

# HAITONG MIDDLE KINGDOM FUND

## INTERIM REPORT

For the period from 1 July 2016 to 31 December 2016

<b>CONTENTS</b>	<b>Page(s)</b>
Management and administration	1
Report of the Manager	2
Statement of financial position (unaudited)	3
Investment portfolio (unaudited)	4-5
Statement of movements in investment portfolio (unaudited)	6-7

## Management and administration

### **Manager**

Haitong International Investment  
Managers Limited  
22/F, Li Po Chun Chambers  
189 Des Voeux Road Central,  
Hong Kong

### **Directors of the Manager**

Lo Wai Ho  
Yang Jianxin  
Zhang Xinjun  
Sun Tong (Appointed on 25 Jan 2017)  
Zhang Yibin (Resigned on 25 Jan 2017)

### **Trustee and Registrar**

Bank of Bermuda (Cayman) Limited  
PO Box 513  
HSBC House  
68 West Bay Road  
Grand Cayman KY1-1106  
Cayman Islands

### **Trustee's and Registrar's Agent**

HSBC Institutional Trust Services  
(Asia) Limited  
1 Queen's Road, Central  
Hong Kong

### **Solicitors**

King & Wood Mallesons  
13/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central, Central  
Hong Kong

### **Auditors**

KPMG  
PO Box 493  
Century Yard, Cricket Square  
Grand Cayman KY1-1106  
Cayman Islands

## Report of the Manager

### **Performance and Market Review**

During the period under review, Haitong Middle Kingdom Fund gained 0.51% on a net asset value (NAV) to NAV basis. Hong Kong equity market rallied in the third quarter of 2016 amid recovery in market sentiment but then consolidated in the fourth quarter of 2016 due to renewed concerns over China's yuan devaluation and surprising U.S. presidential election results.

On 16 August, the Securities and Futures Commission and the China Securities Regulatory Commission jointly announced the approval of Shenzhen-Hong Kong stock connect and abolished the aggregate quota under the current Shanghai-Hong Kong Stock Connect to increase participation. Southbound capital flows are also expected to increase as China Insurance Regulatory Commission has officially allowed Chinese insurance companies to invest in Hong Kong-listed stocks through the stock connect. In the fourth quarter of 2016, however, the panic was sparked as onshore Chinese yuan further devaluated by 3.93% against the U.S. Dollar and touched an eight-year low on the dollar strength post the U.S. Presidential election. The tightened home purchasing restriction policies across cities in China also weighed on the market. On the macro front, China's gross domestic product (GDP) growth was in line with market expectation and remained flat at 6.70% yoy in the third quarter of 2016. In Hong Kong, retail sales contracted for the 21<sup>st</sup> consecutive month in November but showed signs of stabilizing in the fourth quarter. Hong Kong government has raised the stamp duty for the non first-time homebuyers to 15.00% regardless of the home prices in November to cool surging home prices. However, home price remained resilient. Home prices extended the gains by rising 0.79% mom in November, which was the eighth consecutive monthly increase and hit a historical high.

### **Market Outlook and Strategy**

Looking forward, we remain cautious on Hong Kong equity market as Donald Trump's unexpected win over the U.S. election and continuing depreciation of Chinese yuan could deepen capital outflows from the region. Market sentiment may also be dampened by the faster-than-expected pace of interest rate hike by the Fed under Trump's administration. Political risk and policy uncertainty would continue to send jitters to the global market in the near term. However, we are positive over the mid to long term as global economic fundamentals remain healthy.

**Statement of financial position as at 31 December 2016**  
**(unaudited)**  
*(Expressed in Hong Kong dollars)*

	<i>31 December</i>	<i>30 June</i>
	<i>2016</i>	<i>2016</i>
<b>Assets</b>		
Investments at fair value through profit or loss	\$ 143,906,360	\$ 140,879,242
Amount due from unitholders	-	17,337
Prepayments	1,348	31,045
Dividends receivable	-	1,842,237
Cash and cash equivalents	9,395,903	12,403,074
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 153,303,611</b>	<b>\$ 155,172,935</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Liabilities</b>		
Amount due to unitholders	\$ 51,730	\$ 87,547
Accrued expenses and other payables	358,493	418,833
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>\$ 410,223</b>	<b>\$ 506,380</b>
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net assets attributable to unitholders</b>		
Equity	\$ 152,893,388	\$ 154,666,555
	<hr/>	<hr/>
<b>Total number of units in issue</b>	<b>2,893,093</b>	<b>2,941,141</b>
	<hr/>	<hr/>
<b>Net asset value per unit</b>	<b>\$ 52.85</b>	<b>\$ 52.59</b>
	<hr/>	<hr/>

**Investment portfolio as at 31 December 2016 (unaudited)**  
(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i>	<i>% of total net assets</i>
<b>Listed investments</b>			
<b><i>Equities (94.12%)</i></b>			
<i>Hong Kong (92.14%)</i>			
AAC Technologies Holdings Inc	140,000	\$ 9,863,000	6.45
AIA Group Ltd	120,000	5,250,000	3.43
Bank of China Ltd	970,000	3,336,800	2.18
BOC Hong Kong (Holdings) Ltd	127,000	3,524,250	2.31
China Mobile Ltd	35,000	2,877,000	1.88
China Overseas Land & Investment Ltd	200,000	4,110,000	2.69
China Shanshui Cement Group Ltd	1,000,000	3,150,000	2.06
Fuyao Glass Industry Group Co Ltd	400,000	9,620,000	6.29
Guangdong Investment Ltd	600,000	6,144,000	4.02
Guangzhou Automobile Group Co Ltd	320,000	3,001,600	1.96
Hang Seng Bank Ltd	50,000	7,215,000	4.72
HKT Trust	290,000	2,757,900	1.80
Industrial and Commercial Bank of China	716,000	3,329,400	2.18
MTR Corp Ltd	200,000	7,540,000	4.93
PCCW Ltd	620,062	2,604,260	1.70
Ping An Insurance Group Co of China Ltd	200,000	7,760,000	5.08
Power Assets Holdings Ltd	50,000	3,417,500	2.24
Shenzhen Expressway Co Ltd	1,200,000	7,956,000	5.20
Shenzhou International Group Holdings Ltd	220,000	10,791,000	7.06
Sinopharm Group Co Ltd	84,000	2,683,800	1.76
Sunny Optical Technology Group Co Ltd	283,000	9,607,850	6.28
Tencent Holdings Ltd	80,000	15,176,000	9.93
Xinyi Glass Holdings Ltd	1,000,000	6,340,000	4.15
Yue Yuen Industrial Holdings Ltd	100,000	2,815,000	1.84
<i>United States of America (1.98%)</i>			
Nexteer Automotive Group Ltd	330,000	3,036,000	1.98
<b>Total equities</b>		<b>\$ 143,906,360</b>	<b>94.12</b>

Investment portfolio as at 31 December 2016 (unaudited)  
(continued)  
(Expressed in Hong Kong dollars)

	<i>Market value</i>	<i>% of total net assets</i>
<b>Listed investments (continued)</b>		
<b>Total investments</b>	\$ 143,906,360	94.12
<b>Other net current assets</b>	8,987,028	5.88
<b>Net assets attributable to unitholders</b>	<u>\$ 152,893,388</u>	<u>100.00</u>
<b>Total investments, at cost</b>	<u>\$ 125,519,090</u>	

Statement of movements in investment portfolio  
for the period ended 31 December 2016 (unaudited)  
(Expressed in Hong Kong dollars)

	<i>Holdings</i>			<i>Balance at 31 December 2016</i>
	<i>Balance at 1 July 2016</i>	<i>Additions</i>	<i>Deductions</i>	
<b>Listed investments</b>				
<i>Equities</i>				
<i>Cayman Islands</i>				
Xinyi Automobile Glass Hong Kong Enterprises Ltd	125,000	-	125,000	-
<i>Hong Kong</i>				
AAC Technologies Holdings Inc	140,000	-	-	140,000
AIA Group Ltd	120,000	-	-	120,000
Bank of China Ltd	-	970,000	-	970,000
BOC Hong Kong (Holdings) Ltd	-	127,000	-	127,000
Cheung Kong Infrastructure Holdings Ltd	70,000	-	70,000	-
China Mobile Ltd	-	35,000	-	35,000
China Overseas Land & Investment Ltd	200,000	-	-	200,000
China Power International Development Ltd	1,000,000	-	1,000,000	-
China Shanshui Cement Group Ltd	1,000,000	-	-	1,000,000
China State Construction International Holdings Ltd	400,000	-	400,000	-
Dongfeng Motor Group Co Ltd	600,000	-	600,000	-
Fuyao Glass Industry Group Co Ltd	400,000	-	-	400,000
Guangdong Investment Ltd	600,000	-	-	600,000
Guangzhou Automobile Group Co Ltd	-	320,000	-	320,000
Hang Seng Bank Ltd	50,000	-	-	50,000
HKT Trust	290,000	-	-	290,000
Industrial and Commercial Bank of China	-	716,000	-	716,000
MTR Corp Ltd	200,000	-	-	200,000



Statement of movements in investment portfolio  
for the period ended 31 December 2016 (unaudited)  
(continued)  
(Expressed in Hong Kong dollars)

	<i>Holdings</i>			<i>Balance at 31 December 2016</i>
	<i>Balance at 1 July 2016</i>	<i>Additions</i>	<i>Deductions</i>	
<b>Listed investments (continued)</b>				
<i>Equities (continued)</i>				
<i>Hong Kong (continued)</i>				
PCCW Ltd	620,062	-	-	620,062
PICC Property and Casualty Co Ltd	241,000	-	241,000	-
Ping An Insurance Group Co of China Ltd	200,000	-	-	200,000
Power Assets Holdings Ltd	50,000	-	-	50,000
Shenzhen Expressway Co Ltd	1,200,000	-	-	1,200,000
Shenzhou International Group Holdings Ltd	220,000	-	-	220,000
Sinopharm Group Co Ltd	84,000	-	-	84,000
Sunny Optical Technology Group Co Ltd	370,000	-	87,000	283,000
Tencent Holdings Ltd	80,000	-	-	80,000
Xinyi Glass Holdings Ltd	1,000,000	1,000,000	1,000,000	1,000,000
Yue Yuen Industrial Holdings Ltd	-	100,000	-	100,000
<i>United States of America</i>				
Nexteer Automotive Group Ltd	-	330,000	-	330,000