

HAITONG MIDDLE KINGDOM FUND

INTERIM REPORT

For the period from 1 July 2014 to 31 December 2014

CONTENTS	Page(s)
Management and administration	1
Report of the Manager	2
Balance sheet (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
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Directors of the Manager

Lo Wai Ho
Poon Mo Yiu
Yang Jianxin
Zhang Xinjun
Zhang Yibin

Trustee and Registrar

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PO Box 513
HSBC House
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Alternate Trustee

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Trustee's and Registrar's Agent

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Solicitors

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Report of the Manager

Performance and Market Review

During the period under review, the units of Haitong Middle Kingdom Fund gained 4.99% on an offer-to-offer basis. Despite a deepening economic slowdown with deceleration in domestic demand, unsteady export and cooling investment in China, the market was bullish on Hong Kong and China equity market in the second half of 2014.

Hong Kong & China

The official manufacturing purchasing managers' index (PMI) in November declined to the lowest in eight months of 50.3, which was partly dragged by the factory shutdowns in Northern China during the Asia-Pacific Economic Cooperation forum to curb pollution. Consumer price index (CPI) hit the lowest since November 2009 at a 1.40% yoy growth in November while the November producer price index (PPI) also remained negative for the 32 consecutive months at -2.70% yoy. While the lower-than-expected inflation reflected tepid domestic demand, the increasing deflation risk also boosted market expectation on further rate cut. November activity data also disappointed the market with fixed asset investment (FAI) decelerated to 15.80% yoy in the first eleven months of 2014; industrial production (IP) dropped by 0.50% to 7.20% yoy in November and retail sales growth improved slightly to 11.70% yoy in November.

Looking forward, we expect the softening economy to continue as the corporate credit demand is depressed by excess capacity and the anti-corruption campaign continues to hurt domestic consumption. We maintain our view that the government would adopt more easing measures and step up fiscal expenditure allocation to stabilize economic growth. Although a slew of easing measures have resulted in the recent rally in Chinese stock market, the effectiveness still depends on the impact on credit growth and lending rates in the coming periods.

Taiwan

Taiwan market hit its record high in six and a half years in July but started to consolidate since then. In the second half of 2014, TWSE index declined 0.91%. Both exports and imports fell and were below market expectations in December. Taiwan's exports fell by 2.8% yoy in December. Exports to most major trading partners decelerated, among which, exports to China declined 5.60% and exports to Europe dropped by 5.70% yoy. Export Orders also declined from 13.40% yoy in October to a worse-than-expected growth of 6.00% in November.

However, we expect Taiwan, as an export-oriented market, to continue to benefit from the global economy recovery in 2015. Also, the recent slump in crude oil price would also be beneficial to Taiwan's economic growth as Taiwan rely on imports for energy needs. However, one of the major risks to Taiwan would be the threats caused by China and Korea free trade agreement. Taiwan's Ministry of Economic Affairs estimated that the free trade agreement between China and South Korea could lead to a 0.50% drop in Taiwan's gross domestic product as 77% of Korea's merchandise trade structure is similar to Taiwan's. In terms of investment strategy, we continue to favor some financial and selective undervalued technology stocks.

Balance sheet as at 31 December 2014 (unaudited)

(Expressed in Hong Kong dollars)

	<i>31 December 2014</i>	<i>30 June 2014</i>
Assets		
Investments at fair value through profit or loss	\$ 310,047,300	\$ 94,092,343
Prepayments and dividend receivables	15,348	317,469
Cash and cash equivalents	4,285,431	16,413,652
	<hr/>	<hr/>
Total assets	\$ 314,348,079	\$ 110,823,464
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Liabilities		
Accrued expenses and other payables	628,541	343,947
	<hr/>	<hr/>
Total liabilities	\$ 628,541	\$ 343,947
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Net assets attributable to unitholders	\$ 313,719,538	\$ 110,479,517
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Representing:		
Equity	\$ 313,719,538	\$ 110,479,517
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Total number of units in issue	5,420,208	2,003,975
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Net asset value per unit	\$ 57.88	\$ 55.13
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Investment portfolio as at 31 December 2014 (unaudited)
(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i>	<i>% of total net assets</i>
Listed investments			
<i>Equities (98.83 %)</i>			
<i>Hong Kong (98.83 %)</i>			
Agricultural Bank of China Ltd	1,500,000	\$ 5,880,000	1.87
AIA Group Ltd	150,000	6,472,500	2.06
Anta Sports Products Ltd	350,000	4,795,000	1.53
BOC Hong Kong (Holdings) Ltd	490,000	12,715,500	4.05
Central China Securities Co Ltd	3,000,000	22,410,000	7.14
Cheung Kong Infrastructure (Holdings) Ltd	215,000	12,341,000	3.93
China Construction Bank Corp	700,000	4,459,000	1.42
China Galaxy Securities Co Ltd	1,600,000	15,568,000	4.96
China Lilang Co Ltd	2,250,000	10,980,000	3.50
China Mobile Ltd	80,000	7,240,000	2.31
China Power International Development Ltd	3,000,000	11,790,000	3.76
China Railway Construction Corp	1,050,000	10,374,000	3.31
China Railway Group Ltd	1,500,000	9,570,000	3.05
China Travel International Investment Hong Kong Ltd	5,200,000	13,988,000	4.46
Citic Securities Co Ltd	700,000	20,440,000	6.52
Dah Sing Financial Holdings	250,000	11,312,500	3.61
Hang Seng Bank Ltd	90,000	11,628,000	3.71
Hua Han Bio-Pharmaceutical Holdings Ltd	2,000,000	4,640,000	1.48
Huadian Power International Corp	1,970,000	13,396,000	4.27
Huaneng Power International Inc	1,320,000	13,833,600	4.41
Industrial and Commercial Bank of China Ltd	1,000,000	5,660,000	1.80
PICC Property and Casualty Co Ltd	981,000	14,793,480	4.72
Shenzhen Expressway Co Ltd	2,000,000	10,340,000	3.30
SITC International Holdings Co Ltd	2,519,000	10,680,560	3.40
Sunac China Holdings Ltd	1,900,000	14,991,000	4.78
Wasion Group Holdings Ltd	1,609,000	11,649,160	3.71
Zhuzhou CSR Times Electric Co Ltd	400,000	18,100,000	5.77
Total equities		\$ 310,047,300	98.83

Investment portfolio as at 31 December 2014 (unaudited)
(continued)

(Expressed in Hong Kong dollars)

	<i>Market value</i>	<i>% of total net assets</i>
Listed investments (continued)		
Total investments	\$ 310,047,300	98.83
Other net current assets (excluding assets attributable to unitholders)	3,672,238	1.17
Net assets attributable to unitholders	<u>\$ 313,719,538</u>	<u>100.00</u>
Total investments, at cost	<u>\$ 285,206,239</u>	

Statement of movements in investment portfolio for the period ended 31 December 2014 (unaudited)

	<i>Holdings</i>			<i>Balance at 31 December 2014</i>
	<i>Balance at 1 July 2014</i>	<i>Additions</i>	<i>Deductions</i>	
Listed investments				
<i>American Depositary Receipt</i>				
<i>The United States of America</i>				
Cheetah Mobile Inc	87	-	87	-
<i>Equities</i>				
<i>Hong Kong</i>				
AAC Technologies Holdings Inc	90,000	165,000	255,000	-
Agricultural Bank of China Ltd	-	1,500,000	-	1,500,000
AIA Group Ltd	100,000	320,000	270,000	150,000
Anta Sports Products Ltd	330,000	370,000	350,000	350,000
BOC Hong Kong (Holdings) Ltd	-	490,000	-	490,000
Bonjour Holdings Ltd	215,000	-	215,000	-
Brilliance China Automotive Holdings Ltd	-	800,000	800,000	-
Central China Securities Co Ltd	-	3,000,000	-	3,000,000
Cheung Kong (Holdings) Ltd	-	120,000	120,000	-
Cheung Kong Infrastructure (Holdings) Ltd	-	215,000	-	215,000
China Construction Bank Corp	700,000	-	-	700,000
China Everbright International Ltd	420,000	-	420,000	-
China Galaxy Securities Co Ltd	-	1,600,000	-	1,600,000
China Lilang Co Ltd	-	2,250,000	-	2,250,000
China Mobile Ltd	-	150,000	70,000	80,000
China Power International Development Ltd	-	3,000,000	-	3,000,000
China Railway Construction Corp	-	1,050,000	-	1,050,000
China Railway Group Ltd	-	1,500,000	-	1,500,000

Statement of movements in investment portfolio for the period ended 31 December 2014 (unaudited) (continued)

	<i>Holdings</i>			<i>Balance at 31 December 2014</i>
	<i>Balance at 1 July 2014</i>	<i>Additions</i>	<i>Deductions</i>	
Listed investments (continued)				
<i>Equities (continued)</i>				
<i>Hong Kong (continued)</i>				
China Resources Gas Group Ltd	182,000	-	182,000	-
China Travel International Investment Hong Kong Ltd	-	5,200,000	-	5,200,000
Citic Securities Co Ltd	-	700,000	-	700,000
CSPC Pharmaceutical Group Ltd	584,000	-	584,000	-
Dah Sing Financial Holdings	-	250,000	-	250,000
Fosun International	-	1,000,000	1,000,000	-
Guangdong Investment Ltd	-	1,200,000	1,200,000	-
Hang Seng Bank Ltd	-	90,000	-	90,000
Hua Han Bio-Pharmaceutical Holdings Ltd	-	2,000,000	-	2,000,000
Huadian Power International Corp	-	1,970,000	-	1,970,000
Huaneng Power International Inc	510,000	810,000	-	1,320,000
Hutchison Whampoa Ltd	80,000	90,000	170,000	-
Industrial and Commercial Bank of China Ltd	-	1,000,000	-	1,000,000
Jiashili Group Ltd	-	100,000	100,000	-
Johnson Electric Holdings Ltd	630,000	157,500	787,500	-
Johnson Electric Holdings Ltd- New	-	157,500	157,500	-
Lenovo Group Ltd	416,000	734,000	1,150,000	-
Manulife Financial Corp	23,000	-	23,000	-
PetroChina Co Ltd	450,000	550,000	1,000,000	-
PICC Property and Casualty Co Ltd	330,000	651,000	-	981,000

Statement of movements in investment portfolio for the period ended 31 December 2014 (unaudited) (continued)

	<i>Holdings</i>			<i>Balance at 31 December 2014</i>
	<i>Balance at 1 July 2014</i>	<i>Additions</i>	<i>Deductions</i>	
Listed investments (continued)				
<i>Equities (continued)</i>				
<i>Hong Kong (continued)</i>				
Shenzhen Expressway Co Ltd	1,350,000	650,000	-	2,000,000
Sihuan Pharmaceutical Holdings Group Ltd	-	2,250,000	2,250,000	-
Sino Land Co Ltd	-	850,000	850,000	-
SITC International Holdings Co Ltd	1,314,000	1,205,000	-	2,519,000
Soho China Ltd	550,000	1,050,000	1,600,000	-
Sunac China Holdings Ltd	-	1,900,000	-	1,900,000
TCL Communication Technology Holdings Ltd	-	1,160,000	1,160,000	-
Techtronic Industries Co Ltd	170,000	-	170,000	-
Tencent Holdings Ltd	50,000	50,000	100,000	-
Towngas China Co Ltd	485,000	-	485,000	-
Want Want China Holdings Ltd	300,000	-	300,000	-
Wasion Group Holdings Ltd	-	1,609,000	-	1,609,000
WH Group Ltd	-	45,500	45,500	-
Zhuzhou CSR Times Electric Co Ltd	-	400,000	-	400,000
Rights				
<i>Hong Kong</i>				
PICC Property and Casualty Co Ltd Nil Paid Rts (Nov 2014)	-	81,000	81,000	-