%yoy in Feb from 4.5%yoy in Jan on Chinese New Year effect, while PPI inflation dropped to 0.0%yoy in Feb from 0.7%yoy in Jan.

Outlook

Notwithstanding that the European financial markets have recently experienced volatility and adverse trends due to concerns about rising government debt levels of several European countries, including Greece, Spain, Ireland, Italy and Portugal, we expect the PRC's long-term economic growth to remain strong.

Structural changes in the financial liberalization; assets injections to listed companies; ownership diversification; deregulation; and capital accounts liberalization, will lead to more efficient resource allocation and therefore provide the basis for earnings outperformance (vs. developed and many emerging markets economies). The growth of the middle class population implies significant investment opportunities in the consumer and services sectors. In addition, the PRC's economic transition towards urbanization and its environmental efforts create attractive investment themes related to infrastructure, clean energy and environmental treatment.

Specifically, the outlook for a number of the PRC's industries is positive, including sectors such as infrastructure (on strong demand growth driven by fixed asset investments and urbanization), consumers (on the back of higher quality of living), equipment (PRC's technology upgrading), banks (on further widening and cross-selling of product scope), alternative energy (natural demand and government efforts) and nonferrous metals (positive pricing outlook and potential acquisitions).

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

24 July 2012

Trustee's report to the unitholders of HSBC China Dragon Fund

We hereby confirm that, in our opinion, the Manager has in all material respects, managed HSBC China Dragon Fund ("the Fund") in accordance with the provisions of the Trust Deed dated 20 June 2007, as amended, for the year ended 31 March 2012.

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FUNG Po Ching Amy)	For and on behalf of
TAM Man Hing Bertha)	HSBC Institutional Trust Services (Asia) Limited
)	
)	

24 July 2012

Independent auditor's report to the unitholders of HSBC China Dragon Fund

We have audited the financial statements of HSBC China Dragon Fund ("the Fund") set out on pages 4 to 24, which comprise the statement of assets and liabilities as at 31 March 2012, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's and Trustee's responsibilities for the financial statements

The Manager and the Trustee are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and for such internal control as the Manager and the Trustee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Manager and the Trustee also have responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code").

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager and the Trustee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2012 and of its transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Report on disclosure requirements under the Code

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in the Code.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
24 July 2012

Statement of assets and liabilities

As at 31 March 2012

	Note	2012 HK\$	2011 HK\$
Assets			
Investments at fair value through profit or loss	7, 13	2,623,142,418	3,453,504,294
Amounts receivable on sale of investments		–	5,066,276
Dividend and other receivables		2,602,094	3,968,484
Cash and cash equivalents	8(d)	262,042,456	176,971,669
Total assets		<u>2,887,786,968</u>	<u>3,639,510,723</u>
Liabilities			
Taxation	6	101,885,427	89,975,009
Amounts payable on purchases of investments		24,010,793	24,110,354
Accrued expenses and other payables	8(a), (b) & (c)	4,412,190	5,320,459
Total liabilities		<u>130,308,410</u>	<u>119,405,822</u>
Net assets attributable to unitholders		<u>2,757,478,558</u>	<u>3,520,104,901</u>
Representing:			
Total equity		<u>2,757,478,558</u>	<u>3,520,104,901</u>
Number of units in issue	10	<u>349,687,000</u>	<u>357,034,000</u>
Net asset value per unit		<u>7.89</u>	<u>9.86</u>

Approved and authorised for issue by the Trustee and the Manager on 24 July 2012

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FUNG Po Ching Amy)	For and on behalf of
TAM Man Hing Bertha)	HSBC Institutional Trust Services
)	(Asia) Limited, Trustee
)	
)	
CONXICOEUR Patrice Pierre Henri)	For and on behalf of
LAM Po Yee)	HSBC Global Asset Management
)	(Hong Kong) Limited
)	

Statement of comprehensive income

For the year ended 31 March 2012

	Note	2012 HK\$	2011 HK\$
Dividend income		57,282,439	50,843,911
Interest income on deposits	4, 8(d)	2,997,028	1,687,623
Net (losses)/gains from investments	5	(670,343,882)	298,491,756
Net foreign exchange gain		3,555,479	2,775,079
Net investment (loss)/income		(606,508,936)	353,798,369
Expenses			
Management fees	8(a)	(45,790,709)	(50,146,299)
Transaction costs	8(e)	(23,005,515)	(25,499,538)
Trustee's fees	8(b)	(3,271,675)	(3,561,487)
Custodian fees	8(c)	(2,000,477)	(2,114,746)
Auditor's remuneration		(451,760)	(445,600)
Other operating expenses		(2,095,988)	(1,321,499)
Operating expenses		(76,616,124)	(83,089,169)
(Loss)/profit before taxation		(683,125,060)	270,709,200
Taxation	6	(14,144,013)	(37,018,362)
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year		(697,269,073)	233,690,838

Statement of changes in equity

For the year ended 31 March 2012

	Note	2012 HK\$	2011 HK\$
Balance at the beginning of the year		3,520,104,901	3,403,444,993
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year		(697,269,073)	233,690,838
Repurchase of units during the year	11	<u>(65,357,270)</u>	<u>(117,030,930)</u>
Balance at the end of the year		<u><u>2,757,478,558</u></u>	<u><u>3,520,104,901</u></u>

Cash flow statement

For the year ended 31 March 2012

	2012	2011
	HK\$	HK\$
Operating activities		
Interest income received	2,997,028	1,687,623
Dividend income received	58,741,698	50,184,132
Management fees paid	(46,678,980)	(50,250,773)
Trustee's fees paid	(3,306,279)	(3,568,759)
Transaction costs paid	(23,005,515)	(25,499,538)
Tax paid	(5,600,498)	(5,117,293)
Other operating expenses paid	(3,912,093)	(5,024,049)
	<hr/>	<hr/>
Net cash used in operating activities	(20,764,639)	(37,588,657)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities		
Proceeds from sales of investments	5,038,212,164	5,374,640,272
Payments for purchases of investments	(4,873,227,455)	(5,215,095,527)
	<hr/>	<hr/>
Net cash generated from investing activities	164,984,709	159,544,745
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Financing activities		
Payments on repurchase of units	(65,357,270)	(117,030,930)
	<hr/>	<hr/>
Net cash used in financing activities	(65,357,270)	(117,030,930)
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Net increase in cash and cash equivalents	78,862,800	4,925,158
Cash and cash equivalents at the beginning of the year	176,971,669	165,431,204
Effect of foreign exchange rates changes	6,207,987	6,615,307
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<u>262,042,456</u>	<u>176,971,669</u>

Notes to the financial statements

For the year ended 31 March 2012

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 authorized by the Hong Kong Securities and Futures Commission ("the SFC") under Section 104(1) of the Hong Kong Securities and Futures Ordinance ("HKSFO"). 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 11 October 2010, 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; or
- (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 26 September 2011 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 year.

2 Significant accounting policies

(a) *Statement of compliance*

The financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements of the Hong Kong Code on Unit Trusts and Mutual Funds issued by the SFC. A summary of the significant accounting policies adopted by the Fund is set out below.

Notes to the financial statements

For the year ended 31 March 2012

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(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 amount receivable on sale of investments and dividend and other receivables.

Financial liabilities that are not at fair value through profit or loss include amounts payable on purchases of investments, 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 to the financial statements

For the year ended 31 March 2012

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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, 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 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 the 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.

Notes to the financial statements

For the year ended 31 March 2012

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

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

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 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) 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 profit or loss as it accrues, using the effective interest method. Interest income on bank deposits is disclosed separately on the face of 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 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 dividends with the corresponding debit treated as an additional investment.

(e) Expenses

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

Notes to the financial statements

For the year ended 31 March 2012

2 Significant accounting policies (continued)

(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 year, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

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.

(g) *Translation of foreign currency*

Foreign currency transactions during the year 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 the statement of assets and liabilities. Exchange gains and losses are recognised in profit or loss.

(h) *Related parties*

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

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

Notes to the financial statements

For the year ended 31 March 2012

2 Significant accounting policies (continued)

(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" is net foreign exchange gain 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.

3 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following developments are relevant to the Fund's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of the above developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Fund has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Fund's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Fund because the Fund is not a government-related entity.
- *Improvements to HKFRSs (2010)* omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Fund's financial instruments in note 12 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4 Interest income on deposits

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

Notes to the financial statements

For the year ended 31 March 2012

5 Net (losses)/gains from investments

	2012	2011
	HK\$	HK\$
Realised (losses)/gains	(208,858,130)	342,655,459
Unrealised losses	(461,485,752)	(44,163,703)
	<u>(670,343,882)</u>	<u>298,491,756</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 to 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 and corporate bonds in the financial statements. The Fund has not recognised deferred tax liabilities in respect of unrealized gains recognised on A-shares amounting to \$2,215,447 for the year ended 31 March 2012 (2011: \$12,265,403) as the Manager considers the amount to be insignificant to the Fund.

Taxation in the statement of comprehensive income represents current tax provision for the year:

	2012	2011
	HK\$	HK\$
PRC dividend and interest income withholding tax	5,932,435	5,901,815
PRC capital gains tax	8,211,578	31,116,547
	<u>14,144,013</u>	<u>37,018,362</u>

Notes to the financial statements

For the year ended 31 March 2012

6 Taxation (continued)

Taxation in the statement of assets and liabilities represents:

	2012	2011
	HK\$	HK\$
PRC withholding tax provision relating to prior year	89,975,009	55,236,173
PRC withholding tax provision for the year	14,144,013	37,018,362
Payment of PRC withholding tax	(5,600,498)	(5,117,293)
Effect of foreign exchange	3,366,903	2,837,767
	<u>101,885,427</u>	<u>89,975,009</u>

7 Investments at fair value through profit or loss

	2012	2011
	HK\$	HK\$
Listed equity securities		
– in Hong Kong	1,373,840,838	1,815,268,818
– outside Hong Kong	1,249,301,580	1,638,235,476
	<u>2,623,142,418</u>	<u>3,453,504,294</u>

8 Related party transactions

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

(a) Management fees

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 to the Fund in respect of the year and payable at the end of the year amounted to \$45,790,709 (2011: \$50,146,299) and \$3,539,418 (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 fees

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 to the Fund in respect of the year and payable at the end of the year amounted to \$3,271,675 (2011: \$3,561,487) and \$313,232 (2011: \$347,836) respectively.

Notes to the financial statements

For the year ended 31 March 2012

8 Related party transactions (continued)

(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 to the Fund in respect of the year and payable at the end of the year amounted to \$2,000,477 (2011: \$2,114,746) and \$19,334 (2011: \$20,748) respectively.

A minimum clearing reserves need to be held with the QFII custodian. As at 31 March 2012, the Fund had \$2,602,094 (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 31 March 2012 amounted to \$88,246,336 and \$173,796,120 respectively (2011: \$19,637,367 and \$157,334,302 respectively). During the year, no interest was earned from HSBC Hong Kong (2011: Nil). Interest earned from Bank of Communications Co Ltd amounted to \$2,997,028 (2011: \$1,687,623).

(e) 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:

	2012 HK\$	2011 HK\$
Commission paid for the year	147,489	366,859
Average rate of commission	0.09%	0.11%
Total aggregate value of such transactions for the year	160,497,435	337,831,037
Percentage of such transactions in value to total transactions for the year	<u>1.62%</u>	<u>3.19%</u>

(f) The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, entered into transactions to purchase 1,922,000 units and sell 442,500 units of the Fund and incurred a net loss of \$436,058 during the year (2011: purchased 305,500 units of the Fund with nil profit or loss). As at 31 March 2012, The Hongkong and Shanghai Banking Corporation Limited held 1,785,000 units (31 March 2011: 305,500 units) of the Fund.

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 to the financial statements

For the year ended 31 March 2012

10 Units in issue

	2012	2011
Number of units in issue brought forward	357,034,000	371,910,000
Units repurchased during the year	<u>(7,347,000)</u>	<u>(14,876,000)</u>
Number of units in issue carried forward	<u>349,687,000</u>	<u>357,034,000</u>

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

11 Repurchase of units

During the year, the Fund repurchased 7,347,000 (2011: 14,876,000) of its own units at a total amount of \$65,357,270 (2011: \$117,030,930) 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 31 March 2012 are summarised below. Details of such investments held as at 31 March 2012 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 year, 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 date of the statement of assets and liabilities and the risk management policies employed by the Fund are discussed below.

Notes to the financial statements

For the year ended 31 March 2012

12 Financial instruments and associated risks (continued)

(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 31 March 2012, with all other variables held constant, is shown below. An equal change in the opposite direction would have reduced the net assets attributable to unitholders by an equal but opposite amount. The analysis is performed on the same basis for 2011.

	2012			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	49.82	5	68,692,042	51.57	5	90,763,441
– outside Hong Kong	45.31	5	62,465,079	46.54	5	81,911,774
	<u>95.13</u>		<u>131,157,121</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.

Notes to the financial statements

For the year ended 31 March 2012

12 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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.

	2012		Total HK\$
	1 year or less HK\$	Non-interest bearing HK\$	
Assets			
Investments at fair value through profit or loss	–	2,623,142,418	2,623,142,418
Dividend and other receivables	–	2,602,094	2,602,094
Cash and cash equivalents	173,796,119	88,246,337	262,042,456
Total assets	<u>173,796,119</u>	<u>2,713,990,849</u>	<u>2,887,786,968</u>
Liabilities			
Taxation	–	(101,885,427)	(101,885,427)
Amounts payable on purchases of investments	–	(24,010,793)	(24,010,793)
Accrued expenses and other payables	–	(4,412,190)	(4,412,190)
Total liabilities	<u>–</u>	<u>(130,308,410)</u>	<u>(130,308,410)</u>
Total interest sensitivity gap	<u>173,796,119</u>		

Notes to the financial statements

For the year ended 31 March 2012

12 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

	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
Amount receivable on sale of investments	–	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 on purchases of investments	–	(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>		

Interest rate sensitivity

Assuming all other factors unchanged, 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 \$868,981 (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 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.

Notes to the financial statements

For the year ended 31 March 2012

12 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

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

	Assets HK\$	Liabilities HK\$	Net exposure HK\$
31 March 2012			
Renminbi	1,419,483,322	(126,142,496)	1,293,340,826
United States dollar	825,978	(19,334)	806,644
	<u>1,420,309,300</u>	<u>(126,161,830)</u>	<u>1,294,147,470</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.

Currency sensitivity

As the HKD is pegged to the United States dollar ("USD"), the Fund does not expect any significant movements in USD/HKD exchange rate. At 31 March 2012, 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 in the following table.

	HK\$
31 March 2012	
Renminbi	<u>64,667,041</u>
Total	<u>64,667,041</u>
31 March 2011	
Renminbi	<u>83,398,377</u>
Total	<u>83,398,377</u>

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

Notes to the financial statements

For the year ended 31 March 2012

12 Financial instruments and associated risks (continued)

(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 31 March 2012, 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.

The Fund invests in A-shares via the QFII investment quota obtained by the Manager. These investments are held in a segregated account with Bank of Communication Co. Ltd (the "QFII Custodian") on behalf of the Fund. Substantially all of the assets of the Fund are held by the Trustee or 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 the statement of assets and liabilities.

At both 31 March 2012 and 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.

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. All financial liabilities are repayable on demand or have contractual maturities of less than three months. At both 31 March 2012 and 2011, there were no significant exposures to liquidity risk for the Fund.

(d) Capital management

At 31 March 2012, the Fund had \$2,757,478,558 (2011: \$3,520,104,901) 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.

Notes to the financial statements

For the year ended 31 March 2012

13 Fair value information

The Fund's financial instruments are measured at fair value on the date of 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, 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.

The following analyses financial instruments measured at fair value at 31 March 2012 and 2011 by the level in the fair value hierarchy into which the fair value measurement is categorised.

	2012	
	Level 1 HK\$	Total HK\$
Listed equities	<u>2,623,142,418</u>	<u>2,623,142,418</u>
2011		
	Level 1 HK\$	Total HK\$
Listed equities	<u>3,453,504,294</u>	<u>3,453,504,294</u>

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

Notes to the financial statements

For the year ended 31 March 2012

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 year.

All revenues generated from listed equities by the Fund are disclosed in note 5. 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 and new standards issued but not yet effective for the year ended 31 March 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

Of these developments, the following relates to matters that may be relevant to the Fund's operations and financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, <i>Financial instruments: Disclosures – Transfers of financial assets</i>	1 July 2011
Amendments to HKAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKFRS 9, <i>Financial instruments</i>	1 January 2015

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

As at 31 March 2012

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities			
Listed investments			
<i>The People's Republic of China</i>			
Anhui Conch Cement Co Ltd – A Share	2,474,550	48,052,654	1.74
Bank of Nanjing Co Ltd – A Share	2,409,906	26,084,254	0.95
Baoshan Iron & Steel Co Ltd – A Share	3,062,200	17,948,574	0.65
Beijing Capital Development Co Ltd – A Share	456,657	6,567,838	0.24
Beijing Double-Crane Pharmaceutical Co Ltd – A Share	556,900	9,669,094	0.35
Beijing Shunxin Agriculture Co Ltd – A Share	1,109,158	20,773,615	0.75
Beijing Urban Construction Investment & Development Co Ltd – A Share	549,813	8,821,631	0.32
Beijing Yanjing Brewery Co Ltd – A Share	335,134	6,070,446	0.22
Changchun FAWAY Automobile Components Co Ltd – A Share	944,428	24,526,461	0.89
China CAMC Engineering Co Ltd – A Share	1,038,827	34,435,606	1.25
China CITIC Bank Corp Ltd – A Share	2,466,900	12,910,110	0.47
China CYTS Tours Holding Co Ltd – A Share	1,280,200	25,348,561	0.92
China Merchants Bank Co Ltd – A Share	5,923,523	86,726,413	3.14
China Minsheng Banking Corp Ltd – A Share	10,560,552	81,534,913	2.96
China National Accord Medicines Corp Ltd – A Share	426,436	9,672,371	0.35
China National Chemical Engineering Co Ltd – A Share	6,532,690	46,977,981	1.70
China Oilfield Services Ltd – A Share	514,217	10,555,322	0.38
China Pacific Insurance Group Co Ltd – A Share	2,765,501	65,553,216	2.38
China Petroleum & Chemical Corp – A Share	2,180,693	19,280,062	0.70
China Shenhua Energy Co Ltd – A Share	720,168	22,701,954	0.82
China Sinoma International Engineering Co Ltd – A Share	479,570	11,798,776	0.43
China Vanke Co Ltd – A Share	5,743,800	58,562,431	2.12
Daqin Railway Co Ltd – A Share	1,088,593	9,973,048	0.36
Daye Special Steel Co Ltd – A Share	500,510	6,508,278	0.24
GD Power Development Co Ltd – A Share	4,103,138	12,984,903	0.47
Gemdale Corp – A Share	1,782,709	13,149,121	0.48
Gree Electric Appliances Inc – A Share	948,578	23,746,515	0.86
Guangxi Liugong Machinery Co Ltd – A Share	821,040	11,505,249	0.42
Haitong Securities Co Ltd – A Share	1,869,400	20,763,388	0.75
Hangzhou Binjiang Real Estate Group Co Ltd – A Share	431,789	4,402,419	0.16
Hua Xia Bank Co Ltd – A Share	1,426,020	18,823,911	0.68
Huaxin Cement Co Ltd – A Share	840,708	13,499,330	0.49
Huayu Automotive Systems Co Ltd – A Share	1,200,205	14,778,994	0.54
Hubei Yihua Chemical Industry Co Ltd – A Share	1,513,600	34,089,001	1.24
Jiangsu Expressway Co Ltd – A Share	1,847,163	13,306,092	0.48
Jiangsu Yueda Investment Co Ltd – A Share	823,636	11,379,355	0.41
Jiangxi Copper Co Ltd – A Share	404,977	11,918,393	0.43
Jiangxi Wannianqing Cement Co Ltd – A Share	1,024,396	13,522,348	0.49
Liaoning SG Automotive Group Co Ltd – A Share	494,000	4,063,431	0.15
New Hope Liuhe Co Ltd – A Share	1,784,700	36,678,453	1.33
PetroChina Co Ltd – A Share	719,000	8,579,108	0.31
Poly Real Estate Group Co Ltd – A Share	1,138,319	15,811,116	0.57
SAIC Motor Corp Ltd – A Share	1,656,634	30,293,013	1.10
SANY Heavy Industry Co Ltd – A Share	777,600	11,748,712	0.43
Shandong Expressway Co Ltd – A Share	3,012,671	13,169,507	0.48
Shanghai Pudong Development Bank Co Ltd – A Share	3,720,351	40,955,373	1.48

Investment portfolio

As at 31 March 2012

HSBC China Dragon Fund

	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
Equities			
Listed investments			
<i>The People's Republic of China (continued)</i>			
Shanxi Lanhua Sci-Tech Venture Co Ltd – A Share	255,229	13,954,120	0.51
Shenzhen Overseas Chinese Town Holding Co Ltd – A Share	2,490,690	21,499,440	0.78
Tangshan Jidong Cement Co Ltd – A Share	898,632	18,490,463	0.67
XCMG Construction Machinery Co Ltd – A Share	714,200	11,837,346	0.43
Xiamen C & D Inc – A Share	2,390,703	21,548,952	0.78
Xinjiang Ba Yi Iron & Steel Co Ltd – A Share	1,394,588	12,948,120	0.47
Xinxing Ductile Iron Pipes Co Ltd – A Share	1,424,800	13,105,813	0.48
Yantai Changyu Pioneer Wine Co Ltd – B Share	71,200	6,216,472	0.23
Youngor Group Co Ltd – A Share	1,084,650	12,928,687	0.47
Zhejiang Zhongda Group Co Ltd – A Share	851,915	10,448,286	0.38
Zhengzhou Yutong Bus Co Ltd – A Share	787,032	23,540,157	0.85
Zijin Mining Group Co Ltd – A Share	2,413,307	12,183,887	0.44
Zoomlion Heavy Industry Science & Technology Co Ltd (formerly known as Changsha Zoomlion Heavy Industry Science and Technology Development Co Ltd) – A Share	1,911,018	20,378,496	0.74
		1,249,301,580	45.31
<i>Hong Kong</i>			
Agricultural Bank of China – H Share	10,800,000	35,856,000	1.30
AIA Group Ltd	268,000	7,624,600	0.28
Bank of China Ltd – H Share	22,687,900	70,786,248	2.57
Baoxin Auto Group Ltd	838,500	7,823,205	0.28
BBMG Corp – H Share	824,500	5,359,250	0.19
Brilliance China Automotive Holdings Ltd – H Share	1,066,000	8,922,420	0.32
China BlueChemical Ltd – H Share	120,000	704,400	0.03
China Citic Bank Corp Ltd – H Share	2,358,000	10,988,280	0.40
China Coal Energy Co Ltd – H Share	1,259,000	10,978,480	0.40
China Communications Construction Co Ltd – H Share	2,371,000	18,398,960	0.67
China Construction Bank Corp – H Share	24,322,160	145,932,960	5.29
China Life Insurance Co Ltd – H Share	526,000	10,572,600	0.38
China Mobile Ltd – H Share	2,367,000	202,260,150	7.34
China National Building Material Co Ltd – H Share	2,352,000	23,002,560	0.83
China Overseas Grand Oceans Group Ltd	1,198,200	10,124,790	0.37
China Overseas Land & Investment Ltd	1,900,000	27,968,000	1.01
China Pacific Insurance Group Co Ltd – H Share	58,600	1,415,190	0.05
China Petroleum & Chemical Corp – H Share	5,084,000	42,959,800	1.56
China Railway Construction Corp – H Share	2,639,000	12,746,370	0.46
China Resources Enterprise Ltd – H Share	434,000	11,718,000	0.43
China Resources Land Ltd	1,346,000	17,955,640	0.65
China Resources Power Holdings Co Ltd – H Share	600,000	8,580,000	0.31

Investment portfolio

As at 31 March 2012

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities			
Listed investments			
<i>Hong Kong (continued)</i>			
China Shanshui Cement Group Ltd – H Share	1,630,000	9,975,600	0.36
China Shenhua Energy Co Ltd – H Share	790,500	25,809,825	0.94
China Shipping Container Lines Co Ltd – H Share	3,288,000	8,778,960	0.32
CNOOC Ltd – H Share	7,176,000	114,241,920	4.14
Dah Chong Hong Holdings Ltd – H Share	1,680,000	13,792,800	0.50
Dongfeng Motor Group Co Ltd – H Share	1,380,000	19,292,400	0.70
Evergrande Real Estate Group Ltd – H Share	3,123,000	12,960,450	0.47
Galaxy Entertainment Group Ltd	870,000	18,618,000	0.68
Geely Automobile Holdings Ltd	6,305,000	19,041,100	0.69
Great Wall Motor Co Ltd – H Share	1,019,000	15,346,140	0.56
Huaneng Power International Inc – H Share	1,128,000	4,748,880	0.17
Industrial and Commercial Bank of China – H Share	29,418,245	147,385,408	5.34
Jiangxi Copper Co Ltd – H Share	1,161,000	20,712,240	0.75
Kunlun Energy Co Ltd – H Share	676,000	9,436,960	0.34
Longfor Properties Co Ltd	391,000	4,230,620	0.15
Nine Dragons Paper Holdings Ltd	456,000	2,895,600	0.11
PetroChina Co Ltd – H Share	9,330,000	102,070,200	3.70
PICC Property and Casualty Co Ltd – H Share	1,170,800	10,806,484	0.39
Ping An Insurance (Group) Co of China Ltd – H Share	510,500	30,042,925	1.09
SJM Holdings Ltd	1,069,000	16,890,200	0.61
Skyworth Digital Holdings Ltd – H Share	3,205,686	11,604,583	0.42
Tencent Holdings Ltd – H Share	41,400	8,975,520	0.33
Tingyi (Cayman Islands) Holding Corp	302,000	6,734,600	0.24
Vinda International Holdings Ltd – H Share	1,943,000	23,199,420	0.84
Yanzhou Coal Mining Co Ltd – H Share	212,000	3,561,600	0.13
Zijin Mining Group Co Ltd – H Share	4,184,000	12,844,880	0.47
Zoomlion Heavy Industry Science and Technology Co Ltd (formerly known as Changsha Zoomlion Heavy Industry Science and Technology Development Co Ltd) – H Share	693,000	7,165,620	0.26
		<u>1,373,840,838</u>	<u>49.82</u>
Total investments (Total cost of investments: \$2,712,186,529)		2,623,142,418	95.13
Other net assets		<u>134,336,140</u>	<u>4.87</u>
Total net assets attributable to unitholders		<u><u>2,757,478,558</u></u>	<u><u>100.00</u></u>

Statement of movements in portfolio holdings

For the year ended 31 March 2012

	% of total net asset attributable to unitholders	
	2012	2011
Equities	95.13	98.11
Total investments	95.13	98.11
Other net assets	4.87	1.89
Total net assets attributable to unitholders	100.00	100.00

Performance table

For the year ended 31 March 2012

(a) Total net asset value

Year/period end

31 March 2012	HK\$2,757,478,558
31 March 2011	HK\$3,520,104,901
31 March 2010	HK\$3,403,444,993
31 March 2009	HK\$2,281,953,432

(b) Total net asset value per unit

Year/period end

31 March 2012	HK\$7.89
31 March 2011	HK\$9.86
31 March 2010	HK\$9.15
31 March 2009	HK\$6.14

(c) Net asset value per unit record

The Fund is a closed-ended fund listed on The Stock Exchange of Hong Kong Limited and no unitholders may demand redemption of their units. In general, closed-ended 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.

Year	Net asset value per unit	
	Lowest HK\$	Highest HK\$
2012	7.21	10.28
2011	7.91	10.52
2010	6.22	9.70
2009	4.12	10.22
20 June 2007 (date of inception) to 31 March 2008	8.62	13.94

Administration and management

Directors of the Manager

Executive Directors:

BERRY Stuart Glenn

LAM Po Yee

MUNRO Joanna Mary (appointed on 11 May 2011)

KOO Julie J (appointed on 27 June 2011)

CONXICOEUR Patrice Pierre Henri

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

MALDONADO-CODINA Guillermo Eduardo (appointed on 5 June 2012)

EBRAHIM Ayaz Hatim (resigned on 13 May 2011)

STOKES Edmund Richard (resigned on 19 May 2011)

Non-Executive Directors:

CHEANG Wai Wan Louisa

HARVEY-SAMUEL Guy Daniel

PACTON Olivier

FUNG Yuen Mei Anita (appointed on 21 November 2011)

CHANDRASEKHARAN Sridhar (appointed on 6 January 2012)

LEUNG Wing Cheung William (resigned on 20 August 2011)

MCCOMBE Mark Seumas (resigned on 9 September 2011)

FRIED David Lawrence (resigned on 1 October 2011)

FLINT John Michael (resigned on 6 January 2012)

Trustee

HSBC Institutional Trust Services (Asia) Limited

HSBC Main Building

1 Queen's Road Central

Hong Kong

Manager

HSBC Global Asset Management (Hong Kong) Limited

HSBC Main Building

1 Queen's Road Central

Hong Kong

QFII Custodian

Bank of Communications Co., Ltd

188, Yin Cheng Zhong Road

Shanghai 200120

The People's Republic of China

Auditor

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

Registrar and Processing Agent

Computershare Hong Kong Investor Services Limited

Shop 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

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