



HSBC China Dragon Fund

Annual Report 2014

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Manager's report

Review

Chinese equities had a volatile run during the period, as China embarked on a journey to transform its growth model from investment and export led to consumption led through various reform packages, while economic data released since late 2013 showed signs of slowing growth momentum. MSCI China index edged up, while MSCI China A gave up all its gain and retreated in local currency terms.

Speculation over an end to the ultra-loose monetary policy in the US saw the market slump from mid-May onwards, as investors feared this would mean a withdrawal of liquidity from Asia. Negative sentiment was exacerbated by the fact that Chinese growth continued to disappoint the market. Chinese equities rebounded in the third quarter of 2013 as signs of stability and modest growth within the local economy, and the launch of the Shanghai Free Trade Zone bolstered investor sentiment. Going into the end of the year, market maintained its uptrend, albeit at a slower rate, as the reform blueprint announced at the Third Plenary Session of the 18th Communist Party of China Central Committee was welcomed by global investors, while recent economic indicators pointed to a fairly stable rate of growth in the fourth quarter.

Chinese equities retreated going into 2014, driven by a weak set of macro data since the beginning of the year signalling a slowdown in growth momentum. This is in part due to the policies and reforms implemented by the Chinese government to maintain stable long-term growth trajectory. On the data front, China's 2013 economic growth came in higher than the official target of 7.5%, at 7.7%. Meanwhile, China's 12th National People's Congress (NPC) ended with a positive note in March, as Premier Li reiterated the leadership's commitment to keeping economic development at a stable and sustainable rate, while ensuring reforms as the top priority of the government this year.

Outlook

We believe that China's decelerating growth is unsurprising given the government's commitment to significant structural change. Many key reform goals, such as tackling leverage, reining in shadow banking risks and reducing overcapacity and pollution, tend to drive slower growth in the short-term. Therefore, a lower level of near-term growth may be a necessary foundation for many of these reforms, without necessarily risking a hard landing scenario.

Meanwhile, reforms are also, in turn, crucial for achieving sustainable growth over the long term. Despite recent market pessimism on the outlook for China, we believe the country still has a lot of policy tools at its disposal. These include lowering entry barriers for private investment and providing support to infrastructure projects, to maintain a stable growth trajectory without threatening its financial stability.

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

16 July 2014

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

We hereby confirm that, in our opinion, the Manager has in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 20 June 2007, as amended, for the year ended 31 March 2014.

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Bertha TAM)	For and on behalf of
Elly CHAN)	HSBC Institutional Trust Services (Asia) Limited
)	
)	

16 July 2014

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

Report on the financial statements

We have audited the financial statements of the Fund set out on pages 4 to 25, which comprise the statement of assets and liabilities as at 31 March 2014, 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 responsibilities 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 2014 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
16 July 2014

Statement of assets and liabilities

As at 31 March 2014

	Note	2014 HK\$	2013 HK\$
Assets			
Investments at fair value through profit or loss	7, 14	1,594,407,195	1,765,074,874
Other receivables	8(c)	2,708,879	2,639,732
Cash and cash equivalents	8(d)	174,128,049	119,915,808
Total assets		<u>1,771,244,123</u>	<u>1,887,630,414</u>
Liabilities			
Taxation	6(b)	117,538,649	109,832,051
Deferred tax liabilities	6(c)	21,945,828	22,706,557
Accrued expenses and other payables	8(a), (b) & (c)	2,915,977	2,890,458
Total liabilities		<u>142,400,454</u>	<u>135,429,066</u>
Net assets attributable to unitholders		<u>1,628,843,669</u>	<u>1,752,201,348</u>
Representing:			
Total equity	10	<u>1,628,843,669</u>	<u>1,752,201,348</u>
Number of units in issue	11	<u>209,812,263</u>	<u>209,812,263</u>
Net asset value per unit		<u>7.76</u>	<u>8.35</u>

Approved and authorised for issue by the Trustee and the Manager on 16 July 2014

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Bertha TAM)	For and on behalf of
Elly CHAN)	HSBC Institutional Trust Services
)	(Asia) Limited, Trustee
)	

)	
Patrice Pierre Henri CONXICOEUR)	For and on behalf of
Julie J KOO)	HSBC Global Asset Management
)	(Hong Kong) Limited, Manager
)	

Statement of comprehensive income

For the year ended 31 March 2014

	Note	2014 HK\$	2013 HK\$
Dividend income		38,231,422	71,674,757
Interest income on deposits	4, 8(d)	661,094	774,786
Net (losses)/gains from investments	5	(114,610,084)	15,059,077
Net foreign exchange loss		(308,783)	(121,812)
Redemption levy	12	—	1,398,747
Net investment (loss)/income		<u>(76,026,351)</u>	<u>88,785,555</u>
Management fees	8(a)	(26,971,382)	(32,053,938)
Transaction costs		(4,022,867)	(15,805,569)
Trustee's fees	8(b)	(2,014,990)	(2,353,283)
Custodian fees	8(c)	(1,678,321)	(1,623,504)
Auditor's remuneration		(630,986)	(479,428)
Other operating expenses		<u>(1,267,376)</u>	<u>(5,536,720)</u>
Operating expenses		<u>(36,585,922)</u>	<u>(57,852,442)</u>
(Loss)/profit before taxation		(112,612,273)	30,933,113
Taxation	6(a)	<u>(10,745,406)</u>	<u>(36,105,953)</u>
Decrease in net assets attributable to unitholders and total comprehensive income for the year		<u><u>(123,357,679)</u></u>	<u><u>(5,172,840)</u></u>

Statement of changes in equity

For the year ended 31 March 2014

	Note	2014 HK\$	2013 HK\$
Balance at the beginning of the year		1,752,201,348	2,757,478,558
Decrease in net assets attributable to unitholders and total comprehensive income for the year		(123,357,679)	(5,172,840)
Redemption of units during the year	12	<u>–</u>	<u>(1,000,104,370)</u>
Balance at the end of the year		<u><u>1,628,843,669</u></u>	<u><u>1,752,201,348</u></u>

Cash flow statement

For the year ended 31 March 2014

	2014	2013
	HK\$	HK\$
Operating activities		
Interest income received	661,094	774,786
Dividend income received	38,161,381	71,674,757
Management fees paid	(26,969,296)	(33,498,325)
Trustee's fees paid	(2,060,102)	(2,427,519)
Transaction costs paid	(4,022,867)	(15,805,569)
Tax paid	(3,640,892)	(6,928,268)
Proceeds from sales of investments	1,208,042,536	3,099,873,560
Payments for purchases of investments	(1,151,984,941)	(2,250,757,732)
Other operating expenses paid	(3,918,948)	(8,035,006)
Net cash generated from operating activities	<u>54,267,965</u>	<u>854,870,684</u>
Financing activities		
Payments on redemption of units	—	(998,705,623)
Net cash used in financing activities	<u>—</u>	<u>(998,705,623)</u>
Net increase/(decrease) in cash and cash equivalents	54,267,965	(143,834,939)
Cash and cash equivalents at the beginning of the year	119,915,808	262,042,456
Effect of foreign exchange rates changes	(55,724)	1,708,291
Cash and cash equivalents at the end of the year	<u><u>174,128,049</u></u>	<u><u>119,915,808</u></u>

Notes to the financial statements

For the year ended 31 March 2014

1 Background

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

The investment objective of the Fund 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 ("QFII") investment quota of HSBC Global Asset Management (Hong Kong) Limited ("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 QFII status in the PRC. The Fund itself is not a QFII, but may invest directly in A Shares via the US\$200 million QFII investment quota obtained by the Manager.

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 year ended 31 March 2014 and 31 March 2013.

Notes to the financial statements

For the year ended 31 March 2014

1 Background (continued)

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. There were no units redeemed during the year ended 31 March 2014.

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.

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.

Notes to the financial statements

For the year ended 31 March 2014

2 Significant accounting policies (continued)

(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 bonds, 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 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

Policy applicable until 1 April 2013

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.

Notes to the financial statements

For the year ended 31 March 2014

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

- (iv) Fair value measurement principles (continued)

Policy applicable until 1 April 2013 (continued)

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 gains/(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.

Policy applicable from 1 April 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument provided such price is within the bid-ask spread. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In circumstances where the quoted price is not within the bid-ask spread, the Manager will determine the points within the bid-ask spread that are most representative of the fair value.

When there is no quoted price in an active market, the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Fund measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Fund on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Notes to the financial statements

For the year ended 31 March 2014

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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, using the effective interest method. Interest income on bank deposits is disclosed separately in the statement of comprehensive income.

Notes to the financial statements

For the year ended 31 March 2014

2 Significant accounting policies (continued)

(d) Revenue recognition (continued)

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 dividends with the corresponding debit treated as an additional investment.

(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 year, 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 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 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.

Notes to the financial statements

For the year ended 31 March 2014

2 Significant accounting policies (continued)

(h) Related parties (continued)

- (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.

(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" is net foreign exchange 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.

Notes to the financial statements

For the year ended 31 March 2014

3 Changes in accounting policies

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

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. As a result, the Fund has adopted a new definition of fair value, as set out in note 2(c)(iv). The change had no impact on the measurements of the Fund's assets and liabilities. The Fund has included new disclosures in the financial statements which are required under HKFRS 13.

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

4 Interest income on deposits

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

5 Net (losses)/gains from investments

	2014 HK\$	2013 HK\$
Realised losses	(8,238,746)	(279,062,362)
Unrealised (losses)/gains	(106,371,338)	294,121,439
	<u>(114,610,084)</u>	<u>15,059,077</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 A Shares, B Shares and H Shares listed companies, dividend income derived from PRC A Shares, B Shares and H Shares 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 Shares, B Shares and H Shares and interest income from PRC bank deposits and corporate bonds in the financial statements.

The Manager has determined that it is also appropriate to provide for PRC taxation at the withholding tax rate of 10% on unrealised gains on A Shares with effect from 26 July 2013. After such change, the Manager believes that the latest tax provision level of the Fund can more closely reflect the latest market value and performance of relevant securities on an on-going basis. The Fund has recognised deferred tax liabilities in respect of unrealised gains recognised on A Shares amounting to \$21,945,828 for the year ended 31 March 2014 (as at 31 March 2013: \$22,706,557).

Notes to the financial statements

For the year ended 31 March 2014

6 Taxation (continued)

(a) Taxation in the statement of comprehensive income represents:

	2014	2013
	HK\$	HK\$
PRC dividend and interest income withholding tax	4,182,487	7,291,984
PRC capital gains tax – current	7,323,648	6,107,412
PRC capital gains tax – deferred	(760,729)	22,706,557
	<u>10,745,406</u>	<u>36,105,953</u>

(b) Taxation in the statement of assets and liabilities represents:

	2014	2013
	HK\$	HK\$
PRC withholding tax provision relating to prior year	109,832,051	101,885,427
PRC withholding tax provision for the year	11,506,135	13,399,396
Payment of PRC withholding tax	(3,640,892)	(6,928,268)
Effect of foreign exchange	(158,645)	1,475,496
	<u>117,538,649</u>	<u>109,832,051</u>

(c) The movement of deferred tax liabilities in respect of unrealised gains recognised on A Shares:

	2014	2013
	HK\$	HK\$
Balance at the beginning of the year	22,706,557	–
Charged to profit or loss	(760,729)	22,706,557
	<u>21,945,828</u>	<u>22,706,557</u>

7 Investments at fair value through profit or loss

	2014	2013
	HK\$	HK\$
Listed bonds		
– outside Hong Kong	–	12,075,887
Listed equities		
– in Hong Kong	41,864,840	133,169,345
– outside Hong Kong	1,324,405,018	1,413,412,967
Equity-linked instruments		
– warrants	197,324,590	188,517,878
– participation note	30,812,747	17,898,797
	<u>1,594,407,195</u>	<u>1,765,074,874</u>

Notes to the financial statements

For the year ended 31 March 2014

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. None of such transactions were connected transactions under the Main Board Listing Rules of the Stock Exchange.

(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. The management fee charged to the Fund in respect of the year and payable at the end of the year amounted to \$26,971,382 (2013: \$32,053,938) and \$2,097,117 (2013: \$2,095,031) 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 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, of the Fund, 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 \$2,014,990 (2013: \$2,353,283) and \$193,884 (2013: \$238,996) 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 year and payable at the end of the year amounted to \$1,678,321 (2013: \$1,623,504) and \$233 (2013: \$699) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 31 March 2014, the Fund had \$2,638,838 (as at 31 March 2013: \$2,639,732) 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 2014 amounted to \$164,198 and \$173,963,851 respectively (2013: \$29,934 and \$119,885,874 respectively). During the year, no interest was earned from HSBC Hong Kong (2013: Nil). Interest earned from Bank of Communications Co Ltd amounted to \$661,094 (2013: \$774,786).

(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:

	2014 HK\$	2013 HK\$
HSBC Futures – London		
Commission paid for the year	–	13,200
Average rate of commission	–	0.12%
	<hr/>	<hr/>
Total aggregate value of such transactions for the year	–	11,336,150
Percentage of such transactions in value to total transactions for the year	–	0.23%
	<hr/>	<hr/>
The Hongkong and Shanghai Banking Corporation Limited		
Commission paid for the year	–	94,169
Average rate of commission	–	0.01%
	<hr/>	<hr/>
Total aggregate value of such transactions for the year	18,160,713	949,175,272
Percentage of such transactions in value to total transactions for the year	0.78%	19.53%
	<hr/>	<hr/>

Notes to the financial statements

For the year ended 31 March 2014

8 Related party transactions (continued)

(f) The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, has not entered into transactions to purchase units or sell units of the Fund during the year ended 31 March 2014 (2013: purchased 45,000 units and sold/redeemed 1,547,443 units of the Fund and incurred a net profit of \$1,451,804). As at 31 March 2014, The Hongkong and Shanghai Banking Corporation Limited held 282,577 units (as at 31 March 2013: 282,557 units) of the Fund.

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 Reconciliation of net asset values

For the year ended 31 March 2013, the net asset value presented in the financial statements and that quoted for pricing purposes at the year end ("Dealing NAV") are different as the principles for calculating the Dealing NAV as set out in the Offering Circular of the Fund are different from those required for financial reporting purposes under HKFRSs. For the year ended 31 March 2014, the net asset value presented in the financial statements and the Dealing NAV are consistent as the Offering Circular has been revised on 26 July 2013 as discussed in note 6. The following reconciliation provides details of the difference:

	2014 HK\$	2013 HK\$
NAV as reported in the financial statements as at 31 March	1,628,843,669	1,752,201,348
Adjustment for different basis adopted by the Fund in arriving at the Dealing NAV:		
– Deferred tax in respect of unrealised gains recognised on A Shares (note 6(c))	–	22,706,557
Dealing NAV as at 31 March	<u>1,628,843,669</u>	<u>1,774,907,905</u>

11 Units in issue

	2014	2013
Number of units in issue brought forward	209,812,263	349,687,000
Units redeemed during the year	–	(139,874,737)
Number of units in issue carried forward	<u>209,812,263</u>	<u>209,812,263</u>

The Fund is a closed-ended unit trust. There was no subscription and redemption of units during the year ended 31 March 2014. Apart from the one-off redemption offer as discussed in note 12 the Fund did not have subscription and redemption of units during the year ended 31 March 2013.

Notes to the financial statements

For the year ended 31 March 2014

12 Redemption of units under the One-off Redemption Offer

For the year ended 31 March 2013, 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.

There were no units redeemed during the year ended 31 March 2014.

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 QFII 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.

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 31 March 2014 are summarised below. Details of such investments held as at 31 March 2014 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.

(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 its investment assets. 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 2014, 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 2013.

Notes to the financial statements

For the year ended 31 March 2014

13 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(i) Price risk (continued)

Price sensitivity (continued)

	2014			2013		
	% 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\$
Investment assets						
Listed bonds	–	5	–	0.69	5	603,794
Listed equities						
– in Hong Kong	2.57	5	2,093,242	7.60	5	6,658,467
– outside Hong Kong	81.31	5	66,220,251	80.66	5	70,670,649
Equity-linked instruments:						
– warrants	12.12	5	9,866,230	10.76	5	9,425,894
– participation note	1.90	5	1,540,637	1.02	5	894,940
	<u>97.90</u>		<u>79,720,360</u>	<u>100.73</u>		<u>88,253,744</u>

(ii) Interest rate risk

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

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

	2014		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
Assets			
Cash and cash equivalents	173,963,851	–	173,963,851
Total interest sensitivity gap	<u>173,963,851</u>	<u>–</u>	<u>173,963,851</u>
	2013		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
Assets			
Investments at fair value through profit or loss	–	12,075,887	12,075,887
Cash and cash equivalents	119,885,874	–	119,885,874
Total interest sensitivity gap	<u>119,885,874</u>	<u>12,075,887</u>	<u>131,961,761</u>

Notes to the financial statements

For the year ended 31 March 2014

13 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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 \$869,819 (2013: \$542,069); 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 2013.

(iii) Currency risk

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

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

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

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

	Assets	Liabilities	Net exposure
	HK\$	HK\$	HK\$
31 March 2014			
Renminbi	1,501,077,748	(139,734,229)	1,361,343,519
United States dollar	228,301,535	(233)	228,301,302
	<u>1,729,379,283</u>	<u>(139,734,462)</u>	<u>1,589,644,821</u>
31 March 2013			
Renminbi	1,548,014,460	(132,787,077)	1,415,227,383
United States dollar	206,416,675	(699)	206,415,976
	<u>1,754,431,135</u>	<u>(132,787,776)</u>	<u>1,621,643,359</u>

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

Notes to the financial statements

For the year ended 31 March 2014

13 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

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. During the year ended 31 March 2014, the HKD weakened in relation to the Renminbi by less than 1%. At 31 March 2014, had the HKD further weakened in relation to the Renminbi by 1% (2013: 1%), with all other variables held constant, net assets attributable to unitholders would have increased by the amounts shown in the following table.

	HK\$
31 March 2014	
Renminbi	13,832,893
31 March 2013	
Renminbi	14,152,274

A 1% (2013: 1%) strengthening 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. The analysis is performed on the same basis for 2013.

(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 2014, 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.

There were no investments in debt securities as at 31 March 2014. At 31 March 2013, the Fund invested in debt securities with the following credit quality expressed as a percentage of debt securities:

	% of debt securities 2013
Rating (Moody's/S&P)	
Aa1/AA+	100.00

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

Notes to the financial statements

For the year ended 31 March 2014

13 Financial instruments and associated risks (continued)

(b) Credit risk (continued)

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 Fund enters in transactions of over-the-counter equity-linked instruments, which expose the Fund to the risk that the counterparties to the financial instruments might default on their obligations to the Fund. The Manager considers the risk to be insignificant.

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 2014 and 2013, 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 and bond investments are considered to be readily realisable under normal market conditions as they are all listed on stock exchanges in Hong Kong or the PRC. The Fund, however, also invest in unlisted equity linked-instruments, which are not publicly traded on exchanges and may be illiquid. The total value of unlisted equity linked-instruments of the Fund as at 31 March 2014 was \$145,425,929 (2013: \$141,288,083).

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). All financial liabilities have contractual maturities of less than three months. At both 31 March 2014 and 31 March 2013, there were no significant exposures to liquidity risk for the Fund.

(d) Capital management

At 31 March 2014, the Fund had \$1,628,843,669 (2013: \$1,752,201,348) 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.

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

Notes to the financial statements

For the year ended 31 March 2014

14 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 dividend and other receivables, taxation, differed tax liabilities, 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.

The fair values of financial assets and financial liabilities that are traded in active markets, such as equities, bonds 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 financial instruments 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.

	2014		
	Level 1 HK\$	Level 2 HK\$	Total HK\$
Listed equities	1,366,269,858	–	1,366,269,858
Equity-linked instruments	–	228,137,337	228,137,337
	<u>1,366,269,858</u>	<u>228,137,337</u>	<u>1,594,407,195</u>
2013			
	Level 1 HK\$	Level 2 HK\$	Total HK\$
Listed bonds	12,075,887	–	12,075,887
Listed equities	1,546,582,312	–	1,546,582,312
Equity-linked instruments	–	206,416,675	206,416,675
	<u>1,558,658,199</u>	<u>206,416,675</u>	<u>1,765,074,874</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 2014

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's asset allocation decisions are based on one single and integrated investment strategy and the Fund's performance is evaluated on an overall basis. Accordingly, the Manager considers that the Fund has one single operating segment which is investing in a portfolio of financial instruments to generate investment returns in accordance with the investment objective stipulated in the Offering Circular of the Fund. There were no changes in the operating segment during the year.

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 year ended 31 March 2014

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 year ended 31 March 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 32, <i>Financial instruments</i> : <i>Presentation – Offsetting financial assets and liabilities</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	Unspecified

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretation 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 2014

	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 Jianghuai Automobile Co Ltd – A Share	2,533,700	32,272,642	1.98
Beijing Shunxin Agriculture Co Ltd – A Share	890,191	16,352,156	1.00
Beingmate Baby & Child Food Co Ltd – A Share	979,972	32,282,534	1.98
Chengdu B-Ray Media Co Ltd – A Share	498,560	6,823,499	0.42
China CAMC Engineering Co Ltd – A Share	1,639,719	37,205,189	2.28
China CNR Corp Ltd – A Share	2,569,100	14,853,923	0.91
China Fortune Land Development Co Ltd – A Share	1,518,117	52,872,873	3.25
China Minsheng Banking Corp Ltd – A Share	9,463,752	90,525,571	5.56
China National Chemical Engineering Co Ltd – A Share	3,209,038	24,925,530	1.53
China Oilfield Services Ltd – A Share	1,144,916	24,648,474	1.51
Chinese Universe Publishing & Media Co Ltd – A Share	299,406	7,915,175	0.49
Chongqing Changan Automobile Co Ltd – A Share	4,771,512	57,022,613	3.50
Great Wall Motor Co Ltd – A Share	1,657,459	67,308,899	4.13
Gree Electric Appliances Inc – A Share	683,778	23,899,960	1.47
Guizhou Yibai Pharmaceutical Co Ltd – A Share	633,730	32,398,974	1.99
Hang Zhou Great Star Industrial Co Ltd – A Share	3,075,317	33,986,959	2.09
Hangzhou Robam Appliances Co Ltd – A Share	528,420	22,402,587	1.38
Hisense Electric Co Ltd – A Share	1,072,959	15,113,720	0.93
Inner Mongolia Yili Industrial Group Co Ltd – A Share	883,039	39,487,838	2.43
Jiangsu Yangnong Chemical Co Ltd – A Share	493,892	21,271,805	1.31
Lu Thai Textile Co Ltd – A Share	1,348,000	15,284,629	0.94
Nanjing Central Emporium Co Ltd – A Share	491,885	6,547,868	0.40
Offshore Oil Engineering Co Ltd – A Share	3,667,844	35,038,979	2.15
ORG Packaging Co Ltd – A Share	318,816	17,310,468	1.06
Ping An Bank Co Ltd – A Share	1,009,800	13,580,952	0.83
Qingdao Haier Co Ltd – A Share	2,231,199	45,164,840	2.77
SDIC Huajing Power Holdings Co Ltd – A Share	4,748,467	27,217,314	1.67
Shandong Himile Mechanical Science & Technology Co Ltd – A Share	359,827	16,661,444	1.02
Shanghai Electric Power Co Ltd – A Share	2,590,050	15,524,890	0.95
Shanghai Fosun Pharmaceutical (Group) Co Ltd – A Share	2,996,704	74,880,733	4.60
Shanghai Luxin Packing Materials Science & Technology Co Ltd – A Share	688,553	17,454,707	1.07
Shanghai Mechanical & Electrical Industry Co Ltd – A Share	630,516	15,148,873	0.93
Shanghai Pudong Development Bank Co Ltd – A Share	5,477,051	66,411,787	4.08
Shanghai Siyuan Electric Co Ltd – A Share	747,166	13,724,892	0.84
Shantou Dongfeng Printing Co Ltd – A Share	925,556	25,346,645	1.56
Shinva Medical Instrument Co Ltd – A Share	515,190	59,947,253	3.68
Sinopec Shanghai Petrochemical Co Ltd – A Share	5,348,908	22,977,497	1.41
Tongwei Co Ltd – A Share	2,881,328	30,835,619	1.89

Investment portfolio

As at 31 March 2014

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities (continued)			
Listed investments (continued)			
<i>The People's Republic of China (continued)</i>			
Weifu High-Technology Group Co Ltd – A Share	483,631	13,824,170	0.85
Yotrio Group Co Ltd – A Share	546,077	8,305,778	0.51
Zhejiang Chint Electrics Co Ltd – A Share	773,403	23,642,664	1.45
Zhejiang Huafeng Spandex Co Ltd – A Share	1,460,900	16,327,612	1.00
Zhejiang Longsheng Group Co Ltd – A Share	1,123,709	22,830,770	1.40
Zhengzhou Yutong Bus Co Ltd – A Share	1,497,898	30,059,190	1.85
Zhongshan Vantage Gas Appliance Stock Co Ltd – A Share	2,467,071	36,784,523	2.26
		1,324,405,018	81.31
<i>Hong Kong</i>			
Bank of China Ltd – H Share	2,923,900	10,028,977	0.61
China Construction Bank Corp – H Share	3,178,160	17,225,627	1.06
China Mobile Ltd – H Share	112,000	7,952,000	0.49
China Petroleum & Chemical Corp – H Share	959,400	6,658,236	0.41
		41,864,840	2.57
Equities (Total)		1,366,269,858	83.88
Equity-linked instruments			
Listed investments			
Citigroup Global Markets Holding – China Minsheng Banking Corp Ltd – A Share Covered American Call Warrants 20 January 2015	690,800	6,601,166	0.41
Citigroup Global Markets Holding – Gemdale Corp – A Share Covered American Call Warrants 20 January 2015	926,300	7,996,451	0.49
Citigroup Global Markets Holding – Gree Electric Appliances Inc – A Share Covered American Call Warrants 17 January 2015	274,319	9,578,515	0.59
Citigroup Global Markets Holding – Industrial Bank Co Ltd – A Share Covered American Call Warrants 17 January 2015	1,358,400	16,132,614	0.99
Citigroup Global Markets Holding – Ping An Insurance (Group) Co of China Ltd – A Share Covered American Call Warrants 17 January 2015	279,735	13,100,273	0.80
HSBC Bank Plc – Anhui Conch Cement Co Ltd – A Share Covered American Call Warrants 13 October 2020	403,100	8,201,738	0.50
HSBC Bank Plc – China Merchants Bank Co Ltd – A Share Covered American Call Warrants 23 August 2023	344,676	4,221,995	0.26

Investment portfolio

As at 31 March 2014

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equity-linked instruments (continued)			
Listed investments (continued)			
HSBC Bank Plc – China State Construction Engineering Corp Ltd – A Share Covered American Call Warrants 21 June 2022	2,883,500	10,401,536	0.64
HSBC Bank Plc – Luzhou Laojiao Co Ltd – A Share Covered American Call Warrants 3 June 2020	303,065	6,477,120	0.40
		<u>82,711,408</u>	<u>5.08</u>
Unlisted but quoted investments			
HSBC Bank Plc – China Merchants Bank Co Ltd – A Share Covered American Call Warrants 2 March 2020	1,980,900	24,264,384	1.49
HSBC Bank Plc – China Merchants Property Development Co Ltd – A Share Covered American Call Warrants 13 July 2020	267,005	6,280,196	0.38
HSBC Bank Plc – China Pacific Insurance Group Co Ltd – A Share Covered American Call Warrants 16 April 2020	1,109,850	21,868,681	1.34
HSBC Bank Plc – China Vanke Co Ltd – A Share Covered American Call Warrants 18 June 2020	1,514,935	15,289,591	0.94
HSBC Bank Plc – CITIC Securities Co Ltd – A Share Covered American Call Warrants 27 July 2020	2,558,827	33,626,287	2.06
HSBC Bank Plc – Shanghai Pudong Development Bank Co Ltd – A Share Covered American Call Warrants 28 May 2020	1,096,288	13,284,043	0.82
UBS – Inner Mongolia Yili Industrial Group Co Ltd – A Share Participation Note 9 September 2014	384,906	17,194,822	1.06
UBS London – Wuliangye Yibin Co Ltd – A Share Participation Note 5 September 2014	654,842	13,617,925	0.84
		<u>145,425,929</u>	<u>8.93</u>
Equity-linked instruments (Total)		<u>228,137,337</u>	<u>14.01</u>
Total investments (Total cost of investments: \$1,490,871,950)		1,594,407,195	97.89
Other net assets		34,436,474	2.11
Total net assets attributable to unitholders		<u>1,628,843,669</u>	<u>100.00</u>

Statement of movements in portfolio holdings

For the year ended 31 March 2014

	<i>% of total net asset attributable to unitholders</i>	
	2014	2013
Bonds	–	0.69
Equities	83.88	88.26
Equity-linked instruments	14.01	11.78
	<hr/>	<hr/>
Total investments	97.89	100.73
Other net assets/(liabilities)	2.11	(0.73)
	<hr/>	<hr/>
Total net assets attributable to unitholders	<u>100.00</u>	<u>100.00</u>

Performance table

For the year ended 31 March 2014

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

Year/period end

31 March 2014	HK\$1,628,843,669
31 March 2013	HK\$1,752,201,348
31 March 2012	HK\$2,757,478,558
31 March 2011	HK\$3,520,104,901

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

Year/period end

31 March 2014	HK\$7.76
31 March 2013	HK\$8.35
31 March 2012	HK\$7.89
31 March 2011	HK\$9.86

(c) Price record (Dealing NAV)

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. During the year ended 31 March 2013, the Manager offered a right to the unitholders to redeem not more than 40% of the aggregate number of units in issue.

Year	Net asset value per unit	
	Lowest HK\$	Highest HK\$
2014	7.60	9.58
2013	7.14	9.41
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

BOTELHO BASTOS Pedro Augusto (appointed on 3 July 2014)

CONXICOEUR Patrice Pierre Henri

KOO Julie J

LAM Po Yee (resigned on 1 April 2014)

MALDONADO-CODINA Guillermo Eduardo

MUNRO Joanna Mary (resigned on 3 July 2014)

TAM Chun Pong Stephen (appointed on 3 July 2014)

YIP Sze Ki (appointed on 2 May 2014)

Non-Executive Directors:

CHANDRASEKHARAN Sridhar

CHEANG Wai Wan Louisa (resigned on 20 January 2014)

FUNG Yuen Mei Anita

MARTIN Kevin Ross (appointed on 24 January 2014)

PACTON Olivier

RIKHYE Jayant

Trustee

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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

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

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Shanghai 200120

The People's Republic of China

Auditor

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

Issued by HSBC Global Asset Management (Hong Kong) Limited