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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant, or other professional adviser.**

**If you have sold or transferred** all of your units in **HSBC China Dragon Fund**, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**HSBC CHINA DRAGON FUND**

**滙豐中國翔龍基金**

*Hong Kong unit trust authorised under  
section 104 of the Securities and Futures Ordinance  
(Chapter 571 of the Laws of Hong Kong)*

**(Stock Code: 820)**

**CIRCULAR TO UNITHOLDERS  
IN RELATION TO  
RECURRING REDEMPTION OFFER**

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## CORPORATE INFORMATION

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The Fund	HSBC China Dragon Fund, a Hong Kong unit trust authorised under section 104 of the SFO
Manager	HSBC Global Asset Management (Hong Kong) Limited HSBC Main Building 1 Queen's Road Central Hong Kong
Directors of the Manager	MOREAU, Nicolas Jean Marie Denis HO, Wai Fun TAM, Chun Pong Stephen
Trustee	HSBC Institutional Trust Services (Asia) Limited HSBC Main Building 1 Queen's Road Central Hong Kong
Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17 Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and is subject to change. Any changes to the expected timetable will be announced separately by the Fund. All references to time are Hong Kong times and dates. (note 1)*

Despatch of this document and redemption request forms . . . . .	9 August 2022
Commencement date for lodging the redemption request with the Registrar . . . . .	15 August 2022
Lodgement Date of the Recurring Redemption Offer (i.e. last date for lodgement of Recurring Redemption Offer request) . . . . .	4:30 p.m. on 29 August 2022
Redemption Day of the Recurring Redemption Offer (note 1) . . . . .	30 August 2022
Time for calculating the net asset value of the Fund as of the Value Day . . . . .	9:30 a.m. on the Business Day immediately after the Redemption Day (i.e. 31 August 2022)
Announcement of the net asset value of the Fund as of the Value Day . . . . .	by 6:00 p.m. on 31 August 2022
Latest date for return of certificate(s) for Units not redeemed (if applicable) . . . . .	14 September 2022

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## EXPECTED TIMETABLE

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Latest date for despatch of cheques  
to redeeming Unitholders of

Recurring Redemption Offer (*note 2*) . . . . . The Manager shall use its best endeavours to pay all the redemption proceeds, less the Redemption Levy, to Unitholders on or before 28 October 2022 (i.e. within 2 months after the Redemption Day). Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents which may take time to obtain in practice given the uncertainties around the PRC tax issues.

Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund's assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months.

*Notes:*

1. Assuming no event occurs which requires a suspension of the Redemption Day.
2. **Due to the legal and regulatory requirements in the PRC, redemption proceeds payable to Unitholders out of the Fund's assets in the PRC may be paid to the Unitholders in more than one month from the Redemption Day. The Manager shall use its best endeavours to repatriate and distribute such proceeds to the Unitholders within two months after the Redemption Day (i.e. on or before 28 October 2022). Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents which may take time to obtain in practice given the uncertainties around the PRC tax issues. Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund's assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months. Investors should refer to the risk factor headed under "Uncertainty on the payment date of the redemption proceeds" on page 16 of this circular. The Fund will also use its assets outside PRC if any and appropriate to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable by 14 September 2022.**

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## DEFINITIONS

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*In this circular, the following definitions apply throughout unless otherwise stated:*

“Applicable Regulations”	the Code on Share Buy-Backs as if they were applicable to the Fund (including but not limited to all relevant timing and disclosure requirements under the Code on Share Buy-Backs), the Handbook and all other applicable codes, rules, regulations and laws
“Business Day”	a day (other than a Saturday or Sunday) on which the Stock Exchange is open for normal trading and banks are open for normal banking business in Hong Kong provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which the Stock Exchange and banks in Hong Kong are open for any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	the circular published by the Fund dated 17 November 2015 regarding the extraordinary resolutions in relation to (a) the Change of Investment Objective, (b) the One-off Redemption Offer; (c) the Recurring Redemption Offer and (d) the changes to the Trust Deed to effect the Recurring Redemption Offer approved by the Independent Unitholders of the Fund in the general meeting held on 7 January 2016
“Code”	the Code on Unit Trusts and Mutual Funds issued by the SFC, as the same may from time to time be modified, amended, revised or replaced, or supplemented either by published guidelines, policies, practice statements or other guidance issued by the SFC or, in any particular case, by specific written guidance issued by the SFC in response to a specific request by the Manager and/or the Trustee
“connected persons”	has the meaning given to it in the Code
“CSRC”	China Securities Regulatory Commission
“Directors”	the directors of the Manager
“Explanatory Statement”	the explanatory statement set out in Appendix 1 to this circular
“Extraordinary Resolution”	a resolution proposed as such and passed on a poll by 75% or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting of the Unitholders

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## DEFINITIONS

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“Firm Intention Announcement”	the announcement dated 19 July 2022 by the Manager in relation to the Recurring Redemption Offer
“Fund”	HSBC China Dragon Fund
“General Meeting”	the general meeting of Unitholders held on 7 January 2016 at which the extraordinary resolutions in relation to (a) the Change of Investment Objective, (b) the One-off Redemption Offer; (c) the Recurring Redemption Offer and (d) the changes to the Trust Deed to effect the Recurring Redemption Offer were approved
“Handbook”	the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Unitholder(s)”	Unitholders other than any Unitholder that has a material interest in the Recurring Redemption Offer which is different from the interests of all other Unitholders
“Latest Practicable Date”	5 August 2022, being the latest practicable date prior to the despatch of this circular for ascertaining certain information contained herein
“Lodgement Date”	29 August 2022, the last date for lodgement of redemption requests pursuant to the Recurring Redemption Offer
“Manager”	HSBC Global Asset Management (Hong Kong) Limited
“Offering Circular”	the offering circular of the Fund dated 15 June 2022 and includes any amendments and supplements thereto
“One-off Redemption Offer”	the One-off Redemption Offer as described in the Circular
“Overseas Unitholder(s)”	Unitholder(s) whose addresses, as shown in the register of Unitholders, are outside Hong Kong as of the Lodgement Date or the lodgement date with respect to each Recurring Redemption Offer
“PRC” or “China”	the People’s Republic of China, but for the purposes of this circular and the Fund’s investment objective and investment approach only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“QFI”	qualified foreign institutional investor (“ <b>QFII</b> ”) and RMB qualified foreign institutional investor (“ <b>RQFII</b> ”) approved by the CSRC pursuant to the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》) promulgated by the CSRC, People’s Bank of China and SAFE on 25 September 2020 and effective from 1 November 2020, as may be amended from time to time. The QFII program and RQFII program have been merged into a combined scheme for qualified foreign investor (“ <b>QFI</b> ”) from 1 November 2020
“Recurring Redemption Offer”	an offer by the Manager to all Unitholders to redeem part or all of their holdings in the Fund (subject to a Redemption Levy) as the Manager determines at its discretion taking into account the best interests of the Unitholders, subject to certain conditions as described in the Circular and the Offering Circular, pursuant to the Firm Intention Announcement and this circular
“Redemption Day”	the Business Day immediately following the Lodgement Date
“Redemption Levy”	the redemption fee of up to 2% of the redemption price, payable in relation to the redemption of Units by a redeeming Unitholder pursuant to the Recurring Redemption Offer as described in this circular
“Registrar”	Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Relevant Period”	the period from 19 January 2022, being the date falling six months before the date of the Firm Intention Announcement, up to and including the Latest Practicable Date
“SAFE”	State Administration of Foreign Exchange
“Seventh Recurring Redemption Offer”	the Recurring Redemption Offer dated 7 December 2021
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



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## DEFINITIONS

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“Trust Deed”	the trust deed dated 20 June 2007 between the Trustee and the Manager and includes any amendments and supplements thereto
“Trustee”	HSBC Institutional Trust Services (Asia) Limited
“Unit(s)”	unit(s) of the Fund
“Unitholder(s)”	holder(s) of Units
“Value Day”	the Redemption Day, being the date on which the relevant market closing price of the underlying investments of the Fund, and the Fund’s applicable operating expenses accrued or incurred to date shall be used to calculate the net asset value of the Fund to be adopted as the redemption price for the purpose of the Recurring Redemption Offer

## HSBC CHINA DRAGON FUND

### 滙豐中國翔龍基金

*Hong Kong unit trust authorised under  
section 104 of the Securities and Futures Ordinance  
(Chapter 571 of the Laws of Hong Kong)*

**(Stock Code: 820)**

**Managed by  
HSBC Global Asset Management (Hong Kong) Limited**

**Directors of the Manager:**

MOREAU, Nicolas Jean Marie Denis  
HO, Wai Fun  
TAM, Chun Pong Stephen

**Registered office of the Manager:**

HSBC Main Building  
1 Queen's Road Central  
Hong Kong

9 August 2022

*To the Unitholders*

Dear Sir/Madam

## **CIRCULAR TO UNITHOLDERS IN RELATION TO RECURRING REDEMPTION OFFER**

### **I. INTRODUCTION**

Reference is made to the Firm Intention Announcement by the Manager in relation to the Recurring Redemption Offer as described on pages 9 to 26 of this circular. The purposes of this circular are to provide you with further information regarding the Recurring Redemption Offer.

The total net asset value and capitalisation (being the Unit's closing price on the Stock Exchange multiplied by the total number of Units in issue) of the Fund as at 4 August 2022 are HK\$630,193,976 and HK\$538,573,403, respectively, representing a discount of 14.54%.

## **II. RECURRING REDEMPTION OFFER**

### **(a) Terms of the Recurring Redemption Offer**

#### *(i) Background to the Recurring Redemption Offer*

The Extraordinary Resolution regarding the Recurring Redemption Offer was duly passed by the Unitholders in the General Meeting.

According to the Circular, the Manager may offer a Recurring Redemption Offer to all Unitholders to redeem part or all of their holdings in the Fund (subject to a Redemption Levy) as the Manager determines at its discretion taking into account the best interests of the Unitholders, subject to the following conditions:

1. the Fund must be trading at a discount of its net asset value of 20% (daily average) or more for three consecutive months;
2. such redemption offer must only be made in the best interests of the Unitholders;
3. there is no material adverse impact to the Fund;
4. the Manager must comply with the principles and rules under the Applicable Regulations, with the only following exceptions:
  - (a) no independent advice by an independent board committee and/or independent financial adviser will be required in relation to any redemption offer made following the approval of the Recurring Redemption Offer proposal at the General Meeting;
  - (b) where the redemption proceeds cannot be repatriated from China due to legal or regulatory requirements beyond the control of the Manager, the redemption proceeds payment period may be extended beyond the time limits stipulated in the Applicable Regulations. In such case, the Manager must keep proper records to demonstrate and justify this and keep Unitholders and the SFC properly and promptly informed. In any event, the redemption proceeds must be paid to Unitholders as soon as possible after the receipt of the proceeds by the Fund;
5. in considering whether to proceed with a redemption offer, the Manager must take into account of all relevant prevailing market conditions (such as market liquidity, the percentage of stocks held by the Fund which have been suspended from trading and other relevant regulatory requirements) and must be reasonably satisfied that the redemption proceeds can be paid to Unitholders in accordance with the time limits stipulated in the Applicable Regulations;

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## LETTER FROM THE MANAGER

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6. there is no minimum number of redemption offer to be made in a calendar year and the maximum number for each calendar year shall not exceed three;
7. the aggregate redemption of all Unitholders to be no more than 20% of the total outstanding number of Units as at the relevant lodgement date of each Recurring Redemption Offer; and
8. Independent Unitholders may by Extraordinary Resolution at a general meeting terminate the Manager's entitlement to make any further redemption offer under the Recurring Redemption Offer.

Each Recurring Redemption Offer will be subject to applicable regulatory approvals but will not be subject to any further approval of the Unitholders nor the advice of the independent financial adviser. **Investors are advised to refer to the letter of advice from an independent financial adviser dated 17 November 2015 in the Circular in relation to the opinion and recommendations of the independent financial adviser including discussions on the reasons, the risks and the benefits associated with the Recurring Redemption Offer.**

The Manager would like to announce that the above eight conditions (being the conditions before a proposed Recurring Redemption Offer can be made, as set out in the Circular) were fulfilled and have become unconditional with respect to the offering of a Recurring Redemption Offer:

1. the Fund has been trading at a discount of its net asset value of 20.10% (daily average) from 1 March 2022 to 31 May 2022, being above the condition of discount of 20% or more for three consecutive months;
2. such redemption offer is made in the best interests of the Unitholders;
3. there is no material adverse impact to the Fund;
4. the Manager must comply with the Applicable Regulations with the only exceptions set out in condition 4(a) and 4(b) above;
5. the Manager has taken into account of all relevant prevailing market conditions and is reasonably satisfied that the redemption proceeds can be paid to Unitholders in accordance with the time limits stipulated in the Applicable Regulations;
6. the Fund has not yet made any Recurring Redemption Offer in 2022, this met the condition of the Fund not having made more than three redemption offers in a calendar year; the last Recurring Redemption Offer was made on 7 December 2021;

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## LETTER FROM THE MANAGER

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7. the aggregate redemption of all Unitholders will be no more than 20% of the total outstanding number of Units as at the relevant lodgement date of the Recurring Redemption Offer; and
8. Independent Unitholders may by Extraordinary Resolution at a general meeting terminate the Manager's entitlement to make any further redemption offer under the Recurring Redemption Offer, and such Extraordinary Resolution has not taken place.

Accordingly, the Manager has determined at its discretion, taking into account the best interests of the Unitholders, to make a Recurring Redemption Offer.

As at the Latest Practicable Date, 35,200,876 Units are in issue. Currently, Unitholders do not have the right to redeem any part of their holdings of Units.

The Manager wishes to offer a Recurring Redemption Offer to the Unitholders to redeem the whole or a part of their Units on the Redemption Day for cash.

*(ii) Terms of the Recurring Redemption Offer*

The Manager proposes to offer the Unitholders the Recurring Redemption Offer, being a right to apply to redeem the whole or a part of their Units at, subject to a Redemption Levy, the net asset value of the Units being redeemed (calculated using the relevant market closing price of the underlying investments of the Fund and the Fund's applicable operating expenses accrued or incurred to date on the Value Day) on the Redemption Day provided that for the Fund as a whole the total number of Units to be redeemed by the Unitholders shall not exceed 20% of the total outstanding number of Units as at the Lodgement Date. The redemption of Units by a Unitholder pursuant to the Recurring Redemption Offer will not attract Hong Kong ad valorem or fixed stamp duty. The redemption of Units by a Unitholder pursuant to the Recurring Redemption Offer will not be subject to any dealing charges other than the Redemption Levy. The Redemption Levy, which is up to 2% of the net asset value of the Units being redeemed (i.e. the redemption price), incorporates commission, stamp duty, transaction cost and total market impact of implementation (i.e. the price difference during the order implementation between the execution price and the price at the time of valuation) will be deducted from the redemption price and will be retained by the Fund for the benefit of the Fund. The actual level of the Redemption Levy will be determined by the Manager according to the Manager's estimation of the above-mentioned commission, stamp duty, transaction cost and total market impact of implementation on the Redemption Day. Each redeeming Unitholder will bear the same percentage of Redemption Levy, namely, the same percentage of the net asset value of the Units being redeemed. The Redemption Levy will be announced together with the net asset value of the Fund as of the Value Day by 6:00 p.m. on 31 August 2022.

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## LETTER FROM THE MANAGER

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The Recurring Redemption Offer will be satisfied by the disposition by the Manager of assets of the Fund. The Manager confirms that sufficient liquid financial resources are available to the Fund to implement and to satisfy the Fund's obligations in respect of the Recurring Redemption Offer in full.

The estimated cost (at the price level as at the Latest Practicable Date) for the Recurring Redemption Offer is HK\$900,000, approximately 0.14% of the net asset value of the Fund as at 4 August 2022. Such cost will primarily include legal fees and costs, and fees and costs incurred by and payable to the Registrar with respect to the Recurring Redemption Offer and will be borne by the Fund, that is, indirectly by all the Unitholders before the Redemption Day with respect to Recurring Redemption Offer. Redemption Levy, which is up to 2% of the net asset value of the Units being redeemed (i.e. the redemption price), will be borne by the redeeming Unitholders pursuant to the Recurring Redemption Offer.

*(iii) Procedures with respect to the Recurring Redemption Offer*

The Recurring Redemption Offer shall occur on the Redemption Day. Unitholders who wish to accept the Recurring Redemption Offer must provide completed redemption requests to the Registrar no later than 4:30 p.m. on the Lodgement Date; provided that the Unitholders are only entitled to make a redemption request under the Recurring Redemption Offer with respect to the Units they hold as of the Lodgement Date. Unitholders that are interested in exercising their rights under the Recurring Redemption Offer shall be required to return their redemption requests forms together with the relevant certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Units in respect of which Unitholders intend to redeem, by post or by hand to the Registrar by no later than 4:30 p.m. on the Lodgement Date. No further action shall be required from the Unitholders who elect to continue to hold onto their entire holdings of Units in the Fund. Unitholders who have lost the certificates representing their Units should contact the Registrar and follow the procedure as required by the Registrar. Unitholders whose Units are held by a nominee company, including those whose interests in the Units are held through CCASS, should refer to the section headed "Nominee Registration of Units" below.

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## LETTER FROM THE MANAGER

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Due to the legal and regulatory requirements in the PRC, redemption proceeds payable to Unitholders out of the Fund's assets in the PRC may be paid to the Unitholders in more than one month from the Redemption Day. The Manager shall use its best endeavours to repatriate and distribute such proceeds to the Unitholders within two months after the Redemption Day (i.e. on or before 28 October 2022). Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents which may take time to obtain in practice given the uncertainties around the PRC tax issues. Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund's assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months. Investors should refer to the risk factor headed under "Uncertainty on the payment date of the redemption proceeds" below. The Fund will also use its assets outside PRC if any and appropriate to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable by 14 September 2022. As such, the Fund may need to pay the redemption proceeds to Unitholders by instalments and the Fund will pay all the redemption proceeds to the Unitholders as soon as possible after receipt of the proceeds by the Fund. Further announcements will be made by the Manager as soon as practicable if there is a need to pay by instalment and the corresponding date(s) of payment and also after the Redemption Day in respect of the results of the redemptions made pursuant to the Recurring Redemption Offer. As of 4 August 2022, A Shares invested directly through the QFI scheme and other net assets in the PRC account for approximately 70.62% of the net asset value of the Fund. For reference, the redemption proceeds payable out of the assets in the PRC as of 4 August 2022 are approximately 25% of the total redemption proceeds (assuming that 20% of the total outstanding Units are being redeemed).

*(iv) Limits on the Recurring Redemption Offer*

Unitholders should note that there is no minimum number of Units which a qualifying Unitholder can apply to redeem under the Recurring Redemption Offer; however, a Unitholder may not apply to redeem more Units than such Unitholder holds as at the Lodgement Date. A Unitholder may apply to redeem the whole or a part of his or her holding of Units, redemption application with respect to Units that are in excess of his or her holdings will be disregarded by the Manager.

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## LETTER FROM THE MANAGER

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The total number of Units to be redeemed by the Unitholders shall not exceed 20% of the total outstanding number of Units as at the Lodgement Date. Regardless of the number of Units a Unitholder has validly applied to redeem, in the event that the aggregate number of Units for which applications are made under the Recurring Redemption Offer exceeds 20% of the total outstanding number of Units as at the Lodgement Date, the number of Units that such Unitholder can eventually redeem will be reduced proportionally. Under such situation, the Fund will satisfy the redemption requests of Unitholders wishing to redeem their Units on a pro rata basis based on the number of Units the Unitholders have validly applied to redeem, rounded down to the nearest whole Unit.

The Fund will dispose of its investments in an orderly manner in order to effect the Recurring Redemption Offer. In the event that the aggregate number of Units for which applications to redeem are made under the Recurring Redemption Offer exceeds 20% of the outstanding number of Units as at the Lodgement Date, the Manager shall, subject to the redemption requests complying with the requirements of the Trust Deed, (i) limit the number of Units to be redeemed under the Recurring Redemption Offer to 20% of the outstanding number of Units as at the Lodgement Date and (ii) realise its investments and apply all or part of such realisation proceeds to satisfy the redemption requests of Unitholders wishing to redeem their Units on a pro rata basis based on the number of Units the Unitholders have validly applied to redeem, rounded down to the nearest whole Unit. Any request for the Recurring Redemption Offer **which is not satisfied** shall be void and certificates representing such Units shall be returned to Unitholders within 10 Business Days after the Redemption Day.

If the aggregate of the actual applications for redemption by the Unitholders made under the Recurring Redemption Offer is less than or equal to the aggregate maximum limit of 20% of the total outstanding number of Units as at the Lodgement Date, all Units applied to be redeemed will be redeemed. The balance between the Units actually redeemed and 20% of the total outstanding number of Units as at the Lodgement Date will neither be carried forward nor be available for any subsequent redemption by any Unitholder on any subsequent trading day of the Fund. The Manager shall, subject to the redemption requests complying with the requirements of the Trust Deed (including, amongst others, any request for the Recurring Redemption Offer must be given in writing signed by the Unitholder or any one of joint Unitholders and must specify the number of Units that are to be realised, and the name or names of the Unitholder or Unitholders together with the relevant certificate(s) and/or transfer receipt(s) and/or any other document(s) of the title (and/or any satisfactory indemnity or indemnities required in respect thereof), the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Manager or its agent or, if relevant, the Trustee), (i) satisfy all such redemption requests and (ii) realise its investments and apply all or part of such realisation proceeds to satisfy such redemption requests under the Recurring Redemption Offer.



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## LETTER FROM THE MANAGER

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The Units to be redeemed must be free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature. Accordingly, the submission of a redemption request by eligible Unitholder will be deemed to constitute a representation and warranty by him or her to the Manager and the Fund that his or her Units are sold free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the date of the Firm Intention Announcement (including the right to all dividends and distributions (if any) declared, made or paid on or after the date of the Firm Intention Announcement) or obligation to create or to give an encumbrance in relation to any of such Units and that no person has claimed to be entitled to an encumbrance in relation to any such Units.

All redeemed Units will be cancelled.

*(v) Payment procedure for the Recurring Redemption Offer*

It is the intention of the Manager to realise the relevant investment of the Fund as soon as practicable on or about the Value Day.

The Manager will aim to realise the Fund's offshore assets (i.e. assets being held by the Fund outside the PRC) first to satisfy the redemption requests, subject to the condition that the Manager will aim to ensure that the Fund will continue to hold approximately 5% of the Fund's total net asset value offshore outside the PRC immediately after the redemption, taking into account the ongoing liquidity need of the Fund outside the PRC (such as payment of various fees and expenses outside PRC) and the asset size required by the Fund to maintain a portfolio efficiently outside PRC.

If the amount obtained by the Fund from the realisation of its assets outside PRC is not adequate to pay the redemption proceeds, the Manager will realise a portion of the assets of the Fund in the PRC and convert such proceeds into United States dollars as soon as practicable on or about the Value Day, and will arrange to hedge the United States dollars back to Hong Kong dollars (the Fund's base currency) accordingly. The Manager will aim to repatriate the relevant proceeds out of the PRC as soon as practicable. After the completion of repatriation, the Manager will apply all or part of such realisation proceeds to satisfy the redemption requests, with the remaining realisation proceeds, if any, being held or invested by the Fund outside PRC according to the Fund's investment objective.

Subject to a number of factors including, but not limited to, the total amount of redemption requests, the amount of offshore assets held by the Fund (i.e. assets outside the PRC) and the time required by the Fund to repatriate funds from the PRC, the Fund may need to pay the redemption proceeds, less the Redemption Levy, by instalments.

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## LETTER FROM THE MANAGER

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If the Fund is required to dispose of its assets in the PRC to satisfy the entire or part of the redemption requests accepted by the Fund in respect of the Recurring Redemption Offer, it is expected that the first repatriation of the disposition proceeds of such assets may take approximately two months with any subsequent repatriation(s) which may be required until the Fund can satisfy all the redemption requests accepted by the Fund in respect of the Recurring Redemption Offer to follow.

Investors should refer to the risk factor headed under “Uncertainty on the payment date of the redemption proceeds” under Key Risk Factors (b)(i) below.

### **(b) Key Risk Factors**

Unitholders should carefully consider the risk factors described in the Offering Circular and below before deciding on whether to apply for redemption of their Units under the Recurring Redemption Offer:

- (i) ***Uncertainty on the payment date of the redemption proceeds: the Manager shall use its best endeavours to pay all the redemption proceeds, less the Redemption Levy, to Unitholders on or before 28 October 2022 (i.e. within 2 months after the Redemption Day). Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents including a special audit report for investment profits issued by a PRC certified public accountant and the required tax filing documents (particularly in the case of the winding-up/liquidation of the Fund), which may take time to obtain in practice given the uncertainties around the PRC tax issues. Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund’s assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund’s assets in the PRC will be distributed within two months. The Fund will also use its assets outside PRC if any and appropriate to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable by 14 September 2022. Accordingly the Fund may need to pay the redemption proceeds, less the Redemption Levy, by instalments depending on a number of factors including, but not limited to, the total amount of redemption requests, the amount of offshore assets held by the Fund (i.e. assets outside the PRC) and the time required by the Fund to repatriate funds from the PRC.***

**The Fund will pay all the redemption proceeds to the Unitholders as soon as possible after receipt of the proceeds by the Fund. Based on the current legal and regulatory requirements in the PRC, the Manager is reasonably satisfied that redemption proceeds can be repatriated from the PRC within two months after the Redemption Day;**

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## LETTER FROM THE MANAGER

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- (ii) *Uncertainty on the trading price and the net asset value of the Fund:* under the Recurring Redemption Offer, the net asset value at which the eligible Units will be redeemed shall be determined using the relevant market closing price of the underlying investments of the Fund and the Fund's applicable operating expenses accrued or incurred to date on the Value Day, and subject to the Redemption Levy and the relevant calculation method, shall be announced by the Manager no later than two Business Days after the Value Day. The Redemption Levy is to be retained by the Fund for the benefit of the Fund. Unitholders should note that the net asset value at which the eligible Units will be redeemed may be higher or lower than the traded price of the Units. There is no assurance that the Fund will be traded at a price that is equal to or at a reduced discount to its net asset value subsequent to the effecting of the Recurring Redemption Offer or that the performance of the Fund will be improved or enhanced thereafter;
- (iii) *Uncertainty on whether a Unitholder may redeem all its Units:* as the total number of Units to be redeemed by the Unitholders shall not exceed 20% of the total outstanding number of Units as a whole as at the Lodgement Date, a Unitholder may not be able to redeem all the Units he or she applies to redeem under the Recurring Redemption Offer regardless of whether he or she applies to redeem more or less than 20% of the Units he or she owns at the Lodgement Date.

In the event that the aggregate number of Units for which applications to redeem are made under the Recurring Redemption Offer exceeds 20% of the outstanding number of Units as at the Lodgement Date, the Manager shall apply the relevant realisation proceeds to satisfy the redemption requests of Unitholders wishing to redeem their Units on a pro rata basis based on the number of Units the Unitholders have validly applied to redeem, rounded down to the nearest whole Unit. Unitholders should refer to the section headed "Limits on the Recurring Redemption Offer" above for details;

- (iv) *Risk of Odd Lots:* any Units held by Unitholders that are not successfully redeemed under the Recurring Redemption Offer may be in odd lots. The realisable price of such odd lot Units may be significantly lower than the traded price for such Units;
- (v) *Impact on the total expense ratio and size of the Fund:* the Recurring Redemption Offer, (i) if effected, will increase the total expense ratio of the Fund by 0.12% (i.e. from 2.30% for the financial year ended 31 March 2022 to approximately 2.42% after the Recurring Redemption Offer (assuming that 20% of the total outstanding Units will be redeemed), this has taken into account the reduction in the net asset value of the Fund under (ii) of this paragraph (v)) as a result of the expenses incurred with respect to the Recurring Redemption Offer and such expenses are not covered by the Redemption Levy and (ii) reduce the size of the Fund after such Recurring Redemption Offer is effected. The Manager may decide to terminate the

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## LETTER FROM THE MANAGER

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Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) on any date if on such date the net asset value of the Fund shall be less than HK\$400,000,000 under the Trust Deed without any approval of the Unitholders by giving at least three (3) months' prior written notice. While the Manager does not envisage the current exercise of the Recurring Redemption Offer will result in the net asset value of the Fund being less than HK\$400,000,000, recurring redemption offer(s) to be made in the future may result in the termination of the Fund;

- (vi) *Remittance risk*: all documents and remittances will be sent to the Unitholders through ordinary post at their own risk. These documents and remittances will be sent to the Unitholders at their respective addresses as they appear in the register of Unitholders, and in the case of joint Unitholders, to the Unitholder whose name appears first in the register of Unitholders; and
- (vii) *Foreign currency risk*: a major part of the Fund's investments is denominated in RMB and a major portion of the Fund's revenue and income is received in RMB. There is no assurance that any revenue and income received by the Fund in RMB may be promptly converted into US\$, the Fund will therefore be exposed to risk of fluctuation in the exchange rate of RMB relative to US\$ and US\$ relative to Hong Kong dollars (the currency in which the redemption proceeds will be paid in). The Manager may use hedging techniques to, at the costs and expense of the Fund, attempt offsetting currency risks. However, there is no assurance that the hedging techniques to be adopted by the Manager will achieve a desired result which is beneficial to the Fund's investments and performance.

### (c) Taxation

**Unitholders should consult their professional advisers on the consequences to them of redeeming Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances.**

The following statements regarding taxation are based on advice received by the Fund regarding the law and practice in force in Hong Kong at the Latest Practicable Date. Investors should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon the individual circumstances of the taxpayer.

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## LETTER FROM THE MANAGER

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(i) *Hong Kong*

- Profits Tax

No tax will be payable by the Unitholders in Hong Kong in respect of dividends or other distributions of the Fund or in respect of any capital gains arising on a sale or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

- Stamp Duty

The redemption of Units by a Unitholder will not attract Hong Kong ad valorem or fixed stamp duty.

The trading of Hong Kong stock (including the underlying H shares and shares issued by red chip companies) by the Fund to effect the Recurring Redemption Offer is subject to Hong Kong stamp duty. The Fund and the counterparty will each be liable to stamp duty at the current rate of 0.13% of the higher of the consideration paid or the market value of shares being sold and purchased.

(ii) *The PRC*

The information below is a summary of certain areas of PRC taxation which are likely to be relevant to the Fund and the Unitholders and should not be taken as a definitive, authoritative or comprehensive statement of the relevant matter. In particular, there are various other taxes, duties, levies and charges which are generally of less significance but may nevertheless be applicable to the Fund and the Unitholders. The tax rules applicable to the previous QFII and RQFII schemes will equally apply to the combined QFI regime before any new rules or clarifications are released by the Ministry of Finance (“**MoF**”) and the State Taxation Administration (“**STA**”).

- Corporate income tax

Pursuant to the Corporate Income Tax Law of the PRC and its implementation rules, a foreign enterprise that does not have any establishment or place of business in China is subject to a corporate income tax at the rate of 10% for the dividends, interest, royalty, rental and other income (including capital gain) earned from sources in the PRC.

Pursuant to the “*Circular Concerning the Temporary Exemption of Enterprise Income Tax for Gains Derived by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China*”, corporate income tax shall be temporarily exempted on the gains derived by QFIs from the transfer of domestic shares and other equity interest investment in China with effect from 17 November 2014.

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## LETTER FROM THE MANAGER

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Pursuant to the “*Circular on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai/Shenzhen and Hong Kong Stock Markets*“, in respect of trading through the Stock Connect corporate income tax shall be temporarily exempted on the gains derived by Hong Kong market investors (including corporate investors) from the transfer of China A-shares listed on the Shanghai/Shenzhen Stock Exchange.

- Stamp tax

Pursuant to the tentative regulations of the PRC stamp tax, stamp tax is levied on the execution or receipt within the territory of China of certain documents, including contracts for the transfer of equity interests and the sale of A Shares and B Shares on stock exchanges.

According to the latest notice issued by the MoF and STA, the transfer of A Shares and B shares each is subject to 0.1% stamp tax of the total proceeds but only on the selling side.

Under the “*Circulars on the Taxation Policy of the Pilot Programme for the Mutual Stock Market Access between Shanghai and Hong Kong Stock Markets*“, Hong Kong market investors trading through Shanghai-Hong Kong Stock Connect are required to pay stamp duty arising from the sale and purchase of China A-shares and the transfer of China A-shares by way of succession and gift in accordance with the prevailing Mainland China taxation regulations. The same rules apply to Hong Kong market investors trading through Shenzhen-Hong Kong Stock Connect. In addition, Caishui [2016] No. 127 provides temporary stamp duty exemption on stock borrowing and returning related to covered short selling of stocks by Hong Kong market investors through the Stock Connect.

- Business tax/Value-Added Tax (“VAT”)

Pursuant to the notice Caishui [2005] No. 155 issued jointly by the STA and MoF in December 2005, gains derived by QFIIs from securities trading carried out by the PRC brokers are exempted from business tax in the PRC.

Pursuant to the notice Caishui [2016] No. 36 issued jointly by the STA and MoF in March 2016, effective from 1 May 2016 (“**Circular 36**”), PRC VAT replaced business tax to cover all sectors that used to fall under the PRC business tax. With the transition of business tax to value-added tax, exemption was extended to value-added tax for trading PRC securities by QFIIs in China under Circular 36. In addition, the *Supplemental Notice on Value-added Tax Policies for Matters Including Financial Transactions between Financial Institutions* (Caishui [2016] No. 70) jointly issued by the MoF and the STA on 30 June 2016 provides the same VAT exemption on RQFII’s securities trading through entrusted domestic company. In

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## LETTER FROM THE MANAGER

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accordance with Circular 36, gains derived from the trading of A Shares listed in the Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect are temporarily exempt from VAT.

In addition, pursuant to the “*Circular on the Taxation Policy of the Pilot Programme of the Shenzhen-Hong Kong Stock Connect Scheme*” Caishui [2016] No. 127 promulgated by the MoF, the STA and the CSRC on 5 November 2016, under the business tax to VAT transformation pilot program, gains by Hong Kong market investors from the trading of China A-shares listed on the Shenzhen Stock Exchange through the Shenzhen-Hong Kong Stock Connect will also be exempted from VAT.

Please refer to the section headed “Taxation and Regulatory Requirements” in the Offering Circular for more information.

### **(d) Suspension of the Recurring Redemption Offer**

As previously approved at the General Meeting and set out in the Circular, the Recurring Redemption Offer will not be subject to any further approval of the Unitholders nor the advice of the independent financial advisor. As stated in the Circular, the right of Unitholders to redeem may be suspended by the Manager in the event that: (A) when either the China or the Hong Kong market is closed; (B) when dealings in the China or the Hong Kong market is restricted or suspended; and/or (C) during the existence of any state of affairs as a result of which disposal or valuation of some or all investments or other property for the time being comprised in the Fund cannot, in the opinion of the Manager, be effected normally or without seriously prejudicing the interests of Unitholders.

The Recurring Redemption Offer will not lapse or be conditional on any minimum number of redemption applications made by the Unitholders.

### **(e) Overseas Unitholders**

Based on the register of Unitholders as at the Latest Practicable Date, there were no Unitholder with registered addresses outside Hong Kong.

### **(f) Dealings in Units by the Fund, the Manager and any entities that are their parent, their subsidiaries, their fellow subsidiaries, associated companies of any of the foregoing, and companies of which such companies are associated companies**

During the 12-month period immediately preceding the date of this circular, the Fund redeemed an aggregate of 8,800,143 Units at HK\$21.99 per Unit on 7 December 2021 pursuant to the Seventh Recurring Redemption Offer and has not conducted any other buy-back of any Units.

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## LETTER FROM THE MANAGER

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The Fund will not conduct any on-market buy-back of Units from the date of the Firm Intention Announcement up to and including the Redemption Day or when the condition to the Recurring Redemption Offer set out in paragraph (d) above is not met.

### (g) Holding Structure

Set out below is a table showing the estimated holding structure of the Fund prior to and after the completion of the Recurring Redemption Offer on the assumptions that (i) the aggregate number of Units for which applications are made under the Recurring Redemption Offer reaches 20% of the outstanding number of Units as at the Lodgement Date; and (ii) the number of the Units in issue as at the Latest Practicable Date remains unchanged until the completion of the Recurring Redemption Offer.

The Fund has not and will not have any parent, subsidiary, fellow subsidiary and/or associated company.

	<b>Immediately before the completion of the Recurring Redemption Offer</b>		<b>Immediately after the completion of the Recurring Redemption Offer</b>	
	<i>Units</i>	<i>Approx.%</i>	<i>Units</i>	<i>Approx.%</i>
Public Unitholders	35,110,892	99.74%	28,088,714	99.74%
Fellow subsidiaries and/or associated companies of the Manager that (i) trade in the Units as discretionary fund managers and/or (ii) for proprietary purposes own or control or direct the holding of voting rights and rights over the Units	89,984	0.26%	71,987	0.26%

### (h) Odd Lots Arrangements

Currently, the Units are traded in board lots of 500 Units each. Such board lot size will not change as a result of the Recurring Redemption Offer. Eligible Unitholders should note that acceptance of the Recurring Redemption Offer may result in their holding of odd lots of the Units.

The Manager will not make arrangements with any designated broker to match sales and purchases of odd lot trading of Units after completion of the Recurring Redemption Offer in order to enable such redeeming Unitholders to dispose of their odd lots or to top up their odd lots to whole board lots.



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## LETTER FROM THE MANAGER

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### **(i) Nominee Registration of Units**

Unitholders whose Units are held by a nominee company should note that the Manager will regard the nominee company as a single Unitholder according to the register of Unitholders. In order for the beneficial owners of the Units whose investments are registered in nominee names (including those whose interests in the Units are held through CCASS) to accept the Recurring Redemption Offer, they may either (i) provide instructions to their nominee agents of their intentions with regard to the Recurring Redemption Offer or (ii) arrange for the Units to be registered in his/her name by the Fund through the Registrar, and send the redemption request forms (available from the Registrar) duly completed together with the certificate(s) of Units to the Registrar.

### **(j) Other Arrangements**

There is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Units and which might be material to the Recurring Redemption Offer.

Other than the condition to the Recurring Redemption Offer as noted under the section headed “Condition to the Recurring Redemption Offer” above, there is no agreement or arrangement to which the Fund, the Manager and any entities that are their parent, subsidiaries, fellow subsidiaries, associated companies of any of the foregoing, and companies of which such companies are associated companies which relates to circumstances in which they may or may not invoke or seek to invoke a pre-condition or a condition to the Recurring Redemption Offer. None of the Fund, the Manager or any entity that is their parent, subsidiary, the Manager’s fellow subsidiary, associated company of any of the foregoing, and any company of which such company is an associated companies has borrowed or lent any Units.

As at the Latest Practicable Date, no persons, including the Fund, the Manager, the Manager’s parent, any of the Manager’s subsidiary, the Manager’s fellow subsidiary, associated company of any of the foregoing, and any company of which such company is an associated company has received any irrevocable commitment from any persons to irrevocably accept or reject the Recurring Redemption Offer.

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## LETTER FROM THE MANAGER

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### **(k) Reason for and Financial Effect of the Recurring Redemption Offer**

The Manager considers that the Recurring Redemption Offer is in the best interests of the Unitholders. The Recurring Redemption Offer will provide the Unitholders an option to exit part of their investment in the Fund. In addition, given the Fund has been trading at an average discount of 20.10% to its net asset value over the past three months since 1 March 2022 to 31 May 2022, the Manager believes that the Recurring Redemption Offer may potentially narrow such discount. However, there is no assurance that the Fund will be traded at a price that is equal to or at a reduced discount to its net asset value subsequent to the effecting of the Recurring Redemption Offer or that the performance of the Fund will be improved or enhanced thereafter.

The Recurring Redemption Offer, if effected, will:

- (i) enable the redeeming Unitholders to receive redemption proceeds equivalent to the net asset value of the Fund attributable to their redeeming Units on the Value Day, less the Redemption Levy;
- (ii) reduce the total net asset value, and therefore size, of the Fund by an amount proportionate to the actual number of Units redeemed. The Manager may decide to terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) on any date if on such date the net asset value of the Fund shall be less than HK\$400,000,000 under the Trust Deed without any approval of the Unitholders by giving at least three (3) months' prior written notice. However, while the Manager does not envisage the current exercise of the Recurring Redemption Offer will result in the net asset value of the Fund being less than HK\$400,000,000, recurring redemption offer(s) to be made in the future may result in the termination of the Fund; and
- (iii) increase the total expense ratio of the Fund from 2.30% for the financial year ended 31 March 2022 to approximately 2.42% after the Recurring Redemption Offer (assuming that 20% of the total outstanding Units are being redeemed).

Investors are advised to refer to the letter of advice from an independent financial adviser dated 17 November 2015 in the Circular in relation to the opinion and recommendations of the independent financial advisor including discussions on the reasons, the risks and the benefits associated with the Recurring Redemption Offer.

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**LETTER FROM THE MANAGER**

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**(I) Net Asset Value**

Based on the net asset value of the Fund as at 4 August 2022 (being the last Business Day before the Latest Practicable Date), upon the completion of the Recurring Redemption Offer (assuming that the aggregate number of Units for which applications are made under the Recurring Redemption Offer reaches 20% of the outstanding number of Units on the Lodgement Date), the financial impact to the Fund's net asset value is expected to be as follows:

	<b>Immediately before the Recurring Redemption Offer (HK\$)</b>	<b>Immediately after the Recurring Redemption Offer (HK\$)</b>
Net asset value of the Fund as at 4 August 2022 ( <i>Note 1</i> )	630,193,976	630,193,976
Less: Redemption proceeds payable to Unitholders under the Recurring Redemption Offer ( <i>Note 2</i> )	—	(123,518,019)
Less: Estimated costs and expenses with respect to the realisation of the assets of the Fund	<u>—</u>	<u>(2,520,776)</u>
	630,193,976	504,155,181
Number of Units in issue	35,200,876	28,160,701
Unaudited adjusted net asset value per Unit	17.91	17.91

*Note 1:* being the unaudited consolidated equity attributable to Unitholders as at 4 August 2022 as published by the Fund on 5 August 2022 which has included accruals of estimated expenses in relation to the Recurring Redemption Offer.

*Note 2* The redemption proceeds payable to Unitholders is calculated as follows assuming that the costs and expenses with respect to the realisation of the assets of the Fund under the Recurring Redemption Offer to be the equivalent to the Redemption Levy and assuming that the Redemption Levy is being charged at 2% of the net asset value of the Units being redeemed:

Net asset value of the Units being redeemed	HK\$126,038,795
Less: Redemption levy retained by the Fund	<u>(HK\$2,520,776)</u>
	<u><u>HK\$123,518,019</u></u>

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## LETTER FROM THE MANAGER

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According to the above example, the Recurring Redemption Offer involves the payment of HK\$126,038,795 (before deduction of Redemption Levy) to the Unitholders and incurs estimated costs and expenses with respect to the realisation of the assets of the Fund of approximately HK\$2,520,776, therefore the net asset value of the Fund will be reduced by the same amount. On the other hand, assume that the Redemption Levy to be deducted from the redemption price and retained by the Fund is equal to the estimated costs and expenses with respect to the realisation of the assets of the Fund, the net asset value of the Fund will be increased by the same amount, i.e. HK\$2,520,776. The Recurring Redemption Offer will therefore reduce the unaudited adjusted net asset value and hence the working capital from HK\$630,193,976 to HK\$504,155,181 assuming that the aggregate number of Units for which applications are made under the Recurring Redemption Offer reaches 20% of the outstanding number of Units on the Lodgement Date. However, the net asset value per Unit is not expected to change subsequent to the Recurring Redemption Offer and will remain at HK\$17.91 based on the information and assumption mentioned in the example above.

The Manager considers that the Recurring Redemption Offer will not significantly affect the liabilities of the Fund as the redemption proceeds payable to Unitholders under the Recurring Redemption Offer will be satisfied in full by the disposition by the Manager of assets of the Fund.

### **(m) Future Intentions of the Fund**

The management of the Fund will remain unchanged and the Fund's listing on the Stock Exchange will be maintained upon completion of the Recurring Redemption Offer. No other major changes will be introduced to the Fund. The size of the Fund will be reduced after the Recurring Redemption Offer and the Manager may decide to terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) on any date if on such date the net asset value of the Fund shall be less than HK\$400,000,000 under the Trust Deed without any approval of the Unitholders by giving at least three (3) months' prior written notice. While the Manager does not envisage the current exercise of the Recurring Redemption Offer will result in the net asset value of the Fund being less than HK\$400,000,000, recurring redemption offer(s) to be made in the future may result in the termination of the Fund.

The Manager intends to continue to meet the public float requirement with respect to the Units after the close of the Recurring Redemption Offer.

### **(n) Information on the Fund and the Manager**

The Fund is a unit trust constituted by the Trust Deed governed by the laws of Hong Kong. Please refer to the Offering Circular for the investment objective of the Fund.

The Manager of the Fund is HSBC Global Asset Management (Hong Kong) Limited. The principal business activity of the Manager is asset management.

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## LETTER FROM THE MANAGER

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### III. GENERAL

#### Explanatory Statement

The Manager is required to send to the Unitholders an explanatory statement setting out the terms of the Recurring Redemption Offer and containing all other information reasonably necessary to enable the Unitholders to make an informed decision on whether to accept a Recurring Redemption Offer. The Explanatory Statement is set out in Appendix 1 to this circular.

The Directors and the Trustee are of the opinion that the Recurring Redemption Offer is in the interests of the Fund and the Unitholders as a whole.

Your attention is drawn to the additional information set out in the Explanatory Statement in Appendix 1 to this circular. The following documents will be available to investors for inspection, free of charge, at the registered office of the Manager and on the website of the Fund at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund):

- the Circular;
- the letter of advice from an independent financial adviser dated 17 November 2015 containing its advice to the independent unitholders of the Fund as to whether the One-off Redemption Offer and the Recurring Redemption Offer were fair and reasonable as to acceptance and voting in the General Meeting;
- the Trust Deed;
- the Offering Circular and the key fact statement of the Fund; and
- the audited accounts of the Fund for the last two financial years for which these have been published.

The unaudited net asset value per Unit on the last Business Day of each calendar month is published within ten (10) Business Days in the South China Morning Post and the Hong Kong Economic Times. The Manager also publishes the unaudited net asset value per Unit of each valuation day on the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund) within one (1) Business Day after the relevant valuation day for investors' reference.

**It should be noted that dealings in the Units will continue during the period from the date of this Circular to the Redemption Day. Those Unitholders selling their Units and persons purchasing the Units during such period will accordingly bear the risk that the Recurring Redemption Offer may not occur or may be delayed. If any Unitholder or other person contemplating selling or purchasing any of the Units during this period is in doubt about his or her position, he or she is advised to exercise caution when dealing in the Units and is also recommended to consult his or her professional adviser.**

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## LETTER FROM THE MANAGER

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### IV. RESPONSIBILITY STATEMENT

All directors of the Manager jointly and severally accept full responsibility for the accuracy of information contained in this circular and the Explanatory Statement in Appendix 1 to this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular and the Explanatory Statement in Appendix 1 to this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular and the Explanatory Statement in Appendix 1 to this circular, the omission of which would make any statement in this circular and the Explanatory Statement in Appendix 1 to this circular misleading.

Investors who have any questions regarding the above may contact the Manager at Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong (telephone number: (852) 2284 1229). For queries regarding the redemption forms or procedures, please contact the Unitholder Helpline of Computershare Hong Kong Investor Services Limited (the Fund's Registrar) at (852) 2862 8691. The Unitholder Helpline is available from 9:00 a.m. to 6:00 p.m. Monday to Friday (other than public holidays) and will remain open until 29 August 2022.

Yours faithfully

By order of the board of

**HSBC Global Asset Management (Hong Kong) Limited**  
**As manager of HSBC China Dragon Fund**

This Appendix 1 serves as an explanatory statement to provide Unitholders with relevant information to enable you to make an informed decision whether to accept the Recurring Redemption Offer.

Defined terms used in this Explanatory Statement have the same meanings given to them in the circular to Unitholders of the Fund dated 9 August 2022 and also the Trust Deed.

## 1. RECURRING REDEMPTION OFFER

### Units in Issue

- 1.1 As at the Latest Practicable Date, the aggregate of Units outstanding is 35,200,876 Units. The Manager wishes to offer the Recurring Redemption Offer for cash. Pursuant to the Recurring Redemption Offer, Unitholders will be entitled to apply to redeem the whole or a part of their Units subject to the Trust Deed and the following provisions and a redemption request form (available from the Registrar) will be despatched to all Unitholders.

### Procedures

- 1.2 On receipt by the Registrar of a redemption request from a Unitholder which complies with the requirements of sub-clause 1.4, the Manager shall, subject to sub-clauses 1.9 and 1.10, effect the redemption of the Units specified in the redemption request at the redemption price, less the Redemption Levy, as determined under sub-clause 1.5. Such Redemption Levy is to be retained by the Fund for its own benefit.
- 1.3 A redemption request complying with the requirements of sub-clause 1.4 shall be dealt with only at the close of the last market of the underlying investments of the Fund (the “**Valuation Point**”) on the Value Day in relation to the Redemption Day on which the redemption is to be effected. In order for a redemption request to be effected on the Value Day, the redemption request together with such Unitholder’s certificate of Units must be received by the Registrar not later than 4:30 p.m. (Hong Kong time) on the Lodgement Date; provided that the Unitholders are only entitled to make a redemption request under the Recurring Redemption Offer with respect to the Units they hold as of the Lodgement Date. No further action shall be required from the Unitholders who elect to continue to hold onto the entire holdings of Units in the Fund. Unitholders who have lost the certificates representing their Units should contact the Registrar and follow the procedure as required by the Registrar.
- 1.4 To be effective a redemption request must be given in writing signed by the Unitholder or any one of joint Unitholders and must specify the number of Units that are to be realised, the name or names of the Unitholder or Unitholders together with the relevant certificate(s) and/or transfer receipt(s) and/or any other

document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof). A redemption request once given cannot be revoked without the consent of the Manager.

No acknowledgement of receipt of any redemption request form or certificate(s) of Units will be given. Only one redemption request form may be submitted by each Unitholder to the Registrar. Acceptances duly received will become irrevocable and cannot be withdrawn.

Regardless of whether Unitholders decide to accept or not accept the Recurring Redemption Offer, they should not submit their certificate(s) of Units to the Registrar before 15 August 2022. Any certificate(s) of Units received prior to 15 August 2022 may not be treated as application for the Recurring Redemption Offer and all such unaccepted certificate(s) will be returned to the Unitholders (by ordinary post, at that Unitholder's own risk) as soon as practicable and in any event, no later than 7 Business Days from the date of receipt. Unitholders may resubmit their certificate(s) of Units to the Registrar before the Lodgement Date if they would like to make a redemption request under the Recurring Redemption Offer with respect to the Units they hold as of the Lodgement Date.

#### **Redemption Price and Payment of Proceeds**

- 1.5 The price per Unit shall be realised on the Value Day at the redemption price (that is, the net asset value per Unit as at the Value Day) less the Redemption Levy in accordance with the Trust Deed. Costs and expenses with respect to the realisation of the assets of the Fund, namely, commission, stamp duty, transaction cost and total market impact of implementation (i.e. the price difference during the order implementation between the execution price and the price at the time of valuation) will be offset against the Redemption Levy. The Redemption Levy which is up to 2% of the net asset value of the Units being redeemed (i.e. the redemption price) will be deducted from the redemption price and will be retained by the Fund for the benefit of the Fund. The actual level of the Redemption Levy will be determined by the Manager according to the Manager's estimation of the above-mentioned commission, stamp duty, transaction cost and total market impact of implementation on the Redemption Day. Each redeeming Unitholder will bear the same percentage of Redemption Levy, namely, the same percentage of the net asset value of the Units being redeemed. The Redemption Levy will be announced together with the net asset value of the Fund as of the Value Day by 6:00 p.m. on 31 August 2022.
- 1.6 It is the intention of the Manager to realise the relevant investment of the Fund as soon as practicable on or about the Value Day.

The Manager will aim to realise the Fund's offshore assets (i.e. assets being held by the Fund outside the PRC) first to satisfy the redemption requests, subject to the condition that the Manager will aim to ensure that the Fund will continue to hold approximately 5% of the Fund's total net asset value offshore outside the PRC immediately after the redemption, taking into account the ongoing liquidity



need of the Fund outside the PRC (such as payment of various fees and expenses outside PRC) and the asset size required by the Fund to maintain a portfolio efficiently outside PRC.

If the amount obtained by the Fund from the realisation of its assets outside PRC is not adequate to pay the redemption proceeds, the Manager will realise a portion of the assets of the Fund in the PRC and convert such proceeds into United States dollars as soon as practicable on or about the Value Day, and may arrange to hedge the currency risk of RMB relative to US\$ and US\$ relative to Hong Kong dollars (the currency in which the redemption proceeds will be paid in) at the Manager's discretion. The Manager will aim to repatriate the relevant proceeds out of the PRC as soon as practicable. After the completion of repatriation, the Manager will apply all or part of such realisation proceeds to satisfy the redemption requests, with the remaining realisation proceeds, if any, being held or invested by the Fund outside PRC according to the Fund's investment objective.

Subject to a number of factors including, but not limited to, the total amount of redemption requests, the amount of offshore assets held by the Fund (i.e. assets outside the PRC) and the time required by the Fund to repatriate funds from the PRC, the Fund may need to pay the redemption proceeds, less the Redemption Levy, by instalments.

If the Fund is required to dispose of its assets in the PRC to satisfy the entire or part of the redemption requests accepted by the Fund in respect of the Recurring Redemption Offer, it is expected that the first repatriation of the disposition proceeds of such assets may take approximately two months with any subsequent repatriation(s) which may be required until the Fund can satisfy all the redemption requests accepted by the Fund in respect of the Recurring Redemption Offer to follow.

- 1.7 Redemption proceeds will not be paid to any redeeming Unitholder until:
- (a) a valid original redemption request has been received by or on behalf of the Manager or, if relevant, the Trustee; and
  - (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Manager or its agent or, if relevant, the Trustee.

Redemption proceeds will be paid in Hong Kong dollars by cheque by ordinary post at the Unitholder's risk.

- 1.8 Where Units are to be realised on any Redemption Day the Manager shall proceed to effect any sales necessary to provide the cash required to meet the redemption request. Where the Manager (or its agent) has effected or will effect the redemption, the Manager (or its agent) shall provide the instruction to the Trustee that the Units are to be realised and cancelled in accordance with the provisions of this clause 1.8 and in such event the Fund shall be reduced by the cancellation of the said Units. Where the Trustee will effect the redemption, the Trustee shall

promptly notify the Manager that the Units are to be realised and cancelled in accordance with the provisions of this clause 1.8 so that the Manager has sufficient time to effect any sales necessary to provide the cash required to meet the redemption request. The Trustee shall pay to the Unitholder, at the direction of the Manager, out of the Fund in respect of the cancellation of the Units the redemption price thereof less any deductions which the Manager, pursuant to any discretion hereunder, directs the Trustee to make or, if agreed, pay to the Manager out of the Fund the redemption price and the Manager shall (subject as otherwise provided in the Trust Deed) pay over the same to the Unitholder. The Trustee may only effect redemptions of Units if so agreed with the Manager and on the terms for the time being approved by the Manager, provided always that the Trustee shall at all times comply with the terms of the Offering Circular in connection therewith.

### **Limits and Suspension of Redemption**

- 1.9 The Manager shall, for the Fund as a whole, limit the total number of Units which Unitholders are entitled to redeem on the Redemption Day to be no more than 20% of the total outstanding Units as at the Lodgement Date, such limitation to be applied pro rata to all Unitholders who have validly requested realisations to be effected on or as at the Value Day so that the proportion realised of each holding so requested to be realised is the same for all such Unitholders, rounded down to the nearest whole Unit. Any application for redemption of Units which, by virtue of the powers conferred on the Manager hereby, are not realised on the Redemption Day shall be void and the certificates representing such Units shall be returned to Unitholders.

Unitholders should note that there is no limit on the number of Units which a Unitholder can apply to redeem under the Recurring Redemption Offer, however, a Unitholder may not apply to redeem more Units than such Unitholder holds as at the Lodgement Date. A Unitholder may apply to redeem the whole or a part of his or her holding of Units. However, the total number of Units to be redeemed by the Fund shall not exceed 20% of the total outstanding number of Units as at the Lodgement Date.

- 1.10 The Manager may suspend the right of the Unitholders to require the redemption of Units of the Fund on the Redemption Day under this paragraph and may accordingly delay the Value Day and the payment of any moneys in respect of any such realisation so suspended in the event that:

- (A) when either the China or the Hong Kong market is closed;
- (B) when dealings in the China or the Hong Kong market is restricted or suspended; and/or

- (C) during the existence of any state of affairs as a result of which disposal or valuation of some or all investments or other property for the time being comprised in the Fund cannot, in the opinion of the Manager, be effected normally or without seriously prejudicing the interests of Unitholders.

Such suspension (which expression shall include the right to delay payment) shall take effect upon the declaration thereof by the Manager and thereafter there shall be no realisation of Units and/or payment of moneys in respect of any such redemption until the Manager shall declare the suspension at an end, except that the suspension shall terminate on which (a) the condition giving rise to the suspension shall have ceased to exist and (b) no other condition under which suspension is authorized under this paragraph shall exist. The Manager's declaration pursuant to this paragraph shall be consistent with such current rules and regulations, if any, relating to the subject matter thereof as shall have been promulgated by any authority having jurisdiction over the Fund (including but not limited to the Code) and subject to that it shall be conclusive. The Trustee shall, subject to and in accordance with the provisions of the Trust Deed, realise Units in respect of which it or any of its authorized agents has received a redemption request and effect redemption of such Units on the Value Day next following the termination of such suspension.

Any suspension and consequential change of the Redemption Day will be published immediately following such decision and at least once a month during the period of suspension on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund).

### **Overseas Unitholders**

- 1.11 Based on the register of Unitholders as at the Latest Practicable Date, there were no Unitholder with registered addresses outside Hong Kong.

### **Nominee Holdings**

- 1.12 If the certificates of Units in respect of a Unitholder's Units are in the name of a nominee company or some name other than his/her own, and such Unitholder wishes to accept the Recurring Redemption Offer (either in full or in respect of part of his holding(s) of Units), he/she must either:

- (i) instruct the nominee company, or other nominee to accept the Offer on his/her behalf and requesting it to deliver the redemption request form duly completed together with the certificate(s) of Units to the Registrar, within such deadline (which may be earlier than the deadline specified under the Recurring Redemption Offer) as may be stipulated by the nominee; or
- (ii) arrange for the Units to be registered in his/her name by the Fund through the Registrar, and send the redemption request form duly completed together with the certificate(s) of Units to the Registrar; or

- (iii) where his/her Units have been maintained with his/her licensed securities dealer/custodian bank through CCASS, instruct his/her licensed securities dealer/custodian bank to authorize HKSCC Nominees Limited to accept the Recurring Redemption Offer on his/her behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, that Unitholder should check with his/her broker/custodian bank for the timing on processing of his instruction, and submit such instruction to his broker/custodian bank as required by them; or
- (iv) if that Unitholder's Units have been lodged with his/her Investor Participant Account with CCASS, authorize his/her instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

Unitholders with such a nominee holding of Units should ensure that they undertake the above applicable course of action promptly so as to allow their nominee(s) sufficient time to complete the acceptance procedure on their behalf by the Lodgement Date.

#### **Transfer of Units**

- 1.13 If a Unitholder has lodged transfer(s) of Units for registration in his/her name and has not yet received the certificate(s) of Units and wishes to accept the Recurring Redemption Offer, he/she should nevertheless complete the redemption request form and deliver it to the Registrar together with the transfer receipt(s) duly signed by him/her. Such action will be deemed to be an authority to the Manager or its agent(s) to collect from the Manager or the Registrar on his/her behalf the relevant certificate(s) of Units when issued and to deliver such certificate(s) of Units, subject to the terms of the Recurring Redemption Offer, as if it/they was/were delivered to the Registrar with the redemption request form.

#### **Lost Certificates**

- 1.14 With respect to lost or unavailable certificate(s) of Units, if the certificate(s) of Units is/are not readily available and/or is/are lost and a Unitholder wishes to accept the Recurring Redemption Offer, the redemption request form should nevertheless be completed and delivered to the Registrar so as to reach the Registrar not later than the Lodgement Date and the certificate(s) of Units should be forwarded to the Registrar as soon as possible thereafter and in any event before the Lodgement Date.

Acceptances of the Recurring Redemption Offer may, at the discretion of the Manager, be treated as valid even if not accompanied by the certificate(s) of Units but, in such cases, the cash consideration due will not be despatched until the relevant certificate(s) of Units has/have been received by the Registrar.

If a Unitholder has lost his/her certificate(s) of Units, he/she should write to the Registrar and request a letter of indemnity in respect of the lost certificate(s) of Units (as the case may be) which, when completed in accordance with the instructions given, should be returned, together with the redemption request form and the certificate(s) of Units which are available, to the Registrar either by post or by hand, so to arrive not later than the Lodgement Date.

In such cases, the Unitholder will be informed of the fees payable to the Registrar for which he/she will be responsible.

### **Replacement of Redemption Request Form**

1.15 If a Unitholder has lost the redemption request form or such original has become unusable, and requires a replacement of such form, he/she should write to the Registrar or visit the Registrar at its office and request an additional redemption request form for completion by such Unitholder.

Alternatively, he/she could download it from the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) or the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund).

### **New Unitholders**

1.16 With respect to any new Unitholder, a new Unitholder may collect a copy of this circular, with the form of proxy and a blank redemption request form from the Registrar during business hours between 9 August 2022 to the Lodgement Date, both days inclusive. Such Unitholder may also contact the Registrar and request a copy of this circular, the form of proxy and a blank redemption request form (as appropriate) to be sent to his/her registered address as recorded in the register of Unitholders.

### **Professional Advice**

1.17 Unitholders should consult their professional advisers on the consequences to them of redeeming Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances.

Unitholders should refer to the section headed "Taxation" on pages 18 to 21 of the Letter from the Manager in this circular for additional information on taxation.

**Effect of Acceptance of the Recurring Redemption Offer**

- 1.18 (a) All communications, notices, redemption request form(s), certificates of Units, transfer receipts, other documents of title or indemnity and remittances to settle the consideration payable under the Recurring Redemption Offer to be delivered by or sent to or from the Unitholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Fund, the Manager nor the Registrar or any of their respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the redemption request form form part of the terms of the Recurring Redemption Offer.
- (c) The accidental omission to dispatch this circular and/or the redemption request form or any of them to any person to whom the Recurring Redemption Offer is made will not invalidate the Recurring Redemption Offer in any way.
- (d) The Recurring Redemption Offer and all acceptances will be governed by and constructed in accordance with the laws of Hong Kong.
- (e) Due execution of the Recurring Redemption Offer will constitute an authority to the Fund, the Manager or such person or persons as the Fund or the Manager may direct to complete and execute any document on behalf of the person accepting the Recurring Redemption Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Fund, the Manager or such person or persons as it may direct the Units, in respect of which such person has accepted the Recurring Redemption Offer.
- (f) Acceptance of the Recurring Redemption Offer by any person will be deemed to constitute a warranty by such person to the Fund and the Manager that its redemption of Units on its own account or on behalf of its customer, will not breach any relevant law or regulation; and the redeeming Unitholder represents and warrants to the Fund that all Units which the redeeming Unitholder redeeming shall be sold free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the Latest Practicable Date (including the right to all dividends and distributions (if any) declared, made or paid on or after the Latest Practicable Date) or obligation to create or to give an encumbrance in relation to any of such Units and that no person has claimed to be entitled to an encumbrance in relation to any such Units.

- (g) Acceptance of the Recurring Redemption Offer by any person who is an Overseas Unitholder will be deemed to constitute a warranty by such person to the Fund and the Manager that he, she or it has observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other consents, complied with all necessary formalities or legal requirements and paid any transfer or other taxes or other required payments due from him, her or it in connection with such acceptance in any jurisdiction, that he, she or it has not taken or omitted to take any action which will or may result in the Fund, the Manager or any other person acting in breach of the legal or regulatory requirements of any jurisdiction in connection with the Recurring Redemption Offer or his, her, its acceptance thereof, and is permitted under all applicable laws to receive and accept the Recurring Redemption Offer, and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws.
- (h) Acceptance of the Recurring Redemption Offer by any nominee will be deemed to constitute a warranty by such nominee to the Fund and the Manager that the number of Units in respect of which it is indicated in the redemption request form is the aggregate number of Units held by such nominee for such beneficial owner who is accepting the Recurring Redemption Offer.
- (i) Reference to the Recurring Redemption Offer in this circular and the redemption request form shall include any extension or revision thereof.
- (j) If the number of Units to be redeemed is not indicated on the redemption request form given or is not indicated in a legible manner, the relevant Unitholder shall be deemed to have accepted the Recurring Redemption Offer in regard to such number of Units as supported by the certificate(s) of Units given.
- (k) If the number of Units to be redeemed as indicated on the redemption request form given is greater than the number of Units as supported by the certificate(s) of Units given, the relevant Unitholder shall be deemed to have accepted the Recurring Redemption Offer in regard to such number of Units as supported by the certificate(s) of Units given.

#### **Unitholders' considerations**

1.19 The Manager believes that the Recurring Redemption Offer is in the best interests of the Fund and the Unitholders as a whole. The Fund has been trading at an average discount of 20.10% to its net asset value over the past three months since 1 March 2022 to 31 May 2022, the Manager believes that the Recurring Redemption Offer may potentially narrow such discount. However, there is no assurance that the Fund will be traded at a price that is equal to or at a reduced discount to its net asset value subsequent to the effecting of the Recurring Redemption Offer or that the performance of the Fund will be improved or enhanced thereafter.

Unitholders should carefully consider the risk factors described in the Offering Circular and below before deciding on whether to apply for redemption of their Units under the Recurring Redemption Offer:

- (i) *Uncertainty on the payment date of the redemption proceeds:* the Manager shall use its best endeavours to pay all the redemption proceeds, less the Redemption Levy, to Unitholders on or before 28 October 2022 (i.e. within 2 months after the Redemption Day). Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents including a special audit report for investment profits issued by a PRC certified public accountant and the required tax filing documents (particularly in the case of the winding-up/liquidation of the Fund), which may take time to obtain in practice given the uncertainties around the PRC tax issues. Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund's assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months. The Fund will also use its assets outside PRC if any and appropriate to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable by 14 September 2022. Accordingly, the Fund may need to pay the redemption proceeds, less the Redemption Levy, by instalments depending on a number of factors including, but not limited to, the total amount of redemption requests, the amount of offshore assets held by the Fund (i.e. assets outside the PRC) and the time required by the Fund to repatriate funds from the PRC;

The Fund will pay all the redemption proceeds to the Unitholders as soon as possible after receipt of the proceeds by the Fund. Based on the current legal and regulatory requirements in the PRC, the Manager is reasonably satisfied that redemption proceeds can be repatriated from the PRC within two months after the Redemption Day;

- (ii) *Uncertainty on the trading price and the net asset value of the Fund:* under the Recurring Redemption Offer, the net asset value at which the eligible Units will be redeemed shall be determined using the relevant market closing price of the underlying investments of the Fund and the Fund's applicable operating expenses accrued or incurred to date on the Value Day, and subject to the Redemption Levy and the relevant calculation method, shall be announced by the Manager no later than two Business Days after the Value Day. The Redemption Levy is to be retained by the Fund for the benefit of the Fund. Unitholders should note that the net asset value at which the eligible Units will be redeemed may be higher or lower than the traded price of the Units. There is no assurance that the Fund will be traded at a price that is equal to or at a reduced discount to its net asset value subsequent to the effecting of the Recurring Redemption Offer or that the performance of the Fund will be improved or enhanced thereafter;



- (iii) *Uncertainty on whether a Unitholder may redeem all its Units:* as the total number of Units to be redeemed by the Unitholders shall not exceed 20% of the total outstanding number of Units as a whole as at the Lodgement Date, a Unitholder may not be able to redeem all the Units he or she applies to redeem under the Recurring Redemption Offer regardless of whether he or she applies to redeem more or less than 20% of the Units he or she owns at the Lodgement Date.

In the event that the aggregate number of Units for which applications to redeem are made under the Recurring Redemption Offer exceeds 20% of the outstanding number of Units as at the Lodgement Date, the Manager shall apply the relevant realisation proceeds to satisfy the redemption requests of Unitholders wishing to redeem their Units on a pro rata basis based on the number of Units the Unitholders have validly applied to redeem, rounded down to the nearest whole Unit. Unitholders should refer to the section headed “Limits on the Recurring Redemption Offer” above for details;

- (iv) *Risk of Odd Lots:* any Units held by Unitholders that are not successfully redeemed under the Recurring Redemption Offer may be in odd lots. The realisable price of such odd lot Units may be significantly lower than the traded price for such Units;
- (v) *Impact on the total expense ratio and size of the Fund:* the Recurring Redemption Offer, (i) if effected, will increase the total expense ratio of the Fund by 0.12% (i.e. from 2.30% for the financial year ended 31 March 2022 to approximately 2.42% after the Recurring Redemption Offer (assuming that 20% of the total outstanding Units will be redeemed), this has taken into account the reduction in the net asset value of the Fund under (ii) of this paragraph (v)) as a result of the expenses incurred with respect to the Recurring Redemption Offer and such expenses are not covered by the Redemption Levy and (ii) reduce the size of the Fund after such Recurring Redemption Offer is effected. The Manager may decide to terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC’s authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) on any date if on such date the net asset value of the Fund shall be less than HK\$400,000,000 under the Trust Deed without any approval of the Unitholders by giving at least three (3) months’ prior written notice. While the Manager does not envisage the current exercise of the Recurring Redemption Offer will result in the net asset value of the Fund being less than HK\$400,000,000, recurring redemption offer(s) to be made in the future may result in the termination of the Fund;
- (vi) *Remittance risk:* all documents and remittances will be sent to the Unitholders through ordinary post at their own risk. These documents and remittances will be sent to the Unitholders at their respective addresses as

they appear in the register of Unitholders, and in the case of joint Unitholders, to the Unitholder whose name appears first in the register of Unitholders; and

- (vii) *Foreign currency risk*: a major part of the Fund's investments is denominated in RMB and a major portion of the Fund's revenue and income is received in RMB. There is no assurance that any revenue and income received by the Fund in RMB may be promptly converted into US\$, the Fund will therefore be exposed to risk of fluctuation in the exchange rate of RMB relative to US\$ and US\$ relative to Hong Kong dollars (the currency in which the redemption proceeds will be paid in). The Manager may use hedging techniques to, at the costs and expense of the Fund, attempt offsetting currency risks. However, there is no assurance that the hedging techniques to be adopted by the Manager will achieve a desired result which is beneficial to the Fund's investments and performance.

## 2. REDEMPTION/BUY-BACK OF UNITS

During the 12-month period immediately preceding the date of this circular, the Fund redeemed an aggregate of 8,800,143 Units at HK\$21.99 per Unit on 7 December 2021 pursuant to the Seventh Recurring Redemption Offer and has not conducted any other buy-back of any Units. Other than the Seventh Recurring Redemption Offer, the Fund has not conducted any buy-back of any Units since 31 March 2022, being the date of the end of the last financial year of the Fund.

## 3. DISCLOSURE OF INTERESTS AND DEALINGS

### (a) Directors' interests and short positions in the Units and the underlying Units of the Fund

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, parties acting in concert, hold any Units.

### (b) Substantial Unitholder's interests in the Fund

As at the Latest Practicable Date, having made all reasonable enquiries, the Manager cannot ascertain the identity of the person (if any) who holds 10% ("**10% holder**") or more of the Units in issue of the Fund and cannot determine the intention of such person (if any) as regards the acceptance of the Recurring Redemption Offer. The Manager has looked at the "Disclosure of Interests" forms ("**DI Forms**") on the website of the Hong Kong Exchange and Clearing Limited, and it appeared that the figures presented therein may not be up-to-date. In particular, the Manager notes that the figures appearing from the DI Forms appeared unreasonable and improbable after taking into account the figures of the preceding redemption exercises. The Manager has therefore considered and further took all reasonable and exhaustive steps in order to determine the 10% holder, such steps include having attempted to obtain the relevant information from the register of the Fund maintained by the Registrar and the list of holders from HKSCC Nominees Limited. However, given that holders of a

non-corporate entity (including the Fund) are not statutorily mandated to make disclosures of their holdings, the Manager cannot ascertain with full certainty the identity of the person (if any) who holds 10% or more of the Units in issue of the Fund from the above-mentioned sources or whether the substantial holder information available to the Manager is up to date. Such limitation also applies should the Manager contact any of the filing parties of the DI Forms for confirmation. Accordingly, while the Manager has taken all reasonable and exhaustive steps discussed above, the Manager is unable to ascertain the identity of the 10% holder and the intention of such person as regards the acceptance of Recurring Redemption Offer.

For the same reasons, the Manager cannot determine with full certainty the effect which the Recurring Redemption Offer will have on the percentage voting rights of the person (if any) holding 10% or more of the Units in issue assuming the Recurring Redemption Offer is successful.

The Manager shall continue to conduct reasonable steps to ascertain if such information is available, and that where such information is available, the Manager will disclose it to the Unitholders as required pursuant to the Takeovers Code and any other applicable rules and regulations.

**(c) Interests of the Fund and the Manager**

The Fund, the Manager and entities that are the Manager's parent, the Manager's subsidiaries, the Manager's fellow subsidiaries, associated companies of any of the foregoing, and companies of which such companies are associated companies that (i) trade in the Units (including the exercise of the One-off Redemption Offer as described in the Circular) as discretionary fund managers and/or (ii) for proprietary purposes have confirmed that there has neither been dealing nor any exercise of the One-off Redemption Offer as described in the Circular in the Units in the six months immediately prior to the date of the circular. The Fund has no parent, subsidiary, fellow subsidiary and/or associated company.

As at the date of this circular, none of the directors of the Manager and any entities that are the Manager's parent, the Manager's subsidiaries, the Manager's fellow subsidiaries, associated companies of any of the foregoing, and companies of which such companies are associated companies that trade in the Units (including the exercise of the One-off Redemption Offer as described in the Circular) as discretionary fund managers and/or for proprietary purposes (other than the entities set out in the following table) had any interests and short positions in the Fund.

As at the date of this circular, the following fellow subsidiaries and/or associated companies of the Manager that (i) trade in the Units as discretionary fund managers and/or (ii) for proprietary purposes own or control or direct the holding of voting rights and rights over the Units:

Name of Entity	<i>Units</i>	<i>Approx.%</i>
The Hongkong and Shanghai Banking Corporation Limited	25,816	0.07%
HSBC International Trustee Limited	64,168	0.18%

Each of the Manager and any entities that are the Manager's parent, the Manager's subsidiaries, the Manager's fellow subsidiaries, associated companies of any of the foregoing, and companies of which such companies are associated companies that trade as discretionary fund managers and/or for proprietary purposes also confirms that, save as disclosed above, it:

- does not own, control or direct any voting rights or other rights over the Units;
- does not hold any convertible securities, warrants or options over the Units;
- has not received any irrevocable commitment to accept the Recurring Redemption Offer in respect of any Units; and
- has not entered into any outstanding derivative in respect of the Units.

During the period beginning from the date of Firm Intention Announcement up to the Latest Practicable Date, the Manager confirms that neither the Manager's parent, the Manager's subsidiaries, the Manager's fellow subsidiaries, associated companies of any of the foregoing or companies of which such companies are associated companies persons have traded in the Units as discretionary fund managers and/or for proprietary purposes.

#### 4. UNITS IN ISSUE

As at the Latest Practicable Date, 35,200,876 Units are in issue. Assuming that the Recurring Redemption Offer is fully exercised by Unitholders, there will be approximately 28,160,701 Units in issue upon completion of the Recurring Redemption Offer. There is only one class of Units in issue and all the Units rank *pari passu*. There has been no payment of dividend during the two-year period preceding the Latest Practicable Date. Other than the buy-back of Units set out in clause 2 above, there has been no re-organization of capital during two financial years preceding date of Firm Intention Announcement.

The Fund redeemed an aggregate of 8,800,143 Units at HK\$21.99 per Unit on 7 December 2021 pursuant to the Seventh Recurring Redemption Offer. Other than the Seventh Recurring Redemption Offer, the Fund has not conducted any buy-back of any Units since 31 March 2022, being the date of the end of the last financial year of the Fund. There have been no new Units issued during the two-year period immediately preceding the Redemption Day.

## 5. TRADING PRICES AND NET ASSET VALUES

The following table shows the highest and lowest prices at which the Units have been traded on the Stock Exchange as well as the net asset values in each of the last twelve months:

<b>Date</b>	<b>Highest price (HK\$)</b>	<b>Lowest price (HK\$)</b>	<b>Highest net asset value (HK\$)</b>	<b>Lowest net asset value (HK\$)</b>
August 2021	16.50	15.50	20.90	19.75
September 2021	17.12	16.28	21.94	20.15
October 2021	18.00	16.40	21.44	20.60
November 2021	18.80	17.62	22.31	21.00
December 2021	19.00	17.82	22.85	21.87
January 2022	18.50	17.02	22.33	20.50
February 2022	17.50	16.20	21.11	20.38
March 2022	16.64	14.74	21.13	17.85
April 2022	15.30	13.30	19.29	16.37
May 2022	15.40	13.40	18.29	16.83
June 2022	15.72	14.10	19.50	18.17
July 2022	15.80	15.00	19.35	17.95
4 August 2022, being the last trading date before the Latest Practicable Date	15.46	15.22	18.49	17.84

The following table shows the closing prices of the Unit on the Stock Exchange and the net asset value per Unit on 18 July 2022 (the last trading date before the date of the Firm Intention Announcement), 4 August 2022 (the last trading date before the Latest Practicable Date) and the last trading date of each of the calendar months during the Relevant Period.

Date	Closing price (HK\$)	Net asset value (HK\$)
31 January 2022	17.10	20.50
28 February 2022	16.50	21.11
31 March 2022	15.22	19.12
29 April 2022	13.70	17.55
31 May 2022	15.18	18.29
30 June 2022	15.72	19.39
18 July 2022, being the last trading date before the date of the Firm Intention Announcement	15.20	18.29
29 July 2022	15.52	18.32
4 August 2022, being the last trading date before the Latest Practicable Date	15.30	17.91

The highest and lowest closing price per Unit as quoted on the Stock Exchange during the Relevant Period were HK\$18.00 on 19 Jan 2022 and HK\$13.30 on 27 April 2022 respectively.

## 6. UNITS BOUGHT BACK BY THE FUND

**THE FUND HAS NOT BOUGHT BACK ANY UNITS IN THE THREE-MONTH PERIOD PRIOR TO THE LATEST PRACTICABLE DATE AND WILL NOT BUY BACK ANY UNITS FROM THE DATE OF THIS CIRCULAR UP TO THE REDEMPTION DAY.**

## 7. DOCUMENTS FOR INSPECTION

The following documents will be available to investors for inspection, free of charge, at the registered office of the Manager and on the website of the Fund at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund):

- the Circular;
- the letter of advice from an independent financial adviser dated 17 November 2015 containing its advice to the independent unitholders of the Fund as to whether the One-off Redemption Offer and the Recurring Redemption Offer were fair and reasonable as to acceptance and voting in the General Meeting;
- the Trust Deed;

- the Offering Circular and the key fact statement of the Fund; and
- the audited accounts of the Fund for the last two financial years for which these have been published.

The unaudited net asset value per Unit on the last Business Day of each calendar month is published within ten (10) Business Days in the South China Morning Post and the Hong Kong Economic Times. The Manager also publishes the unaudited net asset value per Unit of each valuation day on the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund) within one (1) Business Day after the relevant valuation day for investors' reference.

**I. THREE YEAR SUMMARY OF FINANCIAL INFORMATION**

The following is a summary of the financial results of the Fund for each of three years ended 31 March 2020, 31 March 2021 and 31 March 2022 as extracted from the Fund's relevant annual reports.

	<b>2022</b> <i>HK\$</i>	<b>2021</b> <i>HK\$</i>	<b>2020</b> <i>HK\$</i>
Net investment income/(loss)	<u>36,088,702</u>	<u>501,085,042</u>	<u>(28,253,118)</u>
Profit/(loss) before taxation	8,257,259	473,596,031	(53,957,050)
Taxation	<u>(1,071,703)</u>	<u>(1,005,511)</u>	<u>(1,853,499)</u>
Increase/(decrease) in net assets attributable to unitholders and total comprehensive income for the year/period	<u>7,185,556</u>	<u>472,590,520</u>	<u>(55,810,549)</u>

*Notes:*

- (1) There were no extraordinary items, exceptional items and minority interests during each of the three years ended 31 March 2020, 31 March 2021 and 31 March 2022.
- (2) The reports of the auditor of the Fund for the three years ended 31 March 2020, 31 March 2021 and 31 March 2022 do not contain any qualifications. The auditor of the Fund for all three years ended 31 March 2020, 31 March 2021 and 31 March 2022 were KPMG.
- (3) The Fund does not report on earnings per Unit. No dividend has been declared for each of three years ended 31 March 2020, 31 March 2021 and 31 March 2022.



## II. FINANCIAL INFORMATION

Set out below is the full text of the audited financial statements of the Fund for the year ended 31 March 2022 extracted from the annual report of the Fund for the year ended 31 March 2022.

## Statement of assets and liabilities

As at 31 March 2022

	Note	2022 HK\$	2021 HK\$
<b>Assets</b>			
Investments at fair value through profit or loss	8,12	676,383,038	1,089,100,070
Other receivables	10(c)	2	483,225
Amounts receivable on sales of investments		–	20,427,217
Cash and cash equivalents	10(d)	742,610	1,037,070
<b>Total assets</b>		677,125,650	1,111,047,582
<b>Liabilities</b>			
Amounts payable on purchases of investments		–	20,502,453
Accrued expenses and other payables	10(a), (b) & (c)	4,208,056	4,122,208
<b>Total liabilities</b>		4,208,056	24,624,661
<b>Net assets attributable to unitholders</b>		672,917,594	1,086,422,921
Representing:			
<b>Total equity</b>		672,917,594	1,086,422,921
<b>Number of units in issue</b>	15, 16	35,200,876	55,001,200
<b>Net asset value per unit</b>	15	19.12	19.75

Approved and authorised for issue by the Trustee and the Manager on 29 July 2022

)  
 ) 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 2022

	Note	2022 HK\$	2021 HK\$
Dividend income	4	10,717,032	9,980,450
Interest income on deposits	5, 10(d)	25,008	12,193
Net gains from investments	6	24,644,748	491,175,071
Net foreign exchange loss		(90,099)	(102,256)
Other income		792,013	19,584
<b>Net investment income</b>		<u>36,088,702</u>	<u>501,085,042</u>
Management fees	10(a)	(13,318,783)	(13,908,267)
Transaction costs	10(e)	(7,470,889)	(8,909,039)
Trustee's fees	10(b)	(621,543)	(649,052)
Custodian fees	10(c)	(2,289,443)	(651,885)
Auditor's remuneration		(312,725)	(310,925)
Legal and professional fees		(3,559,057)	(2,799,175)
Other operating expenses	10(b)	(259,003)	(260,668)
<b>Operating expenses</b>		<u>(27,831,443)</u>	<u>(27,489,011)</u>
<b>Profit before taxation</b>		8,257,259	473,596,031
Taxation	7	(1,071,703)	(1,005,511)
<b>Increase in net assets attributable to unitholders and total comprehensive income for the year</b>		<u><u>7,185,556</u></u>	<u><u>472,590,520</u></u>

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

## Statement of changes in equity

For the year ended 31 March 2022

	Note	2022 HK\$	2021 HK\$
<b>Balance at the beginning of the year</b>		1,086,422,921	613,832,401
Increase in net assets attributable to unitholders and total comprehensive income for the year		7,185,556	472,590,520
Redemption of units during the year	16	<u>(420,690,883)</u>	<u>–</u>
<b>Balance at the end of the year</b>		<u>672,917,594</u>	<u>1,086,422,921</u>
<b>Units issued and redeemed:</b>			
		2022 Number of Units	2021 Number of Units
<b>Balance at the beginning of the year</b>	15	55,001,200	55,001,200
Redeemed during the year		<u>(19,800,324)</u>	<u>–</u>
<b>Balance at the end of the year</b>	15	<u>35,200,876</u>	<u>55,001,200</u>

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

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## Cash flow statement

For the year ended 31 March 2022

	<b>2022</b>	<b>2021</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Operating activities</b>		
Interest income received	25,007	12,193
Dividend income received	10,717,032	9,980,450
Management fees paid	(13,971,149)	(13,252,394)
Trustee's fees paid	(651,986)	(618,445)
Transaction costs paid	(7,470,889)	(8,909,039)
Tax paid	(1,071,703)	(1,005,511)
Proceeds from sales of investments	3,054,943,895	2,803,663,604
Payments for purchases of investments	(2,617,657,351)	(2,784,534,793)
Other operating expenses paid	(5,229,510)	(4,441,304)
<b>Net cash generated from operating activities</b>	<u>419,633,346</u>	<u>894,761</u>
<b>Financing activity</b>		
Payments on redemption of units	(419,898,870)	–
<b>Cash used in financing activity</b>	<u>(419,898,870)</u>	<u>–</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(265,524)	894,761
<b>Cash and cash equivalents at the beginning of the year</b>	1,037,070	178,866
<b>Effect of foreign exchange rates changes</b>	<u>(28,936)</u>	<u>(36,557)</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>742,610</u></u>	<u><u>1,037,070</u></u>

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

## Notes to the financial statements

For the year ended 31 March 2022

### 1 Background

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

The investment objective of the Fund is to achieve long-term capital growth by investing primarily in A Shares directly through (i) the qualified foreign institutional investor (“QFII”) investment quota of HSBC Global Asset Management (Hong Kong) Limited (“the Manager”) and (ii) Shenzhen-Hong Kong Stock Connect and any other similar stock connect programme between another city of the PRC and Hong Kong (“Stock Connect”); and indirectly through investment of (i) up to 40% of its net asset value in financial derivative instruments and securities linked to A Shares (such as CAAPs (including A Share participation certificates/notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its net asset value in exchange-traded funds (“ETFs”) (including synthetic ETFs) authorised by the SFC with exposure to A Shares; provided that the Fund’s investment in a Chinese A Share access product, being a security linked to A Shares or portfolios of A Shares which aim to replicate synthetically the economic benefit of the relevant A Shares or portfolio of A Shares (“CAAPs”) and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its net asset value.

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

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

### 2 Significant accounting policies

#### (a) Statement of compliance

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

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

## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(b) Basis of preparation of the financial statements**

The functional and presentation currency of the Fund is Hong Kong dollar (“HKD”) reflecting the fact that the units of the Fund are issued in Hong Kong dollars.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**(c) Financial instruments****(i) Classification**

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

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

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

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

*Business model assessment*

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

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

## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(c) Financial instruments (continued)**

## (i) Classification (continued)

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

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes other receivable, amounts receivable on sales of investments and cash and cash equivalents. These financial assets are held to collect contractual cash 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 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 2022

**2 Significant accounting policies (continued)****(c) Financial instruments (continued)**

## (ii) Recognition

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

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

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

## (iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair values recognised in the statement of comprehensive income.

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

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

## (iv) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument provided such price is within the bid-ask spread. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. In circumstances where the quoted price is not within the bid-ask spread, the Manager will determine the points within the bid-ask spread that are most representative of the fair value.

When there is no quoted price in an active market, the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.



## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(c) Financial instruments (continued)**

## (iv) Fair value measurement principles (continued)

If an asset or a liability measured at fair value has a bid price and an ask price, the Fund measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Fund on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## (v) Impairment

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

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

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

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

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

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

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

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

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

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

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

## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(c) Financial instruments (continued)**

## (v) Impairment (continued)

*Measurement of ECLs*

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

*Credit-impaired financial assets*

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

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

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

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

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

*Write-off*

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

## (vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

Assets held for trading that are sold are derecognised and corresponding receivables from the brokers are recognised as of the date the Fund commits to sell the assets.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Fund uses the weighted average method to determine realised gains and losses to be recognised in the statement of comprehensive income on derecognition.

## (vii) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of assets and liabilities when the Fund has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or simultaneously, e.g. through a market clearing mechanism.

## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(d) Cash and cash equivalents**

Cash and cash equivalents comprise deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**(e) Revenue recognition**

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

*Dividend income*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividends from other investments are recognised in the statement of comprehensive income on the date on which the unconditional right to receive payment is established.

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

*Interest income*

Interest income is recognised in the statement of comprehensive income as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to gross carrying amount of the financial asset. Interest income on bank deposits is disclosed separately in the statement of comprehensive income.

**(f) Expenses**

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

**(g) Taxation**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the date of the statement of assets and liabilities. Current tax includes non-recoverable withholding taxes on investment income.

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

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

**(h) Translation of foreign currency**

Foreign currency transactions during the year are translated into Hong Kong dollar at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollar at the foreign exchange rates ruling at the date of the statement of assets and liabilities. Exchange gains and losses are recognised in the statement of comprehensive income.

## Notes to the financial statements

For the year ended 31 March 2022

**2 Significant accounting policies (continued)****(i) Related parties**

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(j) Foreign exchange gains and losses**

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

**(k) Units in issue**

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

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

## Notes to the financial statements

For the year ended 31 March 2022

**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**

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 profit or loss as an expense.

**3 Changes in accounting policies**

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

	<b>2022</b>	<b>2021</b>
	<b>HK\$</b>	<b>HK\$</b>
Dividend income	10,717,032	9,980,450
Withholding taxes	(1,071,703)	(998,046)
	<u>9,645,329</u>	<u>8,982,404</u>

**5 Interest income on deposits**

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

## Notes to the financial statements

For the year ended 31 March 2022

**6 Net gains from investments**

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

	<b>2022</b>	<b>2021</b>
	<b>HK\$</b>	<b>HK\$</b>
Realised gains	158,129,833	340,976,815
Movement on unrealised (losses)/gains	(133,485,085)	150,198,256
<b>Net gains on investments</b>	<u>24,644,748</u>	<u>491,175,071</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 is also appropriate to provide for PRC taxation at the withholding tax rate of 10% on unrealised gains on A Shares with effect from 26 July 2013.

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

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

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

## Notes to the financial statements

For the year ended 31 March 2022

**7 Taxation (continued)***Taxation in the statement of comprehensive income represents:*

	<b>2022</b>	<b>2021</b>
	<b>HK\$</b>	<b>HK\$</b>
PRC dividend income withholding tax	1,071,703	988,046
Interest income withholding tax	–	7,465
	<u>                    </u>	<u>                    </u>

**8 Investments at fair value through profit or loss**

Investments at fair value through profit or loss as of 31 March 2022 and 31 March 2021 are shown as follows:

	<b>2022</b>	<b>2021</b>
	<b>HK\$</b>	<b>HK\$</b>
Listed equities		
– outside Hong Kong	676,383,038	1,089,100,070
	<u>                    </u>	<u>                    </u>
Total investments at fair value through profit or loss	676,383,038	1,089,100,070
	<u>                    </u>	<u>                    </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 year and payable at the end of the year amounted to \$13,318,783 (2021: \$13,908,267) and \$866,842 (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.

**(b) Trustee's fees**

The fee payable to the Trustee is calculated at the rate of 0.07% per annum of the net asset value of the Fund. In addition, the Trustee provides valuation services to the Fund in return for a daily fee. The daily valuation fee is US\$50 for each valuation per unit class. The valuation fee is waived since 1 April 2019. The Trustee's fee charged to the Fund in respect of the year and payable at the end of the year amounted to \$621,543 (2021: \$649,052) and \$ 40,453 (2021: \$70,896) respectively.

No rebate was made with regards to the Trustee's fee charged to the Fund during the year (2021: \$Nil).

The Trustee is entitled to receive a financial reporting service fee of US\$5,000 per set of financial statements. The financial reporting fee charged to the Fund during the year is \$77,839 (2021: \$77,524). 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 \$2,915 (2021: \$3,876).

## Notes to the financial statements

For the year ended 31 March 2022

**10 Related party transactions (continued)****(c) Custodian fee and deposit placed with Custodian**

The custodian fee paid to the Bank of Communications Co. Ltd (the “QFII Custodian”) is calculated at the rate of 0.1% per annum of the net asset value of the assets held by the QFII custodian as determined by the QFII custodian (based on the actual number of calendar days in a year). In respect of the year, custodian fee of \$1,745,308 was charged to the Fund (2021: \$Nil) and no custodian fee was remained payable at the end of the reporting year (2021: \$Nil).

As at 31 March 2022, the Fund had \$Nil (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 year is amounted to \$475,453 (2021: \$651,885) and the corresponding payable at the end of the year is \$37,473 (2021: \$54,207).

**(d) Bank balances**

Bank accounts are maintained with The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group, and The Bank of Communications Co. Ltd, the QFII custodian of the Fund. The bank balances held as at 31 March 2022 amounted to \$7,516 and \$735,094 respectively (2021: \$572,339 and \$464,731 respectively). During the year, interest earned from The Hongkong and Shanghai Banking Corporation Limited and The Bank of Communications Co. Ltd amounted to \$71 and \$19,648 respectively (2021: \$4 and \$12,189 respectively).

**(e) Transaction costs**

In its purchases and sales of investments, the Fund utilises the brokerage services of The Hongkong and Shanghai Banking Corporation Limited, which is a member of the HSBC Group. During the year, the Fund did not utilise the brokerage services of The Hong Kong and Shanghai Banking Corporation Limited, and no commission was paid to the entity (2021: \$Nil).

**(f) Holding of units**

As at 31 March 2022, The Hongkong and Shanghai Banking Corporation Limited held 25,816 units (2021: 42,493 units) of the Fund. The Hongkong and Shanghai Banking Corporation Limited did not subscribe any units of the Fund (2021: Nil units) and redeemed 16,677 units of the fund during the year ended 31 March 2022 (2021: Nil units). As at 31 March 2022 and 2021, HSBC International Trustee Limited held 64,168 units (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 year ended 31 March 2022 (2021: Nil). Both entities are members of the HSBC Group.

**11 Soft dollar practices**

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

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



## Notes to the financial statements

For the year ended 31 March 2022

**12 Financial instruments and associated risks (continued)**

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

The risk exposures inherent in the Fund as at 31 March 2022 are summarised below. Details of such investments held as at 31 March 2022 are shown in the investment portfolio.

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and markets in which it invests. The Manager and the Trustee have set out below the most important types of financial risks inherent in each type of financial instruments. The Manager and the Trustee would like to highlight that the following list of associated risks only sets out some of the risks but does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund.

Investors should note that additional information in respect of risks associated with investment in the Fund can be found in the Fund's offering document.

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

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

**(a) Market risk****(i) Price risk**

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

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

*Price sensitivity*

The impact on a 15% (2021: 15%) increase in value of the investments as at 31 March 2022, 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.

	2022			2021		
	% 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\$
<b>Investment assets</b>						
Listed equities:						
– outside Hong Kong	100.52	15	101,457,456	100.25	15	163,365,011
	<u>100.52</u>	15	<u>101,457,456</u>	<u>100.25</u>	15	<u>163,365,011</u>

## Notes to the financial statements

For the year ended 31 March 2022

**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, the Fund did not hold any interest-bearing assets as at 31 March 2022 and 2021, therefore the Manager considers the Fund is not subject to significant interest rate risk. No sensitivity analysis is performed for 2022 and 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.

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

	<b>Assets HK\$</b>	<b>Liabilities HK\$</b>	<b>Net exposure HK\$</b>
<b>31 March 2022</b>			
Renminbi	<u>677,118,133</u>	<u>4,295</u>	<u>677,113,838</u>
<b>31 March 2021</b>			
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 year ended 31 March 2022, the HKD strengthened in relation to the Renminbi by approximately 4% (2021: weakened by 8%). At 31 March 2022, had the HKD further strengthened in relation to the Renminbi by 4% (2021: weakened by 8%), 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 2022

**12 Financial instruments and associated risks (continued)****(a) Market risk (continued)**

(iii) Currency risk (continued)

All amounts stated in Hong Kong dollars

HK\$

**31 March 2022**

Renminbi	27,084,554
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**31 March 2021**

Renminbi	87,197,823
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A 4% weakening of the HKD (2021: strengthening 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 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 31 March 2022, all of the Fund's financial assets were exposed to credit risk.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used.

The Fund invests in A Shares via the QFII investment quota obtained by the Manager. These investments are held in a segregated account with the QFII custodian on behalf of the Fund. Substantially all of the assets of the Fund are held by the Trustee or the QFII Custodian. Bankruptcy or insolvency of the Trustee or the QFII custodian may cause the Fund's rights with respect to securities held by the Trustee or the QFII custodian to be delayed or limited. There were no investments in debt securities as at 31 March 2022 and 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 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 2022 and 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.

## Notes to the financial statements

For the year ended 31 March 2022

**12 Financial instruments and associated risks (continued)****(b) Credit risk (continued)****Amounts arising from ECL (continued)**

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

The Manager considers the probability of default to be minimal as the counterparties have a strong capacity to meet their contractual obligations in the near term. There is no impairment allowance recognised on other receivable and cash and cash equivalents. The amount of the loss allowance did not change during the year ended 31 March 2022.

**(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 2022 and 2021, 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 the PRC.

The Fund has one class of units in issue which is not redeemable by the unitholders. All financial liabilities have contractual maturities of less than three months. At both 31 March 2022 and 2021, there were no significant exposures to liquidity risk for the Fund.

**(d) Capital management**

At 31 March 2022, the Fund had \$672,917,594 (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 year with respect to the Fund's approach to its capital management.

The Fund is not subject to externally imposed capital requirements.

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

**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 2022

**12 Fair value information (continued)*****Valuation of financial instruments***

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

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

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

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

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

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

	<b>2022</b>			
	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Level 3 HK\$</b>	<b>Total HK\$</b>
Listed equities	676,383,038	–	–	676,383,038
	<u>676,383,038</u>	<u>–</u>	<u>–</u>	<u>676,383,038</u>
	<b>2021</b>			
	<b>Level 1 HK\$</b>	<b>Level 2 HK\$</b>	<b>Level 3 HK\$</b>	<b>Total HK\$</b>
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 31 March 2022 and 2021, the Fund did not hold any level 3 financial instruments.

During the years ended 31 March 2022 and 31 March 2021, there were no transfers between levels.

## Notes to the financial statements

## For the year ended 31 March 2022

**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 2022, units in issue was 35,200,876 units (2021: 55,001,200 units) and NAV per unit was HKD 19.12 (2021: HKD 19.75).

**16 Redemption of units under the Recurring Redemption Offer**

For the year ended 31 March 2022, the Manager offered a right to the unitholders to redeem the whole or a part of their units on a recurring redemption basis.

On 25 May 2021, 11,000,181 units, representing 20% of the total outstanding number of units as at 24 May 2021, were redeemed at a total amount of HKD 226,823,732. A redemption levy of \$0.04 per unit was charged and deducted from the redemption price and retained by the Fund. The redeemed units were then cancelled.

On 7 December 2021, 8,800,143 units, representing 20% of the total outstanding number of units as at 6 December 2021, were redeemed at a total amount of HKD 193,867,151. A redemption levy of \$0.04 per unit was charged and deducted from the redemption price and retained by the Fund. The redeemed units were then cancelled.

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

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

**17 Possible impact of amendments issued but not yet effective for the year ended 31 March 2022**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments which are not yet effective for the year ended 31 March 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Fund:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8, Definition of Accounting Estimates	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.

### **III. INDEBTEDNESS STATEMENT**

At the close of business on 5 August 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Fund did not have any outstanding borrowings, mortgages, charges, debenture or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

### **IV. MATERIAL CHANGE**

Save for information set out in this section below and in the section headed “Financial and Trading Prospects”, there is no material change in the financial or trading position or outlook of the Fund subsequent to 31 March 2022, being the date to which the latest audited financial statements of the Fund were prepared, up to and including the Latest Practicable Date.

China’s economic data improved in 2022 Q2 with manufacturing PMI rebounding to 50.2 in June from 49.6 in May and 47.4 in April, back to expansion territory for the first time since February and new TSF increasing by RMB1.47 trillion to RMB5.17 trillion in June, exceeding market expectation.

Commodity price saw a big decline in 2022 Q2 amid interest hike on US 10-year bond and investors expected sharp decline in demand going forward. However, the inventory level for most of the commodities is still low and the price could recover when demand and economic recovers.

We see a big discrepancy between A-Shares market and US market in 2022 Q2, which was mainly due to 1) China’s economic was recovering from the low level in April while US economic continued to decline; 2) monetary and fiscal policies were still supportive in China while liquidity was tightened in US to curb the inflation. Hence, we saw strong net inflows via Northbound in 2022 Q2.

The A-Shares market performed well in 2022 Q2 especially in May and June. Structurally Growth stock outperformed Value stock. Sector wise, new energy sectors including new energy vehicle, solar and wind performed well thanks to higher-than-expected sales volume.

### **V. FINANCIAL AND TRADING PROSPECTS**

As we head into the second half of 2022, we see signs that sentiment on China may have reached an inflection point given incremental policy easing cycle, regulatory environment stability and the trough of the broad Chinese market. Following a dip in Q2, we expect China to post a modest recovery in Q3 and potentially a full-fledged recovery in Q4 and into 2023.

We think there is limited downside for the China A-Shares market given supportive monetary and fiscal policies and higher-than-average risk premiums. We see more structural opportunities in A-Shares market like upstream resources and new energy sectors. However, there are still uncertainties on tight monetary policies globally (except China) amid high inflation and the situation in Ukraine.

## **VI. LITIGATION**

As at the Latest Practicable Date, neither the Manager nor the Trustee (as trustee of the Fund) was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance to be pending or threatened against the Manager or the Trustee (as trustee of the Fund).