



# **HSBC China Dragon Fund**

## **Interim Report 2014**

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# Manager's report

## Interim period ended 30 September 2014

### Review

Onshore Chinese equities had a good run during the period, as the economy was generally showing further signs of stabilisation, while investor sentiment turned upbeat as the Chinese government continues to roll out plans to achieve sustainable long-term growth, as well as measures to arrest short-term downside risk to the economy. MSCI China A was up by 19.8% in Hong Kong dollar terms.

China's 2Q 2014 GDP surprised on the upside, rising 7.5% compared to 7.4% in the first quarter. Sequential growth rebounded to 8% (seasonally adjusted) from 6% on annualised basis. Infrastructure investment and related manufacturing sectors are the key drivers of growth. On the other hand, both official and HSBC purchasing manager's index (PMI) had been on an uptrend since the beginning of the period until August when the data eased slightly, but still remained in expansionary territory.

On the policy front, one of the most exciting announcements would be the establishment of the 'Shanghai-Hong Kong Stock Connect' pilot programme later in 2014. The initiative allows limited access between the Hong Kong and Shanghai stock exchanges, while serving as an important chapter of the country's capital market reform. On the other hand, in order to address the major downside risk coming from the weak property market, the Chinese central bank has officially relaxed the first home mortgage policies on 30 September. This allows those who have paid off outstanding mortgages to be treated as first home mortgage holders if they purchase a new home. The timing of this announcement shows the urgency and government's dedication in revitalizing the sector. These targeted policy measures, coupled with the ongoing implementation of structural reforms, have provided a strong support for onshore Chinese equities during the period.

### Outlook

While growth momentum seems to be fragile recently, the loosening bias of China's central bank should provide a good level of support for near-term growth. In fact, the central bank has been proactively engaging in targeted easing measures since 2Q 2014, started by reducing the RRR of rural banks by 50bps to 200bps in April, then lowering the RRR by 50bps for selected banks with sizeable lending to farmers and SMEs in June. Meanwhile, in September, it has pumped RMB500bn of liquidity into the banking system to smooth liquidity concerns. We believe that in the coming months, the central bank is expected to continue to maintain an accommodative stance and introducing more easing measures. Benign inflation environment also provide a bigger window for further monetary policies.

On the other hand, the Chinese government will likely remain vigilant against financial instability risks and maintain a tight bias on shadow banking activities. Meanwhile, we also expect the government to continue pushing forward reforms, which will continue to be one of the most important drivers of Chinese equities as a whole going forward.

### For and on behalf of

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

25 November 2014

# Independent review report to the Manager

## Interim period ended 30 September 2014

### Introduction

We have reviewed the interim financial statements of the Fund set out on pages 3 to 24 which comprise the interim statement of assets and liabilities of the Fund as of 30 September 2014 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 explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements 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 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's building

10 Charter Road

Central, Hong Kong

25 November 2014

# Interim statement of assets and liabilities (unaudited)

As at 30 September 2014

	Note	30 September 2014 (Unaudited) HK\$	31 March 2014 (Audited) HK\$
<b>Assets</b>			
Investments at fair value through profit or loss	7, 11	1,769,502,176	1,594,407,195
Other receivables	8(c)	2,667,434	2,708,879
Amounts receivable on sale of investments		17,467,392	–
Cash and cash equivalents	8(d)	198,209,202	174,128,049
<b>Total assets</b>		<u>1,987,846,204</u>	<u>1,771,244,123</u>
<b>Liabilities</b>			
Taxation	6(b)	131,623,751	117,538,649
Deferred tax liabilities	6(c)	22,418,781	21,945,828
Amounts payable on purchases of investments		17,733,652	–
Accrued expenses and other payables	8(a), (b) & (c)	5,272,052	2,915,977
<b>Total liabilities</b>		<u>177,048,236</u>	<u>142,400,454</u>
<b>Net assets attributable to unitholders</b>		<u>1,810,797,968</u>	<u>1,628,843,669</u>
Representing:			
<b>Total equity</b>		<u>1,810,797,968</u>	<u>1,628,843,669</u>
<b>Number of units in issue</b>	10	<u>209,812,263</u>	<u>209,812,263</u>
<b>Net asset value per unit</b>		<u>8.63</u>	<u>7.76</u>

# Interim statement of comprehensive income (unaudited)

For the period ended 30 September 2014

	Note	Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$	Period from 1 April 2013 to 30 September 2013 (Unaudited) HK\$
Dividend income		36,285,075	37,187,575
Interest income on deposits	4, 8(d)	196,266	288,783
Net gains from investments	5	180,034,445	74,235,216
Net foreign exchange gain		328,727	290,081
<b>Net investment income</b>		<u>216,844,513</u>	<u>112,001,655</u>
Management fees	8(a)	(12,608,222)	(13,852,916)
Transaction costs		(2,902,888)	(1,799,752)
Trustee's fees	8(b)	(949,733)	(1,031,912)
Custodian fees	8(c)	(793,008)	(840,563)
Auditor's remuneration		(301,360)	(237,516)
Legal and professional fees		(276,752)	(135,296)
Other operating expenses		<u>(428,271)</u>	<u>(331,575)</u>
<b>Operating expenses</b>		<u>(18,260,234)</u>	<u>(18,229,530)</u>
<b>Profit before taxation</b>		198,584,279	93,772,125
Taxation	6(a)	<u>(16,629,980)</u>	<u>(16,912,273)</u>
<b>Increase in net assets attributable to unitholders and total comprehensive income for the period</b>		<u><u>181,954,299</u></u>	<u><u>76,859,852</u></u>

## Interim statement of changes in equity (unaudited)

For the period ended 30 September 2014

	<b>Note</b>	<b>Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$</b>	<b>Period from 1 April 2013 to 30 September 2013 (Unaudited) HK\$</b>
<b>Balance at the beginning of the period</b>		1,628,843,669	1,752,201,348
Increase in net assets attributable to unitholders and total comprehensive income for the period		<u>181,954,299</u>	<u>76,859,852</u>
<b>Balance at the end of period</b>		<u><u>1,810,797,968</u></u>	<u><u>1,829,061,200</u></u>

# Interim cash flow statement (unaudited)

For the period ended 30 September 2014

	Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$	Period from 1 April 2013 to 30 September 2013 (Unaudited) HK\$
<b>Operating activities</b>		
Interest income received	196,266	288,783
Dividend income received	36,355,116	37,187,575
Management fees paid	(10,242,347)	(13,597,406)
Trustee's fees paid	(747,795)	(1,069,959)
Tax paid	(3,349,182)	(3,367,485)
Proceeds from sale of investments	840,553,213	573,567,696
Payments on purchase of investments	(835,347,489)	(569,568,920)
Other operating expenses paid	(4,972,763)	(3,851,116)
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	22,445,019	19,589,168
	-----	-----
<b>Net increase in cash and cash equivalents</b>	22,445,019	19,589,168
<b>Cash and cash equivalents at the beginning of the period</b>	174,128,049	119,915,808
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	1,636,134	1,967,122
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	198,209,202	141,472,098
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# Notes on the unaudited interim financial statements

**For the period ended 30 September 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 ("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 ("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 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 period ended 30 September 2014 and 30 September 2013.

# Notes on the unaudited interim financial statements

**For the period ended 30 September 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 lodgment date.

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

There were no units redeemed during the period ended 30 September 2014 and 30 September 2013.

## **2 Significant accounting policies**

### **(a) Statement of compliance**

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance 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 2014, except for the accounting policy changes that are expected to be reflected in the 2014 interim financial statements. Details of these changes in accounting policies are set out in note 3.

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 have 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. KPMG's independent review report to the Manager is included on page 2.

The financial information relating to the financial year ended 31 March 2014 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 auditor has expressed an unqualified opinion on the financial statements for the year ended 31 March 2014 in their report dated 18 July 2014.

### **(b) Basis of preparation of the financial statements**

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

The 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 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 Amounts receivable on sale of investments and other receivables.

Financial liabilities that are not at fair value through profit or loss include Amounts payable on purchases of investments, accrued expenses and other payables.

#### (ii) Recognition

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

A regular way purchase or sale of financial assets and financial liabilities is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of HKAS 39.

#### (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 rate method.

#### (iv) Fair value measurement principles

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 spreads 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.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 2 Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (iv) Fair value measurement principles (continued)

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.

#### (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.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 2 Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (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.

#### *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 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.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 2 Significant accounting policies (continued)

### (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.

### (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 gain" is the 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.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 2 Significant accounting policies (continued)

### (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 certain new and revised HKFRSs that are first effective for the current accounting period of the Fund. There have been no significant 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.

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

## 4 Interest income on deposits

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

## 5 Net gains from investments

	<b>Period from 1 April 2014 to 30 September 2014 HK\$</b>	<b>Period from 1 April 2013 to 30 September 2013 HK\$</b>
Realised gains/(losses)	68,012,304	(29,820,380)
Unrealised gains	112,022,141	104,055,596
	<u>180,034,445</u>	<u>74,235,216</u>

Gains presented above exclude dividend income.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 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 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 \$22,418,781 for the period ended 30 September 2014 (as at 31 March 2014: \$21,945,828).

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

	<b>Period from 1 April 2014 to 30 September 2014 HK\$</b>	<b>Period from 1 April 2013 to 30 September 2013 HK\$</b>
PRC dividend and interest income withholding tax	2,711,296	3,861,799
PRC capital gains tax – current	13,445,731	1,301,723
PRC capital gains tax – deferred	472,953	11,748,751
	<u>16,629,980</u>	<u>16,912,273</u>



# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 6 Taxation (continued)

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

	<b>30 September 2014 HK\$</b>	<b>31 March 2014 HK\$</b>
PRC withholding tax provision relating to prior year	117,538,649	109,832,051
PRC withholding tax provision for the period/year	16,157,027	11,506,135
Payment of PRC withholding tax	(3,349,182)	(3,640,892)
Effect of foreign exchange	1,277,257	(158,645)
	<u>131,623,751</u>	<u>117,538,649</u>

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

	<b>Period from 1 April 2014 to 30 September 2014 HK\$</b>	<b>Period from 1 April 2013 to 30 September 2013 HK\$</b>
Balance at the beginning of the period	21,945,828	22,706,557
Charged to profit or loss	472,953	11,748,751
Balance at the end of the period	<u>22,418,781</u>	<u>34,455,308</u>

## 7 Investments at fair value through profit or loss

	<b>30 September 2014 HK\$</b>	<b>31 March 2014 HK\$</b>
Listed equities		
– in Hong Kong	33,981,231	41,864,840
– outside Hong Kong	1,535,296,567	1,324,405,018
Equity-linked instruments		
– warrants	181,304,959	197,324,590
– participation note	18,919,419	30,812,747
	<u>1,769,502,176</u>	<u>1,594,407,195</u>

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 8 Related party transactions

The following is a summary of transactions with related parties for the period. 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 period and payable at the end of the period amounted to \$12,608,222 (for the period from 1 April 2013 to 30 September 2013: \$13,852,916) and \$4,462,992 (as at 31 March 2014: \$2,097,117) 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 period and payable at the end of the period amounted to \$949,733 (for the period from 1 April 2013 to 30 September 2013: \$1,031,912) and \$395,822 (as at 31 March 2014: \$193,884) 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 \$793,008 (for the period from 1 April 2013 to 30 September 2013: \$840,563) and \$4,262 (as at 31 March 2014: \$233) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 30 September 2014, the Fund had \$2,667,434 (as at 31 March 2014: \$2,638,838) deposit held with the QFII custodian.

### (d) Bank balances

Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and Bank of Communications Co. Ltd, the QFII custodian of the Fund. The bank balances held as at 30 September 2014 amounted to \$48,427,085 and \$149,782,117 respectively (as at 31 March 2014: \$164,198 and \$173,963,851 respectively). During the period, no interest was earned from HSBC Hong Kong (for the period from 1 April 2013 to 30 September 2013: nil). Interest earned from Bank of Communications Co. Ltd amounted to \$196,266 (for the period from 1 April 2013 to 30 September 2013: \$288,783).

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 8 Related party transactions (continued)

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

	<b>Period from 1 April 2014 to 30 September 2014 HK\$</b>	<b>Period from 1 April 2013 to 30 September 2013 HK\$</b>
<b>The Hongkong and Shanghai Banking Corporation Limited</b>		
Commission paid for the period	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the period	15,710,935	18,152,882
Percentage of such transactions in value to total transactions for the period	0.92%	1.58%

- (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 for the period from 1 April 2014 to 30 September 2014 (for the period from 1 April 2013 to 30 September 2013: nil). As at 30 September 2014, The Hongkong and Shanghai Banking Corporation Limited held 282,557 units (as at 31 March 2014: 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 Units in issue

	<b>Period from 1 April 2014 to 30 September 2014</b>	<b>Period from 1 April 2013 to 30 September 2013</b>
Number of units in issue	209,812,263	209,812,263

The Fund is a closed-ended unit trust. There was no subscription and redemption of units during the period from 1 April 2014 to 30 September 2014 and from 1 April 2013 to 30 September 2013.

# Notes on the unaudited interim financial statements

**For the period ended 30 September 2014**

## **11 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 30 September 2014 are summarised below. Details of such investments held as at 30 September 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 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 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% and 15% increase in value of the investments in listed equities in Hong Kong and others respectively at 30 September 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 same basis for 31 March 2014.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 11 Financial instruments and associated risks (continued)

### (a) Market risk (continued)

#### (i) Price risk (continued)

	30 September 2014			31 March 2014		
	% 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 equities						
– in Hong Kong	1.88	5	1,699,062	2.57	5	2,093,242
– outside Hong Kong	84.78	15	230,294,485	81.31	5	66,220,251
Equity-linked instruments:						
– warrants	10.01	15	27,195,744	12.12	5	9,866,230
– participation note	1.05	15	2,837,913	1.90	5	1,540,637
	<u>97.72</u>		<u>262,027,204</u>	<u>97.90</u>		<u>79,720,360</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.

	30 September 2014		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
<b>Assets</b>			
Cash and cash equivalents	149,782,117	–	149,782,117
<b>Total interest sensitivity gap</b>	<u>149,782,117</u>	<u>–</u>	<u>149,782,117</u>
	31 March 2014		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
<b>Assets</b>			
Cash and cash equivalents	173,963,851	–	173,963,851
<b>Total interest sensitivity gap</b>	<u>173,963,851</u>	<u>–</u>	<u>173,963,851</u>

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 11 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 \$748,911 (31 March 2014: \$869,819); 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 2014.

#### (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 2014</b>			
Renminbi	1,687,746,118	(171,902,760)	1,515,843,358
United States dollar	266,020,939	(4,262)	266,016,677
	<u>1,953,767,057</u>	<u>(171,907,022)</u>	<u>1,781,860,035</u>
<b>31 March 2014</b>			
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>

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 2014

## 11 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 the USD/HKD exchange rate. During the period ended 30 September 2014, the HKD weakened in relation to the Renminbi by approximately 2%. At 30 September 2014, had the HKD further weakened in relation to the Renminbi by 2% (31 March 2014: 1%), with all other variables held constant, net assets attributable to unitholders would have increased by the amounts shown in the following table.

	HK\$
<b>30 September 2014</b>	
Renminbi	<u>30,316,867</u>
<b>31 March 2014</b>	
Renminbi	<u>13,832,893</u>

A 2% (31 March 2014: 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 31 March 2014.

### (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 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 30 September 2014 and 31 March 2014.

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 statement of assets and liabilities.

# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 11 Financial instruments and associated risks (continued)

### (b) Credit risk (continued)

At both 30 September 2014 and 31 March 2014, 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 30 September 2014 was \$152,587,963 (as at 31 March 2014: \$145,425,929).

The Fund has one class of units in issue which is not redeemable by the unitholders. At both 30 September 2014 and 31 March 2014, there were no significant exposures to liquidity risk for the Fund.

### (d) Capital management

At 30 September 2014, the Fund had \$1,810,797,968 (as at 31 March 2014: \$1,628,843,669) 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.

## 12 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, deferred 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.



# Notes on the unaudited interim financial statements

For the period ended 30 September 2014

## 12 Fair value information (continued)

### 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 following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted market price 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 in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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 instrument 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.

	30 September 2014		
	Level 1 HK\$	Level 2 HK\$	Total HK\$
Listed equities	1,569,277,798	–	1,569,277,798
Equity-linked instruments	–	200,224,378	200,224,378
	<u>1,569,277,798</u>	<u>200,224,378</u>	<u>1,769,502,176</u>

  

	31 March 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>

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 2014**

## **13 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 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.

## **14 Non-adjusting event after the reporting period**

On 14 November 2014, the Ministry of Finance, the State Administration of Tax and the China Securities Regulatory Commission have jointly promulgated the Circular Concerning the Temporary Exemption of the Enterprise Income Tax for Gains Earned by Qualified Foreign Institutional Investors and Renminbi Qualified Foreign Institutional Investors from the Transfer of Domestic Shares and Other Equity Interest Investment in China.

As a result of the announcement of the Circular, the most significant change for the Fund will be the cessation of withholding 10% of unrealised gains on its investments in A Shares as deferred tax liabilities from 14 November 2014. The deferred tax liabilities in respect of unrealised gains recognised on A Shares is \$22,547,473 as at 14 November 2014 and has been released to the Fund.

## **15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 September 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 period ended 30 September 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund:

HKFRS 9, *Financial instruments*

**Effective for  
accounting periods  
beginning on or after**

1 January 2018

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

	<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>			
Beijing Dabeinong Technology Group Co Ltd – A Share	1,079,100	18,783,911	1.04
Beijing Huaye Real Estate Co Ltd – A Share	2,473,076	22,570,222	1.25
Beijing Shunxin Agriculture Co Ltd – A Share	890,191	19,282,376	1.06
Beijing SL Pharmaceutical Co Ltd – A Share	332,712	17,802,949	0.98
Changzhou Tiansheng Ltd – A Share	1,453,102	22,010,881	1.21
China CAMC Engineering Co Ltd – A Share	1,967,663	48,135,397	2.66
China Everbright Securities Co Ltd – A Share	3,164,800	38,351,078	2.12
China Fortune Land Development Co Ltd – A Share	372,917	11,876,528	0.66
China Merchants Bank Co Ltd – A Share	1,296,850	16,992,104	0.94
China National Medicines Corp Ltd – A Share	557,698	18,944,051	1.05
China Pacific Insurance Group Co Ltd – A Share	725,895	17,785,227	0.98
China Vanke Co Ltd – A Share	1,530,276	17,732,604	0.98
Chongqing Changan Automobile Co Ltd – A Share	3,760,312	65,028,617	3.59
DHC Software Co Ltd – A Share	953,096	20,620,896	1.14
Finance Street Holding Co Ltd – A Share	2,131,800	17,329,754	0.96
Foshan Haitian Flavouring & Food Co Ltd – A Share	802,972	38,039,871	2.10
GoerTek Inc – A Share	901,531	31,351,790	1.73
Great Wall Motor Co Ltd – A Share	1,657,459	63,602,831	3.51
Gree Electric Appliances Inc – A Share	683,778	23,934,539	1.32
Guangzhou Guangri Stock Co Ltd – A Share	1,752,069	29,923,271	1.65
Guizhou Yibai Pharmaceutical Co Ltd – A Share	633,730	29,998,228	1.66
Haining China Leather Market Co Ltd – A Share	496,800	9,180,847	0.51
Henan Shuanghui Investment & Development Co Ltd – A Share	383,590	16,245,006	0.90
Huatai Securities Co Ltd – A Share	2,302,547	26,507,173	1.46
Inner Mongolia Yili Industrial Group Co Ltd – A Share	1,906,948	62,368,649	3.44
Jiangsu Hengbao Co Ltd – A Share	1,447,304	26,472,089	1.46
Kingenta Ecological Engineering Group Co Ltd – A Share	1,037,569	32,559,534	1.80
Livzon Pharmaceutical Group Inc – A Share	288,486	19,212,753	1.06
Lu Thai Textile Co Ltd – A Share	1,348,000	16,488,219	0.91
Nanfang Pump Industry Co Ltd – A Share	1,045,046	27,662,658	1.53
NARI Technology Development Co Ltd – A Share	931,509	20,153,846	1.11
New Hope Liuhe Co Ltd – A Share	994,100	17,931,738	0.99
Ningbo Yunsheng Group Co Ltd – A Share	836,607	17,878,806	0.99
ORG Packaging Co Ltd – A Share	900,662	25,909,930	1.43
Ping An Bank Co Ltd – A Share	2,637,960	33,731,661	1.86
Poly Real Estate Group Co Ltd – A Share	2,383,913	16,670,946	0.92
Qifeng New Material Co Ltd – A Share	1,283,419	17,901,557	0.99
Qingdao Haier Co Ltd – A Share	2,269,622	45,265,851	2.50
Shandong Denghai Seeds Co Ltd – A Share	419,243	18,686,313	1.03
Shanghai Fosun Pharmaceutical (Group) Co Ltd – A Share	2,996,704	71,985,116	3.97
Shanghai Luxin Packing Materials Science & Technology Co Ltd – A Share	852,791	9,914,306	0.55

## Investment portfolio (unaudited)

As at 30 September 2014

<b>HSBC China Dragon Fund</b>			
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets</b>
<b>Equity (continued)</b>			
<b>Listed investments (continued)</b>			
<i>The People's Republic of China (continued)</i>			
Shanghai Mechanical & Electrical Industry Co Ltd – A Share	630,516	15,018,553	0.83
Shanghai Pudong Development Bank Co Ltd – A Share	5,477,051	67,408,005	3.72
Shantou Dongfeng Printing Co Ltd – A Share	1,354,412	20,960,485	1.16
Shenzhen Overseas Chinese Town Holdings Co Ltd – A Share	3,820,200	26,232,826	1.45
Shinva Medical Instrument Co Ltd – A Share	889,724	41,947,490	2.32
Tongwei Co Ltd – A Share	2,246,828	27,822,676	1.54
Weifu High-Technology Group Co Ltd – A Share	483,631	15,927,524	0.88
Xiamen Faratronic Co Ltd – A Share	412,580	17,701,881	0.98
Xiamen King Long Motor Co Ltd – A Share	648,500	10,379,808	0.57
Xilinmen Furniture Co Ltd – A Share	1,342,862	19,662,985	1.09
Yantai Jereh Oilfield Services Group Co Ltd – A Share	412,240	20,268,316	1.12
Zhejiang Chint Electrics Co Ltd – A Share	441,503	14,105,415	0.78
Zhejiang Yankon Group Co Ltd – A Share	2,691,688	36,321,393	2.00
Zhengzhou Yutong Bus Co Ltd – A Share	1,497,898	34,469,024	1.90
Zhongshan Vantage Gas Appliance Stock Co Ltd – A Share	2,960,485	44,246,063	2.44
		<u>1,535,296,567</u>	<u>84.78</u>
<i>Hong Kong</i>			
Bank of China Ltd – H Share	2,923,900	10,145,933	0.56
China Construction Bank Corp – H Share	3,178,160	17,320,972	0.96
China Petroleum & Chemical Corp – H Share	959,400	6,514,326	0.36
		<u>33,981,231</u>	<u>1.88</u>
<b>Equities (Total)</b>		<u><u>1,569,277,798</u></u>	<u><u>86.66</u></u>

## Investment portfolio (unaudited)

As at 30 September 2014

	<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>			
Citigroup Global Markets Holding – China Minsheng Banking Corp Ltd – A Share Covered American Call Warrants 20 January 2015	828,960	6,531,571	0.36
Citigroup Global Markets Holding – Gree Electric Appliances Inc – A Share Covered American Call Warrants 17 January 2015	274,319	9,620,548	0.53
Citigroup Global Markets Holding – Ping An Insurance (Group) Co of China Ltd – A Share Covered American Call Warrants 17 January 2015	279,735	14,625,516	0.81
HSBC Bank Plc – China Merchants Bank Co Ltd – A Share Covered American Call Warrants 23 August 2023	344,676	4,524,701	0.25
HSBC Bank Plc – China State Construction Engineering Corp Ltd – A Share Covered American Call Warrants 21 June 2022	2,883,500	12,334,079	0.68
		<u>47,636,415</u>	<u>2.63</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	26,004,071	1.44
HSBC Bank Plc – China Merchants Property Development Co Ltd – A Share Covered American Call Warrants 13 July 2020	400,507	6,218,352	0.34
HSBC Bank Plc – China Pacific Insurance Group Co Ltd – A Share Covered American Call Warrants 16 April 2020	1,109,850	27,243,401	1.50
HSBC Bank Plc – China Vanke Co Ltd – A Share Covered American Call Warrants 18 June 2020	1,514,935	17,582,085	0.97
HSBC Bank Plc – CITIC Securities Co Ltd – A Share Covered American Call Warrants 27 July 2020	2,558,827	43,105,813	2.38
HSBC Bank Plc – Shanghai Pudong Development Bank Co Ltd – A Share Covered American Call Warrants 28 May 2020	1,096,288	13,514,822	0.75
UBS – Inner Mongolia Yili Industrial Group Co Ltd – A Share Participation Note 4 September 2015	577,359	18,919,419	1.05
		<u>152,587,963</u>	<u>8.43</u>
<b>Equity-linked instruments (Total)</b>		<u>200,224,378</u>	<u>11.06</u>
<b>Total investments (Total cost of investments: \$1,553,944,790)</b>		1,769,502,176	97.72
<b>Other net assets</b>		41,295,792	2.28
<b>Net assets attributable to unitholders</b>		<u>1,810,797,968</u>	<u>100.00</u>

## Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2014

	<i>% of total net assets attributable to unitholders</i>	
	<b>30 September 2014</b>	<b>31 March 2014</b>
Equities	86.66	83.88
Equity-linked instruments	11.06	14.01
<b>Total investments</b>	97.72	97.89
<b>Other net assets</b>	2.28	2.11
<b>Net assets attributable to unitholders</b>	100.00	100.00

## Performance table (unaudited)

For the period ended 30 September 2014

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

Year/period end

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
31 March 2013	HK\$1,752,201,348
30 September 2013	HK\$1,829,061,200
31 March 2014	HK\$1,628,843,669
30 September 2014	HK\$1,810,797,968

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

Year/period end

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
31 March 2013	HK\$8.35
30 September 2013	HK\$8.72
31 March 2014	HK\$7.76
30 September 2014	HK\$8.63

### (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-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 2014, the Manager offered a right to the unitholders to redeem not more than 40% 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
1 April 2012 to 31 March 2013	7.14	9.41
1 April 2013 to 30 September 2013	7.79	9.58
1 April 2013 to 31 March 2014	7.60	9.58
1 April 2014 to 30 September 2014	7.39	8.69

## 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 and

resigned on 1 August 2014)

#### *Non-Executive Directors:*

CHANDRASEKHARAN Sridhar

FUNG Yuen Mei Anita

MARTIN Kevin Ross

PACTON Olivier

RIKHYE Jayant

YIP Sze Ki

(Appointed on 1 August 2014)

### **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

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

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



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