



# **HSBC China Dragon Fund**

## **Interim Report 2012**

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# Manager's report

## Interim period ended 30 September 2012

### Review

The MSCI China Index lost 4.21% and the MSCI China A Index fell 6.28%, both in local currency term.

Chinese equities experienced a high level of volatility in the second quarter, on the back of weak economic data globally and government measures to boost the domestic economy. Continuous newsflow of hiccups in the Eurozone and soft US data further weighed on the performance, more than offsetting positive news of China's decision to speed up project approvals and subsidize energy-efficient white goods/autos to stimulate consumption. In June, the People's Bank of China cut the benchmark lending and deposit rates by 25bps to boost growth.

Market sentiment remained weak in the third quarter, despite the People's Bank of China further cutting interest rates in July. While more local governments announced billion-level investment plans in August, they failed to boost confidence amid concern about the source of funding. However, the Chinese market rebounded at the end of the third quarter partly due to the support of the European Central Bank's (ECB's) bond purchase decision and the QE3 announcement in the US.

Economic data in China was generally on a downward trend, with a slight pick-up during the end of the third quarter. Manufacturing PMI has dropped since April, but managed to rebound in September, coming in at 49.8, an increase from previous months. Industrial production growth decelerated over the period, signaling a broad-based weakness. China's consumer price index (CPI) inflation edged up to 2.0%yoy in August from 1.8%yoy in July on food price inflation, while producer price index (PPI) deflation deepened to 3.5%yoy in August from 2.9%yoy in the previous month.

### Outlook

Domestic Chinese investors mainly worried about the political transition, as the date of the 18th CCPC meeting was not fixed. Economic growth outlook has also deteriorated in recent months. Market participants have recently reduced forecasts for China GDP growth. Leading indicators such as the recently released August PMI have dropped to the lowest level in 3 years. Key components of this index, notably new orders, finished good inventories and employment, also depict a more challenging economic outlook. Finally, profit growth is also slowing. For example, the MSCI China earnings are only expected to grow 4% this year after the worse than expected 1H12 result announcement.

We believe the negative earnings revisions may last for the rest of the year given the continuously weak demand from the industrials and materials sectors. However, the current valuation of the Chinese stocks is very attractive. When compared to the Chinese Government bond yield, the MSCI China dividend yield has been higher than the 10 year bond yield for the first time since the global financial crisis in 2008. It usually predicts that the 12-month forward Chinese equities return will be in the positive territory. As a result, we continue to favor companies with defensible earnings outlook at reasonable valuations such as consumer discretionary and real estate. We avoid companies at excessive valuations such as consumer staples despite their defensive nature.

**For and on behalf of**

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

31 October 2012

# Independent review report to the Manager

## Interim period ended 30 September 2012

### Introduction

We have reviewed the interim financial statements of the Fund set out on pages 3 to 23 which comprise the interim statement of assets and liabilities of the Fund as of 30 September 2012 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 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Certified Public Accountants

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10 Chater Road  
Central, Hong Kong

# Interim statement of assets and liabilities (unaudited)

As at 30 September 2012

	Note	30 September 2012 (Unaudited) HK\$	31 March 2012 (Audited) HK\$
<b>Assets</b>			
Investments at fair value through profit or loss	7, 13	1,525,307,751	2,623,142,418
Dividend and other receivables	8(c)	4,300,073	2,602,094
Cash and cash equivalents	8(d)	195,909,286	262,042,456
<b>Total assets</b>		<u>1,725,517,110</u>	<u>2,887,786,968</u>
<b>Liabilities</b>			
Taxation	6	103,702,939	101,885,427
Amounts payable on purchases of investments		46,629,466	24,010,793
Accrued expenses and other payables	8(a), (b) & (c)	2,556,007	4,412,190
<b>Total liabilities</b>		<u>152,888,412</u>	<u>130,308,410</u>
<b>Net assets attributable to unitholders</b>		<u>1,572,628,698</u>	<u>2,757,478,558</u>
Representing:			
<b>Total equity</b>		<u>1,572,628,698</u>	<u>2,757,478,558</u>
<b>Number of units in issue</b>	10	<u>209,812,263</u>	<u>349,687,000</u>
<b>Net asset value per unit</b>		<u>7.50</u>	<u>7.89</u>

# Interim statement of comprehensive income (unaudited)

For the period ended 30 September 2012

	Note	Period from 1 April 2012 to 30 September 2012 (Unaudited) HK\$	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$
Dividend income		71,441,423	56,217,267
Interest income on deposits	4, 8(d)	479,587	1,762,553
Net losses from investments	5	(215,987,665)	(848,688,620)
Net foreign exchange (loss)/gain		(74,047)	2,900,041
Redemption levy	12	1,398,747	–
<b>Net investment loss</b>		<u>(142,741,955)</u>	<u>(787,808,759)</u>
Management fees	8(a)	(19,179,947)	(24,946,623)
Transaction costs	8(e)	(6,634,161)	(13,932,146)
Trustee's fees	8(b)	(1,387,644)	(1,771,847)
Custodian fees	8(c)	(879,639)	(1,097,906)
Auditor's remuneration		(221,656)	(150,447)
Legal and professional fees		(189,154)	(131,399)
Other operating expenses		<u>(4,680,656)</u>	<u>(511,661)</u>
<b>Operating expenses</b>		<u>(33,172,857)</u>	<u>(42,542,029)</u>
<b>Loss before taxation</b>		(175,914,812)	(830,350,788)
Taxation	6	<u>(8,830,678)</u>	<u>(11,740,706)</u>
<b>Decrease in net assets attributable to unitholders and total comprehensive income for the period</b>		<u>(184,745,490)</u>	<u>(842,091,494)</u>

## Interim statement of changes in equity (unaudited)

For the period ended 30 September 2012

	Note	Period from 1 April 2012 to 30 September 2012 (Unaudited) HK\$	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$
<b>Balance at the beginning of period</b>		2,757,478,558	3,520,104,901
Decrease in net assets attributable to unitholders and total comprehensive income for the period		(184,745,490)	(842,091,494)
Repurchase of units during the period	11	–	(52,288,291)
Redemption of units during the period	12	(1,000,104,370)	–
<b>Balance at the end of period</b>		<u>1,572,628,698</u>	<u>2,625,725,116</u>



# Interim cash flow statement (unaudited)

For the period ended 30 September 2012

	Period from 1 April 2012 to 30 September 2012 (Unaudited) HK\$	Period from 1 April 2011 to 30 September 2011 (Unaudited) HK\$
<b>Operating activities</b>		
Interest income received	479,587	1,762,553
Dividend income received	69,741,104	55,196,101
Management fees paid	(20,746,756)	(25,838,380)
Trustee's fees paid	(1,461,985)	(1,839,975)
Tax paid	(6,929,761)	(3,117,898)
Other operating expenses paid	(12,841,040)	(17,141,882)
<b>Net cash generated from operating activities</b>	<u>28,241,149</u>	<u>9,020,519</u>
<b>Investing activities</b>		
Payments on purchase of investments	(1,609,772,664)	(2,810,780,247)
Proceeds from sale of investments	<u>2,514,238,339</u>	<u>2,888,249,330</u>
<b>Net cash generated from investing activities</b>	<u>904,465,675</u>	<u>77,469,083</u>
<b>Financing activities</b>		
Payments on repurchase of units	–	(52,288,291)
Payments on redemption of units	<u>(998,705,623)</u>	<u>–</u>
<b>Net cash used in financing activities</b>	<u>(998,705,623)</u>	<u>(52,288,291)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(65,998,799)	34,201,311
<b>Cash and cash equivalents at the beginning of the period</b>	262,042,456	176,971,669
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<u>(134,371)</u>	<u>3,886,477</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><u>195,909,286</u></u>	<u><u>215,059,457</u></u>

The notes on pages 7 to 23 form part of these financial statements.

# Notes on the unaudited interim financial statements

**For the period ended 30 September 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 from its date of inception up to 5 September 2012 was 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.

Pursuant to the general meeting held on 21 August 2012, an extraordinary resolution was passed to change the investment objective of the Fund. With effect from 6 September 2012, the investment objective of the Fund is to achieve long-term capital growth by investing primarily in A shares directly through the qualified foreign institutional investor investment quota of the Manager and indirectly through investment of (i) up to 40% of its net asset value in financial derivative instruments and securities linked to A shares (such as CAAPs (including A share participation certificates/notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its net asset value in exchange-traded funds ("ETFs") (including synthetic ETFs) authorised by the SFC with exposure to A shares; provided that the Fund's investment in a Chinese A share access product, being a security linked to A shares or portfolios of A shares which aim to replicate synthetically the economic benefit of the relevant A shares or portfolio of A shares ("CAAPs") and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A shares will not exceed 50% in the aggregate of its net asset value.

The Fund will not invest more than 10% of its net asset value in CAAPs issued by a single issuer; and the Fund's aggregate investment in CAAPs shall not be more than 40% of its net asset value.

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 were no units repurchased during the period ended 30 September 2012.

# Notes on the unaudited interim financial statements

## For the period ended 30 September 2012

Pursuant to the general meeting held on 21 August 2012, an extraordinary resolution was passed to enable the Manager to offer unitholders a right to redeem the whole or a part of their units, subject to a redemption levy, on a one-off basis provided that for the Fund, as a whole, the total number of units to be redeemed shall not exceed 40% of the total outstanding number of units as at lodgement date.

The lodgement date shall be no less than 10 business days after the date of the general meeting approving the one-off redemption offer.

The redemption of units made under the one-off redemption offer occurred on 5 September 2012.

## 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 2012, except for the accounting policy changes that are expected to be reflected in the 2012 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.

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 1.

The financial information relating to the financial year ended 31 March 2012 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 2012 in their report dated 24 July 2012.

### (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.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2012

## (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 and equity-linked instruments.

Financial assets that are classified as receivables include dividend and other receivables.

Financial liabilities that are not at fair value through profit or loss include amounts payable on purchase 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.

### (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 the statement of comprehensive income.

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 from investments is included in the statement of comprehensive income. Realised gains and losses include net gains or losses on contracts which have been settled or for which offsetting contracts have been entered into.

# Notes on the unaudited interim financial statements

## For the period ended 30 September 2012

### (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 statement of comprehensive income 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.

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 the statement of comprehensive income 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 the statement of comprehensive income as follows:

### *Interest income*

Interest income is recognised in the statement of comprehensive income as it accrues, by using the effective interest 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 statement of comprehensive income 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.

# Notes on the unaudited interim financial statements

**For the period ended 30 September 2012**

**(e) Expenses**

All expenses are recognised in the statement of comprehensive income 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 the statement of comprehensive income.

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 liabilities arise from deductible and taxable temporary differences, 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 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 the statement of comprehensive income.

**(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.

(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); or
- (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 on the unaudited interim financial statements

For the period ended 30 September 2012

## **(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 statement of comprehensive income line item *Net foreign exchange (loss)/gain* is 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.

## **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 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 periods. 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*. 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.

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

## **4 Interest income on deposits**

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

# Notes on the unaudited interim financial statements

For the period ended 30 September 2012

## 5 Net losses from investments

	Period from 1 April 2012 to 30 September 2012 HK\$	Period from 1 April 2011 to 30 September 2011 HK\$
Net losses from investments		
– Realised losses	(278,804,835)	(10,591,712)
– Unrealised gains/(losses)	62,817,170	(838,096,908)
	<u>(215,987,665)</u>	<u>(848,688,620)</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 and corporate bonds in the financial statements. The Fund has not recognised deferred tax liabilities in respect of unrealised gains on A-shares amounting to \$3,312,979 for the period ended 30 September 2012 (as at 31 March 2012: \$2,215,447) as the Manager considers the amount to be insignificant to the Fund.

Taxation in the statement of comprehensive income represents:

	Period from 1 April 2012 to 30 September 2012 HK\$	Period from 1 April 2011 to 30 September 2011 HK\$
PRC dividend and interest income withholding tax	7,371,909	5,756,290
PRC capital gains tax	1,458,769	5,984,416
	<u>8,830,678</u>	<u>11,740,706</u>



# Notes on the unaudited interim financial statements

For the period ended 30 September 2012

## 7 Investments at fair value through profit or loss

	<b>30 September 2012 HK\$</b>	<b>31 March 2012 HK\$</b>
Listed equity investments		
– in Hong Kong	148,961,984	1,373,840,838
– outside Hong Kong	1,219,166,342	1,249,301,580
Equity-linked instruments		
– warrants	129,796,893	–
– participation note	27,382,532	–
	<u>1,525,307,751</u>	<u>2,623,142,418</u>

## 8 Related party 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. The management fee charged to the Fund in respect of the period and payable at the end of the period amounted to \$19,179,947 (for the period from 1 April 2011 to 30 September 2011: \$24,946,623) and \$1,972,609 (as at 31 March 2012: \$3,539,418) 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 HSBC Institutional Trust Services (Asia) Limited ("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 period and payable at the end of the period amounted to \$1,387,644 (for the period from 1 April 2011 to 30 September 2011: \$1,771,847) and \$238,891 (as at 31 March 2012: \$313,232) respectively.

### (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 period and payable at the end of the period amounted to \$879,639 (for the period from 1 April 2011 to 30 September 2011: \$1,097,906) and \$11,142 (as at 31 March 2012: \$19,334) respectively.

A minimum clearing reserve needs to be held with the QFII custodian. As at 30 September 2012, the Fund had \$2,599,754 (as at 31 March 2012: \$2,602,094) deposit held with the QFII custodian.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2012

**(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 2012 amounted to \$45,625,317 and \$150,283,969 respectively (as at 31 March 2012: \$88,246,336 and \$173,796,120 respectively). During the period, no interest was earned from HSBC (for the period from 1 April 2011 to 30 September 2011: nil). Interest earned from Bank of Communications Co. Ltd amounted to \$479,587 (for the period from 1 April 2011 to 30 September 2011: \$1,762,553).

**(e)** In its purchases and sales of investments, the Fund utilises the brokerage services of HSBC Futures – London and The Hongkong and Shanghai Banking Corporation Limited, which are members of the HSBC Group. Details of transactions effected through these companies are as follows:

	<b>Period from 1 April 2012 to 30 September 2012 HK\$</b>	<b>Period from 1 April 2011 to 30 September 2011 HK\$</b>
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**HSBC Futures – London**

Commission paid for the period	13,200	–
Average rate of commission	0.12%	–
	<hr/>	<hr/>
Total aggregate value of such transactions for the period	11,336,150	–
Percentage of such transactions in value to total transactions for the period	0.31%	–
	<hr/>	<hr/>

	<b>Period from 1 April 2012 to 30 September 2012 HK\$</b>	<b>Period from 1 April 2011 to 30 September 2011 HK\$</b>
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**The Hongkong and Shanghai Banking Corporation Limited**

Commission paid for the period	94,169	107,293
Average rate of commission	0.01%	0.11%
	<hr/>	<hr/>
Total aggregate value of such transactions for the period	925,999,856	100,473,002
Percentage of such transactions in value to total transactions for the period	25.36%	1.72%
	<hr/>	<hr/>

**(f)** The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, entered into transactions to sell/redeem 1,547,443 units of the Fund and incurred a net profit of \$1,451,804 for the period from 1 April 2012 to 30 September 2012 (for the period from 1 April 2011 to 30 September 2011: sold 215,500 units of the Fund and incurred a net loss of \$342,332). As at 30 September 2012, The Hongkong and Shanghai Banking Corporation Limited held 237,557 units (as at 31 March 2012: 1,785,000 units) of the Fund.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2012

## 9 Soft dollar practices

The Manager 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 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.

## 10 Units in issue

	Period from 1 April 2012 to 30 September 2012	Period from 1 April 2011 to 30 September 2011
Number of units in issue brought forward	349,687,000	357,034,000
Units repurchased during the period	–	(6,896,500)
Units redeemed during the period	(139,874,737)	–
	<u>209,812,263</u>	<u>350,137,500</u>
Number of units in issue carried forward		

The Fund is a closed-end unit trust. Apart from the repurchase of its own units and the One-off Redemption Offer as discussed in notes 11 and 12 respectively, the Fund did not have subscription and redemption of units during the period.

## 11 Repurchase of units

During the period from 1 April 2011 to 30 September 2011, 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. There were no units repurchased during the period ended 30 September 2012.

## 12 Redemption of units under the One-off Redemption Offer

During the period, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a one-off basis ("the One-off Redemption Offer"). On 5 September 2012, 139,874,737 units, representing 40% of the total outstanding number of units as at 4 September 2012, were redeemed at a total amount of \$1,000,104,370. A redemption levy of \$0.01 per unit was charged and deducted from the redemption price and retained by the Fund for its own benefit. The redeemed units were then cancelled and accordingly the equity of the Fund was reduced by the nominal value of these units.

## 13 Financial instruments and associated risks

The Fund maintains investment portfolio in a variety of financial instruments as dictated by its investment management strategy.

Pursuant to the general meeting held on 21 August 2012, an extraordinary resolution was passed to change the investment objective of the Fund. With effect from 6 September 2012, the investment objective of the Fund is to achieve long-term capital growth by investing primarily in A shares directly through the qualified foreign institutional investor investment quota of the Manager and indirectly through investment of (i) up to 40% of its net asset value in financial derivative instruments and securities linked to A shares (such as CAAPs (including A share participation certificates/notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its net asset value in ETFs (including synthetic ETFs) authorised by the SFC with exposure to A shares; provided that the Fund's investment in CAAPs and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A shares will not exceed 50% in the aggregate of its net asset value.

# Notes on the unaudited interim financial statements

## For the period ended 30 September 2012

The Fund will not invest more than 10% of its net asset value in CAAPs issued by a single issuer; and the Fund's aggregate investment in CAAPs shall not be more than 40% of its net asset value.

The risk exposures inherent in the Fund as at 30 September 2012 are summarised below. Details of such investments held as at 30 September 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 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.

### (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 prices of the listed equity investments and equity-linked 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 2012, with all other variables held constant, is shown below. An equal change in the opposite direction would have reduced the net asset value by an equal but opposite amount. The analysis is performed on same basis for 31 March 2012.

	30 September 2012			31 March 2012		
	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$
<b>Investment assets</b>						
Listed equity investments:						
– in Hong Kong	9.47	5	7,448,099	49.82	5	68,692,042
– outside Hong Kong	77.53	5	60,958,317	45.31	5	62,465,079
Equity-linked instruments:						
– warrants	8.25	5	6,489,845	–	5	–
– participation note	1.74	5	1,369,127	–	5	–
	<u>96.99</u>		<u>76,265,388</u>	<u>95.13</u>		<u>131,157,121</u>

## Notes on the unaudited interim financial statements

### For the period ended 30 September 2012

(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.

	<b>30 September 2012</b>		
	<b>1 year or less HK\$</b>	<b>Non-interest bearing HK\$</b>	<b>Total HK\$</b>
<b>Assets</b>			
Investments at fair value through profit or loss	–	1,525,307,751	1,525,307,751
Cash and cash equivalents	150,283,969	45,625,317	195,909,286
<b>Total interest sensitivity gap</b>	<u>150,283,969</u>		

	<b>31 March 2012</b>		
	<b>1 year or less HK\$</b>	<b>Non-interest bearing HK\$</b>	<b>Total HK\$</b>
<b>Assets</b>			
Investments at fair value through profit or loss	–	2,623,142,418	2,623,142,418
Cash and cash equivalents	173,796,119	88,246,337	262,042,456
<b>Total interest sensitivity gap</b>	<u>173,796,119</u>		

*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 \$751,420 (31 March 2012: \$868,981); 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 2012.

## Notes on the unaudited interim financial statements

### For the period ended 30 September 2012

#### (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 dollar ("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 exposures on an ongoing basis.

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

	<b>Assets</b>	<b>Liabilities</b>	<b>Net exposure</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
<b>30 September 2012</b>			
Renminbi	1,373,507,449	(150,455,095)	1,223,052,354
United States dollar	157,179,425	(11,142)	157,168,283
	<u>1,530,686,874</u>	<u>(150,466,237)</u>	<u>1,380,220,637</u>
<b>31 March 2012</b>			
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>

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 2012**

## *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 30 September 2012, had the HKD strengthened by 5% in relation to the Renminbi, with all other variables held constant, net assets attributable to unitholders would have decreased by the amounts shown below. The analysis is performed on the same basis for 31 March 2012.

	<b>HK\$</b>
<b>30 September 2012</b>	
Renminbi	<u>61,152,618</u>
<b>31 March 2012</b>	
Renminbi	<u>64,667,041</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 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 Communications 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 statement of assets and liabilities.

At both 30 September 2012 and 31 March 2012, there were no significant concentrations of credit risk to counterparties except to the Trustee, the QFII Custodian and the banks.

# Notes on the unaudited interim financial statements

**For the period ended 30 September 2012**

## **(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. However, on 5 September 2012, units representing 40% of the total outstanding number of units as at 4 September 2012 were redeemed under the One-off Redemption Offer (see note 12). In addition, during the period ended 30 September 2011 the Manager was allowed to repurchase not more than 10% of the aggregate number of units in issue (see note 11). All financial liabilities have contractual maturities of less than three months, except for redemptions payable which is repayable on demand. At both 30 September 2012 and 31 March 2012, there were no significant exposures to liquidity risk for the Fund.

## **(d) Capital management**

At 30 September 2012, the Fund had \$1,572,628,698 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 period with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.

During the period, no distributions were made to the unitholders of the Fund.

## **14 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 dividend and other receivables, taxation, amounts payable on purchases 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:



## Notes on the unaudited interim financial statements

### For the period ended 30 September 2012

- Level 1: Quoted market prices (unadjusted) in active markets for an identical instruments.
- 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.

Fair values of financial assets and financial liabilities that are traded in active markets, such as equities and warrants which are listed on recognised stock exchanges or have daily quoted prices are based on quoted market prices or dealer price quotations. For all other financial instruments, the Fund determines fair value using valuation techniques.

The Fund uses widely recognised valuation models for determining the fair value of the participation note which do not have quoted market prices in an active market. Valuation techniques include comparison to quoted prices for identical instruments that are considered less than active and other valuation models.

The following analyses financial instruments measured at fair value at the date of the statement of assets and liabilities by the level in the fair value hierarchy into which the fair value measurement is categorised.

#### *Investments at fair value through profit or loss*

	<b>2012</b>		
	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Total HK\$</b>
Listed equity investments	1,368,128,326	–	1,368,128,326
Equity-linked instruments	129,796,893	27,382,532	157,179,425
	<u>1,497,925,219</u>	<u>27,382,532</u>	<u>1,525,307,751</u>
	<b>2011</b>		
	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Total HK\$</b>
Listed equity investments	<u>2,623,142,418</u>	–	<u>2,623,142,418</u>

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

# Notes on the unaudited interim financial statements

**For the period ended 30 September 2012**

## **15 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.

## **16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 September 2012**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 September 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 1, <i>Presentation of financial statements</i> – <i>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, new standards and interpretations 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 2012

<b>HSBC China Dragon Fund</b>			
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets</b>
<b>Equity</b>			
<b>Listed investments</b>			
<i>The People's Republic of China</i>			
Anhui Conch Cement Co Ltd – A Share	1,198,750	23,566,989	1.50
Bank of Beijing Co Ltd – A share	783,600	6,613,285	0.42
Beijing Jangho Curtain Wall Co Ltd – A Share	1,007,516	21,567,505	1.37
Beijing New Building Materials Plc – A Share	1,079,540	16,973,379	1.08
Beijing WKW Automotive Parts Co Ltd – A Share	922,782	9,763,292	0.62
China CAMC Engineering Co Ltd – A Share	1,460,219	53,660,155	3.41
China CITIC Bank Corp Ltd – A Share	2,862,700	12,819,643	0.82
China CYTS Tours Holding Co Ltd – A Share	1,421,700	28,859,620	1.83
China Fortune Land Development Co Ltd – A Share	1,255,078	27,484,600	1.75
China Merchants Property Development Co Ltd – A Share	194,958	4,988,880	0.32
China Minsheng Banking Corp Ltd – A Share	14,933,552	103,619,365	6.59
China National Chemical Engineering Co Ltd – A Share	8,508,490	71,913,087	4.57
China Oilfield Services Ltd – A Share	1,331,897	26,545,100	1.69
China Pacific Insurance Group Co Ltd – A Share	2,035,001	50,622,604	3.22
China Railway Construction Corp – A Share	2,413,100	13,567,200	0.86
China State Construction Engineering Corp Ltd – A Share	4,762,347	17,986,974	1.14
China Vanke Co Ltd – A Share	3,796,600	39,328,342	2.50
Chinese Universe Publishing and Media Co Ltd – A Share	548,802	10,789,248	0.69
CITIC Securities Co Ltd – A Share	1,374,120	19,914,466	1.27
Gemdale Corp – A Share	1,340,409	8,294,764	0.53
Great Wall Motor Co Ltd – A Share	1,959,481	42,186,919	2.68
Gree Electric Appliances Inc – A Share	1,715,478	45,101,229	2.87
Guizhou Panjiang Refined Coal Co Ltd – A Share	341,900	7,718,517	0.49
Guoyuan Securities Co Ltd – A Share	734,820	10,613,235	0.67
Haitong Securities Co Ltd – A Share	3,506,425	41,326,513	2.63
Hangzhou Binjiang Real Estate Group Co Ltd – A Share	1,147,689	10,363,799	0.66
Huaxin Cement Co Ltd – A Share	466,200	6,790,827	0.43
Huayu Automotive Systems Co Ltd – A Share	1,176,800	13,710,438	0.87
Hubei Yihua Chemical Industry Co Ltd – A Share	955,295	14,255,978	0.91
Industrial Bank Co Ltd – A Share	960,000	14,172,654	0.90
Jiangsu Yangnong Chemical Co Ltd – A Share	665,992	17,230,861	1.10
Jiangsu Zhongnan Construction Group Co Ltd – A Share	1,640,378	18,990,319	1.21
Jiangxi Copper Co Ltd – A Share	754,600	20,888,056	1.33
Jiangxi Wannianqing Cement Co Ltd – A Share	470,523	6,784,333	0.43
Luzhou Laojiao Co Ltd – A Share	419,247	19,852,563	1.26
Ping An Insurance (Group) Co of China Ltd – A Share	674,087	34,781,082	2.21
Poly Real Estate Group Co Ltd – A Share	2,224,383	29,445,609	1.87
Qingdao Haier Co Ltd – A Share	1,628,500	22,679,470	1.44
RiseSun Real Estate Development Co Ltd – A Share	671,318	7,342,243	0.47
SAIC Motor Corp Ltd – A Share	823,600	13,709,223	0.87

# Investment portfolio (unaudited)

As at 30 September 2012

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets</b>
<b>Equity</b>			
<b>Listed investments</b>			
<i>The People's Republic of China (continued)</i>			
SDIC Xinji Energy Co Ltd – A Share	1,318,522	18,735,620	1.19
Shanghai Fosun Pharmaceutical (Group) Co Ltd – A Share	975,604	12,818,687	0.81
Shanghai Pudong Development Bank Co Ltd – A Share	3,135,451	28,467,877	1.81
Shanxi Coal International Energy Group Co Ltd – A Share	570,751	14,429,697	0.92
Shanxi Lanhua Sci-Tech Venture Co Ltd – A Share	777,958	18,845,192	1.20
Shenzhen MTC Co Ltd – A Share	1,287,818	20,454,056	1.30
Sichuan Kelun Pharmaceutical Co Ltd – A Share	283,735	17,418,556	1.11
Stanley Fertilizer Co Ltd – A share	289,549	10,266,319	0.65
Tongling Nonferrous Metals Group Co Ltd – A Share	594,100	14,413,358	0.92
Wuliangye Yibin Co Ltd – A Share	459,506	19,164,151	1.22
Xinjiang Youhao Group Co Ltd – A Share	1,005,085	14,071,609	0.89
Zhejiang Medicine Co Ltd – A Share	231,346	5,925,724	0.38
Zhejiang NHU Co Ltd – A Share	272,490	6,195,142	0.39
Zhejiang Transfar Co Ltd – A Share	1,078,333	10,944,743	0.70
Zijin Mining Group Co Ltd – A Share	2,791,600	13,771,976	0.88
Zoomlion Heavy Industry Science & Technology Co Ltd – A Share	2,494,318	26,421,269	1.68
		1,219,166,342	77.53
<i>Hong Kong</i>			
Agricultural Bank of China – H Share	1,568,000	4,735,360	0.30
Bank of China Ltd – H Share	3,293,900	9,717,005	0.62
Brilliance China Automotive Holdings Ltd – H Share	912,000	7,761,120	0.49
China Construction Bank Corp – H Share	3,178,160	17,066,719	1.08
China Life Insurance Co Ltd – H Share	321,000	7,158,300	0.46
China Mobile Ltd – H Share	421,500	36,206,850	2.30
China Overseas Land & Investment Ltd	276,000	5,437,200	0.35
China Petroleum & Chemical Corp – H Share	738,000	5,343,120	0.34
China Shenhua Energy Co Ltd – H Share	77,000	2,310,000	0.15
CNOOC Ltd – H Share	1,042,000	16,546,960	1.05
Huaneng Power International Inc – H Share	356,000	2,093,280	0.13
Industrial and Commercial Bank of China – H Share	3,267,245	14,931,310	0.95
PetroChina Co Ltd – H Share	1,354,000	13,729,560	0.87
Ping An Insurance (Group) Co of China Ltd – H Share	74,000	4,336,400	0.28
Tencent Holdings Ltd – H Share	6,000	1,588,800	0.10
		148,961,984	9.47
<b>Equities (Total)</b>		1,368,128,326	87.00

## Investment portfolio (unaudited)

As at 30 September 2012

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets</b>
<b>Equity-linked instruments</b>			
<b>Listed investments</b>			
HSBC Bank Plc – Anhui Conch Cement Co Ltd – A Share Covered American Call Warrants 13 October 2020	403,100	7,945,608	0.51
HSBC Bank Plc – China State Construction Engineering Corp Ltd – A Share Covered American Call Warrants 21 June 2022	2,883,500	10,910,322	0.69
HSBC Bank Plc – Luzhou Laojiao Co Ltd – A Share Covered American Call Warrants 3 June 2020	303,065	14,390,264	0.91
		<u>33,246,194</u>	<u>2.11</u>
<b>Unlisted but quoted investments</b>			
HSBC Bank Plc – China Merchants Bank Co Ltd – A Share Covered American Call Warrants 2 March 2020	1,980,900	24,835,354	1.58
HSBC Bank Plc – China Merchants Property Development Co Ltd – A Share Covered American Call Warrants 13 July 2020	267,005	6,852,439	0.44
HSBC Bank Plc – China Pacific Insurance Group Co Ltd – A Share Covered American Call Warrants 16 April 2020	1,109,850	27,682,999	1.76
HSBC Bank Plc – CITIC Securities Co Ltd – A Share Covered American Call Warrants 27 July 2020	2,558,827	37,179,907	2.36
		<u>96,550,699</u>	<u>6.14</u>
<b>Unlisted investments</b>			
UBS – Wuliangye Yibin Co Ltd – A Share Participation Note 5 September 2013	654,842	27,382,532	1.74
<b>Equity-linked instruments (Total)</b>		<u>157,179,425</u>	<u>9.99</u>
<b>Total investments (Total cost of investments: \$1,552,341,108)</b>		1,525,307,751	96.99
<b>Other net assets</b>		<u>47,320,947</u>	<u>3.01</u>
<b>Total net assets</b>		<u>1,572,628,698</u>	<u>100.00</u>

## Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2012

	<i>% of total net assets</i>	
	<b>30 September</b>	<b>31 March</b>
	<b>2012</b>	<b>2012</b>
Equities	87.00	95.13
Equity-linked instruments	9.99	–
<b>Total investments</b>	<u>96.99</u>	<u>95.13</u>
<b>Other net assets</b>	<u>3.01</u>	<u>4.87</u>
<b>Total net assets attributable to unitholders</b>	<u><u>100.00</u></u>	<u><u>100.00</u></u>

## Performance table (unaudited)

For the period ended 30 September 2012

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

Year/period end

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
31 March 2012	HK\$2,757,458,558
30 September 2012	HK\$1,572,628,698

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

Year/period end

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
31 March 2012	HK\$7.89
30 September 2012	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 ended 30 September 2012, the Manager offered a right to the unitholders to redeem not more than 40% of the aggregate number of units in issue. During the year ended 31 March 2012, the Manager was allowed to repurchase 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
1 April 2011 to 31 March 2012	7.21	10.28
1 April 2012 to 30 September 2012	7.14	8.42

## Administration and management

### **Directors of the Manager**

#### *Executive Directors:*

BERRY Stuart Glenn

CONXICOEUR Patrice Pierre Henri

KOO Julie J

LAM Po Yee

MUNRO Joanna Mary

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

#### *Non-Executive Directors:*

CHANDRASEKHARAN Sridhar

CHEANG Wai Wan Louisa

FUNG Yuen Mei Anita

HARVEY-SAMUEL Guy Daniel

PACTON Olivier

### **Manager**

HSBC Global Asset Management (Hong Kong) Limited

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Hong Kong

### **QFI 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

### **Trustee**

HSBC Institutional Trust Services (Asia) Limited

HSBC Main Building

1 Queen's Road Central

Hong Kong

### **Registrar and Processing Agent**

Computershare Hong Kong Investor Services Limited

Shop 1712-1716, 17th Floor

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