



# **HSBC China Dragon Fund**

## **Interim Report 2015**

# Contents

	Page(s)
Manager's report	1
Independent review report to the Manager	2
Interim statement of assets and liabilities (unaudited)	3
Interim statement of comprehensive income (unaudited)	4
Interim statement of changes in equity (unaudited)	5
Interim cash flow statement (unaudited)	6
Notes on the unaudited interim financial report	7
Investment portfolio (unaudited)	27
Statement of movements in portfolio holdings (unaudited)	31
Performance table (unaudited)	32
Administration and management	33

## Manager's report

### **Interim period ended 30 September 2015**

The Chinese equity markets surged from March 2015 to May 2015 mainly driven by the strong trading activities following the pro-growth measures to alleviate the cyclical economic pressures. The net asset value per Unit of the Fund rose from HK\$13.61 as of 31 March 2015 to HK\$16.49 as of 29 May 2015. The central bank of the PRC had been cutting rates and rolling out targeted liquidity measures, while a cut to the down payment requirement for second home mortgages and property transaction tax also helped boost the property sector and investor sentiment. Market also welcomed the potential positive catalysts around economic and structural reforms and the opening-up of China's capital market.

The market went through a correction period since mid-to-late June 2015, and the same applied to the Fund as its net asset value per unit started to retreat after hitting a historical high of HK\$18.36 in June, driven by concerns over the overstretched valuations, suspension of stock trading, worries over initial public offerings liquidity within the onshore market, as well as margin financial curbs. The net asset value per Unit of the Fund dropped from HK\$15.32 as of 30 June 2015 to HK\$10.47 as of 30 September 2015.

While the easing measures introduced by the Chinese authorities seemed to have provided a certain level of comfort to sentiment, the onshore turbulence, aggravated by concerns around slowing economic growth trend in China, had inevitably dampened risk appetite. The Chinese equity market rebounded in October 2015 after the decline over the past few months. The market downtrend seemed to have stabilized as markets in the PRC generally welcomed the counter cyclical policy measures to preserve growth, including rate cuts, relaxation on mortgage restrictions and tax cut for purchasing compact cars.

The recent policy announcements of the Chinese government to support growth and liberalise its capital markets are generally positive for the market but GDP growth appears to be in a slowing trend. The state-owned enterprises (SOE) reform blueprint is the beginning of a long-haul journey towards reshaping the SOE management system and efficiency. With the enhancement in efficiency and cost control, SOE reform will potentially improve profitability of SOEs and drive market re-rating. Going forward, the Manager expects to see key SOE reform actions in asset injection, mixed ownership and incentive system.

Recent volatility in the Chinese and Hong Kong equity markets have led to a raft of policy responses to support the market (such as the recent purchase tax cut on vehicles and property easing measures) and the Manager believes the Chinese government could potentially intensify policy support if there were more signs of risks spreading to the real economy. The Manager continues to like sectors and stocks with attractive fundamentals as well as strong earnings growth prospects, and those that stand to gain from reforms.

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

24 November 2015

# Independent review report to the Manager

## Interim period ended 30 September 2015

### Introduction

We have reviewed the interim financial report of the Fund set out on pages 3 to 26 which comprise the interim statement of assets and liabilities of the Fund as of 30 September 2015 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 report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report 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 report 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 report as at 30 September 2015 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  
24 November 2015

# Interim statement of assets and liabilities (unaudited)

As at 30 September 2015

	Note	30 September 2015 (Unaudited) HK\$	31 March 2015 (Audited) HK\$
<b>Assets</b>			
Investments at fair value through profit or loss	7, 11	2,075,139,336	2,795,193,821
Other receivables	8(c)	2,582,266	2,639,994
Cash and cash equivalents	8(d)	256,949,839	199,280,592
<b>Total assets</b>		<u>2,334,671,441</u>	<u>2,997,114,407</u>
<b>Liabilities</b>			
Taxation	6(b)	133,823,770	136,815,470
Accrued expenses and other payables	8(a), (b), (c)	3,614,189	4,381,454
<b>Total liabilities</b>		<u>137,437,959</u>	<u>141,196,924</u>
<b>Net assets attributable to unitholders</b>		<u>2,197,233,482</u>	<u>2,855,917,483</u>
Representing:			
<b>Total equity</b>		<u>2,197,233,482</u>	<u>2,855,917,483</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>10.47</u>	<u>13.61</u>

# Interim statement of comprehensive income (unaudited)

For the period ended 30 September 2015

	Note	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$	Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$
Dividend income		39,560,822	36,285,075
Interest income on deposits	4, 8(d)	292,350	196,266
Net (losses)/gains from investments	5	(665,198,529)	180,034,445
Net foreign exchange (loss)/gain		(651,931)	328,727
<b>Net investment (loss)/income</b>		<u>(625,997,288)</u>	<u>216,844,513</u>
Management fees	8(a)	(22,217,000)	(12,608,222)
Transaction costs		(3,259,615)	(2,902,888)
Trustee's fees	8(b)	(1,590,085)	(949,733)
Custodian fees	8(c)	(1,169,098)	(793,008)
Auditor's remuneration		(312,532)	(301,360)
Legal and professional fees		(450,000)	(276,752)
Other operating expenses		(510,258)	(428,271)
<b>Operating expenses</b>		<u>(29,508,588)</u>	<u>(18,260,234)</u>
<b>(Loss)/profit before taxation</b>		(655,505,876)	198,584,279
Taxation	6(a)	(3,178,125)	(16,629,980)
<b>(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the period</b>		<u>(658,684,001)</u>	<u>181,954,299</u>

## Interim statement of changes in equity (unaudited)

For the period ended 30 September 2015

Note	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$	Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$
<b>Balance at the beginning of the period</b>	2,855,917,483	1,628,843,669
(Decrease)/Increase in net assets attributable to unitholders and total comprehensive income for the period	<u>(658,684,001)</u>	<u>181,954,299</u>
<b>Balance at the end of the period</b>	<u><u>2,197,233,482</u></u>	<u><u>1,810,797,968</u></u>

# Interim cash flow statement (unaudited)

For the period ended 30 September 2015

	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$	Period from 1 April 2014 to 30 September 2014 (Unaudited) HK\$
<b>Operating activities</b>		
Interest income received	292,350	196,266
Dividend income received	39,560,822	36,355,116
Management fees paid	(22,937,096)	(10,242,347)
Trustee's fees paid	(1,684,655)	(747,795)
Tax paid	(3,169,858)	(3,349,182)
Proceeds from sale of investments	929,198,856	840,553,213
Payments on purchase of investments	(874,342,900)	(835,347,489)
Other operating expenses paid	(5,628,248)	(4,972,763)
<b>Net cash generated from operating activities</b>	61,289,271	22,445,019
<b>Net increase in cash and cash equivalents</b>	61,289,271	22,445,019
<b>Cash and cash equivalents at the beginning of the period</b>	199,280,592	174,128,049
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	(3,620,024)	1,636,134
<b>Cash and cash equivalents at the end of the period</b>	256,949,839	198,209,202



# Notes on the unaudited interim financial report

**For the period ended 30 September 2015**

## **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 products, 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 2015 and 30 September 2014.

# Notes on the unaudited interim financial report

**For the period ended 30 September 2015**

## **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.

There were no units redeemed during the period ended 30 September 2015 and 30 September 2014.

## **2 Significant accounting policies**

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

This interim financial report 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 report have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2015, except for the accounting policy changes that are expected to be reflected in the 2015 interim financial report. Details of these changes in accounting policies are set out in note 3.

The preparation of interim financial report 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 report 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 2015 that is included in the interim financial report 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 2015 in their report dated 17 July 2015.

### **(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 report

For the period ended 30 September 2015

## 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 dividend and other receivables.

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

#### (ii) Recognition

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

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

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

#### (iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair values recognised in the statement of comprehensive income.

Financial assets classified as receivables are carried at amortised cost using the effective interest method less impairment loss, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest 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 spread that are most representative of the fair value.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 2 Significant accounting policies (continued)

### (c) Financial instruments (continued)

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

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.

#### (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.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 2 Significant accounting policies (continued)

### (c) *Financial instruments (continued)*

#### (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.

#### *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.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 2 Significant accounting policies (continued)

### (g) Translation of foreign currency

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

### (h) Related parties

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

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

### (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.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 2 Significant accounting policies (continued)

### (j) Units in issue

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

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

### (k) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager.

## 3 Changes in accounting policies

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

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 15). Impacts of the adoption of the amended HKFRSs are discussed below:

### **Annual Improvements to HKFRSs 2010-2012 Cycle**

This cycle of annual improvement contains amendments to seven standards with consequential amendments to other standards and interpretations. Details relevant to the Fund's interim financial report are as follows:

- HKFRS 13, *Fair value measurement* has been amended to clarify that entities are not prevented from measuring short term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.
- HKAS 24, *Related party disclosures* has been amended to extend the definition of a "related party" to include a management entity that provides key management personnel ("KMP") services to the reporting entity, either directly or through a group entity. Consequently, the entity is required to disclose the amounts incurred for the KMP services provided by the management entity, but it is not required to "look through" the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services.

The amendments do not have an impact on this interim financial report as they are consistent with the policies already adopted by the Fund.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 3 Changes in accounting policies (continued)

### Annual Improvements to HKFRSs 2011-2013 Cycle

This cycle of annual improvement contains amendments to four standards with consequential amendments to other standards and interpretations. Details relevant to the Fund's interim financial report are as follows:

- HKFRS 13, *Fair value measurement* has been amended to clarify that its portfolio exception, which allows entities to measure the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis, applies to all contracts within the scope of HKAS 39 and HKFRS 9, regardless of whether the contracts meet the definitions of financial assets or financial liabilities in HKAS 32.

The amendments do not have an impact on this interim financial report as they are consistent with the policies already adopted by the Fund.

## 4 Interest income on deposits

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

## 5 Net (losses)/gains from investments

	Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$	Period from 1 April 2014 to 30 September 2014 (unaudited) HK\$
Realised gains	119,953,593	68,012,304
Unrealised (losses)/gains	(785,152,122)	112,022,141
	<u>(665,198,529)</u>	<u>180,034,445</u>

Gains and losses 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.

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.



# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 6 Taxation (continued)

The Manager had 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.

On 14 November 2014, the Ministry of Finance, the State Administration of Taxation ("SAT") and the China Securities Regulatory Commission have jointly promulgated the Circular Concerning the Temporary Exemption of the Corporate 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 ("the Circular").

According to the Circular, QFIs have been granted a temporary PRC Corporate Income Tax exemption on capital gains deriving from PRC A Shares and other equity interest investments in PRC enterprises on or after 17 November 2014. Realised capital gains generated by QFIs prior to 17 November 2014 would remain subject to the 10% withholding tax – unless otherwise exempt under the applicable double tax treaty.

As a result of the announcement of the Circular, the most significant change for the Fund was the cessation of withholding 10% of unrealised gains on its investments in A Shares as deferred tax liabilities as at 17 November 2014. The deferred tax liabilities in respect of unrealised gains recognised on A Shares amounted to \$22,547,473 as at 14 November 2014 have been released to the Fund.

Further to the Circular, the Manager has received the Notice on Tax Issues (HGSS6ST[2015] No.2) jointly issued by the Third Branch of Shanghai Municipal Office, SAT and the Third Branch of Shanghai Municipal Bureau of Local Taxation ("the Shanghai Tax Bureaus") on 1 April 2015 requesting the submission of tax documents and payment of the corresponding withholding tax by 30 September 2015 in respect of their PRC sourced income earned (including capital gains realised on the sale of PRC A Shares and other equity interest instruments prior to 17 November 2014). The Fund and the Manager, as the QFII investment quota holder, have appointed tax advisers and are in the process of preparing the tax filing to the Shanghai Tax Bureau. Since the Fund has already made \$133,823,770 taxation provision for the realised gains derived from PRC A Shares trading prior to 17 November 2014, it is unlikely to have a significant adverse impact on the Fund's net asset values as at 30 September 2015.

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

	<b>Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$</b>	<b>Period from 1 April 2014 to 30 September 2014 (unaudited) HK\$</b>
PRC dividend and interest income withholding tax	3,137,054	2,711,296
PRC capital gains tax – current	41,071	13,445,731
PRC capital gains tax – deferred	–	472,953
	<u>3,178,125</u>	<u>16,629,980</u>

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 6 Taxation (continued)

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

	<b>30 September 2015 (unaudited) HK\$</b>	<b>31 March 2015 (audited) HK\$</b>
PRC withholding tax provision relating to prior year	136,815,470	117,538,649
PRC withholding tax provision for the period/year	3,178,125	22,904,095
Payment of PRC withholding tax	(3,169,858)	(3,787,848)
Effect of foreign exchange	(2,999,967)	160,574
	<u>133,823,770</u>	<u>136,815,470</u>

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

	<b>Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$</b>	<b>Period from 1 April 2014 to 30 September 2014 (unaudited) HK\$</b>
Balance at the beginning of the period	–	21,945,828
Charged to profit or loss	–	472,953
	<u>–</u>	<u>22,418,781</u>
Balance at the end of the period	<u>–</u>	<u>22,418,781</u>

## 7 Investments at fair value through profit or loss

	<b>30 September 2015 (unaudited) HK\$</b>	<b>31 March 2015 (audited) HK\$</b>
Listed equities		
– outside Hong Kong	1,761,721,374	2,381,583,201
Equity-linked instruments		
– warrants	252,616,893	328,998,980
– participation note	39,179,850	84,611,640
– equity note	21,621,219	–
	<u>2,075,139,336</u>	<u>2,795,193,821</u>

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 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 \$22,217,000 (for the period from 1 April 2014 to 30 September 2014: \$12,608,222) and \$2,732,405 (as at 31 March 2015: \$3,452,501) 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 \$1,590,085 (for the period from 1 April 2014 to 30 September 2014: \$949,733) and \$190,174 (as at 31 March 2015: \$284,744) 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 \$1,169,098 (for the period from 1 April 2014 to 30 September 2014: \$793,008) and \$558 (as at 31 March 2015: \$395) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 30 September 2015, the Fund had \$2,582,266 (as at 31 March 2015: \$2,639,994) 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 2015 amounted to \$95,020,099 and \$161,929,740 respectively (as at 31 March 2015: \$56,630,835 and \$142,649,757 respectively). During the period, no interest was earned from HSBC Hong Kong (for the period from 1 April 2014 to 30 September 2014: nil). Interest earned from Bank of Communications Co. Ltd amounted to \$292,350 (for the period from 1 April 2014 to 30 September 2014: \$196,266).

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 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 2015 to 30 September 2015 (unaudited) HK\$</b>	<b>Period from 1 April 2014 to 30 September 2014 (unaudited) 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	26,723,322	15,710,935
Percentage of such transactions in value to total transactions for the period	1.50%	0.92%

- (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 2015 to 30 September 2015 (for the period from 1 April 2014 to 30 September 2014: nil). As at 30 September 2015, The Hongkong and Shanghai Banking Corporation Limited held 282,557 units (as at 31 March 2015: 282,557 units) of the Fund.

## 9 Soft dollar practices

The Manager or any of its connected persons may affect 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 2015 to 30 September 2015 (unaudited)</b>	<b>Period from 1 April 2014 to 30 September 2014 (unaudited)</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 2015 to 30 September 2015 and from 1 April 2014 to 30 September 2014.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 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 2015 are summarised below. Details of such investments held as at 30 September 2015 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 15% increase in value of the investments is listed equities in Hong Kong and others respectively at 30 September 2015, 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 2015.

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 11 Financial instruments and associated risks (continued)

### (a) Market risk (continued)

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

	30 September 2015 (unaudited)			31 March 2015 (audited)		
	% 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						
– outside Hong Kong	80.18	15	264,258,206	83.39	5	119,079,160
Equity-linked instruments:						
– warrants	11.50	15	37,892,534	11.52	5	16,449,949
– participation note	1.78	15	5,876,978	2.96	5	4,230,582
– equity note	0.98	15	3,243,183	–	5	–
	<u>94.44</u>		<u>311,270,901</u>	<u>97.87</u>		<u>139,759,691</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 2015 (unaudited)		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
<b>Assets</b>			
Cash and cash equivalents	161,929,740	–	161,929,740
<b>Total interest sensitivity gap</b>	<u>161,929,740</u>	<u>–</u>	<u>161,929,740</u>

	31 March 2015 (audited)		
	Less than 1 year HK\$	Over 1 year HK\$	Total HK\$
<b>Assets</b>			
Cash and cash equivalents	142,649,757	–	142,649,757
<b>Total interest sensitivity gap</b>	<u>142,649,757</u>	<u>–</u>	<u>142,649,757</u>

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 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 \$809,649 (as at 31 March 2015: \$713,249); 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 2015.

#### (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 2015 (unaudited)</b>			
Renminbi	1,926,233,380	(133,953,372)	1,792,280,008
United States dollar	408,438,069	(558)	408,437,511
	<u>2,334,671,449</u>	<u>(133,953,930)</u>	<u>2,200,717,519</u>
<b>31 March 2015 (audited)</b>			
Renminbi	2,526,872,952	(137,065,333)	2,389,807,619
United States dollar	452,100,701	(395)	452,100,306
	<u>2,978,973,653</u>	<u>(137,065,728)</u>	<u>2,841,907,925</u>

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

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 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 movement in the USD/HKD exchange rate. During the period ended 30 September 2015, the HKD weakened in relation to the Renminbi by approximately 2%. At 30 September 2015, had the HKD further weakened in relation to the Renminbi by 2% (as at 31 March 2015: 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 2015 (unaudited)</b>	
Renminbi	<u>35,845,600</u>
<b>31 March 2015 (audited)</b>	
Renminbi	<u>23,898,076</u>

A 2% (31 March 2015: 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 2015.

### (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 2015, 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 2015 and 31 March 2015.

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 report

For the period ended 30 September 2015

## 11 Financial instruments and associated risks (continued)

### (b) Credit risk (continued)

At both 30 September 2015 and 31 March 2015, 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 2015 was \$84,963,942 (as at 31 March 2015: \$129,235,017).

The Fund has one class of units in issue which is not redeemable by the unitholders. At both 30 September 2015 and 31 March 2015, there were no significant exposures to liquidity risk for the Fund.

### (d) Capital management

At 30 September 2015, the Fund had \$2,197,233,482 (as at 31 March 2015: \$2,855,917,483) 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 report

For the period ended 30 September 2015

## 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.

	<b>30 September 2015 (unaudited)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Listed equities	1,565,465,593	–	196,255,781	1,761,721,374
Equity-linked instruments	–	286,100,153	27,317,809	313,417,962
	<u>1,565,465,593</u>	<u>286,100,153</u>	<u>223,573,590</u>	<u>2,075,139,336</u>

	<b>31 March 2015 (audited)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Listed equities	2,381,583,201	–	–	2,381,583,201
Equity-linked instruments	–	413,610,620	–	413,610,620
	<u>2,381,583,201</u>	<u>413,610,620</u>	<u>–</u>	<u>2,795,193,821</u>

# Notes on the unaudited interim financial report

For the period ended 30 September 2015

## 12 Fair value information (continued)

### Valuation of financial instruments (continued)

Level 3 financial instruments include Beijing New Building Materials Plc – A Share, China COSCO Holdings Co Ltd – A Share, China Shipping Container Lines Co Ltd – A Share, China Yangtze Power Co Ltd – A Share, Irico Display Devices Co Ltd – A Share, New Hope Liuhe Co Ltd – A Share, Shanghai Jinjiang International Hotels Development Co Ltd – A Share, Xiamen C & D Inc – A Share, Yunnan Wenshan Electric Power Co Ltd – A Share and HSBC Bank Plc – Livzon Pharmaceutical Group Inc – Warrants 15 December 2024. These instruments have been suspended for trading and in this interim financial report they are revaluated and priced using last traded price before suspension with the adjustment based on relevant news and information.

The table below presents the reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	As at 1 April 2014 HK\$	Net losses included in the statement of comprehensive income HK\$	Sales HK\$	Transfer in of Level 3 HK\$	As at 30 September 2015 HK\$	*Unrealised gains and losses HK\$
Equities	–	–	–	223,573,590	223,573,590	(70,540,716)

\* Represents the amount of unrealised gains and losses recognised in the statement of comprehensive income for the financial assets held during the period.

During the period ended 30 September 2015, equity securities and equity-linked instruments amounting to \$223,573,590 (2014: \$Nil) have been transferred from Level 1 to Level 3 because quoted market price for these instrument is no longer available.

## 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 events after the reporting period

On 12 October 2015, the Shanghai Tax Bureau determined that the withholding tax payable by the Fund in respect of their PRC sourced income earned (including capital gains realised on the sale of PRC A Shares and other equity interest instruments from 17 November 2009 to 17 November 2014) was \$11,030,907. The Manager considers that the tax assessment has been concluded upon the payment and settlement of the relevant tax by the Fund with the Shanghai Tax Bureau on 13 October 2015. Accordingly, the Fund has an over-provision of tax of \$121,553,537 as at 13 October 2015. Such overprovision has been released and recognised as a gain resulting in an actual increase of \$121,553,537 (5.13% or \$0.58 per unit of the Fund) on the net asset value of the Fund as of 13 October 2015.

# Notes on the unaudited interim financial report

**For the period ended 30 September 2015**

## **14 Non-adjusting events after the reporting period (continued)**

On 29 October 2015 and 17 November 2015, the Manger made an announcement and issued a circular respectively proposing to:

- (i) change the investment objective of the Fund such that the Fund may also invest in A Shares through the Stock Connect\*, subject to the condition that exposure to A Shares through the Stock Connect will not be more than 30% of the Fund's net asset value.
- (ii) offer 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"), subject to the terms and conditions set out in the circular issued by the Manager to the unitholders on 17 November 2015 (the "17 November 2015 Circular"). The financial effect of the One-Off Redemption Offer has been set out in the 17 November 2015 Circular.
- (iii) grant a general redemption right to the Manager to, at the discretion of the Manager, offer a right to all unitholders to redeem part or all of their holdings in the Fund (the "Recurring Redemption Offer"), subject to the terms and conditions set out in the 17 November 2015 Circular. The financial effect of the Recurring Redemption Offer has been set out in the 17 November 2015 Circular.
- (iv) make corresponding changes to the Trust Deed to effect the possible Recurring Redemption Offer.

According to the 17 November 2015 Circular, a meeting of unitholders will be convened on 7 January 2016 to consider and, if thought fit, pass the resolutions in relation to the proposals mentioned in (i) to (iv) above.

\* means Shanghai-Hong Kong Stock Connect and any other similar stock connect programme between another city of the PRC and Hong Kong when it becomes available to and can be utilised by the Fund.

## **15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 September 2015**

Up to the date of issue of this interim financial report, the HKICPA has issued a few amendments and a new standard which are not yet effective for the period ended 30 September 2015 and which have not been adopted in this interim financial report. These include the following which may be relevant to the Fund:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKAS 1, <i>Presentation of financial statements</i>	1 January 2016
HKFRS 9, <i>Financial instruments</i>	1 January 2018

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

## Investment portfolio (unaudited)

As at 30 September 2015

<i>HSBC China Dragon Fund</i>			
	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net asset attributable to unitholders</i>
<b>Equity</b>			
<b>Listed investments</b>			
<i>The People's Republic of China</i>			
Angang Steel Co Ltd – A Share	6,024,630	34,675,169	1.58
Apeloa Pharmaceutical Co Ltd – A Share	2,420,300	19,460,876	0.89
Bank of Beijing Co Ltd – A Share	1,752,020	18,433,572	0.84
Bank of China Ltd – A Share	8,869,500	40,210,581	1.83
Baoshan Iron & Steel Co Ltd – A Share	5,092,800	34,726,268	1.58
Beijing Dabeinong Technology Group Co Ltd – A Share	2,028,000	25,128,884	1.14
Beijing Homyear Capital Holdings Co Ltd (formerly known as Beijing Huaye Real Estate Co Ltd) – A Share	2,053,476	26,699,219	1.21
Beijing Jingneng Power Co Ltd – A Share	3,204,700	20,637,890	0.94
Beijing New Building Materials Plc – A Share	737,752	12,585,287	0.57
Chengdu Dr. Peng Telecom and Media Group Co Ltd – A Share	193,269	5,091,881	0.23
Chengdu Xingrong Investment Co Ltd – A Share	2,424,700	16,977,742	0.77
China Communications Construction Co Ltd – A Share	1,813,200	26,278,326	1.20
China COSCO Holdings Co Ltd – A Share	3,454,862	40,233,786	1.83
China Fortune Land Development Co Ltd – A Share	775,400	20,769,864	0.94
China Life Insurance Co Ltd – A Share	285,279	8,892,985	0.40
China Merchants Bank Co Ltd – A Share	1,296,850	28,097,377	1.28
China Merchants Energy Shipping Co Ltd – A Share	3,047,400	23,907,369	1.09
China Railway Construction Corp – A Share	2,179,259	36,030,803	1.64
China Shenhua Energy Co Ltd – A Share	878,250	15,540,107	0.71
China Shipping Container Lines Co Ltd – A Share	2,238,100	19,582,124	0.89
China State Construction Engineering Corp Ltd – A Share	2,857,996	20,186,301	0.92
China Yangtze Power Co Ltd – A Share	1,720,720	18,209,390	0.83
Chongqing Changan Automobile Co Ltd – A Share	1,779,300	32,092,447	1.46
CPI Yuanda Environmental Protection (Group) Co Ltd – A Share	400,723	8,025,840	0.36
Daqin Railways Co Ltd – A Share	888,000	9,570,813	0.44
Dongfeng Automobile Co Ltd – A Share	2,833,200	28,701,134	1.31
GoerTek Inc – A Share	1,132,384	32,725,943	1.49
Gree Electric Appliances Inc – A Share	414,000	8,185,518	0.37
Guotai Junan Securities Co Ltd – A Share	714,031	16,220,482	0.74
Haitong Securities Co Ltd – A Share	1,022,500	15,905,928	0.72
Hangzhou Robam Appliances Co Ltd – A Share	497,300	21,889,179	1.00
Heilan Home Co Ltd – A Share	2,018,200	34,749,014	1.58
Hengbao Co Ltd – A Share	843,404	16,077,834	0.73
Hua Xia Bank Co Ltd – A Share	1,040,749	12,845,017	0.58
Huagong Tech Co Ltd – A Share	126,264	1,691,054	0.08
Huatai Securities Co Ltd – A Share	1,545,406	26,287,490	1.20

## Investment portfolio (unaudited)

As at 30 September 2015

<b>HSBC China Dragon Fund</b>			
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net asset attributable to unitholders</b>
<b>Equity (continued)</b>			
<b>Listed investments (continued)</b>			
<i>The People's Republic of China (continued)</i>			
Industrial & Commercial Bank of China Co Ltd – A Share	4,566,600	24,107,047	1.10
Industrial Bank Co Ltd – A Share	1,347,400	23,956,691	1.09
Inner Mongolia Yili Industrial Group Co Ltd – A Share	1,389,496	26,097,474	1.19
Irico Display Devices Co Ltd – A Share	2,163,725	24,668,969	1.12
Jiangsu Hengrui Medicine Co Ltd – A Share	649,200	36,643,232	1.67
Jihua Group Corp Ltd – A Share	4,132,600	60,801,901	2.77
JSTI Group – A Share	371,244	9,867,020	0.45
Lao Feng Xiang Co Ltd – A Share	617,539	34,939,178	1.59
Maanshan Iron & Steel Co Ltd – A Share	6,545,400	25,354,950	1.15
Neusoft Corp – A Share	415,139	7,041,259	0.32
New Hope Liuhe Co Ltd – A Share	1,256,100	20,000,273	0.91
ORG Packaging Co Ltd – A Share	961,595	24,969,993	1.14
Orient Securities Co Ltd – A Share	410,900	8,224,648	0.37
PetroChina Co Ltd – A Share	1,164,300	11,695,102	0.53
Ping An Bank Co Ltd – A Share	3,165,552	40,539,467	1.84
Ping An Insurance Group Co Ltd – A Share	367,904	13,424,299	0.61
Qingdao Haier Co Ltd – A Share	2,546,044	28,187,814	1.28
Shanghai Fosun Pharmaceutical (Group) Co Ltd – A Share	1,444,104	38,664,121	1.76
Shanghai International Airport Co Ltd – A Share	904,700	30,645,387	1.39
Shanghai Jinjiang International Hotels Development Co Ltd – A Share	361,925	10,242,935	0.47
Shanghai Pudong Development Bank Co Ltd – A Share	2,368,251	48,097,892	2.19
Shanghai Tunnel Engineering Co Ltd	2,265,300	32,055,428	1.46
Shenzhen Kaifa Technology Co Ltd – A Share	1,697,100	16,424,793	0.75
Shenzhen Overseas Chinese Town Holdings Co Ltd – A Share	2,602,900	22,583,078	1.03
Suning Universal Co Ltd – A Share	1,707,940	13,753,883	0.63
Sunshine City Group Co Ltd – A Share	3,355,000	23,327,709	1.06
TCL Corp – A Share	4,127,100	19,013,131	0.86
Tianshui Huatian Technology Co Ltd – A Share	514,000	8,422,852	0.38
Wintime Energy Co Ltd – A Share	4,871,300	24,584,548	1.12
Wuhan Humanwell Hi-Tech Industry Co Ltd – A Share	1,007,610	18,592,454	0.85
Wuhan Iron and Steel Co Ltd – A Share	4,579,273	21,040,288	0.96
Wuxi Little Swan Co Ltd – A Share	999,815	22,749,226	1.04
Xiamen C & D Inc – A Share	1,889,092	23,753,947	1.08
Xiamen Faratronic Co Ltd – A Share	412,580	13,345,333	0.61
Xi'an LONGI Silicon Materials Corp – A Share	2,104,047	23,500,058	1.07
Yunnan Wenshan Electric Power Co Ltd – A Share	2,497,511	26,979,070	1.23

## Investment portfolio (unaudited)

As at 30 September 2015

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net asset attributable to unitholders</b>
<b>Equity (continued)</b>			
<b>Listed investments (continued)</b>			
<i>The People's Republic of China (continued)</i>			
Zhejiang Wanfeng Auto Wheel Co Ltd	1,352,767	48,054,640	2.19
Zhejiang Yankon Group Co Ltd – A Share	4,429,731	35,618,083	1.62
ZTE Corp – A Share	2,225,759	42,429,707	1.93
		<u>1,761,721,374</u>	<u>80.18</u>
<b>Equities (total)</b>		<u><u>1,761,721,374</u></u>	<u><u>80.18</u></u>
<b>Equity-linked instruments</b>			
<b>Listed investments</b>			
Citigroup Global Markets Holding – Gree Electric Appliances Inc – A Share Covered American Call Warrants 15 January 2016	548,638	10,847,573	0.50
Citigroup Global Markets Holding – Ping An Insurance (Group) Co of China Ltd – A Share Covered American Call Warrants 15 January 2016	559,470	20,414,296	0.93
Credit Suisse Nassau – Shanghai International Airport Co Ltd – A Share Participation Note 22 October 2019	332,022	11,228,432	0.51
Guangshen Railway Ltd – A Share Participation Note 22 October 2019	5,416,924	27,951,418	1.27
HSBC Bank Plc – China Merchants Bank Co Ltd – A Share Covered American Call Warrants 23 August 2023	2,325,576	50,267,392	2.29
HSBC Bank Plc – China Pacific Insurance (Group) Co Ltd – A Equity Covered American Call Warrants 19 February 2019	1,389,544	37,562,638	1.71
HSBC Bank Plc – Jiangsu Transportation – Covered Call Warrants 15 December 2024	778,502	20,646,529	0.94
HSBC Bank Plc – Livzon Pharmaceutical Group Inc – Warrants 4 December 2024	534,430	27,317,809	1.24
HSBC Bank Plc – Shanghai Pudong Development Bank – A Share Covered American Call Warrants 11 February 2019	1,096,288	22,217,933	1.01
		<u>228,454,020</u>	<u>10.40</u>

## Investment portfolio (unaudited)

As at 30 September 2015

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net asset attributable to unitholders</b>
<b>Equity-linked instruments (continued)</b>			
<b>Unlisted but quoted investments</b>			
CICC Financial Trading Ltd – China Everbright Bank Co – A Share Covered American Call Warrants 18 November 2017	7,562,042	35,854,334	1.63
CICC Financial Trading Ltd – Huaxia Bank Co Ltd – A Share Covered American Call Warrants 18 November 2017	1,963,320	24,231,515	1.10
CICC Financial Trading Ltd – Inner Mongolia Yili Industrial Group Co Ltd – A Share Covered American Call Warrants 20 August 2018	291,600	3,256,874	0.15
UBS – Inner Mongolia Yili Industrial Group Co Ltd – Equity Note 20 August 2018	1,154,718	21,621,219	0.98
		84,963,942	3.86
<b>Equity-linked instruments (Total)</b>		<u>313,417,962</u>	<u>14.26</u>
<b>Total investments (Total cost of investments: \$2,107,599,914)</b>		2,075,139,336	94.44
<b>Other net assets</b>		<u>122,094,146</u>	5.56
<b>Net assets attributable to unitholders</b>		<u>2,197,233,482</u>	<u>100.00</u>



## Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2015

	<i>% of total net assets attributable to unitholders</i>	
	<b>30 September 2015</b>	<b>31 March 2015</b>
Equities	80.18	83.39
Equity-linked instruments	14.26	14.48
<b>Total investments</b>	94.44	97.87
<b>Other net assets</b>	5.56	2.13
<b>Net assets attributable to unitholders</b>	100.00	100.00

## Performance table (unaudited)

For the period ended 30 September 2015

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

Year/period end

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
31 March 2015	HK\$2,855,917,483
30 September 2015	HK\$2,197,233,482

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

Year/period end

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
31 March 2015	HK\$13.61
30 September 2015	HK\$10.47

### (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 2015, 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
1 April 2014 to 31 March 2015	7.39	13.69
1 April 2015 to 30 September 2015	9.75	18.36

## Administration and management

### **Directors of the Manager**

#### *Executive Directors:*

BERRY Stuart Glenn  
BOTELHO BASTOS Pedro Augusto  
MALDONADO-CODINA Guillermo Eduardo  
TAM Chun Pong Stephen  
CONXICOEUR Patrice Pierre Henri (Resigned on 6 May 2015)

#### *Non-Executive Directors:*

APENBRINK, Rudolf Eduard Walter (Appointed on 3 June 2015)  
MARTIN Kevin Ross  
PACTON Olivier  
RIKHYE Jayant  
WONG, Pik Kuen, Helen  
CHANDRASEKHARAN Sridhar (Resigned on 3 June 2015)

### **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  
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Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### **Manager**

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Hong Kong

### **QFII Custodian**

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188, Yin Cheng Zhong Road  
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### **Auditor**

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Certified Public Accountants  
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