HSBC China Dragon Fund (Stock code: 820)

Investment objective
HSBC China Dragon Fund ("the Fund") seeks to benefit from the growth potential and investment opportunities in China, with a diversified exposure to A shares, B shares, H shares, Red-chip companies and other companies that carry out a significant proportion of their business activities in China.

Background
Launched in July 2007, the Fund was the first SFC authorised1 actively-managed Chinese equity fund listed on the Hong Kong Stock Exchange. The Fund gains direct exposure to the A-share market through a US$200 million QFII (Qualified Foreign Institutional Investor) quota of HSBC Global Asset Management (Hong Kong) Limited.

As a listed fund, it combines the unique benefits of active fund management in stock selection and the flexibility of daily trading.

Benefits of the Fund
- **Access to the real China opportunities**
  - By investing primarily in the A-share market and a broad range of other Chinese share classes, this allows the Fund to capture domestic growth and gain a wide exposure to multiple opportunities
- **Active management and potential alpha generation**
  - The A-share universe has over 1,600 stocks covering a diverse range of companies while other Chinese equity markets can offer a different sector exposure. Using an active management approach in stock selection allows the fund manager to exploit market inefficiencies to generate alpha
- **Potentially lower volatility than investing in pure A-share or a single Chinese equity market**
  - The diversified exposure to a number of Chinese equity markets may result in lower volatility than purely investing in the A-share or a single Chinese equity market2

![Volatility chart]

- **The convenience of stock trading**
  - The Fund is traded conveniently through the Hong Kong Stock Exchange at a low transaction cost

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1. Fund's volatility is calculated according to NAV, not its market price
2. *Fund's volatility is calculated according to NAV, not its market price
Why China now?

- China’s economy continues to power ahead
  - China is leading the global economy with a GDP growth target of 8% for this year
  - Private consumption accounted for about 35% of China’s GDP as at the end of December 2008 and has significant room to increase given rising income and government measures to stimulate spending. Urban fixed asset investment and retail sales remain resilient and continue to grow strongly at healthy rates of about 26% and 19% year-on-year respectively
  - Loan growth has been very strong supporting business and consumer spending

- Valuations remain fair
  - Both A and H shares are trading at a reasonable forward P/E level of 17 times and 12 times respectively
  - Excellent value is emerging for long-term investors despite short term market volatility

Portfolio strategy

- Consumption remains the key theme for the Fund. The fund manager prefers consumer discretionary, industrials, health care and selected commodity stocks. Due to policy risk and industry competition, the manager is more cautious about real estate and telecommunications

**Sector allocation**

- Consumer discretionary: 17.3%
- Consumer staples: 6.3%
- Energy: 10.1%
- Financials: 27.1%
- Health care: 5.7%
- Industrials: 9.7%
- Information technology: 9.6%
- Materials: 6.5%
- Cash: 4.7%
- Others: 3.0%

**Share class allocation**

- A shares: 43.3%
- Non A shares: 52.0%
- Including B shares, H shares and Red Chips
- Cash: 4.7%
Fund details

<table>
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<tr>
<th>Fund size</th>
<th>HK$3,297.20 million</th>
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<tbody>
<tr>
<td>Typical number of holdings</td>
<td>Over 100 stocks</td>
</tr>
<tr>
<td>Closing price on Exchange</td>
<td>HK$7.92</td>
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<tr>
<td>NAV (Net Asset Value) per unit</td>
<td>HK$8.88</td>
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<tr>
<td>Management fee</td>
<td>1.5% per annum</td>
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<tr>
<td>Fund manager</td>
<td>Mandy Chan</td>
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Ms. Chan has been working in the asset management industry since 1997. She joined HSBC in December 2009 and has extensive experience in managing a range of China funds and Hong Kong institutional portfolios. She won the 2008 AsianInvestor Hong Kong Equities "Best in 5-Year Performance".

Trading price vs NAV

Performance reference

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<tr>
<th>A shares and other QFI investments</th>
<th>Non A shares and non-QFI investments</th>
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<tr>
<td>&quot;A shares portion&quot; (Gross of Expense)</td>
<td>&quot;Non A shares portion&quot; (Gross of Expense)</td>
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<tr>
<td>Performance (based at 100)</td>
<td>Performance (based at 100)</td>
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HSBC China Dragon Fund9

HSBC's strength in Chinese equity investments

- HSBC Global Asset Management, a recognised leader in Chinese investments, manages approximately US$9 billion in Chinese securities, of which approximately US$2 billion is invested in domestic Chinese securities (including A shares and local bonds)10
- We manage one of the largest offshore Chinese equity funds in Hong Kong: HSBC Global Investment Funds – Chinese Equity with assets under management of US$3.3 billion11
- We have on-the-ground research capability supported by HSBC Jintrust Fund Management Company based in Shanghai
- A large and dedicated Chinese equity team of 25 experienced investment professionals are based in Hong Kong and China, with an average industry experience of 7 years

Remarks:
1/ Securities and Futures Commission (SFC) authorization does not imply official recommendations. 2/ Source: Bloomberg, from July 2008 to April 2010, rolling 12 months volatility. Fund volatility refers to standard deviation and is calculated according to the NAV of the Fund. 3/ Source: Bloomberg, data as at 30 April 2010. 4/ Source: Bloomberg, data as at 30 April 2010. 5/ Source: Bloomberg and HSBC Global Asset Management, data as at 30 April 2010. 6/ Source: Bloomberg, data as at 30 April 2010. 7/ Total returns gross of expense performance in Hong Kong dollar. Returns would be lower once expenses are deducted. 8/ NAV to NAV, total returns net of expenses performance in Hong Kong dollar. 9/ Source: HSBC Global Asset Management, data as at 31 March 2010, including direct exposure to the A-share market through its own QFII quota and indirect exposure through various China A-share access products. 10/ Source: HSBC China Dragon Fund, data as at 30 April 2010.

Calendar year performance

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<th>2010 year-to-date</th>
<th>2009 Full Year</th>
<th>2008 Full Year</th>
<th>Since launch to Dec 2007</th>
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<tr>
<td>Net asset value of the Fund (net of expenses)</td>
<td>-6.1%</td>
<td>75.5%</td>
<td>-57.8%</td>
<td>32.2%</td>
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The Fund is a closed-end fund and no investors may demand redemption of their units. The listing of the Fund on the Hong Kong Stock Exchange does not guarantee a liquid market and the Fund may be delisted. The Fund’s market price on the Hong Kong Stock Exchange may be different from its net asset value per unit. Currency movements may affect the value of investments. Investment in emerging market involves higher risks. The Fund invests part of its assets in China A-shares, which are subject to specific risks and restrictions as disclosed in the offering document. The Fund differs from a typical trust and investors should read the offering document for details. The document has not been reviewed by the Securities and Futures Commission. Investment involves risk and past performance is not indicative of future performance.

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