

HAITONG MIDDLE KINGDOM FUND

INTERIM REPORT

For the period from 1 July 2020 to 31 December 2020

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Management and administration

Manager

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Directors of the Manager

Luk Wai Yin
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Trustee and Registrar

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Trustee's and Registrar's Agent

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KPMG
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Report of the Manager

Performance and Market Review

During the period under review, Haitong Middle Kingdom Fund added 21.97% on net asset value (NAV) to NAV basis. Hong Kong stock market was volatile in the second half of 2020. Market oscillated down towards the end of September amid worsening U.S.-China relations and then rebounded strongly and continued climbing throughout the fourth quarter of 2020, coupled with a more optimistic global economic outlook as major progress seen in COVID-19 vaccine development.

From liquidity's perspective, the U.S. Fed kept a loose monetary policy to support economic recovery by maintaining a low fund rate at 0-0.25% range and continued its bond-purchase program. Besides, the U.S. government also actively prepared its second fiscal stimulus package to boost employment and spending. In comparison, China exhibited a more prudent monetary policy to cushion the impacts of COVID-19 pandemic, market liquidity was reasonably ample to match the nominal economic growth.

On the macro front, China's gross domestic product (GDP) expanded at 4.9% yoy and 6.5% yoy in the third and fourth quarter of 2020, respectively. The growth over the year of 2020 ended at 2.3% yoy, which is the slowest rate in decades but expected to be the only major world economy to keep expansion in 2020. China's manufacturing sector also gradually recovered with the monthly Purchasing Manager's Index (PMI) all above the 50% level from July to December 2020. Hong Kong economy saw some improvement thanks to the accelerated growth of Mainland economy, with the third quarter GDP declined at 3.5% yoy, visibly narrowed from the 9.0% yoy contraction in the second quarter of 2020.

Market Outlook and Strategy

Looking forward, we are cautiously positive on the Hong Kong market. We expect the market to benefit from the accelerated recovery of Mainland economy in 2021. Solid corporate earnings and continuous southbound capital inflows could help an improved market sentiment. In terms of investment strategy, we are positive on consumer goods and information technology sectors which will benefit from China's industrial upgrading and economic structural reform. However, we believe geopolitical risk would continue to send jitters to the stock market in the short term.

Statement of comprehensive income for the period ended 31 December 2020 (unaudited)

(Expressed in Hong Kong dollars)

	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited)</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited)</i>
Income		
Net gain on financial assets at fair value through profit or loss	\$ 33,122,312	\$ 1,702,683
Dividend income	1,575,412	1,815,951
Interest income	44	5,700
Net foreign exchange (loss)/gain	(2,196)	391
	\$ 34,695,572	\$ 3,524,725
Expenses		
Management fee ^{Note 02}	\$ 1,406,912	\$ 1,423,112
Trustee fee ^{Note 01}	241,185	243,962
Transaction costs ^{Note 01}	209,773	215,268
Auditors' remuneration	92,444	93,886
Legal and other professional fee	-	5,021
Miscellaneous expenses ^{Note 01}	103,035	81,787
	\$ 2,053,349	\$ 2,063,036
Profit attributable to unitholders before taxation	\$ 32,642,223	\$ 1,461,689
Withholding tax expenses	(126,239)	(92,165)
Profit attributable to unitholders and total comprehensive income for the period	\$ 32,515,984	\$ 1,369,524

Statement of comprehensive income
for the period ended 31 December 2020 (unaudited) (continued)
(Expressed in Hong Kong dollars)

Note 1: During the period ended 31 December 2020 and 2019, other than Trustee fee paid to Trustee, other respective amounts paid to the Trustee or its Connected Persons were as follows:

	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited)</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited)</i>
Transaction costs	\$ 10,276	\$ 8,615
Miscellaneous expenses	24,909	39,335

Note 2: During the period ended 31 December 2020 and 2019, other than Management fee that was paid to the Manager, no other amounts paid to the Manager or its connected persons.

Statement of financial position as at 31 December 2020 (unaudited)

(Expressed in Hong Kong dollars)

	<i>31 December</i>	<i>30 June</i>
	<i>2020</i>	<i>2020</i>
Assets		
Financial assets at fair value through profit or loss	\$ 159,373,802	\$ 149,923,363
Amount due from broker	-	1,606,451
Prepayments and other receivables	-	19,631
Dividends receivable	57,603	1,292,043
Cash and cash equivalents	10,420,499	11,110,009
	<hr/>	<hr/>
Total assets	\$ 169,851,904	\$ 163,951,497
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Liabilities		
Accrued expenses and other payables	\$ 408,340	\$ 494,452
Amounts due to unitholders	-	3,553,299
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Total liabilities	\$ 408,340	\$ 4,047,751
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Net assets attributable to unitholders		
Equity	\$ 169,443,564	\$ 159,903,746
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Total number of units in issue	2,071,916	2,384,738
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Net asset value per unit	\$ 81.78	\$ 67.05
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Note: Interim report has applied the same accounting policies and methods of computation as are applied in the annual reports of the Sub-Fund.

Statement of changes in equity for the period ended 31 December 2020 (unaudited)

(Expressed in Hong Kong dollars)

	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited)</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited)</i>
Balance at the beginning of the period	\$ 159,903,746	\$ 180,666,860
Issuance of units	\$ 1,276,001	\$ 2,722,032
Redemption of units	(24,252,167)	(13,501,471)
Total transactions with unitholders	\$ (22,976,166)	\$ (10,779,439)
	\$ 136,927,580	\$ 169,887,421
Profit attributable to unitholders and total comprehensive income for the period	32,515,984	1,369,524
Balance at the end of the period	\$ 169,443,564	\$ 171,256,945
	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited) Units</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited) Units</i>
Balance at the beginning of the period	2,384,738	2,519,014
Issuance of units	16,917	40,470
Redemption of units	(329,739)	(205,467)
Balance at the end of the period	2,071,916	2,354,017

Cash flow statement
for the period ended 31 December 2020 (unaudited)
(Expressed in Hong Kong dollars)

	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited)</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited)</i>
Operating activities		
Profit attributable to unitholders before taxation	\$ 32,642,223	\$ 1,461,689
Adjustments for:		
Net gain on financial assets at fair value through profit or loss	(33,122,312)	(1,702,683)
Dividend income	(1,575,412)	(1,815,951)
Interest income	(44)	(5,700)
	\$ (2,055,545)	\$ (2,062,645)
Operating losses before changes in working capital		
Proceeds from sale of financial assets at fair value through profit or loss	65,746,847	53,817,521
Purchase of financial assets at fair value through profit or loss	(40,468,523)	(51,222,918)
Decrease in prepayments and other receivables	19,631	19,929
Decrease in accrued expenses and other payables	(86,112)	(77,057)
Dividends received, net of withholding tax	2,683,613	2,883,540
Interest received	44	5,700
	\$ 25,839,955	\$ 3,364,070
Financing activities		
Proceeds from issuance of units	\$ 1,276,001	\$ 2,722,032
Payments on redemption of units, net of redemptions payable	(27,805,466)	(13,501,471)
	\$ (26,529,465)	\$ (10,779,439)
Net cash used in financing activities	\$ (26,529,465)	\$ (10,779,439)

Cash flow statement
for the period ended 31 December 2020 (unaudited) (continued)
(Expressed in Hong Kong dollars)

	<i>For the period from 1 July 2020 to 31 December 2020 (Unaudited)</i>	<i>For the period from 1 July 2019 to 31 December 2019 (Unaudited)</i>
Net decrease in cash and cash equivalents	\$ (689,510)	\$ (7,415,369)
Cash and cash equivalents at the beginning of the period	11,110,009	14,100,617
Cash and cash equivalents at the end of the period	\$ 10,420,499	\$ 6,685,248

Investment portfolio as at 31 December 2020 (unaudited)

(Expressed in Hong Kong dollars)

	<i>Holdings</i>	<i>Market value</i>	<i>% of total Net assets</i>
Listed investments			
Equities (94.06%)			
<i>Hong Kong (94.06%)</i>			
AIA Group Ltd	38,400	\$ 3,648,000	2.15
Alibaba Group Holdings Ltd	26,800	6,233,680	3.68
Anhui Conch Cement Co Ltd	150,000	7,282,500	4.30
China Construction Bank Corp	1,145,000	6,744,050	3.98
China Mengniu Dairy Co Ltd	109,000	5,101,200	3.01
China Merchants Bank Co Ltd	200,000	9,800,000	5.78
China Resources Land Ltd	150,000	4,800,000	2.83
Country Garden Services Holdings Co Ltd	107,000	5,612,150	3.31
CSPC Pharmaceutical Group Ltd	645,120	5,115,802	3.02
Hangzhou Tigermed Consulting Co Ltd	27,900	5,008,050	2.96
Industrial and Commercial Bank of China Ltd	1,136,000	5,714,080	3.37
JD.Com Inc	16,900	5,779,800	3.41
Longfor Group Holdings Ltd	121,500	5,516,100	3.26
Meituan Dianping	42,500	12,520,500	7.39
Ping An Insurance (Group) Co of China Ltd	58,000	5,510,000	3.25
Sands China Ltd	132,000	4,494,600	2.65
Shenzhen International Group	52,900	8,040,800	4.75
Sino Biopharmaceutical Ltd	597,000	4,477,500	2.64
Sunny Optical Technology Group Co Ltd	26,100	4,429,170	2.61
Tencent Holdings Ltd	22,600	12,746,400	7.52
Tsingtao Brewery Co Ltd	92,000	7,470,400	4.41
Wuxi Apptec Co Ltd	51,400	7,802,520	4.61
Xinyi Solar Holdings Ltd	110,000	2,227,500	1.32
Zoomlion Heavy Industry Science and Technology Co Ltd	1,430,000	13,299,000	7.85
Total equities		<u>\$ 159,373,802</u>	<u>94.06</u>
Total investments		\$ 159,373,802	94.06
Other net assets		10,069,762	5.94
Net assets attributable to unitholders		<u>\$ 169,443,564</u>	<u>100.00</u>
Total investments, at cost		<u>\$ 111,413,219</u>	

Statement of movements in investment portfolio for the period ended 31 December 2020 (unaudited)

(Expressed in number of units)

	<i>Holdings</i>			<i>Balance at 31 December 2020</i>
	<i>Balance at 1 July 2020</i>	<i>Additions</i>	<i>Deductions</i>	
Listed investments				
<i>Equities</i>				
<i>Hong Kong</i>				
AIA Group Ltd	82,800	-	44,400	38,400
Alibaba Group Holdings Ltd	-	26,800	-	26,800
Anhui Conch Cement Co Ltd	150,000	-	-	150,000
Anta Sports Products Ltd	35,000	35,000	70,000	-
China Construction Bank Corp	1,145,000	-	-	1,145,000
China Mengniu Dairy Co Ltd	-	109,000	-	109,000
China Merchants Bank Co Ltd	200,000	-	-	200,000
China Resources Land Ltd	150,000	-	-	150,000
China Vanke Co Ltd	185,300	-	185,300	-
CNOOC Ltd	140,000	-	140,000	-
Country Garden Holdings Company Ltd	550,000	-	550,000	-
Country Garden Services Holdings Co Ltd	-	107,000	-	107,000
CSPC Pharmaceutical Group Ltd	403,200	241,920	-	645,120
Geely Automobile Holdings Ltd	383,000	-	383,000	-
Hang Seng Bank Ltd	44,000	-	44,000	-
Hangzhou Tigermed Consulting Co Ltd	-	27,900	-	27,900
Hong Kong & China Gas	224,700	-	224,700	-
HSBC Holdings PLC	28,000	-	28,000	-
Industrial and Commercial Bank of China Ltd	1,136,000	-	-	1,136,000
JD.Com Inc	-	16,900	-	16,900
Kingboard Laminates Holdings Ltd	568,500	-	568,500	-
Longfor Group Holdings Ltd	172,000	-	50,500	121,500
Meituan Dianping	66,300	-	23,800	42,500
Ping An Insurance (Group) Co of China Ltd	77,000	-	19,000	58,000
Sands China Ltd	132,000	-	-	132,000
Shenzhou International Group	77,000	-	24,100	52,900

Statement of movements in investment portfolio
for the period ended 31 December 2020 (unaudited) (continued)

(Expressed in number of units)

	<i>Holdings</i>			<i>Balance at 31 December 2020</i>
	<i>Balance at 1 July 2020</i>	<i>Additions</i>	<i>Deductions</i>	
Listed investments (continued)				
<i>Equities (continued)</i>				
<i>Hong Kong (Continued)</i>				
Sino Biopharmaceutical Ltd	398,000	199,000	-	597,000
Sunac China Holdings Ltd	185,000	-	185,000	-
Sunny Optical Technology Group Co Ltd	40,900	-	14,800	26,100
Tencent Holdings Ltd	27,900	-	5,300	22,600
Tsingtao Brewery Co Ltd	-	92,000	-	92,000
Wuxi Apptec Co Ltd	-	51,400	-	51,400
Xinyi Solar Holdings Ltd	-	110,000	-	110,000
Zoomlion Heavy Industry Science and Technology Co Ltd	1,430,000	-	-	1,430,000
Unlisted investments				
<i>Rights</i>				
<i>Hong Kong</i>				
China Resources Land Ltd Nil Paid Rts 30/11/2020	-	1,154	1,154	-