



**國泰君安(香港)**  
GUOTAI JUNAN (HONG KONG)

# **Guotai Junan Investment Funds**

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

Interim Report at 30th June 2010

*(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 a Trust Deed. The initial Sub-Fund, Guotai Junan Greater China Growth Fund, enables investors to 'pool' their resources into a single fund that invests directly in listed and unlisted securities in the Greater China region.

- 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
- Issue and redemption prices published daily in the South China Morning Post and the Hong Kong Economic Journal.

## DIRECTORY OF PARTIES

### ***Investment Manager:***

Guotai Junan Assets (Asia) Limited  
27/F., Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

### ***Directors of the Manager:***

YIM Fung  
CHEUNG Lai Yan Charles

### ***Trustee and Registrar:***

HSBC Trustee (Cayman) Limited  
P.O. Box 484  
HSBC House  
68 West Bay Road  
Grand Cayman, KY1-1106  
Cayman Islands

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

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

### ***Auditors:***

Ernst & Young  
62 Forum Lane  
Camana Bay  
P.O. Box 510  
Grand Cayman  
Cayman Islands  
British West Indies

### ***Lead Legal Advisers to the Manager:***

Sidley Austin  
39th Floor  
Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

### ***Cayman Islands Legal Advisers to the Manager:***

Conyers Dill & Pearman  
Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman KY1-1111  
Cayman Islands

## INVESTMENT MANAGER'S REVIEW

The world economy is on the recovery track in the 1<sup>st</sup> half of 2010, and the IMF (International Monetary Fund) raised its projections for Gross World Product (GWP) growth in 2010 by 0.3% points to 4.2% in its latest World Economic Outlook in April. Nevertheless, the economic growth rate slowed down in the 2<sup>nd</sup> quarter. The European countries are struggling with the sovereign debt crisis and have to slash their financial budgets for the coming year, which means there may be zero real economic growth in this region. The unemployment rate in US remained around 10% during the 1<sup>st</sup> half of 2010, and US GDP growth for 1<sup>st</sup> and 2<sup>nd</sup> quarter were 2.7% and 2.4% respectively.

The 1<sup>st</sup> half of 2010 ended up with the US stock market indices reached the new low level for the year. The challenge for investors is that the worries run the gamut of economic, fiscal and regulatory issues -- none of which are likely to be resolved overnight. Such 'macro' issues have pushed to the background 'micro' positives, mainly continued good news from U.S. corporate earnings. Headwind is ahead given that Europe is still struggling with the sovereign credit downgrading, and China seemed lost its steam to further drive the world recovery engine. US stock market got serious correction with both Dow and S&P500 fell more than 12% from its 2010 high set in April. In the 1<sup>st</sup> half of 2010, The Dow, S&P500 and Nasdaq decreased by 6.3%, 7.6% and 7% respectively.

China has been the leading engine for the world to drive the world economy away from the recession in the past two years. Thanks to Beijing's stimulus program, the 1<sup>st</sup> quarter GDP growth hit 11.9% YOY. The 2<sup>nd</sup> Quarter GDP growth slid down to 10.3% YOY. The M1 and M2 growth rates also remained at historical level in the 1<sup>st</sup> half of 2010. China's economy seemed was on the edge of over-heating as the CPI in May was reported at 3.1% YOY, which breached the PBOC's target 3%. But the leading indicator, PMI (Purchasing Managers Index), has dropped for two months. It might signal that China's growth is losing steam as well. Export and fixed assets investment traditionally count more than 2/3 of China's GDP growth, but neither of them will grow easily without the extra stimulus from the government. Since the beginning of this year, the China central government showed steadfast resolution to restructure China's economy to focus on the domestic consumption. Meanwhile, stringent policies were cast on domestic property sector in order to curb the soaring housing price. The State council and NDRC also has set aggressive target to eliminate the backward production capacity of the high energy consumption and high pollution industries. All the restructuring are painful but necessary for China to develop in a more sustainable and healthy way.

The Chinese stock market has declined in the 1st half of 2010 even as the country's gross domestic product and companies' earnings grow by double digits. The slide reflects deeper concerns among Chinese investors about several wild cards, including the effectiveness of Beijing's attempts to cool

the housing market; the country's ability to sustain its strong economic growth amid rising labor costs; and the implications of a rising CNY.

## RELATED MARKETS PERFORMANCE

Index Name	1H 2010 % Change*	1 Year % Change	Since Inception % Change
Hang Seng China-Affiliated Index (HSCCI)	-5.9%	0.0%	-34.5%
MSCI AC Golden Dragon Index	-7.2%	12.7%	-22.1%
MSCI China	-7.3%	9.0%	-29.6%
<b>Guotai Junan Greater China Growth Fund</b>	<b>-7.5%</b>	<b>29.1%</b>	<b>-20.8%</b>
Hang Seng Index (HSI)	-8.0%	9.5%	-26.7%
Hang Seng China Ent Index (HSCEI)	-10.4%	4.6%	-30.7%
Taiwan TAIEX Index	-10.5%	13.9%	-15.6%
Shanghai SE A Shares Index	-19.1%	-12.4%	-54.6%
Shenzhen SE A Shares Index	-21.5%	19.3%	-27.5%
CSI 300 Index	-28.3%	-19.1%	-48.7%

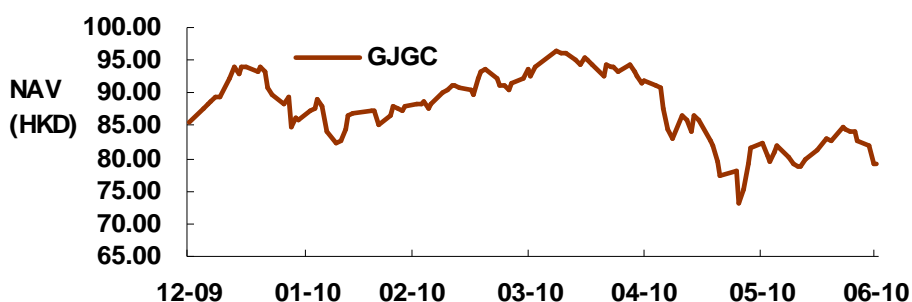
\* Descendent ranked according to the 1H 2010 % Change.

The fund's NAV decreased 7.5% in the 1st half of 2010. And the fund reported 29.1% 1-year return. Since the major components of the fund are small to mid cap equities, which usually have higher beta and thus are more volatile in market turmoil, the fund underperformed the broad market in the recent three months.

As we had stated at the beginning of the year, we believe the sectors related to domestic consumption would outperform in a fairly long period contributed from the consumption upgrading from the first-tier cities and the expanding numbers of affluent people in the smaller cities and rural areas. The endeavor of the central government to adjust the economy structure also helped the consumption related sectors. The consumption equities now weighed 40% of the fund's NAV. Our holdings on Xtep International (01368 HK), Intime Department Store (01833 HK) and Peak Sport (01968 HK) have reported 33.1%, 21.5% and 10.8% return respectively since we loaded them.

We also prefer defensive names as their stable operations offer natural hedge to the market volatility. We found that the city gas suppliers would benefit from the increasing consumption volume of natural gas as the supply bottleneck of the natural gas will lift gradually in the coming years. Our holdings of Xinao Gas (02688 HK) and China Gas (00384 HK) were increased to 2.28% and .6.63% respectively since we bought them.

Guotai Junan Greater China Growth Fund ("GJGC") - NAV Movement  
(12 / 31 / 2009 - 06 / 30 / 2010)



Given the universally economic slow-down around the world, we expect the government will be quite flexible in tightening implementation so as to achieve economic soft landing in the 2<sup>nd</sup> half of 2010. We also expect more policies to be released out to support emerging industries, such as alternative energy, new materials, environment-protection related industry, etc. Though the ministry of housing and urban-rural development reiterated to stick to the tightening measures on property sector, we believe there will be some extent of policy stance change in local government level and bank system. Overall speaking, tightening measures will not be that severe unless economy recovery is ensured or inflation rises to insufferable level.

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

- 1) Consumer staples. More labor strikes and rising CPI readings have put much pressure on wage level. We expect wage level to be raised significantly in following years and consumer staples will benefit from that important move.
- 2) Alternative-energy and new materials. As for economic structure adjustment, alternative-energy and new materials have been chosen to be the potentially new economy growth driver. The sector will benefit from subsequent supporting policies.
- 3) Properties. Though government officials keep saying that there will be no policy change, we can still see fine-tunings in local government level and bank system. There were also signs of trade volume recovery in some big cities. The sector is attractive given its current cheap valuation.

GUOTAI JUNAN INVESTMENT FUNDS – GUOTAI JUNAN GREATER CHINA GROWTH FUND

**STATEMENT OF ASSETS AND LIABILITIES**

FOR THE PERIOD FROM 1 JANUARY 2010 TO 30 JUNE 2010

	<b>30 June</b>	<b>31 December</b>
	<b>2010</b>	<b>2009</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Assets</b>		
Financial assets at fair value through profit or loss	60,853,751	43,205,508
Dividend receivable	20,784	0
Due from brokers	1,873,293	2,204,137
Cash and bank balances	10,447,974	8,038,195
<b>Total assets</b>	<u>73,195,802</u>	<u>53,447,840</u>
<b>Liabilities</b>		
Accounts payable and accruals	320,831	493,974
Due to brokers	0	1,335,097
<b>Total liabilities</b>	<u>320,831</u>	<u>1,829,071</u>
<b>Equity</b>		
Units in issue	85,683,822	58,233,815
Accumulated losses	(12,808,851)	(6,615,046)
<b>Total equity</b>	<u>72,874,971</u>	<u>51,618,769</u>
<b>Total liabilities and equity</b>	<u>73,195,802</u>	<u>53,447,840</u>
<b>Number of units in issue</b>	<u>917,805.64</u>	<u>602,796.52</u>
<b>Net asset value per unit</b>	<u>79.40</u>	<u>85.63</u>

**Guotai Junan Greater China Growth Fund**

**Investment Portfolio as at 30 June 2010**

Stock Name	Holding	Market Value in HKD	
		(Bid Price)	% of NAV
<b>HONG KONG</b>			
LUMENA RESOURCES CORP	2,478,000	5,179,020	7.11%
CHINA GAS HOLDINGS LTD	1,100,000	4,829,000	6.63%
CHIGO HOLDING LTD	1,096,000	4,822,400	6.62%
CHINA OIL AND GAS GROUP LTD	780,000	655,200	0.90%
THUNDER SKY BATTERY LTD *	4,160,000	6,489,600	8.91%
(Previous Name: JIA SHENG HOLDINGS LIMITED)			
TIANNENG POWER INTL LTD	294,000	782,040	1.07%
VST HOLDINGS LTD	1,000,000	2,500,000	3.43%
HISENSE KELON ELEC HLD-H	931,000	3,007,130	4.13%
LENOVO GROUP LTD	1,000,000	4,220,000	5.79%
HAIER ELECTRONICS GROUP CO	742,000	3,569,020	4.90%
361 DEGREES INTERNATIONAL	556,000	3,102,480	4.26%
XTEP INTERNATIONAL HOLDINGS	381,000	2,446,020	3.36%
INTIME DEPARTMENT STORE	461,000	3,618,850	4.97%
PEAK SPORT PRODUCTS LTD	695,000	3,600,100	4.94%
SIM TECHNOLOGY GROUP LTD	1,000,000	1,510,000	2.07%
CHINA TITANS ENERGY TECHNOLO	276,000	325,680	0.45%
CHINA WIRELESS TECH LTD	500,000	1,470,000	2.02%
XINAO GAS HOLDINGS LTD	96,000	1,662,720	2.28%
BOSIDENG INTL HLDGS LTD	2,000,000	4,200,000	5.76%
DIRECTEL HOLDINGS LTD	3,000,000	714,000	0.98%
SOC GEN-CW10 CHINA LIFE INS	15,000,000	550,500	0.76%
SOC GEN-CW10 CHINA LIFE IN	16,000,000	432,000	0.59%
<b>UNITED STATES</b>			
CONCORD MEDICAL - SPON ADR	25,300	1,167,991	1.60%

**Investment Portfolio at Market Value (HKD)**

60,853,751

**Investment Portfolio at Cost Value (HKD)**

65,802,452



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

**STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO**

FOR THE PERIOD FROM 1 JANUARY 2010 TO 30 JUNE 2010

	31 December 2009	Additions	Disposals	30 June 2010
LUMENA RESOURCES CORP	-	2,978,000	500,000	2,478,000
SHOUGANG CONCORD CENTURY HLD	1,490,000	-	1,490,000	-
POLY HONG KONG INVESTMENTS	220,000	-	220,000	-
KULUN ENERGY COMPANY LIMITED	-	550,000	550,000	-
MINMETALS LAND LTD	2,036,000	-	2,036,000	-
MAANSHAN IRON & STEEL-H	248,000	-	248,000	-
CHINA GAS HOLDINGS LTD	-	1,200,000	100,000	1,100,000
CHIGO HOLDING LTD	-	1,096,000	-	1,096,000
GOME ELECTRICAL APPLIANCES	720,000	-	720,000	-
CHINA OIL AND GAS GROUP LTD	-	3,800,000	3,020,000	780,000
SHENZHEN INVESTMENT LTD	478,000	-	478,000	-
CHINA ALL ACCESS HOLDINGS	1,690,000	-	1,690,000	-
FUSHAN INTERNATIONAL ENERGY GROUP LTD	-	900,000	900,000	-
CHINA TELECOM CORP LTD-H	550,000	-	550,000	-
THUNDER SKY BATTERY LIMITED	10,500,000	5,000,000	11,340,000	4,160,000
SICHUAN XINHUA WINSHARE-H	241,000	-	241,000	-
TIANNENG POWER INTERNATIONAL LTD	-	500,000	206,000	294,000
KO YO ECOLOGICAL AGROTECH GROUP LTD	-	15,300,000	15,300,000	-
VST HOLDINGS LTD.	-	1,000,000	-	1,000,000
TIANJIN DEVELOPMENT HLDGS LT	170,000	-	170,000	-
HISENSE KELON ELECTRICAL HOLDINGS CO LTD	-	961,000	30,000	931,000
LENOVO GROUP LTD.	160,000	840,000	-	1,000,000
BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LTD.	-	2,000,000	2,000,000	-
TCC INTERNATIONAL HOLDINGS LTD	-	380,000	380,000	-
HAIER ELECTRONICS GROUP CO LTD	-	742,000	-	742,000
SRE GROUP LTD	1,806,000	-	1,806,000	-
361 DEGREES INTERNATIONAL LTD	-	556,000	-	556,000
XTEP INTERNATIONAL HOLDINGS	-	381,000	-	381,000
RENHE COMMERCIAL HOLDINGS CO LTD	-	1,000,000	1,000,000	-

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

**STATEMENT OF MOVEMENTS IN INVESTMENT PORTFOLIO (CONTINUED)**

FOR THE PERIOD FROM 1 JANUARY 2010 TO 30 JUNE 2010

	31 December 2009	Additions	Disposals	30 June 2010
METALLURGICAL CORP OF CHIN-H	250,000	-	250,000	-
SHANDONG CHENMING PAPER - H	250,000	-	250,000	-
INTIME DEPARTMENT STORE (GROUP) CO. LTD.	-	461,000	-	461,000
CHINA COSCO HOLDINGS-H	120,000	-	120,000	-
PEAK SPORT PRODUCTS CO LTD	-	695,000	-	695,000
CHINA MINSHENG BANKING-H	308,500	-	308,500	-
SIM TECHNOLOGY GROUP LTD.	-	1,000,000	-	1,000,000
SHANGHAI JINJIANG INTERNATIONAL HOTELS (GROUP) CO. LTD.	-	618,000	618,000	-
CHINA TITANS ENERGY TECHNOLOGY	-	276,000	-	276,000
PING AN INSURANCE (GROUP) CO. OF CHINA LTD.	-	100,000	100,000	-
PICC PROPERTY & CASUALTY -H	200,000	-	200,000	-
CHINA WIRELESS TECHNOLOGIES LTD.	-	500,000	-	500,000
CHINA LIFE INSURANCE CO. LTD.	-	10,000	10,000	-
XINAO GAS HOLDINGS LTD.	-	96,000	-	96,000
DALIAN PORT (PDA) CO LTD-H	522,000	-	522,000	-
AGILE PROPERTY HOLDINGS LTD	110,000	-	110,000	-
GCL POLY ENERGY HOLDINGS LTD	771,000	-	771,000	-
POU SHENG INTERNATIONAL HOLDINGS LTD	-	220,000	220,000	-
BANK OF CHINA LTD	-	1,500,000	1,500,000	-
BOSIDENG INTERNATIONAL HOLDINGS LTD	-	2,000,000	-	2,000,000
DIRECTEL HOLDINGS LTD	-	3,000,000	-	3,000,000
SGA Societe Generale Acceptance N.V. - CLife Eu Wt Jul 2	-	17,000,000	17,000,000	-
SGA Societe Generale Acceptance N.V. - CLife Eu Wt Aug 2	-	20,000,000	5,000,000	15,000,000
SGA Societe Generale Acceptance N.V. - CLife Eu Wt Sep 2	-	16,000,000	-	16,000,000
Credit Suisse AG - China Mobile European Warrants Aug 20	-	12,000,000	12,000,000	-
CONCORD MEDICAL SERVICES HOLDINGS	27,400	-	2,100	25,300