



HSBC China Dragon Fund

Annual Report 2021

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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 2021.

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) For and on behalf of
) HSBC Institutional Trust Services (Asia) Limited
)
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31 July 2021

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 5 to 26, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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 (“HKSA”) 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.

Existence and valuation of investments	
<i>Refer to note 12 to the financial statements and the accounting policies in note 2(c)(iv) on page 12 to 13.</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 March 2021 the investment portfolio represented 100.25% of the net assets of the Fund and is the key driver of the Fund’s investment returns.</p> <p>We identified the existence and 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.</p>	<p>Our audit procedures to assess the existence and valuation of investments included the following:</p> <ul style="list-style-type: none">• obtaining independent confirmations from the custodians of the investment portfolio held at 31 March 2021, and agreeing the Fund’s holdings of investments to those confirmations; and• assessing the valuations of all assets in the investment portfolio at the year end date by comparing the prices adopted by the Fund with the prices obtained from independent pricing sources.

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.

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

Report on the Audit of Financial Statements (continued)

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

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.

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 dated 20 June 2007, 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 HKSAAs 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 HKSAAs, 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.

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

Report on the Audit of Financial Statements (continued)

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

- 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.

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, actions taken to eliminate threats or safeguards applied.

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 Cheung Yik Hei.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 July 2021

Statement of assets and liabilities

As at 31 March 2021

	Note	2021 HK\$	2020 HK\$
Assets			
Investments at fair value through profit or loss	8, 11	1,089,100,070	616,978,574
Other receivables	9(c)	483,225	593,289
Amounts receivable on sales of investments		20,427,217	–
Cash and cash equivalents	9(d)	<u>1,037,070</u>	<u>178,866</u>
Total assets		<u>1,111,047,582</u>	<u>617,750,729</u>
Liabilities			
Amounts payable on purchases of investments		20,502,453	–
Accrued expenses and other payables	9(a), (b) & (c)	<u>4,122,208</u>	<u>3,918,328</u>
Total liabilities		<u>24,624,661</u>	<u>3,918,328</u>
Net assets attributable to unitholders		<u>1,086,422,921</u>	<u>613,832,401</u>
Representing:			
Total equity		<u>1,086,422,921</u>	<u>613,832,401</u>
Number of units in issue	14, 15	<u>55,001,200</u>	<u>55,001,200</u>
Net asset value per unit	14	<u>19.75</u>	<u>11.16</u>

Approved and authorised for issue by the Trustee and the Manager on 31 July 2021

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) For and on behalf of
) HSBC Institutional Trust Services
) (Asia) Limited, Trustee
)
)
) For and on behalf of
) HSBC Global Asset Management
) (Hong Kong) Limited, Manager
)

Statement of comprehensive income

For the year ended 31 March 2021

	Note	2021 HK\$	2020 HK\$
Dividend income	4	9,980,450	18,739,797
Interest income on deposits	5, 9(d)	12,193	52,265
Net gains/(losses) from investments	6	491,175,071	(46,253,379)
Net foreign exchange loss		(102,256)	(1,205,906)
Other income		19,584	414,105
Net investment income/(loss)		<u>501,085,042</u>	<u>(28,253,118)</u>
Management fees	9(a)	(13,908,267)	(12,293,493)
Transaction costs	9(e)	(8,909,039)	(7,033,093)
Trustee's fees	9(b)	(649,052)	(573,696)
Custodian fees	9(c)	(651,885)	(1,561,374)
Auditor's remuneration		(310,925)	(314,833)
Legal and professional fees		(2,799,175)	(3,599,178)
Other operating expenses	9(b)	(260,668)	(328,265)
Operating expenses		<u>(27,489,011)</u>	<u>(25,703,932)</u>
Profit/(loss) before taxation		473,596,031	(53,957,050)
Taxation	7	(1,005,511)	(1,853,499)
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year		<u><u>472,590,520</u></u>	<u><u>(55,810,549)</u></u>

Statement of changes in equity

For the year ended 31 March 2021

	Note	2021 HK\$	2020 HK\$
Balance at the beginning of the year		613,832,401	854,858,723
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year		472,590,520	(55,810,549)
Redemption of units during the year	15	<u>–</u>	<u>(185,215,773)</u>
Balance at the end of the year		<u><u>1,086,422,921</u></u>	<u><u>613,832,401</u></u>
Units issued and redeemed:			
		2021 Number of Units	2020 Number of Units
Balance at the beginning of the year	14	55,001,200	68,751,443
Redeemed during the year		<u>–</u>	<u>(13,750,243)</u>
Balance at the end of the year	14	<u><u>55,001,200</u></u>	<u><u>55,001,200</u></u>

Cash flow statement

For the year ended 31 March 2021

	2021	2020
	HK\$	HK\$
Operating activities		
Interest income received	12,193	52,491
Dividend income received	9,980,450	18,739,797
Management fees paid	(13,252,394)	(12,424,112)
Trustee's fees paid	(618,445)	(588,034)
Transaction costs paid	(8,909,039)	(7,033,093)
Tax paid	(1,005,511)	(1,853,499)
Proceeds from sales of investments	2,803,663,604	2,078,234,244
Payments for purchases of investments	(2,784,534,793)	(1,890,525,925)
Other operating expenses paid	(4,441,304)	(5,779,085)
Net cash generated from operating activities	<u>894,761</u>	<u>178,822,784</u>
Financing activity		
Payments on redemption of units	—	(184,803,266)
Cash used in financing activity	<u>—</u>	<u>(184,803,266)</u>
Net increase/(decrease) in cash and cash equivalents	894,761	(5,980,482)
Cash and cash equivalents at the beginning of the year	178,866	6,166,960
Effect of foreign exchange rates changes	<u>(36,557)</u>	<u>(7,612)</u>
Cash and cash equivalents at the end of the year	<u><u>1,037,070</u></u>	<u><u>178,866</u></u>

The notes on pages 9 to 26 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021

1 Background

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

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 or available for early adoption for the current accounting period of the Fund. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

The functional and presentation currency of the Fund is Hong Kong dollar (“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

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

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

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 other receivable, amounts receivable on sales of investments and cash and cash equivalents. These financial assets are held to collect contractual cash flows.
- 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 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 other receivables, amounts receivable on sales of investments 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.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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 at fair value through profit or loss is recognised using trade date accounting. From this date, any gains or losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss 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.

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.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Fair value measurement principles (continued)

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

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.

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.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment (continued)

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.

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.

(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.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(d) *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.

(e) *Revenue recognition*

Revenue is recognised in the statement of comprehensive income as follows:

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 on the date on which the unconditional right to receive payment is established.

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.

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.

(f) *Expenses*

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

(g) *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. Current tax includes non-recoverable withholding taxes on investment income.

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.

(h) *Translation of foreign currency*

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

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(i) Related parties

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

(j) Foreign exchange gains and losses

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

(k) 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.

Notes to the financial statements

For the year ended 31 March 2021

2 Significant accounting policies (continued)

(l) 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.

(m) Transaction costs

Transactions costs are costs incurred to acquire/dispose financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

3 Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs that are first effective for the current accounting period of the Fund. None of these developments have had a material effect on how the Fund's result and financial position for the current or prior periods have been prepared or presented in this financial report. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

4 Dividend income

The amounts of dividend income and net dividend income, which was net of any non-recoverable withholding taxes, earned by the Fund during the year are shown as follows:

	2021	2020
	HK\$	HK\$
Dividend income	9,980,450	18,739,797
Withholding taxes	(998,046)	(1,853,499)
	<u>8,982,404</u>	<u>16,886,298</u>

5 Interest income on deposits

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

Notes to the financial statements

For the year ended 31 March 2021

6 Net gains/(losses) from investments

During the year, the Fund earned or incurred gains or losses from equity as shown below:

	2021 HK\$	2020 HK\$
Realised gains	340,976,815	62,508,791
Movement on unrealised gains/(losses)	150,198,256	(108,762,170)
Net gains/(losses) on investments	491,175,071	(46,253,379)

Gains and losses presented above exclude dividend income.

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

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

Notes to the financial statements

For the year ended 31 March 2021

7 Taxation (continued)

Taxation in the statement of comprehensive income represents:

	2021 HK\$	2020 HK\$
PRC dividend income withholding tax	988,046	1,853,499
Interest income withholding tax	7,465	–
	<u>995,511</u>	<u>1,853,499</u>

8 Investments at fair value through profit or loss

Investments at fair value through profit or loss as of 31 March 2021 and 31 March 2020 are shown as follows:

	2021 HK\$	2020 HK\$
Listed equities		
– outside Hong Kong	1,089,100,070	616,978,574
Total investments at fair value through profit or loss	<u>1,089,100,070</u>	<u>616,978,574</u>

9 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 year and payable at the end of the year amounted to \$13,908,267 (2020: \$12,293,493) and \$1,519,208 (2020: \$863,335) respectively.

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

(b) Trustee's fees

The fee payable to the Trustee is calculated at the rate of 0.07% per annum of the net asset value of the Fund. In addition, the Trustee provides valuation services to the Fund in return for a daily fee. The daily valuation fee is US\$50 for each valuation per unit class. The valuation fee is waived since 1 April 2019. The Trustee's fee charged to the Fund in respect of the year and payable at the end of the year amounted to \$649,052 (2020: \$573,696) and \$70,896 (2020: \$40,289) respectively.

No rebate was made with regards to the Trustee's fee charged to the Fund during the year (2020: \$Nil).

The Trustee is entitled to receive a financial reporting service fee of US\$5,000 per set of financial statements. The financial reporting fee charged to the Fund during the year is \$77,524 (2020: \$78,668). The Trustee is also entitled to an SFC fund data reporting fee of US\$125 per report. The SFC fund data reporting fee during the year is \$3,876 (2020: \$4,887).

Notes to the financial statements

For the year ended 31 March 2021

9 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). In respect of the year, no custodian fee was charged to the Fund (2020: \$709,792) and no custodian fee was remained payable at the end of the reporting year (2020: \$Nil).

A minimum clearing reserve is required to be held with the QFII custodian. As at 31 March 2021, the Fund had \$483,224 (2020: \$559,290) deposit held with the QFII custodian.

The administrative fee charged to the Fund by The Hongkong and Shanghai Banking Corporation Limited on purchases and sales of investments and sub-custody of investments during the year is amounted to \$651,885 (2020: \$851,582) and the corresponding payable at the end of the year is \$54,207 (2020: \$87,211).

(d) *Bank balances*

Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and The Bank of Communications Co. Ltd, the QFII custodian of the Fund. The bank balances held as at 31 March 2021 amounted to \$572,339 and \$464,731 respectively (2020: \$68,519 and \$110,347 respectively). During the year, interest earned from The Hongkong and Shanghai Banking Corporation Limited and The Bank of Communications Co. Ltd amounted to \$4 and \$12,189 respectively (2020: \$28,848 and \$23,417 respectively).

(e) *Transaction costs*

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. During the year, the Fund did not utilise the brokerage services of The Hongkong and Shanghai Banking Corporation Limited, and no commission was paid to the entity (2020: \$nil).

(f) *Holding of units*

As at 31 March 2021, The Hongkong and Shanghai Banking Corporation Limited held 42,493 units (2020: 42,493 units) of the Fund. The Hongkong and Shanghai Banking Corporation Limited did not subscribe or redeem any units of the Fund during the year ended 31 March 2021 (2020: Nil units). As at 31 March 2021 and 2020, HSBC International Trustee Limited held 64,168 units (2020: 64,168 units) of the Fund for its clients on a discretionary basis and did not subscribe or redeem any units of the fund during the year ended 31 March 2021 (2020: Nil). Both entities are members of the HSBC Group.

10 Soft dollar practices

The Manager has not entered into soft dollar commission arrangements with brokers during the year under which certain goods and services used to support investment decision making.

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.

Notes to the financial statements

For the year ended 31 March 2021

11 Financial instruments and associated risks (continued)

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 2021 are summarised below. Details of such investments held as at 31 March 2021 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 Manager invested in financial instruments which the Manager considered are commensurate with the risk level of the Fund in accordance with its investment objective.

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

(a) Market risk

(i) Price risk

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

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

Price sensitivity

The impact on a 15% (2020: 15%) increase in value of the investments as at 31 March 2021, 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.

	2021			2020		
	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$
Investment assets						
Listed equities:						
– outside Hong Kong	100.25	15	163,365,011	100.51	15	92,546,786
	<u>100.25</u>		<u>163,365,011</u>	<u>100.51</u>		<u>92,546,786</u>

Notes to the financial statements

For the year ended 31 March 2021

11 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk arises from changes in interest rates which may affect the value of debt instruments and therefore result in potential gain or loss to the Fund. As at the end of the reporting period, the Fund's exposure to interest rate risk is considered relatively low as the Fund's financial instruments were predominately 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 31 March 2021 and 2020, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 2021 and 2020.

(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 2021			
Renminbi	1,110,475,242	20,502,453	1,089,972,789
31 March 2020			
Renminbi	617,648,210	–	617,648,210

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 2021, the HKD weakened in relation to the Renminbi by approximately 8% (2020: strengthened by 6%). At 31 March 2021, had the HKD further weakened in relation to the Renminbi by 8% (2020: strengthened by 6%), with all other variables held constant, net assets attributable to unitholders would have decreased/(increased) by the amounts shown in the following table.

Notes to the financial statements

For the year ended 31 March 2021

11 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

All amounts stated in Hong Kong dollars

	HK\$
31 March 2021	
Renminbi	87,197,823
31 March 2020	
Renminbi	(37,058,893)

A 8% strengthening of the HKD (2020: weakening by 6%) 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 2020.

(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 2021, 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 2021 and 2020.

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 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 2021 and 2020, 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 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.

Notes to the financial statements

For the year ended 31 March 2021

11 Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Amounts arising from ECL (continued)

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.

The Manager considers the probability of default to be minimal as the counterparties have a strong capacity to meet their contractual obligations in the near term. There is no impairment allowance recognised on other receivable and cash and cash equivalents. The amount of the loss allowance did not change during the year ended 31 March 2021.

(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 2021 and 2020, the Fund's listed equity 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 2021 and 2020, there were no significant exposures to liquidity risk for the Fund.

(d) Capital management

At 31 March 2021, the Fund had \$1,086,422,921 (2020: \$613,832,401) 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 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.

Notes to the financial statements

For the year ended 31 March 2021

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.

	2021			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	1,089,100,070	–	–	1,089,100,070
	<u>1,089,100,070</u>	<u>–</u>	<u>–</u>	<u>1,089,100,070</u>
2020				
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	616,978,574	–	–	616,978,574
	<u>616,978,574</u>	<u>–</u>	<u>–</u>	<u>616,978,574</u>

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 2021 and 2020, the Fund did not hold any level 3 financial instruments.

During the years ended 31 March 2021 and 31 March 2020, there were no transfers between levels.

Notes to the financial statements

For the year ended 31 March 2021

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 Units in issue and NAV per unit

As at 31 March 2021, units in issue was 55,001,200 units (2020: 55,001,200 units) and NAV per unit was HKD 19.75 (2020: HKD 11.16).

15 Redemption of units under the Recurring Redemption Offer

For the year ended 31 March 2021 the Manager did not propose a Recurring Redemption Offer to the unitholders of the Fund.

For the year ended 31 March 2020, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a recurring redemption basis.

On 20 February 2020, 13,750,243 units, representing 20% of the total outstanding number of units as at 19 February 2020, were redeemed at a total amount of \$185,215,773. A redemption levy of \$0.03 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.

16 Possible impact of amendments issued but not yet effective for the year ended 31 March 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments which are not yet effective for the year ended 31 March 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Fund:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

The Fund is in the process of making an assessment of what the impact of these developments 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 2021

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities			
Listed investments			
<i>The People's Republic of China</i>			
Agricultural Bank of China	1,551,000	6,230,142	0.57
Agricultural Bank of China - A Share	2,013,200	8,094,383	0.76
Anhui Guangxin Agrochemical Co Ltd - A Share	567,800	20,963,879	1.93
Anhui Honglu Steel Construction Group Co Ltd	365,100	21,334,945	1.96
Apeloa Pharmaceutical Co Ltd - A Share	440,600	14,861,794	1.37
Asymchem Laboratories Tianjin Co Ltd - A Share	206,626	70,792,060	6.52
Bank of Jiangsu Co Ltd	1,241,000	9,513,986	0.88
Bank of Jiangsu Co Ltd - A Share	685,000	5,256,443	0.48
Beijing Career International Co Ltd	139,400	8,516,310	0.78
Beijing Career International Co Ltd - A Share	67,500	4,119,854	0.38
Beijing Geoviron Engineering and Technology Inc	499,800	10,806,376	1.00
Beijing Thunisoft Corp Ltd - A Share	557,244	12,524,251	1.15
Beijing Thunisoft Corp Ltd	40,100	900,410	0.08
Beijing Venustech Inc - A Share	299,500	11,846,493	1.09
BTG Hotels Group Co Ltd	920,600	29,753,264	2.74
Changchun Faway Automobile Components Co Ltd - A Share	778,200	8,620,555	0.79
China Merchants Bank Co Ltd	127,000	7,688,225	0.71
China Merchants Bank Co Ltd - A Share	443,000	26,843,353	2.47
China Vanke Co Ltd	489,800	17,421,774	1.60
China Vanke Co Ltd - A Share	142,600	5,067,368	0.47
Fujian Torch Electron Technology Co Ltd	52,200	3,556,516	0.33
Fujian Torch Electron Technology Co Ltd - A Share	241,300	16,455,925	1.52
Grandblue Environment Co Ltd	111,300	3,518,580	0.32
Grandblue Environment Co Ltd - A Share	443,200	14,024,349	1.29
Gree Electric Appliances Inc - A Share	145,000	10,779,389	0.99
Guangxi Liuzhou Pharmaceutical Co Ltd - A Share	858,100	23,051,715	2.12
Guangzhou Wondfo Biotech Co Ltd	133,039	12,970,239	1.19
Haier Smart Home Co Ltd	91,700	3,386,824	0.31
Haier Smart Home Co Ltd - A Share	769,038	28,430,320	2.62
Hangzhou Hikvision Digital Technology Co Ltd - A Share	584,922	38,779,920	3.57
Hengli Petrochemical Co Ltd	277,300	9,642,974	0.89
HUAYU Automotive Systems Co Ltd - A Share	877,000	28,666,584	2.64
Industrial and Commercial Bank of China - A Share	2,226,600	14,603,753	1.34
Industrial Bank Co Ltd - A Share	773,800	22,108,672	2.03
Jack Sewing Machine Co Ltd	78,183	3,159,952	0.29
Jack Sewing Machine Co Ltd - A Share	417,000	16,869,993	1.55
Jiangsu Eastern Shenghong Co Ltd - A Share	1,271,416	21,292,150	1.96
Jiangsu Guomao Reducer Co Ltd - A Share	408,700	18,177,454	1.67
Jiangsu Wujiang China Eastern Silk Market Co Ltd - A Share	142,400	2,382,490	0.22
Jinneng Science & Technology Co Ltd	726,100	15,750,969	1.45

Investment portfolio (Unaudited)

As at 31 March 2021

<i>HSBC China Dragon Fund</i>			
	<i>Holdings</i>	<i>Market value HK\$</i>	<i>% of total net assets attributable to unitholders</i>
Jinyu Bio-Technology Co Ltd	584,600	13,250,023	1.22
Kweichow Moutai Co Ltd	400	952,196	0.09
Kweichow Moutai Co Ltd - A Share	11,300	26,924,988	2.48
Luxi Chemical Group Co Ltd	712,281	13,119,581	1.21
Luxi Chemical Group Co Ltd - A Share	276,000	5,078,869	0.47
Luxshare Precision Industry Co Ltd	359,163	14,393,011	1.32
Luxshare Precision Industry Co Ltd - A Share	1,141,428	45,784,583	4.21
Midea Group Co Ltd – A Share	578,800	56,448,961	5.20
Ping An Insurance Group Co of China Ltd - A Share	428,900	40,028,815	3.68
Poly Developments and Holdings Group Co Ltd	1,425,400	24,039,946	2.21
S F Holding Co Ltd	39,800	3,820,866	0.35
Sany Heavy Industry Co Ltd	182,100	7,368,636	0.68
Sany Heavy Industry Co Ltd - A Share	749,250	30,346,919	2.79
SF Holding Co Ltd	193,771	18,619,935	1.71
Shandong Linglong Tyre Co Ltd	67,188	3,724,246	0.34
Shandong Linglong Tyre Co Ltd – A Share	483,705	26,837,245	2.47
Shenzhen Evenwin Precision Technology Co Ltd - A Share	434,600	11,458,462	1.06
Sichuan Sunny Seal Co Ltd	105,800	5,857,518	0.54
Sinoseal Holding Co Ltd - A Share	105,800	5,851,982	0.54
Suofeiya Home Collection Co Ltd	133,200	5,197,355	0.48
Suofeiya Home Collection Co Ltd - A Share	734,700	28,694,516	2.64
Tellgen Corporation	135,700	9,610,015	0.89
Venustech Group Inc - A Share	38,000	1,501,640	0.14
Wanhua Chemical Group Co Ltd - A Share	279,500	35,006,031	3.22
Weihai Guangtai Airport Equipment Co Ltd - A Share	500,000	10,929,303	1.01
Yibin Wuliangye Co Ltd - A Share	29,900	9,502,864	0.88
Zhejiang Satellite Petrochemical Co Ltd	49,600	2,213,342	0.20
Zhejiang Satellite Petrochemical Co Ltd - A Share	532,252	23,773,589	2.19
Total investments			
(Total cost of investments: \$964,990,600)		1,089,100,070	100.25
Other net liabilities		(2,677,149)	(0.25)
Total net assets attributable to unitholders		1,086,422,921	100.00

Statement of movements in portfolio holdings (Unaudited)

For the year ended 31 March 2021

	<i>% of total net assets attributable to unitholders</i>	
	2021	2020
Listed investments		
Equities	<u>100.25</u>	<u>100.51</u>
	-----	-----
	100.25	100.51
	-----	-----
Total investments	100.25	100.51
Other net liabilities	<u>(0.25)</u>	<u>(0.51)</u>
	-----	-----
Net assets attributable to unitholders	<u><u>100.00</u></u>	<u><u>100.00</u></u>

Performance table (Unaudited)

For the year ended 31 March 2021

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

Year

31 March 2021	HK\$1,086,422,921
31 March 2020	HK\$613,832,401
31 March 2019	HK\$854,858,723
31 March 2018	HK\$1,175,314,451
31 March 2017	HK\$1,231,509,619

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

Year

31 March 2021	HK\$19.75
31 March 2020	HK\$11.16
31 March 2019	HK\$12.43
31 March 2018	HK\$13.68
31 March 2017	HK\$11.46

(c) Price record (Dealing NAV)

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

Year	Net asset value per unit	
	Lowest HK\$	Highest HK\$
2021	11.07	24.40
2020	10.71	13.79
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

(d) Total expense ratio

	2021
Average net asset value	HK\$929,709,169
Total expenses	HK\$18,569,383
Total expense ratio	2.00%

Administration and management (Unaudited)

Directors of the Manager

Executive Directors:

BERRY Stuart Glenn (resigned on 28 August 2020)

BOTELHO BASTOS Pedro Augusto

MALDONADO-CODINA Guillermo Eduardo (resigned on 1 February 2021)

TAM Chun Pong Stephen

Non-Executive Directors:

APENBRINK, Rudolf Eduard Walter (resigned on 16 September 2020)

MARTIN Kevin Ross

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

Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

Issued by HSBC Global Asset Management (Hong Kong) Limited