



HSBC China Dragon Fund

Annual Report 2024

Contents

	Page(s)
Trustee's report	1
Independent auditor's report to the unitholders	2
Statement of financial position	5
Statement of comprehensive income	6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9
Investment portfolio (Unaudited)	26
Statement of movements in portfolio holdings (Unaudited)	29
Performance table (Unaudited)	30
Administration and management (Unaudited)	31
SFC ESG related disclosure for the year ended 31 March 2024 (Unaudited)	32

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 2024.

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

Trustee
31 July 2024

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 25, which comprise the statement of financial position as at 31 March 2024, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2024 and of its financial performance 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 13 to the financial statements and the accounting policies in note 2(c)(iv)</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 March 2024 the investment portfolio represented 99.96% of the total assets of the Fund and is the key driver of the Fund’s investment returns.</p> <p>The Fund’s investment portfolio comprises listed equities, which are classified as level 1 financial instruments under the fair value hierarchy and are stated at their fair values at the reporting date.</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">• developing an understanding of the control objectives and related controls relevant to our audit of the Fund by obtaining the service organisation internal control report provided by the trustee setting out the controls in place, and the independent service auditor’s assurance report over the design and operating effectiveness of those controls;• evaluating the tests undertaken by the service auditor, the results of tests undertaken and opinions formed by the service auditor on the design and operating effectiveness of the controls, to the extent relevant to our audit of the Fund;• obtaining independent confirmations from the custodians of the investment portfolio held at 31 March 2024, 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.

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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.

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)

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

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 Chui Ming Wai, Vivian.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 July 2024

Statement of financial position

As at 31 March 2024

	Notes	2024 HK\$	2023 HK\$
Assets			
Financial assets at fair value through profit or loss	8, 12	463,933,205	526,170,640
Other receivables		3	116
Amounts receivable on sales of investments		–	7,772,482
Cash and cash equivalents	10(d)	199,463	2,025,079
Total assets		<u>464,132,671</u>	<u>535,968,317</u>
Liabilities			
Bank overdraft	10(d)	117	–
Amounts payable on purchases of investments		–	5,110,135
Accrued expenses and other payables	10(a), (b) & (c)	963,633	1,468,085
Total liabilities		<u>963,750</u>	<u>6,578,220</u>
Net assets attributable to unitholders		<u>463,168,921</u>	<u>529,390,097</u>
Representing:			
Total equity		<u>463,168,921</u>	<u>529,390,097</u>
Number of units in issue	15, 16	<u>28,160,756</u>	<u>28,160,756</u>
Net asset value per unit	15	<u>16.45</u>	<u>18.80</u>

Approved and authorised for issue by the Trustee and the Manager on 31 July 2024

)
) 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 2024

	Notes	2024 HK\$	2023 HK\$
Dividend income	4	13,232,219	13,515,009
Interest income on deposits	5, 10(d)	5,772	14,415
Net losses from financial assets at fair value through profit or loss	6	(65,496,441)	(10,256,845)
Net foreign exchange loss		(125,832)	(1,453,287)
Other income		7,197	1,993,160
Total investment (loss)/income		<u>(52,377,085)</u>	<u>3,812,452</u>
Management fees	10(a)	(6,981,456)	(8,403,162)
Transaction costs	9, 10(e)	(2,250,426)	(3,035,681)
Trustee's fees	10(b)	(325,801)	(392,148)
Custodian fees	10(c)	(669,595)	(936,733)
Auditor's remuneration		(312,725)	(312,525)
Legal and professional fees		(1,668,031)	(1,358,086)
Other operating expenses	10(b)	(312,835)	(251,872)
Total operating expenses		<u>(12,520,869)</u>	<u>(14,690,207)</u>
Loss before taxation		(64,897,954)	(10,877,755)
Taxation	4, 7	(1,323,222)	(1,351,504)
Decrease in net assets attributable to unitholders and total comprehensive loss for the year		<u><u>(66,221,176)</u></u>	<u><u>(12,229,259)</u></u>

The notes on pages 9 to 25 form part of these financial statements.

Statement of changes in equity

For the year ended 31 March 2024

	Notes	2024 HK\$	2023 HK\$
Balance at the beginning of the year		529,390,097	672,917,594
Decrease in net assets attributable to unitholders and total comprehensive loss for the year		(66,221,176)	(12,229,259)
Redemption of units during the year	16	<u>–</u>	<u>(131,298,238)</u>
Balance at the end of the year		<u><u>463,168,921</u></u>	<u><u>529,390,097</u></u>

The movement of number of units during the year was as follows

Units issued and redeemed:

		2024 Units	2023 Units
Number of units in issue			
Balance at the beginning of the year	15	28,160,756	35,200,876
Redeemed during the year		<u>–</u>	<u>(7,040,120)</u>
Balance at the end of the year	15	<u><u>28,160,756</u></u>	<u><u>28,160,756</u></u>

Cash flow statement

For the year ended 31 March 2024

	2024	2023
	HK\$	HK\$
Operating activities		
Interest income received	5,885	14,301
Dividend income received	13,232,219	13,515,009
Management fees paid	(7,126,949)	(8,598,438)
Trustee's fees paid	(332,591)	(401,261)
Transaction costs paid	(2,250,426)	(3,035,681)
Tax paid	(1,323,222)	(1,351,504)
Proceeds from sales of investments	990,803,624	1,380,853,355
Payments for purchases of investments	(991,400,283)	(1,243,560,149)
Other operating expenses paid	(3,443,367)	(5,229,339)
	<u>(1,835,110)</u>	<u>132,206,293</u>
Net cash (used in)/generated from operating activities	-----	-----
Financing activity		
Payments on redemption of units	-	(131,087,034)
	<u>-</u>	<u>(131,087,034)</u>
Cash used in financing activity	-----	-----
	(1,835,110)	1,119,259
Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	2,025,079	742,610
Effect of foreign exchange rates changes	9,377	163,210
	<u>199,346</u>	<u>2,025,079</u>
Cash and cash equivalents at the end of the year		
Cash at Bank	199,463	2,025,079
Bank overdraft	(117)	-
	<u>199,346</u>	<u>2,025,079</u>
Cash and cash equivalents at the cash flow statement		

The notes on pages 9 to 25 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2024

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 made between HSBC Global Asset Management (Hong Kong) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"). 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 the Manager and (ii) Shenzhen-Hong Kong Stock Connect and any other similar stock connect programme between another city of the People's Republic of China ("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 Material 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 HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 (the "SFC Code"). Material 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 2024

2 Material 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 2024

2 Material 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 receivables, amounts receivable on sales of investments and cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- Other business model: this includes listed equity investments. 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 2024

2 Material 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.

(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 2024

2 Material 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.

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

At each reporting date, the Fund assesses whether credit risk for financial assets held at amortised cost has increased significantly since initial recognition. If there is a significant increase in credit risk since initial recognition, then the Fund measures the loss allowances on financial assets at an amount equal to the lifetime expected credit losses. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowances on financial assets at an amount equal to the expected credit losses for the later of 12 months or the period to maturity, if the amount is material. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered as credit impaired.

(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.

(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.

Notes to the financial statements

For the year ended 31 March 2024

2 Material accounting policies (continued)

(e) Revenue recognition

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

Dividend income

Dividend income from equities 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 irrevocably 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) Foreign exchange gains or losses

Foreign currency transactions during the years 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. 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.

Notes to the financial statements

For the year ended 31 March 2024

2 Material 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.
 - (viii) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

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) Units in issue

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

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

(k) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager. 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.

Notes to the financial statements

For the year ended 31 March 2024

2 Material accounting policies (continued)

(i) 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, brokers and dealers. Transaction costs, when incurred, are immediately recognised in statement of comprehensive income 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 adopted the Amendments of HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments required the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The Fund has not applied other new standard or interpretation that is not yet effective for the current accounting year (see note 17).

4 Dividend income

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

	2024	2023
	HK\$	HK\$
Dividend income	13,232,219	13,515,009
Withholding taxes	(1,323,222)	(1,351,504)
	<u>11,908,997</u>	<u>12,163,505</u>

5 Interest income on deposits

The Fund earned all its interest income from cash and cash equivalents during the years ended 31 March 2024 and 2023.

6 Net losses from financial assets at fair value through profit or loss

During the years ended 31 March 2024 and 2023, the Fund earned or incurred gains or losses from financial assets at fair value through profit or loss as shown below:

	2024	2023
	HK\$	HK\$
Realised losses on sale of investments	(52,432,975)	(44,152,460)
Movement on unrealised (losses)/gains in value of investments	(13,063,466)	33,895,615
	<u>(65,496,441)</u>	<u>(10,256,845)</u>

Gains and losses presented above exclude dividend income.

Notes to the financial statements

For the year ended 31 March 2024

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

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

Taxation in the statement of comprehensive income represents:

	2024	2023
	HK\$	HK\$
Withholding tax arise from dividend income in PRC	<u>1,323,222</u>	<u>1,351,504</u>

Notes to the financial statements

For the year ended 31 March 2024

8 Financial assets at fair value through profit or loss

Investments at fair value through profit or loss as of 31 March 2024 and 2023 are shown as follows:

	2024	2023
	HK\$	HK\$
Listed equities		
– Hong Kong	8,200,006	8,750,226
– Outside Hong Kong	455,733,199	517,420,414
Total financial assets at fair value through profit or loss	<u>463,933,205</u>	<u>526,170,640</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 year ended 31 March 2024 and 2023 between the Fund and the Trustee, the Manager and their Connected Persons. Connected Persons are those as defined in the SFC Code. All transactions during the years 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.

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

(a) Management fees

The fee payable to the Manager is calculated at the rate of 1.5% (2023: 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 \$6,981,456 (2023: \$8,403,162) and \$526,073 (2023: \$671,566) respectively.

(b) Trustee's fees

The fee payable to the Trustee is calculated at the rate of 0.07% (2023: 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 \$325,801 (2023: \$392,148) and \$24,550 (2023: \$31,340) respectively.

No rebate was made with regards to the Trustee's fee charged to the Fund during the years ended 31 March 2024 and 2023.

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 ended 31 March 2024 is \$78,243 (2023: \$78,369). 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 \$30,480 (2023: \$38,052).

Notes to the financial statements

For the year ended 31 March 2024

10 Related party transactions (continued)

(c) Custodian fee

The custodian fee paid to the Bank of Communications Co. Ltd (the "QFII Custodian") is calculated at the rate of 0.1% (2023: 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, custodian fee of \$339,227 (2023: \$521,620) was charged to the Fund and no custodian fee was remained payable at the end of the reporting year 2024 and 2023.

The administrative fee charged to the Fund by The Hongkong and Shanghai Banking Corporation Limited ("HSBC Hong Kong") on purchases and sales of investments and sub-custody of investments during the year ended 31 March 2024 is amounted to \$330,368 (2023: \$415,113) and the corresponding payable at the end of the year ended 31 March 2024 is \$31,541 (2023: \$29,006).

(d) Bank balances

Bank accounts are maintained with HSBC Hong Kong, 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 2024 amounted to \$28,466 and \$170,880 respectively (2023: \$5,137 and \$2,019,942 respectively). During the year ended 31 March 2024, interest earned from HSBC Hong Kong and The Bank of Communications Co. Ltd amounted to \$2,900 and \$2,872 respectively (2023: \$1,417 and \$8,276 respectively). During the year ended 31 March 2024, interest expense paid from bank overdraft to HSBC Hong Kong amounted to \$1,882 (2023: nil).

(e) Transaction costs

During the year ended 31 March 2024 and 2023, 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.

(f) Holding of units

As at 31 March 2024 and 2023, HSBC Hong Kong held 12,974 units (2023: 12,974 units) of the Fund. HSBC Hong Kong did not subscribe any units of the Fund (2023: Nil) and did not redeem any units of the Fund during the year ended 31 March 2024 (2023: 12,842 units). As at 31 March 2024 and 2023, HSBC International Trustee Limited held 64,168 units (2023: 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 years ended 31 March 2024 and 2023. Both entities are members of the HSBC Group.

11 Soft dollar practices

The Manager may enter into soft commission arrangements for the provision to the Manager or Connected Persons of goods and services which are of demonstrable benefit to the unitholders provided that (i) the brokerage rates do not exceed customary institutional full service brokerage rates and the execution of transactions for a Fund is consistent with best execution standards, (ii) periodic disclosure is made in the annual report of the Fund or the relevant Fund in the form of a statement describing the soft dollar policies and practices of the Manager, including a description of goods and services received by it, and (iii) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer.

During the year ended 31 March 2024, the Manager had entered into soft commission arrangements with brokers under which certain goods and services used to support investment decision making may be received by the Manager (2023: nil). 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. During the year ended 31 March 2024, the Manager did not obtain any services through soft commission arrangements on transactions and no commission is paid from the Fund (2023: nil)

Notes to the financial statements

For the year ended 31 March 2024

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 risk exposures inherent in the Fund as at 31 March 2024 and 2023 are summarized below. Details of such investments held as at 31 March 2024 and 2023 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 years ended 31 March 2024 and 2023, 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 6% (2023: 15%) increase in value of the investments as at 31 March 2024, 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.

	2024			2023		
	% 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:						
– Hong Kong	1.77	6	492,000	1.65	15	1,312,534
– Outside Hong Kong	98.40	6	27,343,992	97.74	15	77,613,062
	<u>100.17</u>	<u>6</u>	<u>27,835,992</u>	<u>99.39</u>	<u>15</u>	<u>78,925,596</u>

Notes to the financial statements

For the year ended 31 March 2024

12 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 and bank overdraft, the Fund did not hold any other interest-bearing assets and liabilities as at 31 March 2024 and 2023, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for the years ended 31 March 2024 and 2023.

(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 2024			
Renminbi	464,104,085	–	464,104,085
31 March 2023			
Renminbi	535,963,064	5,110,135	530,852,929

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 2024, the HKD strengthened in relation to the Renminbi by approximately 5% (2023: strengthened by 7%). At 31 March 2024, had the HKD further strengthened in relation to the Renminbi by 5% (2023: strengthened by 7%), with all other variables held constant, net assets attributable to unitholders would have increased/(decreased) by the amounts shown in the following table.

Notes to the financial statements

For the year ended 31 March 2024

12 Financial instruments and associated risks (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

All amounts stated in Hong Kong dollars

31 March 2024

Renminbi	23,205,204
----------	------------

31 March 2023

Renminbi	37,159,705
----------	------------

HK\$

A 5% weakening of the HKD (2023: weakening by 7%) 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 2023.

(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 2024, 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 held by the Fund as at 31 March 2024 and 2023.

The majority of the cash held by the Fund is deposited with Bank of Communications Co., Ltd. and HSBC Hong Kong with credit rating as A2 and Aa2 (2023: A2 and Aa2) respectively sourced from Moody's.

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.

Substantially all the assets of the Fund are held by QFII custodian where its credit rating is A2 (2023: A2) as sourced from Moody's.

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 2024 and 2023, 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.

Notes to the financial statements

For the year ended 31 March 2024

12 Financial instruments and associated risks (continued)

(b) Credit risk (continued)

Amounts arising from ECL

Impairment on other receivable, amounts receivables on sales of investments 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 receivable and cash and cash equivalents. The amount of the loss allowance did not change during the years ended 31 March 2024 and 2023.

(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 2024 and 2023, the Fund's listed equity investments are considered to be readily realisable under normal market conditions as they are all listed on stock exchange in PRC and Hong Kong.

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 2024 and 2023, there were no significant exposures to liquidity risk for the Fund.

(d) Capital management

At 31 March 2024, the Fund had \$463,168,921 (2023: \$529,390,097) 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 years ended 31 March 2024 and 2023, 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.

Notes to the financial statements

For the year ended 31 March 2024

13 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.

	2024			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	463,933,205	–	–	463,933,205
	<u>463,933,205</u>	<u>–</u>	<u>–</u>	<u>463,933,205</u>
	2023			
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Listed equities	526,170,640	–	–	526,170,640
	<u>526,170,640</u>	<u>–</u>	<u>–</u>	<u>526,170,640</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 2024 and 2023, the Fund did not hold any level 3 financial instruments.

During the years ended 31 March 2024 and 2023, there were no transfers between levels.

Notes to the financial statements

For the year ended 31 March 2024

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 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.

15 Units in issue and NAV per unit

As at 31 March 2024, units in issue was 28,160,756 units (2023: 28,160,756 units) and NAV per unit was HKD16.45 (2023: HKD18.80).

16 Redemption of units under the Recurring Redemption Offer

For the year ended 31 March 2023, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a recurring redemption basis.

On 30 August 2022, 7,040,120 units, representing 20% of the total outstanding number of unites as at 29 August 2022, were redeemed at a total amount of HKD 131,298,238. 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.

For the year ended 31 March 2024, the Manager did not offer right to the unitholders to redeem the whole or a part of their units on a recurring redemption basis.

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

17 Possible impact of amendments issued and effective for the year ended 31 March 2024

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments which are issued and effective for the year ended 31 March 2024 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 HKAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current ("2020 Amendments")</i>	1 January 2024
Amendments to HKAS 21, <i>The effects of changes in foreign exchange rates: Lack of exchangeability</i>	1 January 2025

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 2024

	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 – A Share	1,146,400	5,251,172	1.13
Air China Ltd	524,400	4,126,576	0.89
Air China Ltd – A Share	391,100	3,091,651	0.67
Anhui Anli Material Technology Co Ltd	479,000	6,929,816	1.50
Anhui Heli Co Ltd	130,400	2,787,434	0.60
Anhui Heli Co Ltd – A Share	68,300	1,466,639	0.32
Bank of Jiangsu Co Ltd	1,986,900	16,977,954	3.66
Beijing New Building Mater – A Share	103,300	3,159,104	0.68
BOE Technology Group Co Ltd	802,800	3,513,481	0.76
BOE Technology Group Co Ltd – A Share	312,600	1,374,342	0.30
China Merchants Bank Company Limited	176,900	6,140,277	1.33
China Merchants Bank Company Limited – A Share	198,100	6,907,487	1.49
China Merchants Energy	236,700	2,031,026	0.44
China Merchants Energy – A Share	140,700	1,212,794	0.26
China National Nuclear Power Co Ltd – A Share	470,000	4,677,277	1.01
China National Nuclear Power Corporation	438,585	4,344,838	0.94
China Resources Sanjiu Medical & Pharmaceutical Co Ltd – A Share	70,400	3,955,816	0.85
China Telecom Corp Ltd	1,057,700	6,932,188	1.50
Citic Securities Co Ltd	89,275	1,847,717	0.40
Citic Securities Company Limited – A Share	78,800	1,638,352	0.35
CMOC Group Limited	495,800	4,466,934	0.96
Contemporary Amperex Technology Co Ltd	35,620	7,301,588	1.58
Contemporary Amperex Technology Co Ltd – A Share	45,003	9,267,025	2.00
Fuanna – A Share	450,900	5,263,550	1.14
Gree Electric Appliances Inc – A Share	92,900	3,945,908	0.85
Guangxi Liuzhou Pharmaceut – A Share	323,600	7,393,770	1.60
Guotai Junan Securities Co – A Share	506,700	7,610,393	1.64
Hangzhou Hikvision Digital Technology Co Ltd – A Share	112,800	3,928,302	0.85
Henan Pinggao Electric Co	53,000	820,988	0.18
Henan Pinggao Electric Co – A Share	377,100	5,868,039	1.27
Hisense Visual Technology Co Ltd – A Share	266,200	6,887,909	1.49
Hla Group Corp Ltd	335,100	3,265,853	0.70
Huatai Securities Co Ltd	375,300	5,680,021	1.23
Huatai Securities Co Ltd – A Share	258,500	3,930,134	0.85
Huayu Automotive Systems Co Ltd	101,900	1,835,502	0.40
Huayu Automotive Systems Co Ltd – A Share	366,400	6,629,971	1.43
Hubei Hongcheng General Machinery Co Ltd	153,400	6,203,375	1.34
Inner Mongolia Yili Industrial Group Company Limited	50,800	1,527,820	0.33

Investment portfolio (Unaudited)

As at 31 March 2024

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Inner Mongolia Yili Industrial Group Company Limited – A Shares	271,000	8,187,536	1.77
Jcet Group Co Ltd	18,400	557,946	0.12
Jcet Group Co Ltd – A Share	201,700	6,144,059	1.33
Jiangsu Changshu Automotive Trim Group Co Ltd	565,800	9,705,051	2.10
Jiangsu General Science Te – A Share	193,800	1,096,774	0.24
Jiangsu General Science Techno	733,100	4,167,756	0.90
Kweichow Moutai Co Ltd – A Share	10,800	19,915,564	4.30
Luxshare Precision Industry Co Ltd	82,500	2,615,491	0.56
Luxshare Precision Industry Co Ltd – A Share	417,837	13,307,045	2.87
Midea Group Co Ltd	173,748	12,071,643	2.61
Nanjing Bestway Intelligen – A Share	173,109	7,566,844	1.63
Ningbo Orient Wires & Cabl – A Share	92,900	4,434,326	0.96
Ningbo Orient Wires & Cables	30,800	1,476,856	0.32
Offshore Oil Engineering Co Ltd	544,100	3,959,012	0.85
Offshore Oil Engineering Co Ltd – A Share	723,200	5,286,180	1.14
Petrochina Co Ltd	405,000	4,313,365	0.93
Petrochina Co Ltd – A Share	515,700	5,517,391	1.19
Postal Savings Bank Of Chi – A Share	1,982,900	10,193,891	2.20
Saic Motor Corp Ltd	165,400	2,686,909	0.58
Shengyi Technology Co Ltd	10,300	191,305	0.04
Shengyi Technology Co Ltd – A Share	268,600	5,011,538	1.08
Shenzhen Fuanna Bedding – A Share	74,500	865,724	0.19
Tcl Technology Group Corporation – A Share	1,841,800	9,314,061	2.01
Tongkun Group Co Ltd	20,500	303,630	0.07
Tongkun Group Co Ltd – A Share	593,200	8,826,075	1.91
Tsingtao Brewery Co Ltd	16,500	1,482,853	0.32
Tsingtao Brewery Co Ltd – A Share	40,400	3,647,295	0.79
Weichai Power Co Ltd – A Share	424,900	7,644,469	1.65
Xcmg Construction Machin – A Share	1,136,000	7,823,754	1.69
Xi An Shaangu Power Co Ltd	391,900	3,700,698	0.80
Xi An Shaangu Power Co Ltd – A Share	288,100	2,732,921	0.59
Xinyu Iron & Steel Co Ltd	975,800	3,715,343	0.80
Yantai Jereh Oilfield – A Share	63,000	2,056,367	0.44
Yantai Jereh Oilfield Services Group Co Ltd – A Share	238,200	7,810,473	1.69
Yto Express Group Co Ltd	304,400	5,106,563	1.10
Yunhai Metals	43,100	802,760	0.17
Yunhai Metals Szhk	77,500	1,436,926	0.31
Yunnan Aluminium Co Ltd – A Share	765,200	11,403,089	2.46
Zhejiang Conba Pharmaceuti Ord	380,300	1,980,057	0.43
Zhejiang Conba Pharmaceutical	1,906,600	9,972,096	2.15
Zhejiang Dahua Technology – A Share	133,700	2,723,940	0.59
Zhejiang Dahua Technology Co Ltd – A Share	192,900	3,947,969	0.85
Zhejiang IDC Fluid Control – A Share	376,500	3,425,403	0.74

Investment portfolio (Unaudited)

As at 31 March 2024

	HSBC China Dragon Fund		
	Holdings	Market value HK\$	% of total net assets attributable to unitholders
Zhejiang Wanma Co Ltd	473,000	4,694,364	1.01
Zhengzhou Coal Mining Machinery Group Co Ltd	79,000	1,273,129	0.27
Zhengzhou Coal Mining Machinery Group Co Ltd – A Share	670,700	10,857,985	2.34
Zhongman Petroleum And Nat – A Share	133,200	3,618,967	0.78
Zhongman Petroleum And Natural Ord	121,800	3,294,217	0.71
Zijin Mining Group Co Ltd – A Share	800,600	14,582,141	3.15
Zte Corp – A Share	82,700	2,495,242	0.54
Zte Corp A Shares	184,600	5,595,183	1.21
		<u>455,733,199</u>	<u>98.40</u>
<i>Hong Kong</i>			
China Mobile Ltd	71,600	8,200,006	1.77
		<u>8,200,006</u>	<u>1.77</u>
Total investments		463,933,205	100.17
(Total cost of investments: \$ 452,476,671)			
Other net liabilities		(764,284)	(0.17)
Total net assets attributable to unitholders		<u>463,168,921</u>	<u>100.00</u>

Statement of movements in portfolio holdings (Unaudited)

For the year ended 31 March 2024

	<i>% of total net assets attributable to unitholders</i>	
	2024	2023
Listed investments		
Equities	100.17	99.39
	-----	-----
	100.17	99.39
	-----	-----
Total investments	100.17	99.39
Other net (liabilities)/assets	(0.17)	0.61
	-----	-----
Net assets attributable to unitholders	100.00	100.00
	=====	=====

Performance table (Unaudited)

For the year ended 31 March 2024

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

Year

31 March 2024	HK\$463,168,921
31 March 2023	HK\$529,390,097
31 March 2022	HK\$672,917,594

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

Year

31 March 2024	HK\$16.45
31 March 2023	HK\$18.80
31 March 2022	HK\$19.12

(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\$
2024	14.45	19.39
2023	15.37	19.50
2022	17.85	22.85
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

(d) Total expense ratio

	2024
Average net asset value	HK\$467,554,741
Total expenses	HK\$10,270,443
Total expense ratio	2.20%

Administration and management (Unaudited)

Directors of the Manager

Executive Directors:

TAM Chun Pong Stephen

HO Wai Fun

MOREAU Nicolas Jean Marie Denis

TO Kok Wing

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

SFC ESG related disclosure for the year ended 31 March 2024 (Unaudited)

Fund's Carbon Footprint including formula

HSBC China Dragon Fund

Carbon Footprint

Corporate Carbon Footprint*	Corporate		
	Carbon Footprint	Coverage	Holdings Weight
Fund	193.92	87%	100%

* Expressed in CO2e/USDmn invested using Scope 1+2 Carbon Emissions
 Source: S&P Trucost

Corporate Carbon Footprint (tonnes CO2e/USD mn) :

The GHG emissions apportioned to the portfolio per million USD owned by the portfolio. Each holding's contribution to the carbon footprint of the portfolio is calculated on an equity ownership basis using the Enterprise Value (EVIC) of the companies. The carbon footprint of the fund is the sum of these contributions, normalised by amount owned.

$$\frac{\sum_i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1 and 2 GHG emissions}_i \right)}{\text{current value of all investments (\$M)}}$$

Coverage:

This indicates the proportion of the fund for which data can be sourced.

Assumption/data limitation:

This GHG consists to sum of the carbon emissions (scope 1, 2 and 3) of issuer divided by enterprise value, multiplied by the weight of the investment. Enterprise Value, including cash (EVIC) in million Euro are sourced from AM's reporting vendor FactSet. It is a measure of carbon emissions ownership, as it takes into account the proportion of emissions per investment, relative to the total size of the issuer value. However, carbon footprint can fluctuate without a change in carbon emissions as a result of changes in issuer value. Total carbon footprint is the sum of all issuer carbon footprint, divided by the value of the portfolio.

Data limitation: Carbon emissions (Scope 1, 2 & 3) are primarily based on company carbon disclosures, or estimated by S&P Trucost in the absence of company reports. It is worth noting the lack of coverage of scope 3 GHG emissions and some niche asset classes (such as Small Caps, High Yield or emerging markets issuers). These gaps are due to companies not reporting emissions and it is not appropriate to estimate non-reported emissions for niche asset classes or sub-industries.

It is important to note that we decided to zero down the carbon emission for internally approved green bonds – i.e. green bonds for which "greenness" has been ascertained and approved by a fully-fledged HSBC AM committee. This option has been set in the absence of a more accurate and systematic assessment which would consist in applying to the concerned bond a reduced CHG emissions based on the financed projects / use of proceeds. The same abatement ("zeroing") will apply similarly to portfolio position and corresponding benchmark components.

[This page is intentionally left blank]

[This page is intentionally left blank]

[This page is intentionally left blank]

Issued by HSBC Global Asset Management (Hong Kong) Limited