

HAITONG MIDDLE KINGDOM FUND

INTERIM REPORT

For the period from 1 July 2017 to 31 December 2017

CONTENTS	Page(s)
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 - 8

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
Sun Tong
Yang Jianxin
Zhang Xinjun
Chen Xuan (appointed on 1 February 2018)

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 20.65% on a net asset value (NAV) to NAV basis. Hong Kong equity market rallied in the second half of 2017 and consolidated its gain at a 10-year high level, driven by robust earnings of Chinese companies, stable economic growth, eased concerns on RMB devaluation and continued southbound inflows through the Stock Connect.

On 14 December, the US Fed followed through on an expected interest-rate hike and raised the benchmark lending rate by a quarter percentage point to a target range of 1.25% to 1.50%. In another move that could tighten monetary conditions, the Fed confirmed that it would step up the monthly pace of shrinking its balance sheet to \$20 billion beginning in January 2018 from \$10 billion. In the fourth quarter of 2017, onshore Chinese yuan rose strongest by 2.24% against the U.S. Dollar in more than a year on the back of a sound economic fundamental and weaker U.S. Dollar.

On the macro front, China's gross domestic product (GDP) growth grew faster than expected at 6.80% yoy in the third and fourth quarter of 2017. Growth for the 2017 full year picked up to 6.90% yoy, posting the first annual acceleration for the economy since 2010. In Hong Kong, retail sales value jumped 7.50% yoy in November, with sales increased across a wide range of shopping categories. That growth surged past the 3.90% in October and marked the fastest rate of growth since February 2015. Near-term outlook for Hong Kong's retail sales remains positive given ongoing recovering of inbound tourism and local consumer sentiment. Hong Kong's new chief executive Carrie Lam has introduced the pilot "Starter Home" Scheme and faster conversion of farmland to increase the supply of cheaper flats for the middle class and boost home ownership. However, new home sales remained resilient. Home prices extended the gains as monthly residential property price index soar 13.10% yoy and 1.08% mom in November, rising for twentieth straight month and hitting historical high for consecutive thirteen months.

Market Outlook and Strategy

Looking forward, we are positive on the Hong Kong equity market. Solid corporate earnings and continuous southbound capital inflows could continue to improve market sentiment. China's stabilizing economic data would also add to market optimism. In terms of investment strategy, we are positive on financial sector which will benefit from interest rate normalization and technology sector which deliver strong growth and is less sensitive to higher rates. However, we believe policy risk and geopolitical risk would continue to send jitters to global equity markets.

Statement of financial position as at 31 December 2017 (unaudited)

(Expressed in Hong Kong dollars)

	<i>31 December 2017</i>	<i>30 June 2017</i>
Assets		
Investments at fair value through profit or loss	\$ 220,361,985	\$ 175,998,080
Prepayments and other receivables	21	19,824
Amount due from brokers	-	230,000
Dividends receivable	-	1,238,818
Cash and cash equivalents	13,505,857	7,160,599
	<hr/>	<hr/>
Total assets	\$ 233,867,863	\$ 184,647,321
	<hr/>	<hr/>
Liabilities		
Amount due to unitholders	\$ 8,558,075	\$ -
Accrued expenses and other payables	485,827	478,422
	<hr/>	<hr/>
Total liabilities	\$ 9,043,902	\$ 478,422
	<hr/>	<hr/>
Net assets attributable to unitholders		
Equity	\$ 224,823,961	\$ 184,168,899
	<hr/> <hr/>	<hr/> <hr/>
Total number of units in issue	2,809,804	2,856,323
	<hr/> <hr/>	<hr/> <hr/>
Net asset value per unit	\$ 80.01	\$ 64.48
	<hr/> <hr/>	<hr/> <hr/>

Investment portfolio as at 31 December 2017 (unaudited)
(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i>	<i>% of total net assets</i>
Listed investments			
<i>Equities (98.02%)</i>			
<i>Hong Kong (98.02%)</i>			
AAC Technologies Holdings Inc	47,000	\$ 6,551,800	2.91
AIA Group Ltd	120,000	7,998,000	3.56
ANTA Sports Products Ltd	200,000	7,090,000	3.15
BOC Hong Kong Holdings Ltd	240,000	9,504,000	4.23
China Merchants Bank Co Ltd	290,000	9,019,000	4.01
China Shanshui Cement Group Ltd	1,000,000	6,290,000	2.8
Country Garden Holdings Co Ltd	700,000	10,430,000	4.64
CSPC Pharmaceutical Group Ltd	500,000	7,890,000	3.51
Geely Automobile Holdings Ltd	350,000	9,485,000	4.22
Guangzhou Automobile Group Co Ltd	410,000	7,593,200	3.38
Haitian International Holdings Ltd	320,000	7,520,000	3.34
Hang Seng Bank Ltd	50,000	9,700,000	4.31
Hengan International Group Co Ltd	116,000	10,063,000	4.48
HSBC Holdings PLC	42,800	3,421,860	1.52
Industrial and Commercial Bank of China Ltd	1,425,000	8,963,250	3.99
Kerry Properties Ltd	140,000	4,921,000	2.19
Kingboard Chemical Holdings Ltd	150,000	6,337,500	2.82
Kingboard Laminates Holdings Ltd	700,000	8,526,000	3.79
Lee & Man Paper Manufacturing Ltd	600,000	5,544,000	2.47
Melco International Development Ltd	280,000	6,440,000	2.86
MINTH Group Ltd	160,000	7,544,000	3.36
Ping An Insurance Group Co of China Ltd	140,000	11,389,000	5.07
Shandong Chenming Paper Holding Ltd	400,000	5,632,000	2.5
Shenzhou International Group Holdings Ltd	162,000	12,052,800	5.36
Sunny Optical Technology Group Co Ltd	98,000	9,790,200	4.35
Techtronic Industries Co Ltd	182,500	9,298,375	4.14
Tencent Holdings Ltd	28,000	11,368,000	5.06
Total equities		\$ 220,361,985	98.02

Investment portfolio as at 31 December 2017 (unaudited)
(continued)

(Expressed in Hong Kong dollars)

	<i>Market value</i>	<i>% of total net assets</i>
Total investments	\$ 220,361,985	98.02
Other net current assets	4,461,976	1.98
Net assets attributable to unitholders	<u>\$ 224,823,961</u>	<u>100.00</u>
Total investments, at cost	<u>\$ 169,596,359</u>	

Statement of movements in investment portfolio
for the period ended 31 December 2017 (unaudited)
(Expressed in Hong Kong dollars)

	<i>Holdings</i>				<i>Balance at 31 December 2017</i>
	<i>Balance at 1 July 2017</i>	<i>Additions</i>	<i>Deductions</i>	<i>Corporate Actions</i>	
Listed investments					
<i>Equities</i>					
<i>Hong Kong</i>					
AAC Technologies Holdings Inc	79,000	-	32,000	-	47,000
AIA Group Ltd	120,000	-	-	-	120,000
ANTA Sports Products Ltd	-	200,000	-	-	200,000
Bank of China Ltd	1,448,000	-	1,448,000	-	-
BOC Hong Kong Holdings Ltd	240,000	-	-	-	240,000
China Construction Bank	-	740,000	740,000	-	-
China Literature Ltd	-	236	236	-	-
China Merchants Bank Co Ltd	-	290,000	-	-	290,000
China Mobile Ltd	35,000	-	35,000	-	-
China Resources Land Ltd	162,000	-	162,000	-	-
China Shanshui Cement Group Ltd	1,000,000	-	-	-	1,000,000
China Shenhua Energy Co Ltd	-	300,000	300,000	-	-
Country Garden Holdings Co Ltd	-	700,000	-	-	700,000
CSPC Pharmaceutical Group Ltd	-	500,000	-	-	500,000
Fuyao Glass Industry Group Co Ltd	400,000	-	400,000	-	-
Geely Automobile Holdings Ltd	-	350,000	-	-	350,000
Guangdong Investment Ltd	600,000	-	600,000	-	-
Guangzhou Automobile Group Co Ltd	410,000	-	-	-	410,000
Haitian International Holdings Ltd	250,000	70,000	-	-	320,000
RESTRICTED		6			

Statement of movements in investment portfolio
for the period ended 31 December 2017 (unaudited)
(continued)

(Expressed in Hong Kong dollars)

	<i>Holdings</i>				<i>Balance at 31 December 2017</i>
	<i>Balance at 1 July 2017</i>	<i>Additions</i>	<i>Deductions</i>	<i>Corporate Actions</i>	
Listed investments (continued)					
<i>Equities (continued)</i>					
Hong Kong (continued)					
Hang Seng Bank Ltd	50,000	-	-	-	50,000
Hengan International Group Co Ltd	-	116,000	-	-	116,000
HKT Trust	290,000	-	290,000	-	-
HSBC Holdings PLC	-	82,800	40,000	-	42,800
i-CABLE Communications Ltd	-	62,853	62,853	-	-
Industrial and Commercial Bank of China Ltd	1,425,000	-	-	-	1,425,000
Kerry Properties Ltd	-	140,000	-	-	140,000
Kingboard Chemical Holdings Ltd	-	150,000	-	-	150,000
Kingboard Laminates Holdings Ltd	-	700,000	-	-	700,000
Lee & Man Paper Manufacturing Ltd	-	600,000	-	-	600,000
Melco International Development Ltd	280,000	-	-	-	280,000
MINTH Group Ltd	-	160,000	-	-	160,000
Nine Dragons Paper Holdings Ltd	-	260,000	260,000	-	-
Ping An Insurance Group Co of China Ltd	200,000	-	60,000	-	140,000
Power Assets Holdings Ltd	50,000	-	50,000	-	-

Statement of movements in investment portfolio
for the period ended 31 December 2017 (unaudited)
(continued)

(Expressed in Hong Kong dollars)

	<i>Holdings</i>				<i>Balance at 31 December 2017</i>
	<i>Balance at 1 July 2017</i>	<i>Additions</i>	<i>Deductions</i>	<i>Corporate Actions</i>	
Listed investments (continued)					
<i>Equities (continued)</i>					
Hong Kong (continued)					
Shandong Chenming Paper Holding Ltd	-	400,000	-	-	400,000
Shenzhen Expressway Co Ltd	900,000	-	900,000	-	-
Shenzhou International Group Holdings Ltd	162,000	-	-	-	162,000
Sun Hung Kai Properties Ltd	45,000	-	45,000	-	-
Sunny Optical Technology Group Co Ltd	182,000	-	84,000	-	98,000
Techtronic Industries Co Ltd	-	182,500	-	-	182,500
Tencent Holdings Ltd	63,000	-	35,000	-	28,000
Wharf Holdings Ltd	82,000	164,000	246,000	-	-
Wynn Macau Ltd	336,000	-	336,000	-	-
Xinyi Glass Holdings Ltd	1,000,000	-	1,000,000	-	-
Yue Yuen Industrial (Holdings) Ltd	100,000	-	100,000	-	-

Rights

Hong Kong

Tencent Holdings Ltd - Nil Paid Rights 31/12/2049	-	-	46	46	-
---	---	---	----	----	---