



# HSBC China Dragon Fund

## Annual Report 2016

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# Manager's report

## Market Review

Onshore Chinese equities endured a tough time during the 12-month period, as market sentiment was dampened by the sell-off during summer 2015 on the back of tighter margin financing rules, stop-loss limits forcing margin calls and unwinding of leveraged positions, suspension of stock trading and worries over initial public offerings diverting liquidity from existing stocks. The one-off depreciation in the renminbi in August and the volatility that followed also weighed on market performance.

Market embraced a good start to the second quarter of 2015, as the Chinese regulator, China Securities Regulatory Commission (CSRC), announced a broadened access to the southbound Shanghai-Hong Kong Stock Connect for Chinese mutual funds on 27 March. Also driving the market higher was a larger-than-expected reserve ratio requirement (RRR) cut by 100bps announced on 19 April by the PBOC. Investors generally welcomed the announcement made by the Chinese central bank on cutting benchmark interest rates by 25 basis points effective from 11 May, and increasing the deposit rate premium floating range from 30% to 50%. The joint announcement by CSRC and SFC on the Mutual Recognition of Funds (MRF) initiative, which will allow onshore and Hong Kong retail investors to invest in specific mutual funds across the border from 1 July, also gave sentiment a positive boost.

However, Chinese equities plummeted in July due to the sell-off triggered by the tightening of margin financing. Chinese government thus introduced a slew of policies in attempt to stabilise and prop up the market, which includes suspending IPOs, urging insurers and other financial companies to buy shares, ordering central state-run companies to maintain holdings in listed units, setting up of a RMB120bn stabilisation fund consisting of 21 domestic brokerages, and refraining major stakeholders, corporate executives and directors with stakes exceeding 5% from selling shares in listed companies for six months. Markets recorded another month of sharp fall in August as the Chinese central bank surprised the market on 11 August by announcing a reform on the daily fixing mechanism for onshore USD-CNY exchange rate, which was interpreted by the market as a sign of economic weakness.

Onshore Chinese equities rebounded in the last quarter of 2015 on the back of policy support and the positive sentiment around the inclusion of US-listed Chinese companies in the MSCI indices as well as the inclusion of the renminbi in the Special Drawing Rights basket. However, market started the new year on a negative note driven by weakened investor confidence in domestic policy, volatility in the renminbi and the tepid economic activity. During the annual National People's Congress (NPC) in March, Premier Li reassured that the Chinese government has ample policy ammunition to support economic growth within a reasonable range despite facing downward pressures amid sluggish external demand and challenges over the course of economic transition. This implies both fiscal and monetary policy will likely continue to be pro-growth, as the policymakers continue to push forward structural reforms such as the reducing overcapacity among troubled industries.

## Outlook

The economic targets, policies and reforms delivered at the National People's Congress (NPC) are largely in line with market expectations. While monetary policy is expected to be accommodative going forward, fiscal policy will also play an important role to support investment. The "two-speed economy" is likely to continue, with the "new economy," services and consumption areas doing relatively better and gaining more policy support.

The government signaled near-term support for the equity market at the NPC. The Shenzhen-Hong Kong Stock Connect is planned to be launched this year. It is a long overdue step to further opening up China's domestic capital market that could help improve the odds for MSCI's A-share inclusion. This is positive for both the A-share and H-share markets. The China Securities Regulatory Commission (CSRC) is also more cautious with carrying out IPO registration reform, which could be a near-term positive for market sentiment as investors are concerned about new share supply.

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

25 July 2016

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

We hereby confirm that, in our opinion, the Manager has in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 20 June 2007, as amended, for the year ended 31 March 2016.

	)	
	)	
Bertha TAM	)	For and on behalf of
Dickson LEE	)	HSBC Institutional Trust Services (Asia) Limited
	)	
	)	

25 July 2016

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

## **Report on the financial statements**

We have audited the financial statements of the Fund set out on pages 4 to 24, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

## **Auditor's responsibility**

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

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

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

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

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2016 and of its transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

## **Report on disclosure requirements under the Code**

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

KPMG  
Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
25 July 2016

# Statement of assets and liabilities

As at 31 March 2016

	Note	2016 HK\$	2015 HK\$
<b>Assets</b>			
Investments at fair value through profit or loss	7, 12	1,765,287,599	2,795,193,821
Other receivables	8(c)	2,529,380	2,639,994
Cash and cash equivalents	8(d)	28,362,084	199,280,592
<b>Total assets</b>		1,796,179,063	2,997,114,407
<b>Liabilities</b>			
Taxation	6(b)	1,451,988	136,815,470
Accrued expenses and other payables	8(a), (b) & (c)	6,883,120	4,381,454
<b>Total liabilities</b>		8,335,108	141,196,924
<b>Net assets attributable to unitholders</b>		1,787,843,955	2,855,917,483
Representing:			
<b>Total equity</b>		1,787,843,955	2,855,917,483
<b>Number of units in issue</b>	10	167,849,838	209,812,263
<b>Net asset value per unit</b>		10.65	13.61

Approved and authorised for issue by the Trustee and the Manager on 25 July 2016

	)	
Bertha TAM	)	For and on behalf of
Dickson LEE	)	HSBC Institutional Trust Services
	)	(Asia) Limited, Trustee
	)	
	)	
Glenn BERRY	)	For and on behalf of
Stephen TAM	)	HSBC Global Asset Management
	)	(Hong Kong) Limited, Manager
	)	

# Statement of comprehensive income

For the year ended 31 March 2016

	<b>Note</b>	<b>2016</b> <b>HK\$</b>	<b>2015</b> <b>HK\$</b>
Dividend income		41,376,398	37,156,873
Interest income on deposits	4, 8(d)	495,882	590,927
Net (losses)/gains from investments	5	(764,814,928)	1,234,715,803
Net foreign exchange (loss)/gain		<u>(2,320,227)</u>	<u>278,544</u>
<b>Net investment (loss)/income</b>		<u>(725,262,875)</u>	<u>1,272,742,147</u>
Management fees	8(a)	(38,807,957)	(29,248,485)
Transaction costs		(5,721,740)	(9,540,062)
Trustee's fees	8(b)	(2,784,276)	(2,167,598)
Custodian fees	8(c)	(2,402,979)	(1,754,400)
Auditor's remuneration		(594,933)	(600,409)
Legal and professional fees		(2,022,031)	(403,956)
Other operating expenses		<u>(4,320,672)</u>	<u>(995,156)</u>
<b>Operating expenses</b>		<u>(56,654,588)</u>	<u>(44,710,066)</u>
<b>(Loss)/profit before taxation</b>		(781,917,463)	1,228,032,081
Taxation	6(a)	<u>118,361,704</u>	<u>(958,267)</u>
<b>(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year</b>		<u>(663,555,759)</u>	<u>1,227,073,814</u>

## Statement of changes in equity

For the year ended 31 March 2016

	<b>Note</b>	<b>2016 HK\$</b>	<b>2015 HK\$</b>
<b>Balance at the beginning of the year</b>		2,855,917,483	1,628,843,669
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year		(663,555,759)	1,227,073,814
Redemption of units during the year	14	<u>(404,517,769)</u>	<u>–</u>
<b>Balance at the end of the year</b>		<u><u>1,787,843,955</u></u>	<u><u>2,855,917,483</u></u>



# Cash flow statement

For the year ended 31 March 2016

	<b>2016</b>	<b>2015</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Operating activities</b>		
Interest income received	495,882	590,927
Dividend income received	41,376,398	37,226,913
Management fees paid	(40,058,207)	(27,893,101)
Trustee's fees paid	(2,805,555)	(2,076,738)
Transaction costs paid	(5,721,740)	(9,540,062)
Tax paid	(15,708,295)	(3,466,700)
Proceeds from sales of investments	1,830,205,916	3,005,546,228
Payments for purchases of investments	(1,565,114,622)	(2,971,617,051)
Other operating expenses paid	(7,863,888)	(3,659,081)
	<u>234,805,889</u>	<u>25,111,335</u>
<b>Net cash generated from operating activities</b>	----- 234,805,889	----- 25,111,335
<b>Financing activities</b>		
Payments on redemption of units	(404,517,769)	-
	<u>(404,517,769)</u>	<u>-</u>
<b>Net cash used in financing activities</b>	----- (404,517,769)	----- -
<b>Net (decrease)/increase in cash and cash equivalents</b>	(169,711,880)	25,111,335
<b>Cash and cash equivalents at the beginning of the year</b>	199,280,592	174,128,049
<b>Effect of foreign exchange rates changes</b>	(1,206,628)	41,208
	<u>(1,206,628)</u>	<u>41,208</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>28,362,084</u>	<u>199,280,592</u>

# Notes to the financial statements

For the year ended 31 March 2016

## 1 Background

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

Pursuant to the general meeting held on 7 January 2016, an extraordinary resolution was passed to include Shanghai-Hong Kong Stock Connect ("Stock Connect") into the investment objective of the Fund. With effect from 8 January 2016, the investment objective of the Fund is to achieve long-term capital growth by investing primarily in A Shares directly through (i) the qualified foreign institutional investor ("QFII") investment quota of HSBC Global Asset Management (Hong Kong) Limited ("the Manager") and (ii) Stock Connect; and indirectly through investment of (i) up to 40% of its net asset value in financial derivative instruments and securities linked to A Shares (such as CAAPs (including A Share participation certificates/notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its net asset value in exchange-traded funds ("ETFs") (including synthetic ETFs) authorised by the SFC with exposure to A Shares; provided that the Fund's investment in a Chinese A Share access product, being a security linked to A Shares or portfolios of A Shares which aim to replicate synthetically the economic benefit of the relevant A Shares or portfolio of A Shares ("CAAPs") and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its net asset value.

The Fund will not invest more than 10% of its net asset value in CAAPs issued by a single issuer; and the Fund's aggregate investment in (i) CAAPs shall not be more than 40% of its net asset value and (ii) A shares through the Stock Connect shall not be more than 30% of the Fund's 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 7 January 2016, 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 20% of the total outstanding number of units as at lodgement date of 25 January 2016.

There were no units redeemed during the year ended 31 March 2015.

## 2 Significant accounting policies

### (a) Statement of compliance

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

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

# Notes to the financial statements

For the year ended 31 March 2016

## 2 Significant accounting policies (continued)

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

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) Financial instruments

#### (i) Classification

All of the Fund's investments are classified as financial assets at fair value through profit or loss. This category comprises financial instruments held for trading, which are instruments that the Fund has acquired principally for the purpose of short-term profit-taking. These include investments in bonds, equities and equity-linked instruments.

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

Financial liabilities that are not at fair value through profit or loss include accrued expenses and other payables.

#### (ii) Recognition

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

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

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

#### (iii) Measurement

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

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

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

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

# Notes to the financial statements

For the year ended 31 March 2016

## 2 Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (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.

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.

# Notes to the financial statements

For the year ended 31 March 2016

## 2 Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

Assets held for trading that are sold are derecognised and corresponding receivables from the brokers are recognised as of the date the Fund commits to sell the assets.

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

The Fund uses the weighted average method to determine realised gains and losses to be recognised in the statement of comprehensive income on derecognition.

#### (vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities when the Fund has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or simultaneously, e.g. through a market clearing mechanism.

#### (viii) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### (d) Revenue recognition

Provided it is probable that the economic benefits will flow to the Fund and the revenue and costs if applicable, can be measured reliably, revenue is recognised in the statement of comprehensive income as follows:

#### *Interest income*

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Interest income on bank deposits is disclosed separately in the statement of comprehensive income.

#### *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.

# Notes to the financial statements

For the year ended 31 March 2016

## 2 Significant accounting policies (continued)

### (f) Taxation

Taxation comprises current tax and deferred tax. Current tax and movements in deferred tax assets and liabilities are recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

### (g) Translation of foreign currency

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

### (h) Related parties

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

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

# Notes to the financial statements

For the year ended 31 March 2016

## 2 Significant accounting policies (continued)

### (i) Foreign exchange gains and losses

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item "net foreign exchange loss" is net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

### (j) Units in issue

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

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

### (k) Segment reporting

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

## 3 Changes in accounting policies

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

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

None of these developments have had a material effect on how the Fund's result and financial position for the current or prior periods have been prepared or presented. 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 (losses)/gains from investments

	<b>2016</b>	<b>2015</b>
	<b>HK\$</b>	<b>HK\$</b>
Realised gains	47,751,282	573,974,454
Unrealised (losses)/gains	(812,566,210)	660,741,349
	<u>(764,814,928)</u>	<u>1,234,715,803</u>

Losses and gains presented above exclude dividend income.

# Notes to the financial statements

For the year ended 31 March 2016

## 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 ("CIT") 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.

The Manager had determined that it was 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 Tax ("SAT") and the China Securities Regulatory Commission have jointly promulgated the Circular Concerning the Temporary Exemption of the Corporate Income Tax for Capital Gains Derived 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 CIT 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. The Fund also ceased withholding 10% of realised gains on its investments in A Shares with effect from 17 November 2014.

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). When the financial statements for the year ended 31 March 2015 were issued, the Fund and the Manager, as the QFII investment quota holder, had appointed tax advisers and were in the process of preparing the tax filing to the Shanghai Tax Bureau.

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 to the financial statements

For the year ended 31 March 2016

## 6 Taxation (continued)

The Circular confirmed that an investment fund can be considered as tax resident in Hong Kong and thus enjoying the DTA and exempt from capital gain tax. As a result, the Fund is exempted to most of the realised gain and result in a significant over provision as they have obtained the Hong Kong tax resident supporting from IRD.

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

	2016 HK\$	2015 HK\$
PRC dividend and interest income withholding tax	3,191,833	1,144,869
PRC capital gains tax – current	(121,553,537)	21,759,226
PRC capital gains tax – deferred	–	(21,945,828)
	<u>(118,361,704)</u>	<u>958,267</u>

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

	2016 HK\$	2015 HK\$
PRC withholding tax provision relating to prior years	1,451,988	113,911,375
PRC withholding tax provision for the year	–	22,904,095
	<u>1,451,988</u>	<u>136,815,470</u>

## 7 Investments at fair value through profit or loss

	2016 HK\$	2015 HK\$
Listed equities		
– outside Hong Kong	1,651,798,526	2,381,583,201
Equity-linked instruments		
– warrants	73,732,273	328,998,980
– participation note	39,756,800	84,611,640
	<u>1,765,287,599</u>	<u>2,795,193,821</u>

# Notes to the financial statements

For the year ended 31 March 2016

## 8 Related party transactions

The following is a summary of transactions with related parties for the year. All such transactions were entered into in the ordinary course of business and on normal commercial terms. None of such transactions were connected transactions under the Main Board Listing Rules of the Stock Exchange.

### (a) Management fees

The fee payable to the Manager is calculated at the rate of 1.5% per annum of the net asset value of the Fund payable monthly in arrears. The management fee charged to the Fund in respect of the year and payable at the end of the year amounted to \$38,807,957 (2015: \$29,248,485) and \$2,202,251 (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 year and payable at the end of the year amounted to \$2,784,276 (2015: \$2,167,598) and \$263,465 (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 year and payable at the end of the year amounted to \$2,402,979 (2015: \$1,754,400) and \$884 (2015: \$395) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 31 March 2016, the Fund had \$2,529,380 (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 31 March 2016 amounted to \$766,677 and \$27,595,407 respectively (2015: \$56,630,835 and \$142,649,757 respectively). During the year, no interest was earned from HSBC Hong Kong (2015: Nil). Interest earned from Bank of Communications Co Ltd amounted to \$495,882 (2015: \$590,927).

(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 is as follows:

	2016 HK\$	2015 HK\$
<b>The Hongkong and Shanghai Banking Corporation Limited</b>		
Commission paid for the year	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the year	162,233,494	533,958,425
Percentage of such transactions in value to total transactions for the year	4.84%	8.97%

# Notes to the financial statements

For the year ended 31 March 2016

## 8 Related party transactions (continued)

(f) The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, has redeemed 95,969 units of the Fund during the year ended 31 March 2016 (2015: Nil). As at 31 March 2016, The Hongkong and Shanghai Banking Corporation Limited held 186,588 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

	2016	2015
Number of units in issue brought forward	209,812,263	209,812,263
Units redeemed during the year	<u>(41,962,425)</u>	<u>–</u>
Number of units in issue carried forward	<u><u>167,849,838</u></u>	<u><u>209,812,263</u></u>

The Fund is a closed-ended unit trust. Apart from the one-off redemption offer as discussed in note 14, the Fund did not have subscription and redemption of units during the year ended 31 March 2016. There was no subscription and redemption of units during the year ended 31 March 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 7 January 2016, an extraordinary resolution was passed to change the investment objective of the Fund. With effect from 8 January 2016, 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 (ii) Stock Connect; 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 (i) CAAPs shall not be more than 40% of its net asset value and (ii) A Shares through the Stock Connect shall not be more than 30% of the Fund's net asset value.

The risk exposures inherent in the Fund as at 31 March 2016 are summarised below. Details of such investments held as at 31 March 2016 are shown in the investment portfolio.

# Notes to the financial statements

For the year ended 31 March 2016

## 11 Financial instruments and associated risks (continued)

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager and the Trustee have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund. Investors should note that additional information in respect of risks associated with investment in the Fund can be found in the Fund's offering document.

During the year, the Manager invested in financial instruments which the Manager considered are commensurate with the risk level of the Fund in accordance with its investment objective.

The nature and extent of the financial instruments outstanding at the date of the statement of assets and liabilities and the risk management policies employed by the Fund are discussed below.

### (a) Market risk

#### (i) Price risk

Price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

The Fund is exposed to price risk arising from changes in market prices of its investment assets. Price risk is managed by a diversified portfolio of investments across different industries in accordance with the investment objective of the Fund.

#### Price sensitivity

The impact on a 15% (2015: 5%) increase in value of the investments at 31 March 2016, with all other variables held constant, is shown below. An equal change in the opposite direction would have reduced the net assets attributable to unitholders by an equal but opposite amount. The analysis is performed on the same basis for 2015.

	2016			2015		
	% 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	86.59	15	232,208,963	83.39	5	119,079,160
Equity-linked instruments:						
– warrants	4.12	15	11,059,841	11.52	5	16,449,949
– participation note	2.23	15	5,963,520	2.96	5	4,230,582
	<u>92.94</u>		<u>249,232,324</u>	<u>97.87</u>		<u>139,759,691</u>

# Notes to the financial statements

For the year ended 31 March 2016

## 11 Financial instruments and associated risks (continued)

### (a) Market risk (continued)

#### (ii) Interest rate risk

Interest rate risk arises from changes in interest rates which may affect the value of debt instruments and therefore result in potential gain or loss to the Fund. As at the end of the reporting period, the Fund's exposure to interest rate risk is considered relatively low as the Fund's financial instruments predominately were investments in equities which were not interest bearing. The Fund's interest rate risk is managed on an ongoing basis by the Manager.

Except for the bank deposits, the Fund does not hold any interest-bearing assets as at 31 March 2016 and 31 March 2015, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis as performed for 2016 and 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 dollars ("HKD").

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

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

At the date of statement of assets and liabilities the Fund had the following exposure (in Hong Kong dollars equivalent):

	<b>Assets</b>	<b>Liabilities</b>	<b>Net exposure</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
<b>31 March 2016</b>			
Renminbi	1,681,923,313	(1,391,115)	1,680,532,198
United States dollar	114,255,750	(118,072)	114,137,678
	<u>1,796,179,063</u>	<u>(1,509,187)</u>	<u>1,794,669,876</u>
<b>31 March 2015</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 to the financial statements

For the year ended 31 March 2016

## 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 USD/HKD exchange rate. During the year ended 31 March 2016, the HKD weakened in relation to the Renminbi by less than 4%. At 31 March 2016, had the HKD further weakened in relation to the Renminbi by 4% (2015: 1%), with all other variables held constant, net assets attributable to unitholders would have increased by the amounts shown in the following table.

All amounts stated in Hong Kong dollars

	<b>HK\$</b>
<b>31 March 2016</b>	
Renminbi	67,221,288
<b>31 March 2015</b>	
Renminbi	23,898,076

A 1% (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 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 31 March 2016, all of the Fund's financial assets were exposed to credit risk.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

The Fund invests in A Shares via the QFII investment quota obtained by the Manager. These investments are held in a segregated account with Bank of Communications Co. Ltd (the "QFII Custodian") on behalf of the Fund. Substantially all of the assets of the Fund are held by the Trustee or the QFII Custodian. Bankruptcy or insolvency of the Trustee or the QFII Custodian may cause the Fund's rights with respect to securities held by the Trustee or the QFII Custodian to be delayed or limited.

There were no investments in debt securities as at 31 March 2016 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 the statement of assets and liabilities.

# Notes to the financial statements

For the year ended 31 March 2016

## 11 Financial instruments and associated risks (continued)

### (b) Credit risk (continued)

At both 31 March 2016 and 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 equity-linked instruments 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 listed equity investments suspended for trading and unlisted equity linked-instruments, which are not publicly traded on exchanges and may be illiquid. The total value of listed equity investments suspended for trading and unlisted equity linked-instruments of the Fund as at 31 March 2016 was \$103,738,774 (2015: \$129,235,017).

The Fund has one class of units in issue which is not redeemable by the unitholders. All financial liabilities have contractual maturities of less than three months. At both 31 March 2016 and 31 March 2015, there were no significant exposures to liquidity risk for the Fund.

### (d) Capital management

At 31 March 2016, the Fund had \$1,787,843,955 (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 year with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.

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

## 12 Fair value information

The Fund's financial instruments are measured at fair value on the date of statement of assets and liabilities. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including dividend and other receivables, taxation, 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 to the financial statements

For the year ended 31 March 2016

## 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 three levels of fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: Quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs.

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

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

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

	2016			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	1,548,059,752	–	103,738,774	1,651,798,526
Equity-linked instruments	–	113,489,073	–	113,489,073
	<u>1,548,059,752</u>	<u>113,489,073</u>	<u>103,738,774</u>	<u>1,765,287,599</u>
2015				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
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>

Level 3 financial instruments include Gree Electric Appliances Inc – A Share, Muyuan Foodstuff Co Ltd – A Share, Suning Universal Co Ltd – A share, Xiamen C & D Inc – A Share and ZTE Corp – A Share. These instruments have been suspended for trading and in financial statements they are revaluated and priced using last traded price before suspension with the adjustment based on relevant news and information.



# Notes to the financial statements

For the year ended 31 March 2016

## 12 Fair value information (continued)

### Valuation of financial instruments (continued)

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 2015 HK\$	Net losses included in the statement of comprehensive income HK\$	Purchase HK\$	Transfer in of Level 3 HK\$	As at 31 March 2016 HK\$	*Unrealised losses HK\$
Equities	–	–	13,865,787	89,872,987	103,738,774	–

\* Represents the amount of unrealised gains and losses recognised in the statement of comprehensive income during the year for these Level 3 instruments.

During the year ended 31 March 2016, equity securities amounting to \$89,872,987 (2015: \$Nil) have been transferred from Level 1 to Level 3 because quoted market price for these instrument is no longer available.

Quantitative information of significant unobservable inputs – Level 3

The table below sets out information about significant unobservable inputs used at 31 March 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 31 March 2016 HK\$	Valuation techniques	Unobservable input
Equities	103,738,774	Index return method	Return on relevant industry index (-25.82% to 0%)

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 March 2016 is as shown below:

	Input	Change in return of the relevant industry index	Effect on the net assets attributable to unitholders HK\$
As at 31 March 2016			
Equities	CSI300 Index	5%	5,877,325
	CSI300 Index	(5)%	(5,877,325)

# Notes to the financial statements

For the year ended 31 March 2016

## 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 year.

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of assets and liabilities. The Fund is domiciled in Hong Kong.

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

For the year ended 31 March 2016, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a one-off basis ("the One-off Redemption Offer"). On 27 January 2016, 41,962,425 units, representing 20% of the total outstanding number of units as at 26 January 2016, were redeemed at a total amount of \$404,517,769. A redemption levy of 0.04 per unit was charged and deducted from the redemption price and retained by the Fund. The redeemed units were then cancelled.

These were no units redeemed during the year ended 31 March 2015.

## 15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund:

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

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

# Investment portfolio (Unaudited)

As at 31 March 2016

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets attributable to unitholders</b>
<b>Equities</b>			
<b>Listed investments</b>			
<i>The People's Republic of China</i>			
Apeloa Pharmaceutical Co Ltd – A Share	2,420,300	19,120,247	1.07
Bank of Beijing Co Ltd – A Share	3,212,420	38,643,704	2.16
Bank of China Ltd – A Share	8,869,500	35,989,781	2.01
Baoshan Iron & Steel Co Ltd – A Share	4,006,800	25,178,934	1.41
Beijing Dabeinong Technology Group Co Ltd – A Share	2,028,000	28,619,505	1.60
Beijing Homyear Capital Holdings Co Ltd – A Share	2,053,476	26,594,832	1.49
Beijing Jingneng Power Co – A Share	3,204,700	18,757,571	1.05
Chengtun Mining Group Co Ltd – A Share	3,882,600	33,135,425	1.85
China Communications Const – A Share	1,813,200	26,499,748	1.48
China Fortune Land Development Co Ltd – A Share	775,400	22,534,859	1.26
China Life Insurance Co Ltd – A Share	285,279	8,150,844	0.46
China Minmetals Rare Earth – A Share	1,454,700	30,523,597	1.71
China Railway Construction Corp – A Share	828,659	11,108,981	0.62
China Shenhua Energy Co Ltd – A Share	878,250	14,780,320	0.83
China State Construction Engineering Corp Ltd – A Share	2,857,996	19,464,993	1.09
China Yangtze Power Co Ltd – A Share	1,720,720	25,312,932	1.42
Chongqing Changan Automobile Co Ltd – A Share	1,779,300	33,586,228	1.88
Daqin Railways Co Ltd – A Share	888,000	7,291,509	0.41
Dashang Group Co Ltd – A Share	563,500	26,534,361	1.48
Everbright Securities Co Ltd – A Share	786,000	17,969,512	1.01
GoerTek Inc – A Share	560,984	17,189,799	0.96
Gree Electric Appliances Inc – A Share	414,000	9,524,322	0.53
Guotai Junan Securities Co – A Share	798,031	18,817,692	1.05
Hangzhou Binjiang Real Estate Group Co Ltd – A Share	856,400	7,677,836	0.43
Hangzhou Robam Appliances Co Ltd – A Share	497,300	27,375,511	1.53
Heilan Home Co Ltd – A Share	2,018,200	27,828,964	1.56
Hengbao Co Ltd – A Share	843,404	17,979,596	1.01
Huagong Tech Co Ltd – A Share	126,264	2,883,622	0.16
Huatai Securities Co Ltd – A Share	1,545,406	31,649,946	1.77
Hua xia Bank Co Ltd – A Share	1,040,749	12,656,688	0.71
Industrial Bank Co Ltd – A Share	2,330,300	43,289,634	2.42
Inner Mongolia Yili Industrial Group Co Ltd – A Share	1,389,496	24,232,444	1.36
Jiangsu Hengrui Medicine C – A Share	649,200	36,669,826	2.05
Jihua Group Corp Ltd – A Share	1,074,100	12,085,175	0.68
JSTI Group – A Share	1,228,744	28,282,712	1.58
Livzon Pharmaceutical Grou – A Share	350,170	18,840,351	1.05
Muyuan Foodstuff Co Ltd – A Share	191,000	13,865,787	0.78
Neusoft Corp – A Share	415,139	9,316,980	0.52
New Hope Liuhe Co Ltd – A Share	1,256,100	24,161,309	1.35

# Investment portfolio (Unaudited)

As at 31 March 2016

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets attributable to unitholders</b>
<b>Equities (continued)</b>			
<b>Listed investments (continued)</b>			
<i>The People's Republic of China (continued)</i>			
Northeast Securities Co Ltd – A Share	1,237,100	20,952,778	1.17
ORG Packaging Co Ltd – A Share	961,595	28,072,711	1.57
Orient Securities Co Ltd – A Share	1,278,600	31,083,147	1.74
Ping An Bank Co Ltd – A Share	3,165,552	40,315,444	2.25
Ping An Insurance Group Co Ltd – A Share	367,904	14,012,481	0.78
Qingdao Haier Co Ltd – A Share	2,546,044	25,812,477	1.44
Shandong Chenming Paper – A Share	3,610,600	36,605,231	2.05
Shanghai Fosun Pharmaceutical (Group) Co Ltd – A Share	680,904	16,243,273	0.91
Shanghai International Airport Co Ltd – A Share	904,700	32,595,035	1.82
Shanghai Pudong Development Bank Co Ltd – A Share	2,368,251	50,797,940	2.84
Shenzhen Kaifa Technology Co Ltd – A Share	1,697,100	18,749,492	1.05
Shenzhen Overseas Chinese Town Holdings Co Ltd – A Share	2,602,900	21,809,007	1.22
Shenzhen Tagen Group Co Ltd – A Share	558,000	9,410,779	0.53
Sinotrans Air Transportation D – A Share	904,200	20,996,485	1.17
Suning Universal Co Ltd – A Share	1,707,940	23,264,581	1.30
Sunshine City Group Co Ltd – A Share	3,355,000	24,938,165	1.39
Tangshan Santou Chemical I – A Share	4,290,700	36,361,498	2.03
TCL Corp – A Share	4,127,100	18,920,131	1.06
Tianshui Huatian Technology Co Ltd – A Share	514,000	8,564,119	0.48
Titan Wind Energy Suzhou – A Share	827,100	10,850,480	0.61
Wintime Energy Co Ltd – A Share	2,707,000	12,636,687	0.71
Wuhan Humanwell Hi-Tech Industry Co Ltd – A Share	1,553,610	34,588,786	1.93
Wuxi Little Swan Co Ltd – A Share	999,815	30,337,373	1.70
Xiamen C & D Inc – A Share	1,889,092	29,033,440	1.62
Xiamen Faratronic Co Ltd – A Share	412,580	17,141,276	0.96
Xiamen King Long Motor Co Ltd – A Share	1,154,300	20,393,202	1.14
Xian Longi Silicon Materia – A Share	2,104,047	31,883,758	1.78
Yanzhou Coal Mining Co Ltd – A Share	1,237,710	15,718,628	0.88
Yunnan Wenshan Electric Power Co Ltd – A Share	2,497,511	25,170,965	1.41
Zhejiang Yankon Group Co Ltd – A Share	4,429,731	42,735,891	2.39
Zhongtian Urban Developmen – A Share	2,283,700	19,626,545	1.10
ZTE Corp – A Share	1,556,100	28,050,644	1.57
<b>Equities (Total)</b>		1,651,798,526	92.39

## Investment portfolio (Unaudited)

As at 31 March 2016

	<b>HSBC China Dragon Fund</b>		
	<b>Holdings</b>	<b>Market value HK\$</b>	<b>% of total net assets attributable to unitholders</b>
<b>Equity-linked instruments</b>			
<b>Listed investments</b>			
CICC Financial Trading Warrants 06 May 2018	961,142	35,456,908	1.98
Credit Suisse AG (China Pacific Insurance Gr-A) Participation Note 11 December 2019	908,968	28,569,691	1.60
Credit Suisse Nassau – China Merchants Bank Co Ltd – A Share Warrants 22 October 2019	1,800,260	34,722,549	1.94
Credit Suisse Nassau Ser 002L (REGS) 0% 24 October 2019	355,927	11,187,109	0.63
HSBC Bank Plc – Livzon Pharmaceutical Group Inc – Warrants 4 December 2024	65,772	3,552,816	0.20
		113,489,073	6.35
<b>Total investments</b>		1,765,287,599	98.74
(Total cost of investments: \$1,824,943,288)			
<b>Other net liabilities</b>		22,556,356	1.26
<b>Total Net assets attributable to unitholders</b>		1,787,843,955	100.00

## Statement of movements in portfolio holdings (Unaudited)

For the year ended 31 March 2016

	<i>% of total net asset attributable to unitholders</i>	
	<b>2016</b>	<b>2015</b>
Equities	92.39	83.39
Equity-linked instruments	6.35	14.48
	<hr/>	<hr/>
<b>Total investments</b>	98.74	97.87
<b>Other net assets</b>	1.26	2.13
	<hr/>	<hr/>
<b>Net assets attributable to unitholders</b>	<u>100.00</u>	<u>100.00</u>

## Performance table (Unaudited)

For the year ended 31 March 2016

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

*Year/period end*

31 March 2016	HK\$1,787,843,955
31 March 2015	HK\$2,855,917,483
31 March 2014	HK\$1,628,843,669
31 March 2013	HK\$1,752,201,348
31 March 2012	HK\$2,757,478,558

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

*Year/period end*

31 March 2016	HK\$10.65
31 March 2015	HK\$13.61
31 March 2014	HK\$7.76
31 March 2013	HK\$8.35
31 March 2012	HK\$7.89

**(c) Price record (Dealing NAV)**

The Fund is a closed-ended fund listed on The Stock Exchange of Hong Kong Limited and no unitholders may demand redemption of their units. In general, closed-ended funds may trade on the exchange at a discount or at a premium to their net asset value. There is no assurance that the units will be traded at a price that is equal to the net asset value. As the market price of the units may be determined by factors such as the net asset value and market supply and demand for the units, there is a risk that the units will be traded at a discount to its net asset value. In times of market disruption or when there is an insufficient number of buyers and/or sellers of the units, the bid/ask spread of the market price of the units may widen significantly. During the year ended 31 March 2013, the Manager offered a right to the unitholders to redeem not more than 40% of the aggregate number of units in issue.

Year	Net asset value per unit	
	Lowest HK\$	Highest HK\$
2016	9.27	18.36
2015	7.39	13.69
2014	7.60	9.58
2013	7.14	9.41
2012	7.21	10.28
2011	7.91	10.52
2010	6.22	9.70
2009	4.12	10.22
20 June 2007 (date of inception) to 31 March 2008	8.62	13.94

## Administration and management

### **Directors of the Manager**

Executive Directors:

BERRY Stuart Glenn

BOTELHO BASTOS Pedro Augusto

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 (Resigned on 11 April 2016)

RIKHYE Jayant (Resigned on 31 March 2016)

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

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

### **QFI Custodian**

Bank of Communications Co., Ltd.

188, Yin Cheng Zhong Road

Shanghai 200120

The People's Republic of China

### **Auditor**

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong



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