

# HAITONG MIDDLE KINGDOM FUND

## INTERIM REPORT

For the period from 1 July 2019 to 31 December 2019

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## Management and administration

### **Manager**

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

### **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 (Resigned on 18 December 2019)  
LO Wai Ho (Resigned on 18 December 2019)  
LUK Wai Yin (Appointed on 18 December 2019)  
POON Mo Yiu  
SUN Tong  
YANG Jianxin

### **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  
P.O. 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

## Report of the Manager

### **Performance and Market Review**

During the period under review, Haitong Middle Kingdom Fund added 1.44% on net asset value (NAV) to NAV basis. Hong Kong stock market was volatile in the second half of 2019, fell sharply in July and August and then oscillated upwards till the end of 2019 amid several uncertain factors including U.S.-China trade relations, China's slowing economic growth, value of RMB against U.S. Dollar, Hong Kong's social unrest, etc.

From liquidity's perspective, the U.S. Fed turned dovish since early 2019 and began to lower its rate in the second half year, from 2.25-2.50% to 1.50-1.75% range, cutting 25 basis points each time in July, October and December of 2019, respectively. On the other hand, the central bank of China continued to pump cash into money market via medium-term lending facility (MLF) to meet liquidity demand. The easing policies from central banks were supportive to stock prices despite concerns about weakening economic growth continued weighing on the market.

On the macro front, China's gross domestic product (GDP) growth moderated at 6.0% yoy in the third and fourth quarter of 2019. The growth over the year of 2019 ended at 6.1% yoy, which is the slowest rate in 30 years amid weak domestic demand and the trade conflict with the U.S., while it still meet government's target set earlier that within 6.0-6.5% range. China's manufacturing sector recovered gradually in the second half of 2019 as the Purchasing Manager's Index (PMI) continued improved from 49.4 in July to 50.2 in December, showing the sector started to expand again. In contrast, macro in Hong Kong continued weakening since the anti-government protests happened in the middle of 2019. Hong Kong's third quarter GDP growth fell to the negative 2.9% yoy, from the positive 0.5% of the second quarter, reflecting the economy is in a technical recession amid weak tourism and poor consumer sentiment.

### **Market Outlook and Strategy**

Looking forward, we are cautiously positive on the Hong Kong market. We expect the market to slowly digest trade frictions between the U.S. and China and shift its focus to the company fundamentals. 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 industrials sector and technology sector which will benefit from China's industry upgrading and manufacturing recovery. 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 2019 (unaudited)

*(Expressed in Hong Kong dollars)*

	<i>31 December</i>	<i>30 June</i>
	<i>2019</i>	<i>2019</i>
<b>Assets</b>		
Investments at fair value through profit or loss	\$ 164,892,320	\$ 165,784,240
Prepayments and other receivables	4,779	24,708
Dividends receivable	79,418	1,239,172
Cash and cash equivalents	6,685,248	14,100,617
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 171,661,765</b>	<b>\$ 181,148,737</b>
	<hr/>	<hr/>
<b>Liabilities</b>		
Accrued expenses and other payables	\$ 404,820	\$ 481,877
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>\$ 404,820</b>	<b>\$ 481,877</b>
	<hr/>	<hr/>
<b>Net assets attributable to unitholders</b>		
Equity	\$ 171,256,945	\$ 180,666,860
	<hr/>	<hr/>
<b>Total number of units in issue</b>	<b>2,354,017</b>	<b>2,519,014</b>
	<hr/>	<hr/>
<b>Net asset value per unit</b>	<b>\$ 72.75</b>	<b>\$ 71.72</b>
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Investment portfolio as at 31 December 2019 (unaudited)  
(Expressed in Hong Kong dollars)

	Holdings	Market value	% of total net assets
<b>Listed investments</b>			
<b>Equities (96.28%)</b>			
<i>Hong Kong (96.28%)</i>			
AIA Group Ltd	120,000	\$ 9,816,000	5.73
Anhui Conch Cement Co Ltd	150,000	8,520,000	4.97
China Construction Bank Corp	1,145,000	7,705,850	4.50
China Merchants Bank Co Ltd	200,000	8,010,000	4.68
China Resources Land Ltd	150,000	5,820,000	3.40
China Vanke Co Ltd	185,300	6,161,225	3.60
CNOOC Ltd	140,000	1,814,400	1.06
Country Garden Holdings Company Ltd	550,000	6,864,000	4.01
CSPC Pharmaceutical Group Ltd	336,000	6,242,880	3.65
Geely Automobile Holdings Ltd	383,000	5,836,920	3.41
Hang Seng Bank Ltd	44,000	7,084,000	4.14
Henderson Land Development Co Ltd	80,200	3,067,650	1.79
Hong Kong & China Gas	214,000	3,257,080	1.90
HSBC Holdings PLC	28,000	1,703,800	0.99
Huaneng Power International Inc	414,000	1,631,160	0.95
Industrial and Commercial Bank of China	1,136,000	6,816,000	3.98
Kingboard Laminates Holdings Ltd	568,500	5,491,710	3.21
Longfor Group Holdings Ltd	172,000	6,278,000	3.67
Meituan Dianping	24,400	2,486,360	1.45
MTR Corp Ltd	61,500	2,832,075	1.65
Ping An Insurance (Group) Co of China Ltd	77,000	7,091,700	4.14
Sands China Ltd	132,000	5,497,800	3.21
Shenzhou International Group	77,000	8,770,300	5.12
Sino Biopharmaceutical Ltd	285,000	3,106,500	1.81
Sunac China Holdings Ltd	185,000	8,611,750	5.03
Sunny Optical Technology (Group) Co Ltd	24,600	3,318,540	1.94
Tencent Holdings Ltd	31,200	11,718,720	6.84
Zoomlion Heavy Industry Science and Technology Co Ltd	1,430,000	9,337,900	5.45
<b>Total equities</b>		<u>\$ 164,892,320</u>	<u>96.28</u>

Investment portfolio as at 31 December 2019 (unaudited)  
(continued)

(Expressed in Hong Kong dollars)

	<i>Market value</i>	<i>% of total net assets</i>
<b>Total investments</b>	\$ 164,892,320	96.28
<b>Other net current assets</b>	6,364,625	3.72
<b>Net assets attributable to unitholders</b>	<u>\$ 171,256,945</u>	<u>100.00</u>
<b>Total investments, at cost</b>	<u>\$ 132,987,640</u>	

Statement of movements in investment portfolio  
for the period ended 31 December 2019 (unaudited)  
(Expressed in number of units)

	<i>Holdings</i>			<i>Balance at 31 December 2019</i>
	<i>Balance at 1 July 2019</i>	<i>Additions</i>	<i>Deductions</i>	
<b>Listed investments</b>				
<i>Equities</i>				
<i>Hong Kong</i>				
AIA Group Ltd	120,000	-	-	120,000
Anhui Conch Cement Co Ltd	150,000	-	-	150,000
Anta Sports Products Ltd	132,000	-	132,000	-
China Construction Bank Corp	-	1,145,000	-	1,145,000
China Merchants Bank Co Ltd	200,000	-	-	200,000
China Resources Land Ltd	200,000	-	50,000	150,000
China Vanke Co Ltd	242,000	-	56,700	185,300
CNOOC Ltd	-	140,000	-	140,000
Country Garden Holdings Company Ltd	550,000	-	-	550,000
CSPC Pharmaceutical Group Ltd	-	336,000	-	336,000
Geely Automobile Holdings Ltd	-	383,000	-	383,000
Hang Seng Bank Ltd	50,000	-	6,000	44,000
Henderson Land Development Co Ltd	145,200	-	65,000	80,200
Hong Kong & China Gas	484,000	-	270,000	214,000
Hong Kong Exchanges and Clearing Ltd	22,000	-	22,000	-
HSBC Holdings PLC	28,000	-	-	28,000
Huaneng Power International Inc	-	414,000	-	414,000
Industrial and Commercial Bank of China	-	1,136,000	-	1,136,000
Jiangsu Expressway Co Ltd	220,000	-	220,000	-
Kingboard Holdings Ltd	110,000	-	110,000	-
Kingboard Laminates Holdings Ltd	-	568,500	-	568,500
Longfor Group Holdings Ltd	-	220,000	48,000	172,000
Meituan Dianping	-	24,400	-	24,400



**Statement of movements in investment portfolio  
for the period ended 31 December 2019 (unaudited)**  
**(continued)**

*(Expressed in number of units)*

	<i>Holdings</i>			<i>Balance at 31 December 2019</i>
	<i>Balance at 1 July 2019</i>	<i>Additions</i>	<i>Deductions</i>	
<b>Listed investments (continued)</b>				
<b><i>Equities (continued)</i></b>				
<i>Hong Kong (continued)</i>				
MTR Corp Ltd	130,000	-	68,500	61,500
Ping An Insurance (Group) Co of China Ltd	77,000	-	-	77,000
Sands China Ltd	132,000	-	-	132,000
Shenzhou International Group	77,000	-	-	77,000
Sino Biopharmaceutical Ltd	-	285,000	-	285,000
Sun Hung Kai Properties Ltd	33,000	-	33,000	-
Sunac China Holdings Ltd	185,000	-	-	185,000
Sunny Optical Technology (Group) Co Ltd	-	24,600	-	24,600
Swire Pacific Ltd	69,000	-	69,000	-
Tencent Holdings Ltd	22,000	9,200	-	31,200
Weichai Power Co Ltd	550,000	-	550,000	-
Wheelock and Co Ltd	132,000	-	132,000	-
Zoomlion Heavy Industry Science and Technology Co Ltd	1,580,000	-	150,000	1,430,000