HSBC China Dragon Fund

Interim Report 2018

HSBC
Global Asset Management

Contents

Manager's report

Market review

For the reported period, the Fund delivered negative returns and underperformed the benchmark MSCI China A index. Onshore Chinese equities corrected sharply during the 6-month period ended 30 September 2018.

Equity market was highly volatile in Q2 as uncertainties around the US-China trade deal remained which continued to weigh on market sentiment. In mid-June, US announced the final list of tariffs on $50 billion worth of Chinese imports. China posted its retaliation measures nearly immediately, steering market sentiment lower. Elsewhere, rising debt default rate in China's bond market intensified market concerns and explained part the weak market performance. MSCI inclusion of A-share was effective in June. The inclusion has stimulated more fund flows into the onshore equities market but did not help with market performance. In terms of policies, PBOC announced in April the RRR for Yuan deposit will be cut by 1%. However, the positive impact to the market was short-lived. The long-awaited new asset management regulation was finalized also in April, removing some overhang in the market.

US-China trade tension remained the key overhang to equity market in Q3 this year. On July 6, US's $34bn worth of tariffs against China took effect. On July 11, US unveiled another US$200bn Chinese imports that are subject to 10% tariff that could take effect in September to October. The heightened trade tension has also led to increased concerns on China's economic growth outlook, which in turn has depressed RMB. CNYUSD depreciated by 3.5% in Q3, after depreciating 5% in Q2. August is the peak earnings season in Hong Kong stock market. MSCI China registered an earnings growth of 21% in 1H18, accelerated from 2017's 19%. Despite the solid growth, market did not react positively as the previous over-tightening measures has led to rising financial costs and weaker demand, which dampened the growth outlook for 2H18. In light of rising external uncertainties, government policies have turned more pro-growth during the quarter to support the economy. Intensive easing and stimulus policies/guidelines have been announced in recent months (to boost infrastructure investment, to cut tax for households and corporates, to stimulate consumer spending, to cut import tariffs, etc.) to mitigate trade war impact.

Despite the pro-growth policies, macro data remained lackluster during the period as it is expected to take several months until the positive effects from the favourable policies to kick into the real economy and reflect in macro data. During the 6 months ended 30 September 2018, PPI continued to expand, but growth in profits of industrial enterprise slowed, especially in Q3 to below 20%. FAI growth continued to moderate as well, mainly dragged by infrastructure FAI.

Outlook

The lingering concerns on US-China trade war continue to depress equity market performance. CSI 300 has declined by more than 25% from January peak (up to mid-October), and is trading on 10x 1-yr forward PE, below its long-term historical average of about 12.5x. We believe the market is biased towards and has reflected a further escalation in trade war. In our view, the current valuation looks highly appealing. With policies turned more pro-growth since July, we are not too concerned on the domestic side for the coming quarters. Intensive easing and stimulus policies/guidelines such as the boost of infrastructure investment, tax cut for households and corporates, and import tariffs cut were announced in recent months to mitigate trade war impact and accelerate reforms. We continue to expect policy makers to flexibly adjust policies as needed and maintain an easing bias in general, to avoid any sharp slowdown in growth. Ongoing supply-side and SOE reforms, in addition to a further opening up of capital/financial markets is helping to support the Chinese economy and equity market as well. On the liquidity front, as CPI remains reasonably low globally, liquidity should be quite supportive to the equity market. Lifting of A-share inclusion factor in 2019 shall also support fund flows in the A-share market. We believe given the underlying strength of the economy, the availability of policy options for the government to stimulate growth, and the attractive valuation after the corrections, the onshore Chinese equity market warrants a recovery in the remaining of 2018.

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

29 November 2018

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 2018 and the related interim statement of comprehensive income, the interim statement of changes in equity and the 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 2018 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 Chater Road
Central, Hong Kong
29 November 2018

Interim statement of assets and liabilities (unaudited)

As at 30 September 2018

	Note	30 September 2018 (Unaudited) HK$	31 March 2018 (Audited) HK$
Assets			
Investments at fair value through profit or loss	7, 12	740,016,037	1,137,231,379
Other receivables	8(c)	1,286,580	986,820
Cash and cash equivalents	8(d)	18,073,876	40,759,200
Total assets		759,376,493	1,178,977,399
Liabilities			
Accrued expenses and other payables	8(a), (b) & (c)	3,871,565	3,662,948
Total liabilities		3,871,565	3,662,948
Net assets attributable to unitholders		755,504,928	1,175,314,451
Representing:			
Total equity		755,504,928	1,175,314,451
Number of units in issue	10	68,751,443	85,939,223
Net asset value per unit		10.99	13.68

The notes on pages 7 to 24 form part of these financial statements.

Interim statement of comprehensive income (unaudited)

For the six months ended 30 September 2018

	Note	Six months ended 30 September 2018 (Unaudited) HK$	30 September 2017 (Unaudited) HK$
Dividend income		23,846,666	23,051,287
Interest income on deposits	4, 8(d)	103,770	43,679
Net (losses)/gains from investments	5	(221,151,257)	152,320,716
Net foreign exchange (loss)/gain		(2,988,526)	455,265
Other income	8(b), 14	343,756	1,672,720
Net investment (loss)/income		(199,845,591)	177,543,667
Management fees	8(a)	(7,427,174)	(9,769,256)
Transaction costs		(1,366,706)	(1,323,289)
Trustee's fees	8(b)	(443,137)	(637,131)
Custodian fees	8(c)	(579,696)	(520,809)
Auditor's remuneration		(156,189)	(49,863)
Legal and professional fees		(1,405,796)	(781,222)
Other operating expenses		(1,194,181)	(254,480)
Operating expenses		(12,572,879)	(13,336,050)
(Loss)/profit before taxation		(212,418,470)	164,207,617
Taxation	6	(2,340,838)	(2,243,466)
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the period		(214,759,308)	161,964,151

The notes on pages 7 to 24 form part of these financial statements.

Interim statement of changes in equity (unaudited)

For the six months ended 30 September 2018

	Note	Six months ended 30 September 2018 (Unaudited) HK$	30 September 2017 (Unaudited) HK$
Balance at the beginning of the period		1,175,314,451	1,231,509,619
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the period		(214,759,308)	161,964,151
Redemption of units during the period	14	(205,050,215)	–
Balance at the end of the period		755,504,928	1,393,473,770

The notes on pages 7 to 24 form part of these financial statements.

Interim cash flow statement (unaudited)

For the six months ended 30 September 2018

	Six months ended 30 September 2018 (Unaudited) HK$	Six months ended 30 September 2017 (Unaudited) HK$
Operating activities		
Interest income received	103,766	45,335
Dividend income received	23,431,700	23,051,287
Management fees paid	(8,031,066)	(9,830,040)
Trustee's fees paid	(472,929)	(672,110)
Transaction cost paid	(1,366,706)	(1,323,289)
Tax paid	(2,340,838)	(2,243,466)
Proceeds from sales of investments	476,725,160	375,958,395
Payments for purchases of investments	(300,661,075)	(387,149,726)
Other operating expenses paid	(3,944,526)	(1,093,429)
Net cash generated from/(used in) operating activities	183,443,486	(3,257,043)
Financing activity		
Payments on redemption of units	(205,050,215)	(264,799,578)
Net cash used in financing activity	(205,050,215)	(264,799,578)
Net decrease in cash and cash equivalents	(21,606,729)	(268,056,621)
Cash and cash equivalents at the beginning of the period	40,759,200	302,578,533
Effect of foreign exchange rates changes	(1,078,595)	309,463
Cash and cash equivalents at the end of the period	18,073,876	34,831,375

The notes on pages 7 to 24 form part of these financial statements.

Notes to the unaudited interim financial report

For the six months ended 30 September 2018

1 Background

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

The investment objective of the Fund 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) Shenzhen-Hong Kong Stock Connect and any other similar stock connect programme between another city of the PRC and Hong Kong ("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.

2 Significant accounting policies

(a) Statement of compliance

This interim financial report has been prepared in accordance with all 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 2018, except for the accounting policy changes that are expected to be reflected in the financial statements for the year ending 31 March 2019. Details of these changes in accounting policies are set out in note 3.

The preparation of an 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 by KPMG 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 review report to the Manager is included on page 2.

The financial information relating to the financial year ended 31 March 2018 that is included in the interim financial report as comparative information does not constitute the Fund's statutory annual 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 2018 in their report dated 27 July 2018.

2 Significant accounting policies (continued)

(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

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Fund are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest (SPPI). Interest income from the investment is calculated using the effective interest method.

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise SPPI and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value through profit or loss (FVTPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

(A) Policy applicable from 1 January 2018 (continued)

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristic of the financial assets. All investments are managed on a fair value basis in accordance with a documented investment strategy and are acquired principally for the purposes of selling in the short term. Accordingly, the Fund classifies all its investments, including equities and equity-linked instruments, into financial assets at FVTPL category. Financial assets and financial liabilities measured at amortised cost include other receivables and accrued expenses and other payables. They meet the SPPI criterion and are held in a held-to-collect business model. Accordingly, they continue to be measured at amortised cost under HKFRS 9.

(B) Policy applicable prior to 1 January 2018

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

Financial assets that were classified as receivables included other receivables.

Financial liabilities that were not at FVTPL included 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 FVTPL are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at FVTPL 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 losses, 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.

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 of 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

(A) Policy applicable from 1 January 2018

HKFRS 9 replaced the "incurred loss" model in HKAS 39 with a forward-looking "expected credit loss" (ECL) model. This requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The ECL model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment (continued)

(A) Policy applicable from 1 January 2018 (continued)

Loss allowances will be measured on either of the following bases:

– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

(B) Policy applicable prior to 1 January 2018

Financial assets that were stated at cost or amortised cost were reviewed at each date of the statement of assets and liabilities to determine whether there was objective evidence of impairment. If any such indication existed, an impairment loss would be 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 decreased and the decrease could be linked objectively to an event occurring after the write-down, the write-down was 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.

2 Significant accounting policies (continued)

(d) Revenue recognition

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

Interest income

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

Dividend income

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividends from other investments are recognised in the statement of comprehensive income as dividend income when declared.

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

(e) Expenses

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

(f) Taxation

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

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

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

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

(g) Translation of foreign currency

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

2 Significant accounting policies (continued)

(h) Related parties (continued)

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

(i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(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 group of which it is a part, provides key management personnel services to the group or to the group's parent.

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 FVTPL are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, "Net foreign exchange (loss)/gain" 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. Unitholders may not demand redemption of their units in the Fund unless otherwise permitted by the Trust Deed. 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 relate 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 new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the following development is relevant to the Fund's financial statements:

- HKFRS 9, *Financial instruments*

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

HKFRS 9, Financial instruments

The Fund adopted HKFRS 9 *Financial Instruments* on its effective date of 1 April 2018. HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new ECL model for calculating impairment on financial assets and hedge accounting. For an explanation of how the Fund classifies and measures financial assets and accounts for credit losses, see note 2(c)(i) and (v). Details of the impact are discussed below.

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorizes financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Fund has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- Financial instruments previously classified as at FVTPL continue to be measured at FVTPL.
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. Therefore, such instruments continue to be measured at amortised cost under HKFRS 9.

(ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with a forward-looking ECL model. It requires the Fund to record ECLs on financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. Under HKFRS 9, loss allowances are measured either on a 12-month or lifetime basis. Given the limited exposure of the Fund to credit risk, this amendment has not had a material impact on the financial statements. The Fund only holds account receivables with no financing component and which have maturities of less than 12 months at amortised cost and of high credit quality. Therefore the Fund has adopted an approach similar to the simplified approach to ECLs, and accordingly the ECLs on such assets are determined to be small.

(iii) Hedge accounting

The Fund does not apply hedge accounting; therefore, HKFRS 9 hedge accounting-related changes did not have an impact on the financial statements of the Fund.

(iv) Comparative figures

Comparative figures for the year ended 31 March 2018 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement.*

4 Interest income on deposits

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

5 Net (losses)/gains from investments

	Six months ended 30 September 2018 (unaudited) HK$	30 September 2017 (unaudited) HK$
Realised gains/(losses)	28,889,957	(11,159,555)
Unrealised (losses)/gains	(250,041,214)	163,480,271
	(221,151,257)	152,320,716

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 dividend income from A Shares, B Shares and H Shares and interest income from PRC bank deposits and corporate bonds in the financial statements.

Before 17 November 2014, the Manager had also determined that it was appropriate to provide for PRC taxation at the withholding tax rate of 10% on realised gains on A shares.

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 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, QFIIs 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.

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.

Taxation in the interim statement of comprehensive income represents:

	Six months ended	
	30 September 2018 (unaudited) HK$	**30 September 2017 (unaudited) HK$**
PRC dividend and interest income withholding tax	2,340,838	2,243,466

7 Investments at fair value through profit or loss

	30 September 2018 (unaudited) HK$	**31 March 2018 (audited) HK$**
Listed equities		
– outside Hong Kong	728,526,536	1,092,574,068
Equity-linked instruments		
– warrants	5,488,838	28,505,615
– participation note	6,000,663	16,151,696
	740,016,037	1,137,231,379

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 Trustee, the Manager and their 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 $ 7,427,174 (for the period from 1 April 2017 to 30 September 2017: $9,769,256) and $ 838,938 (as at 31 March 2018: $1,422,830) respectively.

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

8 Related party transactions (continued)

(b) Trustee's fees

Until 30 June 2017, 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. From 1 July 2017, the fee payable to the Trustee is calculated at the rate of 0.07% per annum on the net asset value of the Fund. The trustee fee charged to the Fund in respect of the period and payable at the end of the period amounted to $ 443,137 (for the period from 1 April 2017 to 30 September 2017: $637,131) and $ 54,018 (as at 31 March 2018: $ 83,810) respectively.

During the period from 1 April 2018 to 30 September 2018, no rebate was made with regards to trustee fee paid to the Trustee. During the period from 1 April 2017 to 30 September 2017, the Fund received a one-off rebate on trustee fees from the Trustee amounting to $1,672,720.

(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 $ 579,696 (for the period from 1 April 2017 to 30 September 2017: $520,809) and $ 13,983 (as at 31 March 2018: $22,495) respectively.

A minimum clearing reserve is required to be held with the QFII custodian. As at 30 September 2018, the Fund had $ 871,596 (as at 31 March 2018: $986,805) deposit held with the QFII custodian.

(d) Bank balances

Bank accounts are maintained with The Hong Kong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and Bank of Communication Co Ltd, the QFII custodian of the Fund. The bank balances held as at 30 September 2018 amounted to $8,312,835 and $9,761,041 respectively (as at 31 March 2018: $13,133,590 and $27,625,610 respectively). During the period, interest earned from HSBC Hong Kong and Bank of Communications Co. Ltd. amounted to $68,534 and $35,236 respectively (for the period from 1 April 2017 to 30 September 2017: $2,295 and $41,384 respectively).

(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 these company are as follows:

	Six months ended	
	30 September 2018 (unaudited) HK$	**30 September 2017 (unaudited) HK$**
The Hong Kong and Shanghai Banking Corporation Limited		
Commission paid for the period	13,175	19,301
Average rate of commission	0.05%	0.08%
Total aggregate value of such transactions for the period	24,998,255	24,125,796
Percentage of such transactions in value to total transactions for the period	3.32%	3.07%

The figures for commission paid do not include any trading margin which may be reflected in the market price of transactions with this entity on any transactions by the Fund during the period.

8 Related party transactions (continued)

(f) As at 30 September 2018, The Hongkong and Shanghai Banking Corporation Limited held 42,493 units (as at 31 March 2018: 42,493 units) of the Fund. As at 31 March 2018 and 30 September 2018, HSBC International Trustee Limited held units of the Fund for its clients on a discretionary basis, part of the units were redeemed during the 6 months ended 30 September 2018 (for the period from 1 April 2017 to 30 September 2017: Nil). Both entities are members of the HSBC Group.

9 Soft dollar practices

The Manager has entered into soft dollar commission arrangements with brokers under which certain goods and services used to support investment decision making. The Manager did not make direct payment for these services but transacted an agreed amount of business with the brokers on behalf of the Fund. Commission was paid from the Fund on these transactions.

10 Units in issue

	Six months ended	
	30 September 2018 (unaudited)	**30 September 2017 (unaudited)**
Number of units in issue brought forward	85,939,223	107,423,977
Units redeemed during the period	(17,187,780)	–
Number of units in issue carried forward	68,751,443	107,423,977

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 2018 to 30 September 2018 and the year ended 31 March 2018.

11 Financial instruments and associated risks

The Fund maintains investment portfolio in a variety of financial instruments as dictated by its investment management strategy.

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) authorized by the SFC with exposure to A Shares; provided that the Fund's investment in CAAPs and ETFs (including synthetic ETFs) authorized 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 2018 are summarized below. Details of such investments held as at 30 September 2018 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.

11 Financial instruments and associated risks (continued)

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

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

(a) Market risk

(i) Price risk

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

The Fund is exposed to price risk arising from changes in the 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% (31 March 2018: 15%) increase in value of the investments as at 30 September 2018, 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 approximately equal but opposite amount.

	30 September 2018 (unaudited)			**31 March 2018 (audited)**		
	% of total net assets	**Change in price**	**Effect on net assets attributable to the unitholders**	**% of total net assets**	**Change in price**	**Effect on net assets attributable to the unitholders**
		%	**HK$**		**%**	**HK$**
Investment assets						
Listed equities:						
– outside Hong Kong	96.43	15	109,278,980	92.96	15	163,886,110
Equity-linked instruments:						
– warrants	0.73	15	823,326	2.43	15	4,275,842
– participation note	0.79	15	900,099	1.37	15	2,422,754
	97.95		111,002,405	96.76		170,584,706

(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 were predominantly non-interest bearing. The Fund's interest rate risk is managed on an ongoing basis by the Manager.

Except for the bank deposits, the Fund did not hold any interest-bearing assets as at 30 September 2018 and 31 March 2018, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 30 September 2018 and 31 March 2018.

11 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk

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

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

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

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

	Assets HK$	**Liabilities HK$**	**Net exposure HK$**
30 September 2018 (unaudited)			
Renminbi	740,488,450	–	740,488,450
31 March 2018 (audited)			
Renminbi	1,121,363,564	–	1,121,363,564

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 movements in USD/HKD exchange rate. During the period ended 30 September 2018, the HKD strengthened in relation to the Renminbi by approximately 9% (as at 31 March 2018: strengthened by approximately 11%). At 30 September 2018, had the HKD further strengthen in relation to the Renminbi by 9% (as at 31 March 2018: strengthened by 11%), 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 2018 (unaudited)	
Renminbi	(66,643,960)
31 March 2018 (audited)	
Renminbi	(123,349,992)

A 9% weakening of the HKD (as at 31 March 2018: weakened by 11%) against the above currency would have resulted in an approximately equal but opposite effect on the basis that all other variables remain constant. The analysis is performed on the same basis for 31 March 2018.

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 2018, 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 2018 and 31 March 2018.

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

The carrying amounts of financial assets best represent the maximum credit risk exposure at the date of the statement of assets and liabilities.

At both 30 September 2018 and 31 March 2018, there were no significant concentrations of credit risk to counterparties except to the Trustee, the QFII custodian and the banks.

The Manager considers that none of these assets are impaired nor past due at the end of the reporting period.

(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.

As at 30 September 2018 and 31 March 2018, the Fund's listed equity and equity-linked instruments investment are considered to be readily realizable under normal market conditions as they are all listed on stock exchange in Hong Kong or the PRC.

The Fund has one class of units in issue which is not redeemable by the unitholders excepted as per permitted under the trust Deed. All financial liabilities have contractual maturities of less than three months at both 30 September 2018 and 31 March 2018, there were no significant exposures to liquidity risk for the Fund.

11 Financial instruments and associated risks (continued)

(d) Capital management

At 30 September 2018, the Fund had $ 755,504,928 (as at 31 March 2018: $1,175,314,451) 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 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 other receivables and accrued expenses and other payables, the carrying amounts approximate fair values due to the immediate or short-term nature of these financial instruments.

Valuation of financial instruments

The Fund's accounting policy on fair value measurements is detailed in significant accounting policy in note 2(c)(iv).

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

– Level 1: Quoted market 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.

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 2018 (unaudited)			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Listed equities	728,526,536	–	–	728,526,536
Equity-linked instruments	–	11,489,501	–	11,489,501
	728,526,536	11,489,501	–	740,016,037

	31 March 2018 (audited)			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Listed equities	1,092,574,068	–	–	1,092,574,068
Equity-linked instruments	–	44,657,311	–	44,657,311
	1,092,574,068	44,657,311	–	1,137,231,379

For all other financial instruments, their carrying amounts approximate fair value due to the intermediate or short-term nature of these financial instruments.

As at 30 September 2018 and 31 March 2018, the Fund did not hold any level 3 financial instruments.

During the period/year ended 30 September 2018 and 31 March 2018, there were no transfers between levels.

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 interim 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 six months ended 30 September 2018, 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 24 July 2018, 17,187,780 units, representing 20% of the total outstanding number of units as at 23 July 2018, were redeemed at a total amount of $205,050,215. A redemption levy of $0.02 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 six months ended 30 September 2017.

15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 September 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended 30 September 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

	Effective for accounting periods beginning on or after
HK (IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

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

Investment portfolio (unaudited)

As at 30 September 2018

	HSBC China Dragon Fund		
	Holdings	***Market value HK$***	***% of total net assets attributable to unitholders***
Equities			
Listed investments			
The People's Republic of China			
Agricultural Bank of China – A Share	7,033,356	31,034,649	4.11
Agricultural Bank of China Ltd	891,500	3,936,714	0.52
Angel Yeast Co Ltd	432,833	14,511,101	1.92
Anhui Conch Cement Co Ltd – A Share	949,044	39,696,350	5.25
Anzheng Fashion Group Co Ltd	794,879	11,136,898	1.47
Bank of China Ltd – A Share	7,485,300	31,581,709	4.18
Bank of Nanjing Co Ltd – A Share	2,032,310	17,657,769	2.34
Bank of Ningbo Co Ltd – A Share	391,503	7,902,890	1.05
China Fortune Land Development Co Ltd – A Share	513,700	14,791,962	1.96
China Gezhouba Group Co Ltd – A Share	2,216,900	18,353,969	2.43
China International Travel Service Corp Ltd – A Share	457,558	35,389,256	4.68
China Merchants Bank	142,400	4,972,172	0.66
China Merchants Bank Company Limited A Shares	197,900	6,904,841	0.91
China Merchants Shekou Industrial Zone Holdings Co Ltd – A Share	1,370,964	29,124,296	3.86
China Petroleum & Chemical Corp – A Share	3,186,742	25,803,547	3.42
China Railway Construction Corp – A Share	1,309,352	16,588,003	2.20
China Yangtze Power Company Limited – A Shares	808,835	15,066,985	1.99
Foshan Nationstar Optoelectronics Co Ltd	1,117,875	15,522,491	2.05
Guangdong Provincial Expressway Development Co Ltd – A Share	2,315,840	20,331,918	2.69
Guangxi Liugong Machinery Co Ltd – A Share	590,200	7,329,500	0.97
Guotai Junan Securities Co Ltd – A Share	1,018,700	17,354,441	2.30
Hand Enterprise Solutions – A Share	939,100	11,811,892	1.56
Hangzhou Hikvision Digital Technology Co Ltd – A Share	170,371	5,572,669	0.74
HDGF	946,400	6,942,037	0.92
Huatai Securities Co Ltd	162,200	2,905,604	0.38
Huatai Securities Co Ltd – A Share	1,491,706	26,701,796	3.53
HUAYU Automotive Systems Co Ltd	233,294	5,971,368	0.79
HUAYU Automotive Systems Co Ltd – A Share	392,185	10,030,739	1.33
Hubei Hongcheng General Machinery Co Ltd – A Share	711,756	31,867,578	4.22
Jiangsu Hengrui Medicine C – A Share	563,836	40,710,894	5.39
Jiangsu Hengshun Vinegar I – A Share	1,149,990	15,026,803	1.99
Kweichow Moutai Co Ltd – A Share	47,865	39,736,850	5.26
Luxshare Precision Industry Co Ltd – A Share	371,789	6,515,559	0.86
O-Film Tech Co Ltd – A Share	548,400	8,406,977	1.11
Ping An Bank Co Ltd – A Share	2,078,645	26,121,320	3.46
Ping An Insurance Group Co of Ltd – A Share	553,700	43,127,491	5.71
Qingdao Haier Co Ltd – A Share	925,810	17,382,869	2.30
SAIC Motor Corp Ltd – A Share	110,300	4,174,566	0.55

Investment portfolio (unaudited)

As at 30 September 2018

	HSBC China Dragon Fund		
	Holdings	***Market value HK$***	***% of total net assets attributable to unitholders***
Equity (continued)			
Listed investments (continued)			
The People's Republic of China (continued)			
Shan Dong Sun Paper Industry Joint Stock Co Ltd – A Share	3,283,714	28,530,619	3.78
Shandong Minhe Animal Husbandry Co – A Share	479,000	6,694,835	0.89
Zhejiang Jingsheng Mechani – A Shares	415,200	5,302,609	0.70
Equities (Total)		728,526,536	96.43
Equity-linked instruments			
Listed investments			
CICC (Hangzhou Hikvision) WTS 12 September 2019	167,935	5,488,838	0.73
		5,488,838	0.73
Unlisted but quoted investment			
CICC Financial Trading (SC MTR LTD) PN 15 December 2018	158,549	6,000,663	0.79
		6,000,663	0.79
Equity-linked instruments (Total)		11,489,501	1.52
Total investments ***(Total cost of investments: $721,356,324)***		740,016,037	97.95
Other net assets		15,488,891	2.05
Total net assets attributable to unitholders		755,504,928	100.00

Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2018

	% of total net assets attributable to unitholders	
	30 September 2018	**31 March 2018**
Listed investments		
Equities	96.43	92.96
Equity-linked instruments	1.52	3.80
	97.95	96.76
Total investments	97.95	96.76
Other net assets	2.05	3.24
Net assets attributable to unitholders	100.00	100.00

Performance table (unaudited)

For the period ended 30 September 2018

(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
31 March 2017	HK$1,231,509,619
30 September 2017	HK$1,393,473,770
31 March 2018	HK$1,175,314,451
30 September 2018	HK$755,504,928

(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
31 March 2017	HK$11.46
30 September 2017	HK$12.97
31 March 2018	HK$13.68
30 September 2018	HK$10.99

Performance table (unaudited)

For the period ended 30 September 2018

(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. For the six months ended 30 September 2016, the Manager offered a right to the unitholders to redeem not more than 20% 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
1 April 2016 to 31 March 2017	9.89	11.58
1 April 2017 to 30 September 2017	11.08	13.29
1 April 2017 to 31 March 2018	11.08	15.22
1 April 2018 to 30 September 2018	10.13	13.97

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
WONG, Pik Kuen, Helen

Trustee

HSBC Institutional Trust Services (Asia) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Registrar and Processing Agent

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Manager

HSBC Global Asset Management (Hong Kong) Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

QFII Custodian

Bank of Communications Co., Ltd.
188, Yin Cheng Zhong Road
Shanghai 200120
The People's Republic of China

Auditor

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

[This page is intentionally left blank]

Issued by HSBC Global Asset Management (Hong Kong) Limited

HCDF0918I Printed in the Hong Kong SAR