



HSBC China Dragon Fund

Interim Report 2016

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Manager's report

Market review

Onshore Chinese equities stabilised during the 6-month period after experiencing bouts of volatility in the beginning of the year triggered by growth scares, opaque policy communication and volatility in the renminbi.

Market embraced a relatively stabilised start to the second quarter of the year, as the stronger-than expected macro activity data points helped alleviate concerns over a further growth deceleration in China. Meanwhile, China's Gross Domestic Product (GDP) growth for the first three months of 2016 eased slightly to 6.7%, compared to the 6.8% registered in the previous quarter. However, market retreated after the State Media People's Daily published on 9 May an interview with an 'authoritative person' who is widely believed to be a senior government official, expressing the view that while China's economic performance so far this year has been in line with expectations, structural challenges such as the significant slowdown in private investment, overcapacity in selective industries and the accumulation of non-performing loans remain unsolved. As a result, the nation's economic growth will likely to exhibit an L-shape pattern rather than a V-shape or U-shape trajectory. The article also addressed the importance in containing leverage and that it is neither necessary nor feasible to support growth by leveraging up. Market remained jittery despite recording a gain over the month of June driven by a number of domestic and global factors. In particular, MSCI announced on 14 June that it would delay adding shares listed in domestic China to its benchmark emerging markets index. While the index compiler acknowledged Chinese authorities' commitment in enhancing the accessibility of the A-share market, it also expressed that international investors would need a period of observation to assess the effectiveness of the newly introduced measures, and to see further improvements in the accessibility. On the other hand, result of the UK's referendum on 23 June came in as a negative surprise to the market, which had been optimistic that UK would vote to remain as a part of the EU, causing global markets to switch into a risk-off mode.

Onshore Chinese equities made gains in 3Q16, largely bolstered by a stabilisation in macro data, accommodative policy measures and the positive sentiment around the approval of the Shenzhen-Hong Kong (SZ-HK) Stock Connect programme. China's 2Q16 real GDP grew 6.7% year-on-year, which was flat compared to previous quarter's number and stayed within the government's growth target of 6.5-7.0%. Furthermore, the nation's economic momentum showed general signs of stabilisation as June's activity indicators such as industrial production and retail sales, as well as credit growth exhibited modest improvements. Meanwhile, fixed asset investment growth was subdued especially in the manufacturing sector. On the other hand, a recovery in the property market continued, while nationwide property inventory fell for a fourth straight month in June. The State Council on 16 August approved the SZ-HK Stock Connect programme, expanding the

link between onshore and offshore equity markets, first made by Shanghai-Hong Kong (SH-HK) Stock Connect in 2014. This cross border investment channel allows investors in Hong Kong and mainland China to trade eligible shares in each other's market through approved local securities firms or brokers and securities trading service companies, thus marking a further step forward in opening up China's domestic equity markets and relaxing foreign flows. Another prominent market driver during the quarter would be the announcement made by the China Insurance Regulatory Commission (CIRC) on 8 Sep that the Chinese insurers may invest directly into the Hong Kong equity markets through the Shanghai-Hong Kong Stock Connect programme.

Outlook

In the near term, we expect the launch of the SZ-HK Stock Connect programme to promote stronger southbound flow into the offshore HK-listed small cap universe given their more attractive valuations versus their A-share listed peers. Longer term, the further opening of onshore Chinese markets to foreign investment should improve the chances for A-shares to be included into MSCI's global indices, which will drive significant inflows from global investors.

We believe that macro volatility will likely continue in the near-term. On the positive side, the inclusion in the IMF's SDR basket of renminbi in October, as well as a gradual and well-calibrated pace of rate normalisation by the Fed, should help provide support for a more stable outlook for the Chinese currency. Meanwhile, proactive fiscal policy expansion, alongside implementation of further supply side and SOE reforms, and a further opening up of capital/financial markets should be supportive of the market. On the other hand, earnings outlook at the micro level is turning more upbeat, as corporate earnings have improved notably driven by the industrial reflation this year which has helped revive growth and profitability.

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

28 November 2016

Independent review report to the Manager of HSBC China Dragon Fund (“the Fund”)

Introduction

We have reviewed the interim financial report of the Fund set out on pages 3 to 24 which comprises the interim statement of assets and liabilities of the Fund as of 30 September 2016 and the related interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six month 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 2016 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
28 November 2016

Interim statement of assets and liabilities (unaudited)

As at 30 September 2016

	Note	30 September 2016 (Unaudited) HK\$	31 March 2016 (Audited) HK\$
Assets			
Investments at fair value through profit or loss	7, 11	1,443,489,770	1,765,287,599
Other receivables	8(c)	2,454,760	2,529,380
Cash and cash equivalents	8(d)	36,754,748	28,362,084
Total assets		<u>1,482,699,278</u>	<u>1,796,179,063</u>
Liabilities			
Taxation	6(b)	1,394,935	1,451,988
Accrued expenses and other payables	8(a), (b), (c)	5,379,990	6,883,120
Total liabilities		<u>6,774,925</u>	<u>8,335,108</u>
Net assets attributable to unitholders		<u>1,475,924,353</u>	<u>1,787,843,955</u>
Representing:			
Total equity		<u>1,475,924,353</u>	<u>1,787,843,955</u>
Number of units in issue	10	<u>134,279,918</u>	<u>167,849,838</u>
Net asset value per unit		<u>10.99</u>	<u>10.65</u>

Interim statement of comprehensive income (unaudited)

For the period ended 30 September 2016

	Note	Period from 1 April 2016 to 30 September 2016 (Unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$
Dividend income		30,136,622	39,560,822
Interest income on deposits	4, 8(d)	118,187	292,350
Net gains/(losses) from investments	5	41,339,008	(665,198,529)
Net foreign exchange loss		(1,968,833)	(651,931)
Net investment income/(loss)		<u>69,624,984</u>	<u>(625,997,288)</u>
Management fees	8(a)	(12,455,149)	(22,217,000)
Transaction costs		(2,901,898)	(3,259,615)
Trustee's fees	8(b)	(908,477)	(1,590,085)
Custodian fees	8(c)	(816,547)	(1,169,098)
Auditor's remuneration		(145,874)	(312,532)
Legal and professional fees		(153,485)	(450,000)
Other operating expenses		(594,894)	(510,258)
Operating expenses		<u>(17,976,324)</u>	<u>(29,508,588)</u>
Profit/(loss) before taxation		51,648,660	(655,505,876)
Taxation	6(a)	(2,355,923)	(3,178,125)
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the period		<u>49,292,737</u>	<u>(658,684,001)</u>

Interim statement of changes in equity (unaudited)

For the period ended 30 September 2016

	Note	Period from 1 April 2016 to 30 September 2016 (Unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$
Balance at the beginning of the period		1,787,843,955	2,855,917,483
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the period		49,292,737	(658,684,001)
Redemption of units during the period	14	<u>(361,212,339)</u>	<u>–</u>
Balance at the end of the period		<u>1,475,924,353</u>	<u>2,197,233,482</u>

Interim cash flow statement (unaudited)

For the period ended 30 September 2016

	Period from 1 April 2016 to 30 September 2016 (Unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (Unaudited) HK\$
Operating activities		
Interest income received	118,180	292,350
Dividend income received	30,136,622	39,560,822
Management fees paid	(12,835,307)	(22,937,096)
Trustee's fees paid	(1,014,141)	(1,684,655)
Tax paid	(2,638,728)	(3,169,858)
Proceeds from sale of investments	926,093,535	929,198,856
Payments on purchase of investments	(562,956,698)	(874,342,900)
Other operating expenses paid	(6,994,745)	(5,628,248)
	<u>369,908,718</u>	<u>61,289,271</u>
Net cash generated from operating activities	----- 369,908,718	----- 61,289,271
Financing activities		
Payments on redemptions of units	(361,212,339)	-
	<u>(361,212,339)</u>	<u>-</u>
Net increase in cash and cash equivalents	8,696,379	61,289,271
Cash and cash equivalents at the beginning of the period	28,362,084	199,280,592
Effect of exchange rate fluctuations on cash and cash equivalents	<u>(303,715)</u>	<u>(3,620,024)</u>
Cash and cash equivalents at the end of the period	<u><u>36,754,748</u></u>	<u><u>256,949,839</u></u>

Notes on the unaudited interim financial report

For the period ended 30 September 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 ("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.

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

2 Significant accounting policies

(a) Statement of compliance

This interim financial report has 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 has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2016, except for the accounting policy changes that are expected to be reflected in the 2016 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 is unaudited, but has been reviewed in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Manager is included on page 2.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

The financial information relating to the financial year ended 31 March 2016 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 2016 in their report dated 25 July 2016.

(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.

(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.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

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

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

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

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

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

Notes on the unaudited interim financial report

For the period ended 30 September 2016

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each date of the statement of assets and liabilities to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate.

If in a subsequent period, the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

(vi) Derecognition

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

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

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

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

(vii) Offsetting

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

(viii) Cash and cash equivalents

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

(d) Revenue recognition

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

Interest income

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

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.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

2 Significant accounting policies (continued)

(d) Revenue recognition (continued)

In some cases, the Fund may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases, the Fund recognises the dividend income for the amount of the equivalent cash dividends with the corresponding debit treated as an additional investment.

(e) Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

(f) Taxation

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

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

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

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

(g) Translation of foreign currency

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

(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;

Notes on the unaudited interim financial report

For the period ended 30 September 2016

2 Significant accounting policies (continued)

(h) Related parties (continued)

- (b) An entity is related to the Fund if any of the following conditions applies: (continued)
- (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); 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.

(i) Foreign exchange gains and losses

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

(j) Units in issue

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

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

(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 2012-2014 Cycle*
- *Amendments to HKAS 1, Presentation of financial statements*
- *HKFRS 9, Financial instruments*

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).

Notes on the unaudited interim financial report

For the period ended 30 September 2016

4 Interest income on deposits

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

5 Net gains/(losses)from investments

	Period from 1 April 2016 to 30 September 2016 (unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$
Realised (losses)/gains	(86,400,317)	119,953,593
Unrealised gains/(losses)	127,739,325	(785,152,122)
	<u>41,339,008</u>	<u>(665,198,529)</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 ("CIT") 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 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, QFII 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 QFIIs prior to 17 November 2014 would remain subject to the 10% withholding tax – unless otherwise exempt under the applicable double tax treaty.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

6 Taxation (continued)

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 2016 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% of net asset value or \$0.58 per unit of the Fund) on the net asset value of the Fund as of 13 October 2015.

The Fund has settled its enterprise income tax liability with respect to the Fund's investment in CAAPs and has received tax provisions previously withheld by the brokers with respect to certain CAAPs amounting to HK\$483,403.58 ("Tax Refund") on 18 May 2016. In addition, upon the receipt of professional tax advice and consultation with the trustee of the Fund, the Fund had an over-provision of tax of HK\$14,484.04 ("Tax Overprovision") with respect to such CAAPs which had been released and recognised as a gain in the books of the Fund on 20 May 2016 resulting in an actual increase of HK\$14,484.04 (0.00% of net asset value or HK\$0.00 per unit of the Fund) on the net asset value of the Fund as of 20 May 2016. The aggregate effect of the Tax Refund and the Tax Overprovision resulted in an increase of HK\$497,887.62 (0.03% of net asset value or HK\$0.00 per unit of the Fund) on the net asset value of the Fund as of 20 May 2016.

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

	Period from 1 April 2016 to 30 September 2016 (unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$
PRC dividend and interest income withholding tax	2,624,083	3,137,054
PRC capital gains tax – current	(268,160)	41,071
	<u>2,355,923</u>	<u>3,178,125</u>

Notes on the unaudited interim financial report

For the period ended 30 September 2016

6 Taxation (continued)

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

	30 September 2016 (unaudited) HK\$	31 March 2016 (audited) HK\$
PRC withholding tax provision relating to prior year	1,394,935	1,451,988
PRC withholding tax provision for the period/year	–	–
	<u>1,394,935</u>	<u>1,451,988</u>

7 Investments at fair value through profit or loss

	30 September 2016 (unaudited) HK\$	31 March 2016 (audited) HK\$
Listed equities		
– outside Hong Kong	1,357,711,910	1,651,798,526
Equity-linked instruments		
– warrants	62,992,967	73,732,273
– participation note	22,784,893	39,756,800
	<u>1,443,489,770</u>	<u>1,765,287,599</u>

8 Related party transactions

The following is a summary of significant related party transactions or transactions entered into during the period between the Fund and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the Code on Unit Trusts and Mutual Funds issued by the SFC. All transactions during the period between the Fund and the Manager and its Connected Persons were entered into in the ordinary course of business and under normal commercial terms. To the best of the knowledge of the Trustee and the Manager, the Fund did not have any other transactions with Connected Persons except for those disclosed below.

(a) Management fees

The fee payable to the Manager is calculated at the rate of 1.5% per annum of the net asset value of the Fund payable monthly in arrears. The management fee charged to the Fund in respect of the period and payable at the end of the period amounted to \$12,455,149 (for the period from 1 April 2015 to 30 September 2015: \$22,217,000) and \$1,822,093 (as at 31 March 2016: \$2,202,251) respectively.

The Fund has invested directly in A Shares via the US\$200 million QFII investment quota obtained by the Manager.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

8 Related party transactions (continued)

(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 \$908,477 (for the period from 1 April 2015 to 30 September 2015: \$1,590,085) and \$134,401 (as at 31 March 2016: \$160,012) 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 \$816,547 (for the period from 1 April 2015 to 30 September 2015: \$1,169,098) and \$233 (as at 31 March 2016: \$884) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 30 September 2016, the Fund had \$2,454,753 (as at 31 March 2016: \$2,529,380) 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 2016 amounted to \$26,764,375 and \$9,990,373 respectively (as at 31 March 2016: \$766,677 and \$27,595,407 respectively). During the period, interest earned from The Hongkong and Shanghai Banking Corporation Limited amounted to \$1,113 (for the period from 1 April 2015 to 30 September 2015: \$nil). Interest earned from Bank of Communications Co. Ltd amounted to \$117,074 (for the period from 1 April 2015 to 30 September 2015: \$292,350).

(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:

	Period from 1 April 2016 to 30 September 2016 (unaudited) HK\$	Period from 1 April 2015 to 30 September 2015 (unaudited) HK\$
The Hongkong and Shanghai Banking Corporation Limited		
Commission paid for the period	–	–
Average rate of commission	–	–
Total aggregate value of such transactions for the period	–	26,723,322
Percentage of such transactions in value to total transactions for the period	0.00%	1.50%

(f) The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, has redeemed 70,085 units of the Fund during the period ended 30 September 2016 (for the period from 1 April 2015 to 30 September 2015: nil). As at 30 September 2016, The Hongkong and Shanghai Banking Corporation Limited held 116,503 units (as at 31 March 2016: 186,588 units) of the Fund.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

9 Soft dollar practices

No soft commission arrangements were entered into with brokers during the period from 1 April 2016 to 30 September 2016.

10 Units in issue

	Period from 1 April 2016 to 30 September 2016 (unaudited)	Period from 1 April 2015 to 30 September 2015 (unaudited)
Number of units in issue brought forward	167,849,838	209,812,263
Units redeemed during the year	(33,569,920)	–
	<hr/>	<hr/>
Number of units in issue carried forward	<u>134,279,918</u>	<u>209,812,263</u>

The Fund is a closed-ended unit trust. Apart from the recurring redemption offer as discussed in note 14, the Fund did not have subscription and redemption of units during the period from 1 April 2016 to 30 September 2016 and from 1 April 2015 to 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 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 (i) 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 30 September 2016 are summarised below. Details of such investments held as at 30 September 2016 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.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

11 Financial instruments and associated risks (continued)

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 5% (31 March 2016: 15%) increase in value of the investments at 30 September 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.

	30 September 2016 (unaudited)			31 March 2016 (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\$
Investment assets						
Listed equities						
– outside Hong Kong	84.08	5	62,051,184	86.59	15	232,208,963
Equity-linked instruments:						
– warrants	2.17	5	1,601,177	4.12	15	11,059,841
– participation note	1.54	5	1,139,245	2.23	15	5,963,520
	<u>87.79</u>		<u>64,791,606</u>	<u>92.94</u>		<u>249,232,324</u>

(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 30 September 2016 and 31 March 2016, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 30 September 2016 and 31 March 2016.

(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").

Notes on the unaudited interim financial report

For the period ended 30 September 2016

11 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk

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 (in Hong Kong dollars equivalents):

	Assets HK\$	Liabilities HK\$	Net exposure HK\$
30 September 2016 (unaudited)			
Renminbi	1,370,157,036	(1,394,935)	1,368,762,101
United States dollar	85,777,860	(117,449)	85,660,411
	<u>1,455,934,896</u>	<u>(1,512,384)</u>	<u>1,454,422,512</u>
31 March 2016 (audited)			
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>

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

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 2016, the HKD strengthened in relation to the Renminbi by approximately 3% (as at 31 March 2016: 4%). At 30 September 2016, had the HKD further strengthened in relation to the Renminbi by 3% (as at 31 March 2016: 4%), with all other variables held constant, net assets attributable to unitholders would have decreased by the amounts shown in the following table.

	HK\$
30 September 2016 (unaudited)	
Renminbi	<u>41,062,863</u>
31 March 2016 (audited)	
Renminbi	<u>67,221,288</u>

A 3% (31 March 2016: 1%) weakening of the HKD against the above currency would have resulted in an equal but opposite effect on the basis that all other variables remain constant. The analysis is performed on the same basis for 31 March 2016.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

11 Financial instruments and associated risks (continued)

(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 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 30 September 2016 and 31 March 2016.

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.

At both 30 September 2016 and 31 March 2016, 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 instrument 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 30 September 2016 was \$147,657,670 (as at 31 March 2016: \$103,738,774).

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 30 September 2016 and 31 March 2016, there were no significant exposures to liquidity risk for the Fund.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

11 Financial instruments and associated risks (continued)

(d) Capital management

At 30 September 2016, the Fund had \$1,475,924,353 (as at 31 March 2016: \$1,787,843,955) 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.

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.

- 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 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.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

12 Fair value information (continued)

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

	30 September 2016 (unaudited)			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	1,241,023,670	–	116,688,240	1,357,711,910
Equity-linked instruments	–	54,808,430	30,969,430	85,777,860
	<u>1,241,023,670</u>	<u>54,808,430</u>	<u>147,657,670</u>	<u>1,443,489,770</u>
	31 March 2016 (audited)			
	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>

Level 3 financial instruments include Yunan Wenshan Electric Po Ltd – A Share, Inner Mongolia Yili Industrial Group Company Limited – A Share, BaoShan Iron and Steel Co Ltd – A Share, Beijing Originwater Technology Co Ltd – A Share and CICC Financial Trading Warrants 06 May 2018. The underlying of the equity-linked instrument, and the listed equities categorised as Level 3 have been suspended for trading and in this interim financial report they are revalued and priced using last traded price before suspension with adjustments 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 2016 HK\$	Purchase HK\$	Sales HK\$	Transfer in of Level 3 HK\$	Transfer out of Level 3 HK\$	As at 30 September 2016 HK\$	*Unrealised gains/losses HK\$
Equities	<u>103,738,774</u>	<u>38,401,582</u>	<u>(94,214,452)</u>	<u>78,286,658</u>	<u>(9,524,322)</u>	<u>116,688,240</u>	<u>3,704,315</u>
Equity-linked instruments	<u>–</u>	<u>27,320,908</u>	<u>–</u>	<u>3,648,522</u>	<u>–</u>	<u>30,969,430</u>	<u>(1,086,508)</u>

* 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 2016, equity securities and equity-linked instruments amounting to \$81,935,180 (for the period from 1 April 2015 to 30 September 2015: \$nil) have been transferred from Level 1 to Level 3 because quoted market price for these instrument is no longer available.

During the period ended 30 September 2016, equity securities and equity-linked instruments amounting to \$9,524,322 (for the period from 1 April 2015 to 30 September 2015: \$nil) have been transferred from Level 3 to Level 1 because the quoted market price for these instrument is available.

Notes on the unaudited interim financial report

For the period ended 30 September 2016

12 Fair value information (continued)

Quantitative information of significant unobservable inputs – Level 3

The table below sets out information about significant unobservable inputs used at 30 September 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 30 September 2016	Valuation techniques	Unobservable input
Equities and equity-linked instruments	147,657,670	Index return method	Return on relevant industry index (-0.30% 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 30 September 2016 is as shown below:

Description	Input	Change in return of the relevant industry index	Effect on the net assets attributable to unitholders HK\$
As at 30 September 2016			
Equities	CSI300 Index	5%	2,744,502
	CSI300 Index	(5)%	(2,744,502)
Equity-linked instrument	CSI300 Index	5%	827,348
	CSI300 Index	(5)%	(827,348)

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 Redemption of units under the Recurring Redemption Offer

For the period ended 30 September 2016, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a recurring redemption basis ("the Recurring Redemption Offer"). On 27 July 2016, 33,569,920 units, representing 20% of the total outstanding number of units as at 26 July 2016, were redeemed at a total amount of \$361,212,339. 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.

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

Notes on the unaudited interim financial report

For the period ended 30 September 2016

15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 September 2016

Up to the date of issue of this interim financial report, the HKICPA has issued a few amendments and new standards which are not yet effective for the period ended 30 September 2016 and which have not been adopted in this interim financial report. These include the following which may be relevant to the Fund:

HKFRS 9, *Financial instruments*

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

1 January 2018

The Fund is in the process of making an assessment of what the impact of these amendments, new standards 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 30 September 2016

HSBC China Dragon Fund			
	Holdings	Market value HK\$	% of total net asset attributable to unitholders
Equities			
Listed investments			
<i>The People's Republic of China</i>			
Bank of Beijing Co Ltd – A Share	3,854,904	40,750,143	2.76
Bank of China Ltd – A Share	8,869,500	34,721,879	2.35
Baoshan Iron & Steel Co Ltd – A Share	4,006,800	22,806,987	1.55
Beijing Dabeinong Technology Group Co Ltd – A Share	3,042,000	25,796,230	1.75
Beijing Homyear Capital Holdings Co Ltd – A Share	2,053,476	26,621,223	1.80
Beijing Originwater Technology Co Ltd – A Share	1,847,841	38,401,582	2.60
China Communications Const – A Share	1,813,200	23,253,534	1.58
China Construction Bank – A Share	4,087,300	24,547,159	1.66
China Merchants Shekou Industrial Zone Holdings Co Ltd – A Share	3,099,863	57,543,126	3.90
China Shenhua Energy Co Ltd – A Share	878,250	15,507,290	1.05
China State Construction Engineering Corp Ltd – A Share	2,857,996	20,451,092	1.39
China Yangtze Power Co Ltd – A Share	1,720,720	26,584,961	1.80
GoerTek Inc – A Share	1,060,967	37,257,542	2.52
Gree Electric Appliances Inc – A Share	414,000	10,681,274	0.72
Guangshen Railway Co Ltd – A Share	2,000,000	9,479,039	0.64
Hangzhou Robam Appliances Co Ltd – A Share	745,950	35,753,052	2.42
Han's Laser Technology Industry Group Co Ltd -A Share	1,399,914	34,703,234	2.35
Hongfa Technology Co Ltd -A Share	1,299,808	52,197,867	3.54
Hua xia Bank Co Ltd – A Share	4,040,734	47,173,761	3.20
Huafa Industrial Co Ltd Zhuhai -A Share	1,500,000	25,457,494	1.72
Huatai Securities Co Ltd – A Share	2,488,506	51,889,241	3.52
Hubei Hongcheng General Machinery Co Ltd – A Share	799,970	27,757,676	1.88
Industrial Bank Co Ltd – A Share	2,330,300	43,230,566	2.93
Inner Mongolia Yili Industrial Group Co Ltd – A Share	1,389,496	26,003,213	1.76
Jiangsu Hengrui Medicine C – A Share	633,340	32,386,285	2.19
JSTI Group – A Share	1,228,744	33,957,056	2.30
Kangde Xin Composite Material Group Co Ltd – A Share	2,198,386	46,146,235	3.13
Kunming Yunnei Power Co Ltd – A Share	2,899,925	26,477,897	1.79
Livzon Pharmaceutical Group – A Share	350,170	22,087,824	1.50
New Hope Liuhe Co Ltd – A Share	2,512,200	23,492,231	1.59
Ping An Insurance Group Co Ltd – A Share	767,904	30,462,940	2.06
Qingdao Haier Co Ltd – A Share	2,546,044	29,960,532	2.03
Shanxi Guoxin Energy Corp Ltd – A Share	799,902	10,537,171	0.71
Soochow Securities Co Ltd – A Share	989,600	14,932,861	1.01
Spring Airlines Co Ltd – A Share	299,910	15,736,756	1.07
Sunshine City Group Co Ltd – A Share	2,355,000	17,234,776	1.17
Suzhou Gold Mantis Construction Decoration Co Ltd -A Share	2,399,850	33,536,976	2.27
Tangshan Santou Chemical I – A Share	3,692,500	37,703,664	2.55

Investment portfolio (unaudited)

As at 30 September 2016

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net asset attributable to unitholders
Equity (continued)			
Listed investments (continued)			
<i>The People's Republic of China (continued)</i>			
Wuhan Humanwell Hi-Tech Industry Co Ltd – A Share	1,553,610	37,141,681	2.52
Wuxi Little Swan Co Ltd – A Share	999,815	38,664,074	2.62
Xiamen Faratronic Co Ltd – A Share	412,580	18,576,595	1.26
Xian Longi Silicon Materia – A Share	1,907,747	29,939,897	2.03
Xinjiang Goldwind Science & Technology Co Ltd – A Share	799,992	14,571,554	0.99
Yanzhou Coal Mining Co Ltd – A Share	1,237,710	17,871,632	1.21
Yibin Wuliangye Co Ltd – A Share	599,930	23,248,814	1.58
Yunnan Wenshan Electric Power Co Ltd – A Share	2,497,511	29,476,458	2.00
Zhejiang Semir Garment Co Ltd -A Share	1,199,972	14,998,836	1.02
Equities (Total)		<u>1,357,711,910</u>	<u>91.99</u>
Equity-linked instruments			
Listed investments			
CICC Financial Trading Warrants 06 May 2018	1,089,496	30,969,430	2.10
Credit Suisse AG (China Pacific Insurance Gr-A) Participation Note 11 December 2019	499,215	16,669,784	1.13
Credit Suisse Nassau – China Merchants Bank Co Ltd – A Share Warrants 22 October 2019	1,333,822	27,870,481	1.89
Credit Suisse Nassau Ser 002L (REGS) 0% 24 October 2019	183,131	6,115,109	0.41
HSBC Bank Plc – Livzon Pharmaceutical Group Inc – Warrants 4 December 2024	65,772	4,153,056	0.28
Equity-linked instruments (Total)		<u>85,777,860</u>	<u>5.81</u>
Total investments (Total cost of investments: \$1,375,406,134)		1,443,489,770	97.80
Other net assets		<u>32,434,583</u>	<u>2.20</u>
Net assets attributable to unitholders		<u><u>1,475,924,353</u></u>	<u><u>100.00</u></u>

Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2016

	<i>% of total net assets attributable to unitholders</i>	
	30 September 2016	31 March 2016
Equities	91.99	92.39
Equity-linked instruments	<u>5.81</u>	<u>6.35</u>
Total investments	97.80	98.74
Other net assets	<u>2.20</u>	<u>1.26</u>
Net assets attributable to unitholders	<u><u>100.00</u></u>	<u><u>100.00</u></u>

Performance table (unaudited)

For the period ended 30 September 2016

(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
31 March 2016	HK\$1,787,843,955
30 September 2016	HK\$1,475,924,353

(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
31 March 2016	HK\$10.65
30 September 2016	HK\$10.99

(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 2016, 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
1 April 2015 to 31 March 2016	9.27	18.36
1 April 2016 to 30 September 2016	9.69	11.41

Administration and management

Directors of the Manager

Executive Directors:

BERRY Stuart Glenn
Botelho Bastos, Pedro Augusto
MALDONADO-CODINA Guillermo Eduardo
TAM Chun Pong Stephen

Non-Executive Directors:

APENBRINK, Rudolf Eduard Walter
MARTIN Kevin Ross
PACTON Olivier (Resigned on 11 April 2016)
WONG Pik Kuen, Helen

Trustee

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Registrar and Processing Agent

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Manager

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QFII Custodian

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