



HSBC China Dragon Fund

Interim Report 2021

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

Introduction

We have reviewed the interim financial report of the Fund set out on pages 2 to 24 which comprises the interim statement of assets and liabilities of the Fund as of 30 September 2021 and the related interim statement of comprehensive income, the interim statement of changes in equity and the interim cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Manager is responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410. *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2021 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, Interim financial reporting.

KPMG
Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong
30 November 2021

Interim statement of assets and liabilities (unaudited)

As at 30 September 2021

	Note	30 September 2021 (Unaudited) HK\$	31 March 2021 (Audited) HK\$
Assets			
Investments at fair value through profit or loss	8, 13	916,948,743	1,089,100,070
Other receivables	10(c)	44,097	483,225
Amounts receivable on sales of investments		5,468,498	20,427,217
Cash and cash equivalents	10(d)	2,574,990	1,037,070
Total assets		<u>925,036,328</u>	<u>1,111,047,582</u>
Liabilities			
Amounts payable on purchases of investments		5,979,857	20,502,453
Accrued expenses and other payables	10(a), (b) & (c)	4,299,400	4,122,208
Total liabilities		<u>10,279,257</u>	<u>24,624,661</u>
Net assets attributable to unitholders		<u>914,757,071</u>	<u>1,086,422,921</u>
Representing:			
Total equity		<u>914,757,071</u>	<u>1,086,422,921</u>
Number of units in issue	15, 16	<u>44,001,019</u>	<u>55,001,200</u>
Net asset value per unit	15	<u>20.79</u>	<u>19.75</u>

The notes on pages 6 to 24 form part of these financial statements.

Note: Interim reports have applied the same accounting policies and methods of computation as are applied in the annual reports of the Fund.

Interim statement of comprehensive income (unaudited)

For the six months ended 30 September 2021

	Note	Six months ended	
		30 September 2021 (Unaudited) HK\$	30 September 2020 (Unaudited) HK\$
Dividend income	4	10,623,326	9,101,585
Interest income on deposits	5, 10(d)	13,477	6,447
Net gains from investments	6	61,320,342	282,582,969
Net foreign exchange loss		(165,629)	(40,738)
Other income		440,007	19,584
Net investment income		<u>72,231,523</u>	<u>291,669,847</u>
Management fees	10(a)	(7,227,213)	(5,751,198)
Transaction costs	10(e)	(4,808,628)	(3,899,767)
Trustee's fees	10(b)	(337,270)	(268,389)
Custodian fees	10(c)	(1,819,468)	(300,292)
Auditor's remuneration		(156,791)	(156,791)
Legal and professional fees		(1,520,437)	(1,526,370)
Other operating expenses		<u>(141,501)</u>	<u>(89,562)</u>
Operating expenses		<u>(16,011,308)</u>	<u>(11,992,369)</u>
Profit before taxation		56,220,215	279,677,478
Taxation	7	<u>(1,062,333)</u>	<u>(917,625)</u>
Increase in net assets attributable to unitholders and total comprehensive income for the period		<u><u>55,157,882</u></u>	<u><u>278,759,853</u></u>

Interim statement of changes in equity (unaudited)

For the six months ended 30 September 2021

	Note	Six months ended	
		30 September 2021 (Unaudited) HK\$	30 September 2020 (Unaudited) HK\$
Balance at the beginning of the period		1,086,422,921	613,832,401
Increase in net assets attributable to unitholders and total comprehensive income for the period		55,157,882	278,759,853
Redemption of units during the period	16	<u>(226,823,732)</u>	<u>–</u>
Balance at the end of the period		<u>914,757,071</u>	<u>892,592,254</u>
		Units	Units
Number of units in issue bought forward	15	55,001,200	55,001,200
Redeemed during the period		<u>(11,000,181)</u>	<u>–</u>
Number of units in issue carried forward	15	<u>44,001,019</u>	<u>55,001,200</u>

Interim cash flow statement (unaudited)

For the six months ended 30 September 2021

	Six months ended	
	30 September 2021 (Unaudited) HK\$	30 September 2020 (Unaudited) HK\$
Operating activities		
Interest income received	13,477	6,448
Dividend income received	10,623,326	9,101,585
Management fees paid	(7,601,384)	(5,519,598)
Trustee's fees paid	(354,731)	(257,581)
Transaction cost paid	(4,808,628)	(3,899,767)
Tax paid	(1,062,333)	(917,625)
Proceeds from sales of investments	1,960,150,735	1,099,470,031
Payments for purchases of investments	(1,726,242,943)	(1,095,434,184)
Other operating expenses paid	(2,346,046)	(2,601,136)
Net cash generated from/(used in) operating activities	228,371,473	(51,827)
Financing activity		
Payments on redemption of units	(226,823,732)	–
Cash used in financing activity	(226,823,732)	–
Net increase/(decrease) in cash and cash equivalents	1,547,741	(51,827)
Cash and cash equivalents at the beginning of the period	1,037,070	178,866
Effect of foreign exchange rates changes	(9,821)	(4,644)
Cash and cash equivalents at the end of the period	2,574,990	122,395

Notes to the unaudited interim financial report

For the six months ended 30 September 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 ("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) authorized by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its net asset value.

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

Under the prevailing regulations in the PRC, foreign investors can invest in the PRC A Share market through institutions that have obtained QFII status in the PRC. The Fund itself is not a QFII, but may invest directly in A Shares via the US\$200 million QFII investment quota obtained by the Manager.

2 Significant accounting policies

(a) Statement of compliance

This interim financial report has been prepared in accordance with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2021, except for the accounting policy changes that are expected to be reflected in the financial statements for the period ending 30 September 2021. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's review report to the Manager is included on page 1.

The financial information relating to the financial year ended 31 March 2021 that is included in the interim financial report as comparative information does not constitute the Fund's statutory annual financial statements for that financial year but is derived from those financial statements. The auditor has expressed an unqualified opinion on the financial statements for the year ended 31 March 2021 in their report dated 31 July 2021.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (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.

(ii) Recognition

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition (continued)

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.

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.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

2 Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Fair value measurement principles (continued)

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 unaudited interim financial report

For the six months ended 30 September 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 unaudited interim financial report

For the six months ended 30 September 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:

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 right to receive is unconditionally 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.

(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 period, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities.

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

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

(h) Translation of foreign currency

Foreign currency transactions during the period 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.

Notes to the unaudited interim financial report

For the six months ended 30 September 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 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.

(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 unaudited interim financial report

For the six months ended 30 September 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 new 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 interim financial report. The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 17).

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 periods are shown as follows:

	Six months ended	
	30 September 2021 (unaudited) HK\$	30 September 2020 (unaudited) HK\$
Dividend income	10,623,326	9,101,585
Withholding taxes	(1,062,333)	(910,160)
	<u>9,560,993</u>	<u>8,191,425</u>

5 Interest income on deposits

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

6 Net gains from investments

	Six months ended	
	30 September 2021 (unaudited) HK\$	30 September 2020 (unaudited) HK\$
Realised gains	120,626,873	89,744,125
Unrealised (losses)/gains	(59,306,531)	192,838,844
	<u>61,320,342</u>	<u>282,582,969</u>

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 was also appropriate to provide for PRC taxation at the withholding tax rate of 10% on unrealised gains on A Shares with effect from 26 July 2013.

On 14 November 2014, the Ministry of Finance, the State Administration of Taxation ("SAT") and the China Securities Regulatory Commission have jointly promulgated the Circular Concerning the Temporary Exemption of the Corporate Income Tax for Gains Earned by Qualified Foreign Institutional Investors and Renminbi Qualified Foreign Institutional Investors from the Transfer of Domestic Shares and Other Equity Interest Investment in China ("the Circular").

According to the Circular, 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 unaudited interim financial report

For the six months ended 30 September 2021

7 Taxation (continued)

Taxation in the interim statement of comprehensive income represents:

	Six months ended	
	30 September 2021 (unaudited) HK\$	30 September 2020 (unaudited) HK\$
PRC dividend and interest income withholding tax	1,062,333	917,625

8 Investments at fair value through profit or loss

	30 September 2021 (unaudited) HK\$	31 March 2021 (audited) HK\$
	Listed equities – outside Hong Kong	916,948,743
	<u>916,948,743</u>	<u>1,089,100,070</u>

9 Transaction costs

Transaction 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, advisers, brokers and dealers.

10 Related party transactions

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

(a) Management fees

The fee payable to the Manager is calculated at the rate of 1.5% per annum of the net asset value of the Fund payable monthly in arrears. The management fee charged to the Fund in respect of the period and payable at the end of the period amounted to \$7,227,213 (for the period from 1 April 2020 to 30 September 2020: \$5,751,198) and \$1,145,036 (as at 31 March 2021: \$1,519,208) respectively.

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

10 Related party transactions (continued)

(b) *Trustee's fees*

The fee payable to the Trustee is calculated at the rate of 0.07% per annum on 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 fees charged to the Fund in respect of the period and payable at the end of the period amounted to \$337,270 (for the period from 1 April 2020 to 30 September 2020: \$268,389) and \$53,435 (as at 31 March 2021: \$70,896) respectively.

No rebate was made with regards to the Trustee's fee charged to the Fund during the period.

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 period is \$38,954 (for the period from 1 April 2020 to 30 September 2020: \$38,869). 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 period is \$1,943 (for the period from 1 April 2020 to 30 September 2020: \$1,938).

(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 period amounted to \$1,534,491 (for the period from 1 April 2020 to 30 September 2020: \$3,652). The custodian fee payable at the end of the reporting period amounted to \$4,190 (as at 31 March 2021: \$Nil).

A minimum clearing reserve is required to be held with the QFII custodian. As at 30 September 2021, the Fund had \$44,097 (as at 31 March 2021: \$483,224) 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 period is amounted to \$284,977 (for the period from 1 April 2020 to 30 September 2020: \$296,640) and the corresponding payable at the end of the period is \$46,786 (as at 31 March 2021: \$54,207).

(d) *Bank balances*

Bank accounts are maintained with The Hong Kong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and Bank of Communication Co Ltd, the QFII custodian of the Fund. The bank balances held as at 30 September 2021 amounted to \$1,942,342 and \$632,648 respectively (as at 31 March 2021: \$572,339 and \$464,731 respectively). During the period, interest earned from HSBC Hong Kong and Bank of Communications Co. Ltd. amounted to \$49 and \$13,428 respectively (for the period from 1 April 2020 to 30 September 2020: \$2 and \$6,445 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 period ended 30 September 2021 and 2020, the Fund did not utilise the brokerage services of the Hong Kong and Shanghai Banking Corporation Limited, and no commission was paid to the entity.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

10 Related party transactions (continued)

(f) Holding of units

As at 30 September 2021, The Hongkong and Shanghai Banking Corporation Limited held 42,493 units (as at 31 March 2021: 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 period ended 30 September 2021 (for the period from 1 April 2019 to 30 September 2020: Nil units). As at 31 March 2021 and 30 September 2021, HSBC International Trustee Limited held 64,168 units (as at 31 March 2021: 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 period ended 30 September 2021 (for the period from 1 April 2020 to 30 September 2020: Nil). Both entities are members of the HSBC Group.

11 Soft dollar practices

No soft commission arrangements were entered into with brokers during the period ended 30 September 2021 (for the period from 1 April 2020 to 30 September 2020: nil).

During the period ended 30 September 2020, 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.

12 Financial instruments and associated risks

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

The investment objective of the Fund is to achieve long-term capital growth by investing primarily in A Shares directly through (i) the QFII investment quota of the Manager and (ii) Stock Connect; and indirectly through investment of (i) up to 40% of its net asset value in financial derivative instruments and securities linked to A Shares (such as CAAPs (including A Share participation certificates/ notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its net asset value in ETFs (including synthetic ETFs) authorized by the SFC with exposure to A Shares; provided that the Fund's investment in CAAPs and ETFs (including synthetic ETFs) authorized by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its net asset value.

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

The risk exposures inherent in the Fund as at 30 September 2021 are summarized below. Details of such investments held as at 30 September 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 period, the Manager invested in financial instruments which the Manager considered are commensurate with the risk level of the Fund in accordance with its investment objective.

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

12 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 the market prices of its investment assets. Price risk is managed by a diversified portfolio of investments across different industries in accordance with the investment objective of the Fund.

Price sensitivity

The impact on a 15% (31 March 2021: 15%) increase in value of the investments as at 30 September 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 approximately equal but opposite amount.

	30 September 2021 (unaudited)			31 March 2021 (audited)		
	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$	% of total net assets	Change in price %	Effect on net assets attributable to the unitholders HK\$
Investment assets						
Listed equities:						
– outside Hong Kong	100.24	15	137,542,311	100.25	15	163,365,011
	<u>100.24</u>		<u>137,542,311</u>	<u>100.25</u>		<u>163,365,011</u>

(ii) Interest rate risk

Interest rate risk arises from changes in interest rates which may affect the value of debt instruments and therefore result in potential gain or loss to the Fund. As at the end of the reporting period, the Fund's exposure to interest rate risk is considered relatively low as the Fund's financial instruments were predominantly non-interest bearing. The Fund's interest rate risk is managed on an ongoing basis by the Manager.

Except for the bank deposits, the Fund did not hold any interest-bearing assets as at 30 September 2021 and 31 March 2021, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 30 September 2021 and 31 March 2021.

(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.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

12 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

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\$
30 September 2021 (unaudited)			
Renminbi	<u>923,093,986</u>	<u>5,984,047</u>	<u>917,109,939</u>
31 March 2021 (audited)			
Renminbi	<u>1,110,475,242</u>	<u>20,502,453</u>	<u>1,089,972,789</u>

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

Currency sensitivity

As the HKD is pegged to the United States dollar ("USD"), the Fund does not expect any significant movements in USD/HKD exchange rate. During the period ended 30 September 2021, the HKD weakened in relation to the Renminbi by approximately 2% (as at 31 March 2021: weakened by approximately 8%). At 30 September 2021, had the HKD further weakened in relation to the Renminbi by 2% (as at 31 March 2021: weakened by 8%), with all other variables held constant, net assets attributable to unitholders would have decreased by the amounts shown in the following table.

	HK\$
30 September 2021 (unaudited)	
Renminbi	<u>18,342,199</u>
31 March 2021 (audited)	
Renminbi	<u>87,197,823</u>

A 2% strengthening of the HKD (as at 31 March 2021: strengthened by 8%) against the above currency would have resulted in an approximately equal but opposite effect on the basis that all other variables remain constant. The analysis is performed on the same basis for 31 March 2021 effect on the basis that all other variables remain constant. The analysis is performed on the same basis for 31 March 2021.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's exposure to credit risk is monitored by the Manager on an ongoing basis. At 30 September 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.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

12 Financial instruments and associated risks (continued)

(b) Credit risk (continued)

The Fund invests in A Shares via the QFII investment quota obtained by the Manager. These investments are held in a segregated account with Bank of Communications Co. Ltd (the "QFII custodian") on behalf of the Fund. Substantially all of the assets of the Fund are held by the Trustee or the QFII custodian. Bankruptcy or insolvency of the Trustee or the QFII custodian may cause the Fund's rights with respect to securities held by the Trustee or the QFII custodian to be delayed or limited. There were no investments in debt securities as at 30 September 2021 and 31 March 2021.

The majority of the cash held by the Fund is deposited with Bank of Communications Co., Ltd. and The Hongkong and Shanghai Banking Corporation Limited (the "banks").

Bankruptcy or insolvency of the banks may cause the Fund's rights with respect to the cash held by the banks to be delayed or limited. The Fund monitors the credit rating of the banks on an ongoing basis.

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

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

At both 30 September 2021 and 31 March 2021, 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.

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 receivables, amounts receivable on sales of investments and cash and cash equivalents. The amount of the loss allowance did not change during the period ended 30 September 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 30 September 2021 and 31 March 2021, the Fund's listed equity investment are considered to be readily realisable under normal market conditions as they are all listed on stock exchange in Hong Kong or the PRC.

The Fund has one class of units in issue which is not redeemable by the unitholders. All financial liabilities have contractual maturities of less than three months. At both 30 September 2021 and 31 March 2021, there were no significant exposures to liquidity risk for the Fund.

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

12 Financial instruments and associated risks (continued)

(d) Capital management

At 30 September 2021, the Fund had \$914,757,071 (as at 31 March 2021: \$1,086,422,921) of capital classified as equity.

The Fund's objective in managing the capital is to ensure a stable and strong base to maximise returns to all investors. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives and policies stated in the Trust Deed.

There were no changes in the policies and procedures during the period with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.

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

13 Fair value information

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

Valuation of financial instruments

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

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

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

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

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

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

13 Fair value information (continued)

Valuation of financial instruments (continued)

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

	30 September 2021 (unaudited)			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	916,948,743	–	–	916,948,743
	<u>916,948,743</u>	<u>–</u>	<u>–</u>	<u>916,948,743</u>
	31 March 2021 (audited)			
	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>

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

As at 30 September 2021 and 31 March 2021, the Fund did not hold any level 3 financial instruments.

During the period/year ended 30 September 2021 and 31 March 2021, there were no transfers between levels.

14 Segment information

The Manager makes the strategic resource allocation on behalf of the Fund and has determined the operating segments based on the internal reports reviewed which are used to make strategic decisions.

The Manager's asset allocation decisions are based on one single and integrated investment strategy and the Fund's performance is evaluated on an overall basis. Accordingly, the Manager considers that the Fund has one single operating segment which is investing in a portfolio of financial instruments to generate investment returns in accordance with the investment objective stipulated in the offering circular of the Fund. There were no changes in the operating segment during the period.

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

15 Units in issue and NAV per unit

As at 30 September 2021, units in issue was 44,001,019 units (as at 31 March 2021: 55,001,200 units) and NAV per unit was \$20.79 (as at 31 March 2021: \$19.75).

Notes to the unaudited interim financial report

For the six months ended 30 September 2021

16 Redemption of units under the Recurring Redemption Offer

For the six months ended 30 September 2021, the Manager proposed a Recurring Redemption Offer to the unitholders of the Fund. For the six months ended 30 September 2020, the Manager did not propose a Recurring Redemption Offer to the unitholders of the Fund.

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 September 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard which are not yet effective for the period ended 30 September 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 30 September 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>			
Anhui Guangxin Agrochemical Co Ltd – A Share	576,500	22,647,077	2.48
Anhui Guangxin Co Ltd	51,300	2,017,801	0.22
Anhui Honglu Steel Construction Group Co Ltd	182,600	9,652,270	1.05
Apeloa Pharmaceutical Co Ltd	299,242	13,780,615	1.51
Apeloa Pharmaceutical Co Ltd – A Share	16,000	735,899	0.08
Asymchem Laboratories Co Ltd	10,300	5,538,315	0.61
Asymchem Laboratories Tianjin Co Ltd – A Share	82,426	44,264,606	4.84
Beijing Originwater Technology Co Ltd	203,800	1,910,009	0.21
Beijing Originwater Technology Co Ltd – A Share	1,307,900	12,242,148	1.34
Beijing Tongtech Co Ltd – A Share	207,440	7,644,235	0.84
Chaozhou Three-Circle Group Co Ltd	76,200	3,409,879	0.37
Chaozhou Three-Circle Group Co Ltd – A Share	253,700	11,338,522	1.24
China Cssc Holdings Ltd	294,100	8,892,642	0.97
China Merchants Bank Co Ltd	179,400	10,914,595	1.19
China Merchants Bank Co Ltd – A Share	458,600	27,865,779	3.05
China Three Gorges Renewable	780,600	6,930,397	0.76
China Tourism Group Duty Free Corp Ltd	17,500	5,487,883	0.60
Contemporary Amperex Technology Co Ltd	54,400	34,494,274	3.77
Contemporary Amperex Technology Co Ltd – A Share	21,757	13,778,408	1.51
Dbappsecurity Ltd	23,619	10,011,369	1.09
East Money Information Co Ltd	265,460	11,004,967	1.20
East Money Information Co Ltd – A Share	394,140	16,318,946	1.78
Gemdale Corporation – A Share	1,082,900	14,610,613	1.60
Grandblue Environment Co Ltd	64,900	2,074,439	0.23
Grandblue Environment Co Ltd – A Share	407,100	12,995,980	1.42
Guangdong Haid Group Co Ltd – A Share	111,000	9,012,493	0.98
Guanghui Energy Co Ltd – A Share	1,456,900	15,233,915	1.67
Haier Smart Home Co Ltd	243,900	7,692,963	0.84
Haier Smart Home Co Ltd – A Share	1,003,438	31,609,985	3.46
Hangzhou Hikvision Digital Co Ltd	21,300	1,412,776	0.15
Hangzhou Hikvision Digital Technology Co Ltd – A Share	457,022	30,274,911	3.31
Hengli Petrochemical Co Ltd	644,200	20,210,274	2.21
Hengyi Petrochemical Co Ltd – A Share	2,304,680	31,962,610	3.50
HUAYU Automotive Systems Co Ltd	349,900	9,630,963	1.05
HUAYU Automotive Systems Co Ltd – A Share	15,100	415,102	0.05
Hubei Yihua Chemical Industry Co Ltd	805,716	18,519,208	2.02
Iflytek Co Ltd	151,350	9,655,308	1.06
Industrial Bank Co Ltd	458,000	10,103,906	1.10

Investment portfolio (unaudited)

As at 30 September 2021

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities (continued)			
Listed investments (continued)			
<i>The People's Republic of China (continued)</i>			
Industrial Bank Co Ltd – A Share	467,500	10,300,478	1.13
Jason Furniture Hangzhou Co Ltd	168,800	12,170,226	1.33
Jchx Mining Management Co Ltd	324,200	8,346,023	0.91
Kweichow Moutai Co Ltd	1,200	2,648,759	0.29
Kweichow Moutai Co Ltd – A Share	2,700	5,952,192	0.65
Longi Green Energy Technology Co Ltd	40,380	4,016,728	0.44
Longi Green Energy Technology Co Ltd – A Share	142,760	14,182,885	1.55
Luxshare Precision Industry Co Ltd	153,363	6,605,726	0.72
Luxshare Precision Industry Co Ltd – A Share	889,537	38,266,252	4.18
Midea Group Co Ltd	46,770	3,925,765	0.43
Midea Group Co Ltd – A Share	368,600	30,900,409	3.38
Muyuan Foodstuff Co Ltd	78,000	4,882,835	0.53
Muyuan Foodstuff Co Ltd – A Share	73,500	4,595,330	0.50
Nanjing King-Friend Biochemica	199,900	8,666,759	0.95
Nari Technology Development Co Ltd – A Share	316,080	13,669,528	1.49
North Huajin Chemical Industry Co Ltd	745,000	6,281,214	0.69
North Huajin Chemical Industry Co Ltd – A Share	2,423,499	20,407,137	2.23
Poly Developments And Holdings Group Co Ltd	424,000	7,170,080	0.78
Pony Testing International	174,000	13,373,097	1.46
Saic Motor Corp Ltd	484,430	11,142,736	1.22
Saic Motor Corp Ltd – A Share	184,800	4,245,362	0.46
Shandong Kaisheng New Mate Co Ltd – A Share	229,196	9,108,595	1.00
Shanghai Baolong Automotive Co Ltd	152,900	4,945,541	0.54
Shanghai Baolong Automotive Co Ltd – A Share	16,000	518,173	0.06
Shanghai Jinjiang International Co Ltd	79,277	4,345,059	0.47
Shanghai Jinjiang International Hotels Co Ltd	81,400	4,455,791	0.49
Shanghai Kelai Mechatronic	394,400	15,612,287	1.71
Sichuan Guoguang Agrochemical	848,938	9,296,124	1.02
Tsingtao Brewery Co Ltd – A Share	135,400	13,135,252	1.44
Valiant Co Ltd	632,600	14,364,900	1.57
Valiant Co Ltd – A Share	594,900	13,525,878	1.48
Wanhua Chemical Group Co Ltd – A Share	174,500	22,431,722	2.45
Wuliangye Yibin Co Ltd	10,300	2,725,613	0.30
Xinyu Iron & Steel Co Ltd	892,100	7,672,081	0.84
Yibin Wuliangye Co Ltd – A Share	17,100	4,519,340	0.49
Yonyou Network Technology Co Ltd	95,000	3,796,253	0.41
Yonyou Network Technology – A Share	298,100	11,897,219	1.30
Zanyu Technology Group Co	224,600	4,375,038	0.48

Investment portfolio (unaudited)

As at 30 September 2021

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Equities (continued)			
Listed investments (continued)			
<i>The People's Republic of China (continued)</i>			
Zhejiang Dahua Technology Co Ltd	396,500	11,344,047	1.24
Zhejiang Dahua Technology Co Ltd – A Share	129,500	3,700,382	0.40
Zhejiang Jiuzhou Pharmaceutical Co Ltd	120,100	7,974,628	0.87
Zhejiang Satellite Petrochemical Co Ltd	161,500	7,602,934	0.83
Zhejiang Satellite Petroch – A Share	33,100	1,556,283	0.17
Total investments (Total cost of investments: \$852,145,804)		<u>916,948,743</u>	<u>100.24</u>
Other net liabilities		<u>(2,191,672)</u>	<u>(0.24)</u>
Total net assets attributable to unitholders		<u><u>914,757,071</u></u>	<u><u>100.00</u></u>

Statement of movements in portfolio holdings (unaudited)

For the period ended 30 September 2021

	<i>% of total net asset attributable to unitholders</i>	
	<i>30 September 2021</i>	<i>31 March 2021</i>
Listed investments		
Equities	100.24	100.25
	-----	-----
	100.24	100.25
Total investments	100.24	100.25
Other net liabilities	(0.24)	(0.25)
	-----	-----
Net assets attributable to unitholders	100.00	100.00
	=====	=====

Performance table (unaudited)

For the period ended 30 September 2021

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

Year/period end

31 March 2018	HK\$1,175,314,451
30 September 2018	HK\$755,504,928
31 March 2019	HK\$854,858,723
30 September 2019	HK\$799,225,141
31 March 2020	HK\$613,832,401
30 September 2020	HK\$892,592,254
31 March 2021	HK\$1,086,422,921
30 September 2021	<u>HK\$914,757,071</u>

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

Year/period end

31 March 2018	HK\$13.68
30 September 2018	HK\$10.99
31 March 2019	HK\$12.43
30 September 2019	HK\$11.62
31 March 2020	HK\$11.16
30 September 2020	HK\$16.23
31 March 2021	HK\$19.75
30 September 2021	<u>HK\$20.79</u>

Performance table (unaudited)

For the period ended 30 September 2021

(c) Price record (Dealing NAV)

The Fund is a closed-ended fund listed on The Stock Exchange of Hong Kong Limited and no unitholders may demand redemption of their units. In general, closed-ended funds may trade on the exchange at a discount or at a premium to their net asset value. There is no assurance that the units will be traded at a price that is equal to the net asset value. As the market price of the units may be determined by factors such as the net asset value and market supply and demand for the units, there is a risk that the units will be traded at a discount to its net asset value. In times of market disruption or when there is an insufficient number of buyers and/or sellers of the units, the bid/ask spread of the market price of the units may widen significantly. During the year ended 31 March 2013, the Manager offered a right to the unitholders to redeem not more than 40% of the aggregate number of units in issue. For the six months ended 30 September 2016, the Manager offered a right to the unitholders to redeem not more than 20% of the aggregate number of units in issue.

Year/period	Lowest HK\$	Highest HK\$
1 April 2011 to 31 March 2012	7.21	10.28
1 April 2012 to 30 September 2012	7.14	8.42
1 April 2012 to 31 March 2013	7.14	9.41
1 April 2013 to 30 September 2013	7.79	9.58
1 April 2013 to 31 March 2014	7.60	9.58
1 April 2014 to 30 September 2014	7.39	8.69
1 April 2014 to 31 March 2015	7.39	13.69
1 April 2015 to 30 September 2015	9.75	18.36
1 April 2015 to 31 March 2016	9.27	18.36
1 April 2016 to 30 September 2016	9.69	11.41
1 April 2016 to 31 March 2017	9.89	11.58
1 April 2017 to 30 September 2017	11.08	13.29
1 April 2017 to 31 March 2018	11.08	15.22
1 April 2018 to 30 September 2018	10.13	13.97
1 April 2018 to 31 March 2019	9.42	13.97
1 April 2019 to 30 September 2019	10.71	13.15
1 April 2019 to 31 March 2020	10.71	13.79
1 April 2020 to 30 September 2020	11.07	16.83
1 April 2020 to 31 March 2021	11.07	24.40
1 April 2021 to 30 September 2021	<u>19.12</u>	<u>21.94</u>

Administration and management

Directors of the Manager

Executive Directors:

BOTELHO BASTOS Pedro Augusto

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

TAM Chun Pong Stephen

Non-Executive Directors:

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

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