



**國泰君安國際**  
GUOTAI JUNAN INTERNATIONAL

# **Guotai Junan Investment Funds**

## **Guotai Junan Greater China Growth Fund**

Interim Report at 30<sup>th</sup> June 2011

*(unaudited)*

**Guotai Junan Assets (Asia) Limited**

### SUMMARY

Guotai Junan Investment Funds is an umbrella unit trust established in the Cayman Islands under the Trusts Laws by the Trust Deed. The Sub-Fund, Guotai Junan Greater China Growth Fund, enables investors to 'pool' their resources into a single fund that invests directly in listed securities in the Greater China region. The details of Guotai Junan Greater China Growth Fund are set out as below:

- A Sub-Fund established specifically for medium to long term capital appreciation objectives
- Value-oriented investment strategy to achieve consistent superior returns
- Hong Kong dollar – denominated, authorised in Hong Kong
- Minimum investment of HK\$10,000.00
- Daily dealing and valuations
- The Net Asset Value per Unit published daily in the South China Morning Post and the Hong Kong Economic Journal.

**DIRECTORY OF PARTIES**

***Investment Manager:***

Guotai Junan Assets (Asia) Limited  
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Grand Millennium Plaza  
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Hong Kong

***Directors of the Manager:***

YIM Fung  
YUAN Junping

***Trustee and Registrar:***

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Cayman Islands

***Auditors:***

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***Service Provider to Trustee and Registrar:***

HSBC Institutional Trust Services (Asia) Limited  
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***Lead Legal Advisers to the Manager:***

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## INVESTMENT MANAGER'S REVIEW

Global equity markets struggled in the first half of 2011 on various financial scourges which undermined investors' confidence. European debt crisis burst out and rating agencies downgraded Greece sovereign debt to "selectively default", the U.S. fell into endless political dispute on lifting the national debt ceiling. A bundle of disasters such as the mega earthquake in Japan, the serious drought across the Asia continent and the severe flood in Australia, also increased volatility of the equity markets. Major countries in the emerging markets, including China, were struggling with the persistent high inflation, which might potential jeopardize their sustainable economic growths. Therefore, it was not surprised to see a dull performance across global equities markets in the first half of 2011 which all these obstacles.

The U.S. economy's recovery in the first half of 2011 was slow and might remain lackluster for the rest of the year, given heavy household debt, a financial system still had not been recovered from the mortgage crisis, fragile confidence and a government without clear options to support its growth. Across a wide range of measures - employment growth, unemployment levels, bank lending, economic output, income growth, home prices and household expectations for financial well-being, none showed significant improvement in the first half of 2011. The latest unemployment rate came high at 9.2% in June, and the second quarter GDP growth was further revised down to 1.9%. The US government seemed have run out of solutions to further stimulate the economy, as the US Fed had already pushed short-term interest rates to near zero. Two rounds of quantitative easing including purchasing US\$1.425 trillion in mortgage bonds and US\$900 billion in Treasury debt helped to stabilize the economy but failed to spur a vigorous recovery. The things we saw were the soaring gold price and the inevitable USD depreciation. Thanks to the decent earnings growth of the blue chips in the U.S., the three major indices recorded single-digit growths in the first half of 2011. The Dow Jones increased by 7.2% to 12,414. The S&P 500 increased by 5.0% to 1,321 and the NASDAQ gained by 4.5% to 2,774.

The main theme of China's economy for the first half of year 2011 was "anti-inflation". Even though the PBOC had hiked the RRR for 6 times and raised interest rate for 3 times respectively in the first half of 2011, the real interest rate remained negative. The latest CPI in June reached two-year-high of 6.4%. The central government continued its tight controls on the property sector, by firmly restricting housing purchase and aggressively expanding housing supply in the same time. The termination of stimulus policies on auto-purchase also significantly influenced the auto sales. Nevertheless, there were still some bright spots in the first half of 2011. The export was stronger than expected, and the fiscal stimulus by expanding fixed assets investment (FAI) also contributed a lot to the GDP growth. The first half of 2011 real GDP grew at 9.6% YoY, and the FAI YTD growth came as high as 25.6% YoY. In

## Guotai Junan Greater China Growth Fund

order to stimulate the domestic consumption, the central government cut the import taxes on major commodities and proposed to raise the threshold of individual income tax. We expect that CPI will come down in the second half of 2011 and the FAI will remain at a relatively high level. China's economy growth will slow down in the second half of 2011, but there will not be a hard-landing. In the first half of 2011 both the domestic and Hong Kong markets performed disappointingly. The domestic CSI300 index decreased by 2.7% to 3,044. In Hong Kong, the Hang Seng Index decreased by 2.8% to 22,398, and HSCEI dropped by 1% to 12,577.

### RELATED MARKETS PERFORMANCE

Index Name	1H 2011	1 Year	Since Inception (16 November 2007)
	% Change*	% Change	% Change
Hang Seng China-Affiliated Index Total Return (in HK\$)	1.8%	12.1%	-22.1%
Hang Seng China Enterprises Index Total Return (in HK\$)	1.3%	12.5%	-17.5%
MSCI Daily TR Gross China Local	1.2%	12.6%	-16.3%
CSI 300 Index (Total Return in HK\$)	0.3%	26.5%	-26.9%
Hang Seng Index Total Return (in HK\$)	-0.8%	14.6%	-8.7%
MSCI AC Golden Dragon Gross Local	-1.0%	18.1%	-7.9%
TAIEX Total Return Index (in HK\$)	-1.9%	36.8%	25.0%
Shanghai SE B Shares Index (Total Return in HK\$)	-9.2%	32.4%	-15.1%
Shenzhen SE B Shares Index (Total Return in HK\$)	-10.9%	31.3%	10.4%
<b>The Fund (Total Return in HK\$)</b>	<b>-11.7%</b>	<b>7.1%</b>	<b>-15.2%</b>

Sources: Bloomberg and Guotai Junan Assets (Asia) Ltd.

\* Descendent ranked according to the 1H 2011 % Change.

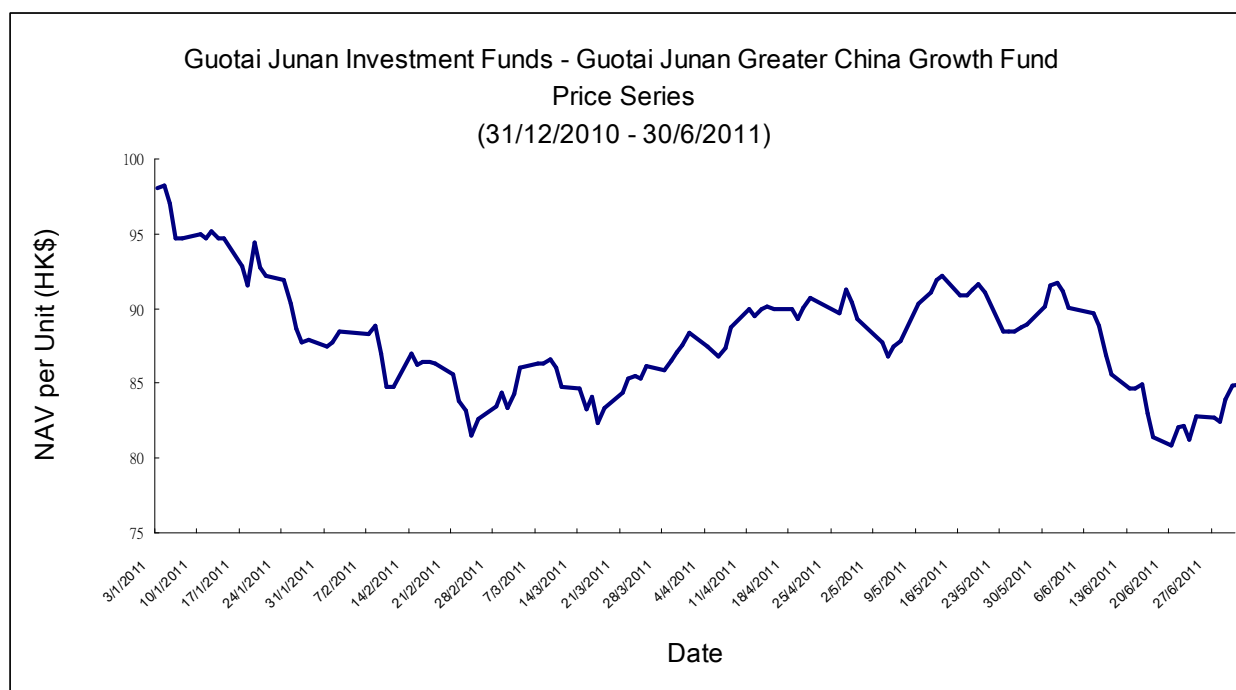
The fund's NAV decreased by 11.7% in the first half of 2011. And the fund reported 7.1% 1-year return. Amid the rather volatile market, small and mid cap stocks experienced deeper corrections. Given that the portfolio mainly comprised small and mid cap stocks, we are disappointed to see the fund underperformed the broad market in the first half of 2011.

The holdings of the portfolio became more diversified in the period. By the end of first half of 2011, consumer discretionary remained the largest sector which weighed 25% of NAV. The portfolio also comprised a big trunk of defensive sectors, including telecom services, utilities and consumer staples each weighing of 14%, 7.6% and 7% respectively. Information Technology weighed 13.7% with China All Access (00633 HK) as the top weighed stock in the fund which weighed 8.8% of NAV. Cyclical sectors all together weighed 25% of NAV.

As we have mentioned in our previous communication at the beginning of this year, we expect much uncertainty in the global economy and remain cautious view on the equity market's performance. Therefore, we had avoided frequent trading and preferred to stay with defensive sectors. Amid the lackluster broad market, we endeavored to identify undervalued stocks by conducting bottom-up researches. For example, we added China Yurun Food (01068 HK) into the portfolio when the stock

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slumped against a series of negative news in this June. We believed that the core business of Yurun Food remained solid and the company could survive after the headwind. It turned out a company later issued a positive profit alert for its first half of 2011 results.



We expect the central government will not release the tight controls on property market and the money supply will remain stringent for the rest of this year. With the declining inflation in the second of 2011, the operating environment for manufacturers will improve. Even though the direction of tightened monetary policy might not change in the short run, we believe there might be some rooms to fine-tune the fiscal policy and further expand the exports and FAI growth. Thanks to the long-term planning policies of the central government, domestic consumption might boost the economy in the second half of 2011. In contrast to the gloomy economic outlook for the US and European markets, we remain relatively optimistic on the performance of domestic market in the second half of 2011. We suggest overweighting those sectors with clear growth prospects or those which enjoy supporting policies from the central government.

We recommend the following specific sectors that investment opportunities may probably exist in:

- 1) Consumer discretionary. As we expect the inflation will come down in the second half of 2011, we are positive on the rapid domestic consumption growth. The consumer discretionary sector, such as the medium to high level appeals and retailers will benefit most.
- 2) Alternative energy and new materials. It was clearly stated in the central government's 12<sup>th</sup> five-year plan that China would aggressively develop seven strategic industries, in which the

alternative energy and new materials were included in. These sectors will benefit from subsequent supporting policies.

- 3) Information Technology. As the number of 3G subscribers in China grows exponentially, there will be a drastically increasing demand for IT supporting services and advanced IT equipments. The growth of this sector is relatively promising in the second half of 2011.

**GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND  
STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO**

FOR THE PERIOD FROM 1 JANUARY 2011 TO 30 JUNE 2011

Listed Investment Equities	Holdings			Bonus / Splits	
	01/01/2011	Additions	Disposals	Factor Adj	30/06/2011
<b><u>Consumer Discretionary</u></b>					
Shirble Department Stores Holdings	-	100,000	-	-	100,000
Chigo Holding Ltd	10,116,000	-	(4,000,000)	-	6,116,000
Luk Fook Holdings International	20,000	-	-	-	20,000
Tianneng Power International	294,000	-	(290,000)	-	4,000
Zhongsheng Group Holdings Ltd	30,000	-	-	-	30,000
Hisense Kelon Electrical Holdings	217,000	-	-	-	217,000
Bosideng International Holdings	2,000,000	-	(1,900,000)	-	100,000
Peak Sport Products Co Ltd	5,000	-	-	-	5,000
Intime Department Store Group	316,000	-	-	-	316,000
Dah Chong Hong Holdings Ltd	388,000	-	(387,000)	-	1,000
China ZhengTong Auto Services	80,000	-	-	-	80,000
Boshiwa International Holding	50,000	40,000	-	-	90,000
XTEP International Holdings	1,000	-	-	-	1,000
361 Degrees International Ltd	3,000	-	-	-	3,000
Tang Palace China Holdings Ltd	-	70,000	-	-	70,000
Haier Electronics Group Co Ltd	579,000	-	-	-	579,000
Chow Sang Sang Holdings	20,000	-	-	-	20,000
Baofeng Modern International	-	800,000	-	-	800,000
<b><u>Consumer Staples</u></b>					
China Agri-Industries Holdings	100,000	-	-	-	100,000
Biostime International Holdings	460,000	-	(360,000)	-	100,000
Yashili International Holdings	220,000	-	-	-	220,000
China Yurun Food Group Ltd	-	80,000	-	-	80,000



**GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND  
STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (CONTINUED)**

FOR THE PERIOD FROM 1 JANUARY 2011 TO 30 JUNE 2011

Listed Investment Equities	Holdings			Bonus / Splits	30/06/2011
	01/01/2011	Additions	Disposals	Factor Adj	
<b><u>Consumer Staples</u></b>					
Magic Holdings International	100,000	129,000	-	591	229,591
Vinda International Holdings	110,000	-	-	-	110,000
BaWang International Group	1,114,000	-	(1,114,000)	-	0
<b><u>Energy</u></b>					
Yanzhou Coal Mining Co Ltd	200,000	-	-	-	200,000
China Oilfield Services Ltd	-	50,000	-	-	50,000
<b><u>Financials</u></b>					
HSBC Holdings PLC	-	10,000	-	-	10,000
Sinopoly Battery Ltd	6,160,000	4,000,000	-	-	10,160,000
China Taiping Insurance Holdings	10,000	-	-	-	10,000
<b><u>Health Care</u></b>					
Sihuan Pharmaceutical Holdings	100,000	-	-	-	100,000
Hua Han Bio- Pharmaceutical Holdings	840,000	-	-	-	840,000
Concord Medical Services Holdings	25,300	-	-	-	25,300
<b><u>Industrials</u></b>					
China High Speed Transmission	20,000	-	-	-	20,000
China Titans Energy Technology	876,000	-	(400,000)	-	476,000
International Mining Machinery	100,000	-	(90,000)	-	10,000
HL Technology Group Ltd	450,000	-	(300,000)	-	150,000

**GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND  
STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (CONTINUED)**

FOR THE PERIOD FROM 1 JANUARY 2011 TO 30 JUNE 2011

Listed Investment Equities	Holdings			Bonus / Splits	30/06/2011
	01/01/2011	Additions	Disposals	Factor Adj	
<b><u>Information Technology</u></b>					
China All Access Holdings Ltd	-	-	3,430,000	-	3,430,000
VST Holdings Ltd	500,000	696,000	-	-	1,196,000
Lenovo Group Ltd	10,000	-	-	-	10,000
World Wide Touch Technology	700,000	700,000	-	-	1,400,000
China Wireless Technologies	52,000	-	-	-	52,000
Ju Teng International Holdings	100,000	-	-	-	100,000
<b><u>Materials</u></b>					
China Lumena New Materials Corp	838,000	-	(830,000)	-	8,000
Shougang Concord Century Holdings	1,000,000	-	(990,000)	-	10,000
China Timber Resources Group	-	9,400,000	-	-	9,400,000
Shougang Fushan Resources	150,000	-	-	-	150,000
China Precious Metal Resources	1,448,000	-	(1,000,000)	-	448,000
Hidili Industry International	250,000	-	-	-	250,000
Shandong Chenming Paper	-	200,000	-	-	200,000
Zijin Mining Group Co Ltd	100,000	-	(98,000)	1,000	3,000

**GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND  
STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (CONTINUED)**

FOR THE PERIOD FROM 1 JANUARY 2011 TO 30 JUNE 2011

Listed Investment Equities	Holdings		Bonus / Splits		30/06/2011
	01/01/2011	Additions	Disposals	Factor Adj	
<b><u>Telecommunication Services</u></b>					
China Telecom Corp Ltd	-	-	1,000,000	-	1,000,000
China Unicom Hong Kong Ltd	-	-	400,000	-	400,000
Directel Holdings Ltd	3,000,000	-	-	-	3,000,000
<b><u>Utilities</u></b>					
China Oil and Gas Group Ltd	780,000	-	(640,000)	-	140,000
China Gas Holdings Ltd	1,150,000	-	-	-	1,150,000
ENN Energy Holdings Ltd	96,000	-	-	-	96,000

**Investment Portfolio as at 30 June 2011**

Listed Investment Equities	Holdings	Market Value	% of Net Assets
		HKD (Bid Price)	
HSBC Holdings PLC	10,000	770,000	0.96%
China Lumena New Materials Corp	8,000	25,040	0.03%
Shougang Concord Century Holdings	10,000	6,300	0.01%
Chow Sang Sang Holdings	20,000	522,000	0.65%
China Timber Resources Group	9,400,000	3,196,000	3.99%
Shirble Department Stores Holdings	100,000	157,000	0.20%
China Gas Holdings Ltd	1,150,000	3,542,000	4.42%
Chigo Holding Ltd	6,116,000	4,158,880	5.19%
Sihuan Pharmaceutical Holdings	100,000	367,000	0.46%
Hua Han Bio- Pharmaceutical Holdings	840,000	1,814,400	2.26%
Luk Fook Holdings International	20,000	753,000	0.94%
China Oil and Gas Group Ltd	140,000	105,000	0.13%
China Agri-Industries Holdings	100,000	822,000	1.03%
China All Access Holdings Ltd	3,430,000	7,203,000	8.98%
Shougang Fushan Resources	150,000	708,000	0.88%
China High Speed Transmission	20,000	171,000	0.21%
China Telecom Corp Ltd	1,000,000	5,030,000	6.27%
Sinopoly Battery Ltd	10,160,000	5,384,800	6.71%
China Unicom Hong Kong Ltd	400,000	6,272,000	7.81%
Tianneng Power International	4,000	13,920	0.02%
VST Holdings Ltd	1,196,000	2,045,160	2.55%
Zhongsheng Group Holdings Ltd	30,000	509,400	0.64%
Hisense Kelon Electrical Holdings	217,000	648,830	0.81%
China Taiping Insurance Holdings	10,000	175,000	0.22%
Lenovo Group Ltd	10,000	44,200	0.06%
China Yurun Food Group Ltd	80,000	1,752,000	2.19%
HL Technology Group Ltd	150,000	315,000	0.39%
Biostime International Holdings	100,000	1,610,000	2.01%
Baofeng Modern International	800,000	1,120,000	1.40%

## Guotai Junan Greater China Growth Fund

### Investment Portfolio as at 30 June 2011

Listed Investment Equities	Holdings	Market Value	% of Net Assets
		HKD (Bid Price)	
Haier Electronics Group Co Ltd	579,000	5,569,980	6.94%
Yanzhou Coal Mining Co Ltd	200,000	5,900,000	7.36%
Tang Palace China Holdings Ltd	70,000	182,000	0.23%
China Precious Metal Resources	448,000	752,640	0.94%
Yashili International Holdings	220,000	402,600	0.50%
World Wide Touch Technology	1,400,000	742,000	0.93%
361 Degrees International Ltd	3,000	14,250	0.02%
XTEP International Holdings	1,000	5,300	0.01%
Hidili Industry International	250,000	1,675,000	2.09%
Magic Holdings International	229,591	973,466	1.21%
International Mining Machinery	10,000	74,700	0.09%
Boshiwa International Holding	90,000	424,800	0.53%
China ZhengTong Auto Services	80,000	704,000	0.88%
Shandong Chenming Paper Holdings	200,000	1,052,000	1.31%
Dah Chong Hong Holdings Ltd	1,000	9,270	0.01%
Intime Department Store Group	316,000	4,171,200	5.20%
Peak Sport Products Co Ltd	5,000	27,300	0.03%
China Titans Energy Technology	476,000	571,200	0.71%
China Wireless Technologies	52,000	80,600	0.10%
ENN Energy Holdings Ltd	96,000	2,515,200	3.14%
China Oilfield Services Ltd	50,000	709,000	0.88%
Zijin Mining Group Co Ltd	3,000	11,730	0.01%
Vinda International Holdings	110,000	959,200	1.20%
Ju Teng International Holdings	100,000	222,000	0.28%
Bosideng International Holdings	100,000	239,000	0.30%
Directel Holdings Ltd	3,000,000	558,000	0.70%
Concord Medical Services Holdings	25,300	832,811	1.04%
<b>TOTAL INVESTMENT</b>		<b>78,620,177.00</b>	
<b>TOTAL INVESTMENT, AT COST</b>		<b>78,613,157.40</b>	

## Guotai Junan Greater China Growth Fund

### GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND

#### STATEMENT OF ASSETS AND LIABILITIES

FOR THE PERIOD FROM 1 JANUARY 2011 TO 30 JUNE 2011

	30 June 2011 HK\$	31 December 2010 HK\$
<b>Assets</b>		
Financial assets at fair value through profit or loss	78,620,177	80,979,182
Prepayments	4,695	0
Due from brokers	0	3,311,625
Dividend receivable	30,119	21,000
Cash and bank balances	2,941,164	2,583,530
<b>Total assets</b>	81,596,155	86,895,337
<b>Liabilities</b>		
Accounts payable and accruals	330,701	490,241
Due to unitholders	41,230	0
Due to brokers	1,066,224	2,469,895
<b>Total liabilities</b>	1,438,155	2,960,136
<b>Equity</b>		
Units in issue	85,545,738	79,815,136
Retained (accumulated loss)/profit	(5,387,738)	4,120,065
<b>Total equity</b>	80,158,000	83,935,201
<b>Total liabilities and equity</b>	81,596,155	86,895,337
<b>Number of units in issue</b>	949,926.57	876,550.58
<b>Net asset value per unit</b>	84.38	95.76