

HAITONG MIDDLE KINGDOM FUND

INTERIM REPORT

For the period from 1 July 2018 to 31 December 2018

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Management and administration

Manager

Haitong International Investment Managers Limited
22/F., Li Po Chun Chambers,
189 Des Voeux Road Central
Central, Hong Kong
General Line: (852) 2116 8200

Trustee's and Registrar's Agent

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

Directors of the Manager

Chen Xuan (Appointed on 1 February 2018)
Lo Wai Ho
Poon Mo Yiu (Appointed on 28 March 2018)
Sun Tong
Yang Jianxin
Zhang Xinjun (Resigned on 28 March 2018)

Solicitors

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

Trustee and Registrar

HSBC Trustee (Cayman) Limited
PO Box 484
Strathvale House
Ground Floor, 90 North Church Street
Grand Cayman
Cayman Islands KYI-1106

Auditors

KPMG
Century Yard, Cricket Square George
Town
Grand Cayman
Cayman Islands
British West Indies

Alternate Trustee:

HSBC Bank Bermuda Limited
Bank of Bermuda Building, 6 Front Street
Hamilton HM11
Bermuda

Report of the Manager

Performance and Market Review

During the period under review, Haitong Middle Kingdom Fund lost 16.81% on a net asset value (NAV) to NAV basis. Hong Kong equity market experienced valuation contraction and tumbled in the second half of 2018, mainly due to unexpected China's economic growth slowdown of China, which in return of results of overly tightening monetary policy for the purpose of financial deleveraging, and underestimate of the U.S.-China trade frictions. In terms of liquidity, the Fed hiked its benchmark rate twice in September and December respectively to a target range of 2.25% to 2.50%, and the rising U.S. interest rate and strong dollar environment continued to weigh on Hong Kong stock market.

On the macro front, China's gross domestic product (GDP) growth of the fourth quarter slowed down to 6.4% yoy, from the 6.5% in the third quarter of 2018, while in-line with the market expectation. Growth for the 2018 full year came in at 6.6% yoy, which is the slowest pace since 1990. However, considering the size of the economy and challenges from overseas, the growth deceleration was matching the market expectations. Industrial production grew 5.7% yoy in December, beating the expected 5.3% growth and also outpacing the 5.4% growth in November. Retail sales added 8.2% yoy in December, up from the 8.1% growth in November and also better than the forecast. In Hong Kong, retail sales value growth dropped to 1.4% yoy in November, from the 5.9% growth in October. The visitor arrivals was solid in November, with the total number added by 20.6% yoy to nearly 6.0 million, of which visitors from mainland added by 25.8% yoy to 4.63 million. Near-term outlook for Hong Kong's retail sales remains positive given ongoing recovering of inbound tourism. The provisional figures of monthly home price gained 5.5% yoy in November, while dropped by 3.5% qoq, showing the market sentiment was pulled down amid rising local mortgage rate.

Market Outlook and Strategy

Looking forward, we remain cautiously positive view on the Hong Kong market. Stock market still faced downward pressure in the short term considering uncertainties of the U.S.-China trade dispute and sluggish global economic growth. Meanwhile, Chinese authorities have released a series of pro-growth policies and the Fed turned to be more dovish in its December meeting towards slowing monetary tightening, we believe there would be more chances than risks in Hong Kong stock market especially at the current attractive low valuation level. In terms of investment strategy, we are positive on financial names with attractive dividend yield. We also prefer companies with solid fundamentals and sustainable business model which deliver strong earnings growth. 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 2018 (unaudited)

(Expressed in Hong Kong dollars)

	<i>31 December</i>	<i>30 June</i>
	<i>2018</i>	<i>2018</i>
Assets		
Investments at fair value through profit or loss	\$ 133,705,000	\$ 177,613,953
Amount due from unitholders	-	33,988
Prepayments and other receivables	109	19,933
Amount due from brokers	572	-
Dividends receivable	-	942,261
Cash and cash equivalents	25,506,213	19,422,546
	<hr/>	<hr/>
Total assets	\$ 159,211,894	\$ 198,032,681
	<hr/>	<hr/>
Liabilities		
Accrued expenses and other payables	\$ 384,988	\$ 535,909
	<hr/>	<hr/>
Total liabilities	\$ 384,988	\$ 535,909
	<hr/>	<hr/>
Net assets attributable to unitholders		
Equity	\$ 158,826,906	\$ 197,496,772
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Total number of units in issue	2,528,329	2,615,820
	<hr/> <hr/>	<hr/> <hr/>
Net asset value per unit	\$ 62.82	\$ 75.50
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Investment portfolio as at 31 December 2018 (unaudited)
(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i>	<i>% of total net assets</i>
Listed investments			
<i>Equities (84.18%)</i>			
<i>Hong Kong (84.18%)</i>			
AIA Group Ltd	120,000	\$ 7,800,000	4.91
Anhui Conch Cement Co Ltd	160,000	6,080,000	3.83
Anta Sports Products Ltd	200,000	7,510,000	4.73
BOC Hong Kong Holdings Ltd	240,000	6,984,000	4.40
China Merchants Bank Co Ltd	200,000	5,740,000	3.61
China Railway Construction Corp	680,000	7,384,800	4.65
China Resources Cement Holding Ltd	810,000	5,710,500	3.59
China Resources Land Ltd	238,000	7,163,800	4.51
Country Garden Holdings Company Ltd	700,000	6,671,000	4.20
CSPC Pharmaceutical Group Ltd	340,000	3,842,000	2.42
Hang Seng Bank Ltd	50,000	8,790,000	5.53
Hong Kong & China Gas	330,000	5,346,000	3.37
HSBC Holdings Plc	28,000	1,814,400	1.14
Jiangsu Expressway Co Ltd	500,000	5,460,000	3.44
Kingboard Holdings Ltd	150,000	3,135,000	1.97
Kingboard Laminates Holdings Ltd	700,000	4,522,000	2.85
Lee & Man Paper Manufacturing Ltd	600,000	3,984,000	2.51
Ping An Insurance (Group) Co of China Ltd	110,000	7,606,500	4.79
Shandong Chenming Paper Holding Ltd	600,000	2,688,000	1.69
Shenzhou International Group	120,000	10,650,000	6.71
Sino Biopharmaceutical Ltd	450,000	2,322,000	1.46
Sinopharm Group Co Ltd	170,000	5,593,000	3.52
Tencent Holdings Ltd	22,000	6,908,000	4.35
Total equities		<u>\$ 133,705,000</u>	<u>84.18</u>
Total investments		<u>\$ 133,705,000</u>	<u>84.18</u>
Other net current assets		<u>25,121,906</u>	<u>15.82</u>
Net assets attributable to unitholders		<u><u>\$ 158,826,906</u></u>	<u><u>100.00</u></u>
Total investments, at cost		<u><u>\$ 136,773,185</u></u>	

Statement of movements in investment portfolio
for the period ended 31 December 2018 (unaudited)
(Expressed in number of units)

	<i>Holdings</i>				
	<i>Balance at</i> <i>1 July</i> <i>2018</i>	<i>Additions</i>	<i>Deductions</i>	<i>Corporate</i> <i>Actions</i>	
Listed investments					
<i>Equities</i>					
<i>Hong Kong</i>					
AIA Group Ltd	120,000	-	-	-	120,000
Anhui Conch Cement Co Ltd	-	160,000	-	-	160,000
Anta Sports Products Ltd	200,000	-	-	-	200,000
BOC Hong Kong Holdings Ltd	240,000	-	-	-	240,000
China Merchants Bank Co Ltd	290,000	-	90,000	-	200,000
China Railway Construction Corp	-	680,000	-	-	680,000
China Resources Cement Holding Ltd	-	810,000	-	-	810,000
China Resources Land Ltd	-	238,000	-	-	238,000
China Shanshui Cement Group Co Ltd	1,000,000	-	1,000,000	-	-
Country Garden Holdings Company Ltd	700,000	-	-	-	700,000
Country Garden Services Holdings Co Ltd	80,460	-	80,460	-	-
CSPC Pharmaceutical Group Ltd	500,000	-	160,000	-	340,000
Geely Automobile Holdings Ltd	350,000	-	350,000	-	-
Haitian International Holdings Ltd	320,000	-	320,000	-	-
Hang Seng Bank Ltd	50,000	-	-	-	50,000
Hong Kong & China Gas	330,000	-	-	-	330,000
HSBC Holdings Plc	28,000	-	-	-	28,000

Statement of movements in investment portfolio for the period ended 31 December 2018 (unaudited) (continued)

(Expressed in number of units)

	<i>Holdings</i>				
	<i>Balance at 1 July 2018</i>	<i>Additions</i>	<i>Deductions</i>	<i>Corporate Actions</i>	<i>Balance at 31 December 2018</i>
Listed investments (continued)					
<i>Equities (continued)</i>					
Hong Kong (continued)					
Industrial and Commercial Bank of China	1,425,000	-	1,425,000	-	-
Jiangsu Expressway Co Ltd	-	500,000	-	-	500,000
Kerry Properties Ltd	140,000	-	140,000	-	-
Kingboard 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	-	-
Ping An Insurance (Group) Co of China Ltd	110,000	-	-	-	110,000
Shandong Chenming Paper Holding Ltd	600,000	-	-	-	600,000
Shenzhou International Group	120,000	-	-	-	120,000
Sino Biopharmaceutical Ltd	225,000	225,000	-	-	450,000
Sinopharm Group Co Ltd	-	170,000	-	-	170,000
Sunny Optical Technology Group Co Ltd	86,000	-	86,000	-	-
Techtronic Industries Co Ltd	182,500	-	182,500	-	-
Tencent Holdings Ltd	22,000	22,000	22,000	-	22,000