HSBC China Dragon Fund
Annual Report 2019

HSBC
Global Asset Management

Contents

Manager's report

Market Review

The sharp pullback in onshore Chinese equity market in 2018 was caused by a string of macro factors such as heightening US-China trade tension, US interest rate hikes and domestic headwinds featuring moderating growth and weakening property markets. The US unveiled a tariff of 25% on Chinese imports worth $50 billion, and a 10% tariff on another $200 billion goods in July and September respectively. The heightened trade tension has led to increased concerns on China's economic growth outlook, which in turn has depressed RMB. On a domestic front, various macro-economic data pointed to a softening domestic activity outlook across retail sales, exports and industrial activities. In light of the rising internal and external uncertainties, government policies have turned more pro-growth during the third quarter to support the economy. As a result, intensive easing policies and guidelines have been announced to mitigate trade tensions impact. In December, the US and China agreed on a temporary truce on trade tensions. At the same time, in response to macro headwinds, Chinese government continued to roll out favourable policies, with fiscal policy taking a leading role supplemented by monetary easing.

In the first quarter of 2019, onshore Chinese equity rallied remarkably. The market rebound was driven by positive progress of US-China trade talk, strong domestic policy support and a more dovish tone from the US Fed. In term of supportive policies on the domestic front, we have seen RRR cut, relaxation of SME loan definition and introduction of new quota for local government debt etc. Economic activity in the first quarter held up better than expected. Manufacturing PMI surprised on the upside in March with a strong rebound to 50.5, beating the market forecast of 49.5. TSF also picked up due to strong bond issuance and solid loan growth which reversed the deceleration throughout 2018. Furthermore, MSCI announced a three-step weight increase for China A-shares in its global indices in February, raising the inclusion factor from 5% to 20%, which further boost market sentiment.

Outlook

With US tariff hikes on Chinese goods kicking in, potential negative surprises remain a key risk to the equity market. However, we think the chance for the market to retrace to where it was in 2018 is slim, as the current macro backdrop is quite different from 2018, where central banks' policies were tight and global growth outlook was stark. In contrast, this year, central banks led by Fed, have capitulated to a more dovish stance. Growth profile in China looks much better than 2018 as the recent upbeat Chinese macro-economic data provided evidence that policy easing effects are coming through and growth is bottoming out.

In terms of valuation, despite a remarkable rally in first quarter, Chinese equity is still trading near long term average, implying a relatively low downside risk. Looking ahead, we expect investors to shift the focus back to corporate earnings. Companies with strong fundamentals and growth are expected to outperform in 2019. In terms of liquidity, we believe the further open up of Chinese equity market through Stock Connect or inclusion of A-share into major global indices will continue to drive global investors' interest in Chinese equities. The end of US rate hike should also prompt fund flows back to the emerging market, including China.

Overall, we expect the ongoing cyclical recovery to continue as the effects of macro policy support continue to feed through, despite lingering uncertainties on global growth outlook and trade negotiation. Trade tension could introduce more volatility to the market but this could also create more mispricing opportunities for discipline investors to capture.

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

31 July 2019

Trustee's report to the unitholders of HSBC China Dragon Fund

We hereby confirm that, in our opinion, the Manager has in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 20 June 2007, as amended, for the year ended 31 March 2019.

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) For and on behalf of
) HSBC Institutional Trust Services (Asia) Limited
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31 July 2019

Independent auditor's report to the unitholders of HSBC China Dragon Fund

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of HSBC China Dragon Fund ("the Fund") set out on pages 6 to 31, which comprise the statement of assets and liabilities as at 31 March 2019, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial disposition of the Fund as at 31 March 2019 and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Valuation of investments</td></tr>
<tr><td colspan="2">Refer to note 12 to the financial statements and the accounting policies in note 2(c)(iv) on pages 13-14.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 March 2019 the investment portfolio represented 98.62% of the total assets of the Fund and is the key driver of the Fund's investment returns.

We identified the valuation of investments as a key audit matter because of its significance in the context of the Fund's financial statements and because the value of the investment portfolio at the year end date is a key performance indicator of the Fund.</td><td>Our audit procedures to assess the valuation of investments included the following:

• Assessing whether the valuations of all equities in the investment portfolio at the year end date were within the market bid-ask spreads by comparing the prices adopted by the Fund with the prices obtained from independent pricing sources.

• Assessing the valuations of equity-linked instruments in the investment portfolio at the year end date by comparing the prices adopted by the Fund with the prices of the underlying instruments obtained from independent pricing sources.</td></tr>
</table>

Information Other than the Financial Statements and Auditor's Report Thereon

The Manager and the Trustee of the Fund are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the Audit of Financial Statements (continued)

Responsibilities of the Manager and the Trustee of the Fund for the Financial Statements

The Manager and the Trustee of the Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the Manager and the Trustee of the Fund determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager and the Trustee of the Fund are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager and the Trustee of the Fund either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager and the Trustee of the Fund are required to ensure that the financial statements have been properly prepared in accordance with the relevant provisions of the Trust Deed, as amended ("the Trust Deed"), and the relevant disclosure provisions of Appendix E of the Code on Unit Trusts and Mutual Funds ("the SFC Code") issued by the Hong Kong Securities and Futures Commission.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager and the Trustee of the Fund.

- Conclude on the appropriateness of the Manager's and the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on the Audit of Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the Manager and the Trustee of the Fund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Manager and the Trustee of the Fund with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Manager and the Trustee of the Fund, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix E of the SFC Code.

The engagement partner on the audit resulting in this independent auditor's report is Yiu Tsz Yeung, Arion.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 July 2019

Statement of assets and liabilities

As at 31 March 2019

	Note	2019 HK$	2018 HK$
Assets			
Investments at fair value through profit or loss	7, 12	843,047,517	1,137,231,379
Other receivables	8(c)	895,157	986,820
Amounts receivable on sales of investments		33,212,939	–
Cash and cash equivalents	8(d)	6,166,960	40,759,200
Total assets		883,322,573	1,178,977,399
Liabilities			
Amounts payable on purchases of investments		25,320,184	–
Accrued expenses and other payables	8(a), (b) & (c)	3,143,666	3,662,948
Total liabilities		28,463,850	3,662,948
Net assets attributable to unitholders		854,858,723	1,175,314,451
Representing:			
Total equity		854,858,723	1,175,314,451
Number of units in issue	10	68,751,443	85,939,223
Net asset value per unit		12.43	13.68

Approved and authorised for issue by the Trustee and the Manager on 31 July 2019

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) For and on behalf of
) HSBC Institutional Trust Services
) (Asia) Limited, Trustee
)

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) For and on behalf of
) HSBC Global Asset Management
) (Hong Kong) Limited, Manager
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The notes on pages 10 to 31 form part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2019

	Note	2019 HK$	2018 HK$
Dividend income		24,358,431	23,051,286
Interest income on deposits	4, 8(d)	139,935	81,073
Net (losses)/gains from investments	5	(113,622,186)	228,311,154
Net foreign exchange (loss)/gain		(2,493,123)	2,673,620
Other income	8(b), 14	343,756	2,532,111
Net investment (loss)/income		(91,273,187)	256,649,244
Management fees	8(a)	(12,851,466)	(19,537,011)
Transaction costs	8(e)	(3,958,923)	(3,038,089)
Trustee's fees	8(b)	(762,886)	(1,188,530)
Custodian fees	8(c)	(1,292,260)	(1,739,147)
Auditor's remuneration		(311,524)	(734,961)
Legal and professional fees		(1,570,037)	(286,702)
Other operating expenses	8(b)	(1,035,940)	(907,447)
Operating expenses		(21,783,036)	(27,431,887)
(Loss)/profit before taxation		(113,056,223)	229,217,357
Taxation	6	(2,349,290)	(2,243,467)
(Decrease)/increase in net assets attributable to unitholders and total comprehensive income for the year		(115,405,513)	226,973,890

The notes on pages 10 to 31 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2019

	Note	2019 HK$	2018 HK$
Balance at the beginning of the year		1,175,314,451	1,231,509,619
(Decrease)/Increase in net assets attributable to unitholders and total comprehensive income for the year		(115,405,513)	226,973,890
Redemption of units during the year	14	(205,050,215)	(283,169,058)
Balance at the end of the year		854,858,723	1,175,314,451

The notes on pages 10 to 31 form part of these financial statements.

Cash flow statement

For the year ended 31 March 2019

	2019 HK$	2018 HK$
Operating activities		
Interest income received	139,723	82,723
Dividend income received	24,358,431	23,051,286
Management fees paid	(13,300,342)	(19,831,917)
Trustee's fees paid	(792,069)	(1,234,232)
Transaction costs paid	(3,958,923)	(3,038,089)
Tax paid	(2,349,290)	(2,243,467)
Proceeds from sales of investments	1,185,132,566	1,021,161,020
Payments for purchases of investments	(1,012,463,645)	(734,495,617)
Other operating expenses paid	(6,258,460)	(807,715)
Net cash generated from operating activities	170,507,991	282,643,992
Financing activity		
Payments on redemption of units	(204,706,459)	(547,109,246)
Cash used in financing activity	(204,706,459)	(547,109,246)
Net decrease in cash and cash equivalents	(34,198,468)	(264,465,254)
Cash and cash equivalents at the beginning of the year	40,759,200	302,578,533
Effect of foreign exchange rates changes	(393,772)	2,645,921
Cash and cash equivalents at the end of the year	6,166,960	40,759,200

The notes on pages 10 to 31 form part of these financial statements.

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

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

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

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Fund is Hong Kong dollars ("HKD") 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 April 2018

On initial recognition, the Fund classifies financial assets as measured at amortised cost or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Fund are measured at FVTPL.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

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

Business model assessment (continued)

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes amounts receivable on sales of investment, other receivable and cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- Other business model: this includes equity and equity-linked instruments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration for of the time value of money (e.g. periodical reset of interest rates).

The Fund classifies its investments based on the business model and contractual cash flows assessment. Accordingly, the Fund classifies all its investments, including equities and equity-linked instruments, into financial assets at FVTPL category. Financial assets measured at amortised cost include amounts receivable on sales of investments, other receivables and cash and cash equivalents. Financial liabilities that are not at fair value through profit or loss include amounts payable on purchases of investments and accrued expenses and other payables.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

(B) Policy applicable prior to 1 April 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 had 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 amounts receivable on sales of investment and other receivables.

Financial liabilities that were not at fair value through profit or loss included amounts payable on purchases of investments, accrued expenses and other payables.

(ii) Recognition

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

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

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of HKFRS 9.

(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 measured at amortised cost are carried at amortised cost using the effective interest method less impairment loss, if any.

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

(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.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Fair value measurement principles (continued)

When there is no quoted price in an active market, the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all 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 April 2018

The Fund recognises loss allowances for expected credit losses (“ECLs”) on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund’s historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment (continued)

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

The Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Fund considers this to be Baa3 or higher per Moody's or BBB- or higher per Standard & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of assets and liabilities

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment (continued)

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

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

(B) Policy applicable prior to 1 April 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 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.

2 Significant accounting policies (continued)

(d) Revenue recognition

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 under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to gross carrying amount of the financial asset. 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 year, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities.

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

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

(g) Translation of foreign currency

Foreign currency transactions during the year are translated into HKD 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 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/(loss)" is net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

(j) Units in issue

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

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

(k) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that 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 developments are relevant to the Fund's financial statements;

(i) 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), except for the amendments to HKFRS 9, *Prepayment features* with negative compensation which have been adopted at the same time as HKFRS 9.

As permitted by the transition provisions of HKFRS 9, comparative information throughout these financial statements has not generally been restated to reflect the requirements of the standard.

Except for the changes below, the Fund has consistently applied the accounting policies as set out in note 2(c) to all periods presented in these financial statements.

HKFRS 9, Financial Instruments

HKFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces HKAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of HKFRS 9, the Fund has adopted consequential amendments to HKAS 1 *Presentation of Financial Statements*, which require:

- impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. The Fund did not previously report any incurred losses; and
- separate presentation in the statement of comprehensive income of interest revenue from financial assets measured at amortised cost or fair value through other comprehensive income ("FVOCI") calculated using the effective interest method.

Additionally, the Fund has adopted consequential amendments to HKFRS 7 Financial Instruments: Disclosures, which are applied to disclosures about 2019 but have not generally been applied to comparative information.

The adoption of HKFRS 9 had no material impact on the net assets attributable to unitholders of the Fund.

i. Classification and measurement of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under HKFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. HKFRS 9 eliminates the previous HKAS 39 categories of held to maturity, loans and receivables and available for sale. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities.

The adoption of HKFRS 9 has not had a significant effect on the Fund's accounting policies related to financial liabilities and derivative financial instruments.

For an explanation of how the Fund classifies and measures financial instruments and accounts for related gains and losses under HKFRS 9, see note 2(c).

3 Changes in accounting policies (continued)

(i) HKFRS 9, *Financial instruments (continued)*

i. Classification and measurement of financial assets and financial liabilities (continued)

The following table explains the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Fund's financial assets as at 1 April 2018.

	Original classification under HKAS 39	**New classification under HKFRS 9**
Financial assets		
Amounts receivable on sale of investments	Loans and receivables	Amortised cost
Other receivable	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Equities	Held-for-trading	Mandatorily at FVTPL
Equity-linked instruments	Held-for-trading	Mandatorily at FVTPL

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

ii. Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortised cost and debt instruments at FVOCI, but not to investments in equity instruments. Under HKFRS 9, credit losses are recognised earlier than under HKAS 39.

The effect of adopting HKFRS 9 on the carrying amounts of financial assets at 1 April 2018 relates solely to the new impairment requirements. The Manager considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. There is no impairment allowance recognised on amounts receivable on sale of investments, other receivable and cash and cash equivalents on the initial application of HKFRS 9's impairment requirements as at 1 April 2018. Therefore, the carrying amounts of the financial assets remain the same.

iii. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not generally been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in net assets attributable to unitholders as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of HKFRS 9, but rather those of HKAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The revocation of previous designations of certain financial assets as measured at FVTPL.

4 Interest income on deposits

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

5 Net (losses)/gains from investments

	2019 HK$	2018 HK$
Realised gains	72,405,357	35,519,912
Unrealised (losses)/gains	(186,027,543)	192,791,242
	(113,622,186)	228,311,154

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 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, 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 statement of comprehensive income represents:

	2019 HK$	2018 HK$
PRC dividend and interest income withholding tax	2,349,290	2,243,467

7 Investments at fair value through profit or loss

	2019 HK$	2018 HK$
Listed equities		
– outside Hong Kong	838,221,124	1,092,574,068
Equity-linked instruments		
– warrants	4,826,393	28,505,615
– participation note	–	16,151,696
	843,047,517	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 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 year and payable at the end of the year amounted to $12,851,466 (2018: $19,537,011) and $993,954 (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.

(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 $290 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 of the net a value of the Fund. The trustee's fee charged to the Fund in respect of the year and payable at the end of the year amounted to $762,886 (2018: $1,188,530) and $54,627 (2018: $83,810) respectively.

No rebate was made with regards to the Trustee's fee charged to the Fund during the year (2018: $1,672,720).

Effective from 1 July 2017, the Trustee is also entitled to receive a financial reporting service fee of USD5,000 per set of financial statements. The financial reporting fee charged to the Fund during the year is USD10,000 (2018: USD10,000).

8 Related party transactions (continued)

(c) Custodian fee and deposit placed with Custodian

The custodian fee paid to the Bank of Communications Co. Ltd (the "QFII Custodian") is calculated at the rate of 0.1% per annum of the net asset value of the assets held by the QFII custodian as determined by the QFII custodian (based on the actual number of calendar days in a year). The custodian fee charged to the Fund in respect of the year amounted to $800,042 (2018: $1,154,501).

A minimum clearing reserve is required to be held with the QFII custodian. As at 31 March 2019, the fund had $894,930 (as at 31 March 2018: $986,805) deposits held with the QFII custodian.

The administrative fee charged to the Fund by the The Hongkong and Shanghai Banking Corporation Limited on purchases and sales of investments and sub-custody of investments during the year is amounted to $492,218 (2018: $584,646) and the corresponding payable at the end of the year is $69,627 (2018: $22,495).

(d) Bank balances

Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and Bank of Communications Co Ltd, the QFII custodian of the Fund. The bank balances held as at 31 March 2019 amounted to $474,762 and $5,692,198 respectively (2018: $13,133,590 and $27,625,610 respectively). During the year, interest earned from HSBC Hong Kong and Bank of Communications Co Ltd amounted to $ 67,434 and $ 72,501 respectively (2018: $6,742 and $74,331 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:

	2019 **HK$**	**2018** **HK$**
The Hongkong and Shanghai Banking Corporation Limited		
Commission paid for the year	12,876	53,000
Average rate of commission	0.07%	0.05%
Total aggregate value of such transactions for the year	19,245,535	106,705,357
Percentage of such transactions in value to total transactions for the year	0.85%	6.08%

(f) As at 31 March 2019, The Hongkong and Shanghai Banking Corporation Limited held 42,493 units (as at 31 March 2018: 42,493 units) of the Fund. The Hongkong and Shanghai Banking Corporation Limited did not redeemed units of the Fund during the year ended 31 March 2019 (2018: 27,591 units). As at 31 March 2019 and 31 March 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 year ended 31 March 2019 (year ended 31 March 2018: 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

	2019 Units	2018 Units
Number of units in issue brought forward	85,939,223	107,423,977
Units redeemed during the year	(17,187,780)	(21,484,754)
Number of units in issue carried forward	68,751,443	85,939,223

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 year ended 31 March 2019 and 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) authorised by the SFC with exposure to A Shares; provided that the Fund's investment in CAAPs and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its net asset value.

The Fund will not invest more than 10% of its net asset value in CAAPs issued by a single issuer; and the Fund's aggregate investment in (i) CAAPs shall not be more than 40% of its net asset value and (ii) A Shares through the Stock Connect shall not be more than 30% of the Fund's net asset value.

The risk exposures inherent in the Fund as at 31 March 2019 are summarised below. Details of such investments held as at 31 March 2019 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 year, the Fund 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.

11 Financial instruments and associated risks (continued)

(a) Market risk

(i) Price risk

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

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

Price sensitivity

The impact on a 15% (2018: 15%) increase in value of the investments as at 31 March 2019, 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.

	2019			2018		
	% 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	98.05	15	125,733,169	92.96	15	163,886,110
Equity-linked instruments:						
– warrants	0.57	15	723,959	2.43	15	4,275,842
– participation note	–	15	–	1.37	15	2,422,754
	98.62		126,457,128	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 predominately were investments in equities which were 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 does not hold any interest-bearing assets as at 31 March 2019 and 31 March 2018, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 2019 and 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 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 Hong Kong dollars equivalent):

	Assets HK$	**Liabilities HK$**	**Net exposure HK$**
31 March 2019			
Renminbi	878,109,922	16,855,609	861,254,313
31 March 2018			
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 year ended 31 March 2019, the HKD strengthened in relation to the Renminbi by approximately 7% (2018: strengthened by 11%). At 31 March 2019, had the HKD further strengthened in relation to the Renminbi by 7% (2018: strengthened by 11%), with all other variables held constant, net assets attributable to unitholders would have increased by the amounts shown in the following table.

All amounts stated in Hong Kong dollars

	HK$
31 March 2019	
Renminbi	(60,287,802)
31 March 2018	
Renminbi	(123,349,992)

A 7% weakening of the HKD (2018: weakening 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 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 31 March 2019, 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 the QFII Custodian on behalf of the Fund. Substantially all of the assets of the Fund are held by the Trustee or the QFII Custodian. Bankruptcy or insolvency of the Trustee or the QFII Custodian may cause the Fund's rights with respect to securities held by the Trustee or the QFII Custodian to be delayed or limited. There were no investments in debt securities as at 31 March 2019 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 enters in transactions of over-the-counter equity-linked instruments, which expose the Fund to the risk that the counterparties to the financial instruments might default on their obligations to the Fund. The Manager considers the risk to be insignificant.

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

At both 31 March 2019 and 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.

Amounts arising from ECL

Impairment on amounts receivable on sale of investments, other receivable and cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Funds consider that these exposures have low credit risk based on the external credit ratings and/ or review result of the counterparties.

The Funds monitor changes in credit risk on these exposures by tracking published external credit ratings of the counterparties and/ or performed ongoing review of the counterparties.

On initial application of HKFRS 9 as at 1 April 2018, the Managers considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. There is no impairment allowance recognised on amounts receivable on sale of investments, other receivable and cash and cash equivalents. The amount of the loss allowance did not change during the year ended 31 March 2019.

11 Financial instruments and associated risks (continued)

(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 31 March 2019 and as at 31 March 2018, the Fund's equity ad equity-linked instruments investments are considered to be readily realisable under normal market conditions as they are all listed on stock exchanges in Hong Kong or the PRC.

The Fund has one class of units in issue which is not redeemable by the unitholders. All financial liabilities have contractual maturities of less than three months. At both 31 March 2019 and 2018, there were no significant exposures to liquidity risk for the Fund.

(d) Capital management

At 31 March 2019, the Fund had $854,858,723 (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 year with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.

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

12 Fair value information

The Fund's financial instruments are measured at fair value on the date of statement of assets and liabilities. Fair value estimates are made at a specified point in time, based on market conditions and information about the financial instruments. Usually, fair values can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including amounts receivable on sales of investments, other receivable, amounts payable on purchases of investments and accrued expenses and other payables, the carrying amounts approximate fair values due to the immediate or short-term nature of these financial instruments.

12 Fair value information (continued)

Valuation of financial instruments

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

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

– Level 1: Quoted market prices (unadjusted) in active markets for identical instruments.

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

– Level 3: Valuation techniques using significant unobservable inputs.

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

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

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

	2019			
	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Listed equities	838,221,124	–	–	838,221,124
Equity-linked instruments	–	4,826,393	–	4,826,393
	838,221,124	4,826,393	–	843,047,517

	2018			
	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 31 March 2019 and 31 March 2018, the Fund did not hold any level 3 financial instruments.

12 Fair value information (continued)

Valuation of financial instruments

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.

Equities	As at 1 April HK$	Net losses included in statement of comprehensive income HK$	Sales HK$	Purchase HK$	As at 31 March HK$	*Unrealized gains/(losses) HK$
2019	–	–	–	–	–	–
2018	10,757,935	(3,008,326)	(7,749,609)	–	–	4,254,662

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

During the year ended 31 March 2019 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 year.

The segment information provided to the Manager is the same as that disclosed in 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 years ended 31 March 2019 and 31 March 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.

On 18 December 2017, 21,484,754 units, representing 20% of the total outstanding number of units as at 18 December 2017, were redeemed at a total amount of $283,169,058. 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.

Redemption levy retained by the Fund were recognised as Other Income in the statement of comprehensive income.

15 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

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 year ended 31 March 2019 and which have not been adopted in these financial statements.

Of these developments, the following may be relevant to the Fund's operations and financial statements:

	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 31 March 2019

	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 Ltd	891,500	3,884,058	0.45
Agricultural Bank of China Ltd - A Share	7,033,356	30,644,765	3.58
Bank of Ningbo Co Ltd - A Share	575,003	14,266,239	1.67
Bros Eastern Co Ltd	1,340,200	8,939,034	1.05
Chengdu Kanghong Pharmaceuticals Group Co Ltd	657,700	39,097,154	4.57
China Animal Husbandry Industry Co Ltd	815,220	12,560,429	1.47
China Cyts Tours Holdings Co Ltd	655,613	12,880,391	1.51
China Jushi Co Ltd	682,100	8,525,438	1.00
China Merchants Bank Co Ltd	142,400	5,641,847	0.66
China Merchants Bank Co Ltd - A Share	617,100	24,450,979	2.86
China National Chemical Engineering Co Ltd	1,011,100	7,641,581	0.89
China Pacific Insurance Group Co Ltd	65,100	2,587,608	0.30
China Pacific Insurance Group Co Ltd - A Share	152,000	6,042,135	0.71
China State Construction Engineering Corp Ltd	1,160,900	8,285,541	0.97
China Vanke Co Ltd	251,900	9,036,346	1.06
China Yangtze Power Co Ltd	591,535	11,656,828	1.36
Chongqing Changan Automobile Co Ltd	870,822	8,422,569	0.99
CITIC Securities Co Ltd	282,700	8,179,687	0.96
DHC Software Co Ltd	711,700	7,349,099	0.86
Foshan Nationstar Optoelectronics Co Ltd	2,160,645	36,242,881	4.24
Fujian Star-net Communication Co Ltd	363,300	9,917,654	1.16
Gansu Qilianshan Cement Group Co Ltd	1,745,100	17,775,493	2.08
Guangdong Provincial Expressway Development Co Ltd - A Share	1,133,540	12,009,613	1.40
Guotai Junan Securities Co Ltd - A Share	1,018,700	23,977,628	2.81
Haitong Securities Co Ltd	217,300	3,561,007	0.42
Haitong Securities Co Ltd - A Share	514,600	8,433,587	0.99
Hangzhou Great Star Industrial Co Ltd	928,200	13,216,916	1.55
Hisense Home Appliances Group Co Ltd	789,700	12,407,071	1.45
Hisense Home Appliances Group Co Ltd - A Share	610,995	9,598,766	1.12
Huadian Power International Corp Ltd	1,580,800	8,050,971	0.94
Huadong Medicine Co Ltd	97,600	3,720,075	0.44
Huatai Securities Co Ltd	532,806	13,947,482	1.63
HUAYU Automotive Systems Co Ltd	73,394	1,747,110	0.20
Hubei Hongcheng General Machinery Co Ltd - A Share	299,456	12,071,544	1.41
Jiangsu Changshu Rural Commercial Bank Co Ltd	902,800	7,898,747	0.92
Jiangsu Yanghe Brewery Joint-Stock Co Ltd	66,400	10,111,074	1.18
Joyoung Co Ltd	249,800	6,728,784	0.79
JSTI Group	859,780	12,714,694	1.49
Kweichow Moutai Co Ltd - A Share	26,765	26,699,608	3.12
Mango Excellent Media Co Ltd	16,400	847,259	0.10

Investment portfolio (Unaudited)

As at 31 March 2019

	HSBC China Dragon Fund		
	Holdings	***Market value HK$***	***% of total net assets attributable to unitholders***
Midea Group Co Ltd	33,500	1,906,892	0.22
Nanjing Yunhai Special Metals Co Ltd	779,385	7,856,836	0.92
New China Life Insurance Co Ltd	532,895	33,414,811	3.91
Ningbo Huaxiang Electronic Co Ltd	804,005	11,974,401	1.40
Perfect World Co Ltd	579,327	21,600,883	2.53
Ping An Bank Co Ltd - A Share	1,785,045	26,710,570	3.12
Ping An Insurance Group Co of China Ltd - A Share	697,000	62,764,732	7.34
Poly Developments and Holdings Group Co Ltd	1,056,100	17,554,756	2.05
Qingdao Hisense Electronics Co Ltd	1,118,000	13,725,538	1.61
SAIC Motor Corp Ltd - A Share	110,300	3,357,645	0.39
Seazen Holdings Co Ltd	276,500	14,582,693	1.71
Shanghai Construction Group Co Ltd	2,057,200	8,963,347	1.05
Shanghai Shimao Co Ltd	2,172,500	13,246,927	1.55
Soochow Securities Co Ltd	1,072,434	12,677,568	1.48
Venustech Group Inc	84,500	2,909,840	0.34
Weifu High Technology Group Co Ltd	494,900	13,342,528	1.56
Wus Printed Circuit Kunshan Co Ltd	1,289,800	17,356,402	2.03
Xinjiang Goldwind Science & Technology Co Ltd	252,000	4,283,003	0.50
Zhejiang Chint Electrics Co Ltd	417,200	13,060,625	1.53
Zhejiang Crystal-Optech Co Ltd	1,275,300	21,287,735	2.49
Zhejiang Dahua Technology Co Ltd	842,500	16,159,500	1.89
Zhuzhou Kibing Group Co Ltd	3,385,000	17,714,200	2.07
Equities (Total)		838,221,124	98.05
Equity-linked instruments			
Listed investment			
CICC Financial Trading Warrants 10 Nov 2021	158,549	4,826,393	0.57
Equity-linked instruments (Total)		4,826,393	0.57
Total investments			
(Total cost of investments: $760,374,133)		843,047,517	98.62
Other net assets		11,811,206	1.38
Total net assets attributable to unitholders		854,858,723	100.00

Statement of movements in portfolio holdings (Unaudited)

For the year ended 31 March 2019

	% of total net assets attributable to unitholders	
	2019	**2018**
Listed investments		
Equities	98.05	92.96
Equity-linked instruments	–	3.80
	98.05	96.76
Unlisted but quoted investment		
Equity-linked instrument	0.57	–
	0.57	–
Total investments	98.62	96.76
Other net assets	1.38	3.24
Net assets attributable to unitholders	100.00	100.00

Performance table (Unaudited)

For the year ended 31 March 2019

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

Year	
31 March 2019	HK$854,858,723
31 March 2018	HK$1,175,314,451
31 March 2017	HK$1,231,509,619
31 March 2016	HK$1,787,843,955

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

Year	
31 March 2019	HK$12.43
31 March 2018	HK$13.68
31 March 2017	HK$11.46
31 March 2016	HK$10.65

(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.

	Net asset value per unit	
Year	**Lowest**	**Highest**
	HK$	**HK$**
2019	9.42	13.97
2018	11.08	15.22
2017	9.89	11.58
2016	9.27	18.36
2015	7.39	13.69
2014	7.60	9.58
2013	7.14	9.41
2012	7.21	10.28
2011	7.91	10.52
2010	6.22	9.70
2009	4.12	10.22

(d) Total expense ratio

	2019
Average net asset value	HK$853,635,285
Total expenses	HK$17,831,346
Total expense ratio	2.09%

Administration and management (Unaudited)

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

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