

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds, an open-ended
unit trust established as an umbrella fund under the
laws of Hong Kong)

Interim Report (Unaudited)

For the period from 1 January 2018 to 30 June 2018

TAIKANG KAITAI CHINA CORPORATE BOND FUND
(a sub-fund of Taikang Kaitai Funds)

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TAIKANG KAITAI CHINA CORPORATE BOND FUND
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ADMINISTRATION AND MANAGEMENT

MANAGER AND RQFII HOLDER

Taikang Asset Management (Hong Kong) Company Limited
Unit 4901-2, 11-13
49/F, The Center
99 Queen's Road Central
Hong Kong

TRUSTEE AND REGISTRAR

BOCI-Prudential Trustee Limited
12/F & 25/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

DIRECTORS OF THE MANAGER

Chen Dong Sheng
Duan Guo Sheng
Xing Yi
Zhang Jing Guo
Zhang Le

AUDITORS

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

SOLICITORS TO THE MANAGER

King & Wood Mallesons
13/F, Gloucester Tower, The Landmark,
15 Queen's Road Central
Central
Hong Kong

CUSTODIAN

Bank of China (Hong Kong) Limited
14/F., Bank of China Tower
1 Garden Road
Hong Kong

INVESTMENT ADVISERS

Taikang Asset Management Company Limited
7/F., Taikang Life Building
156 Fuxingmennei Street
Xicheng District
Beijing 100033
China

RQFII CUSTODIAN

Agricultural Bank of China Limited
No. 69, Jianguomen Nei Avenue
Dongcheng District
Beijing 100005
China

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REPORT OF THE MANAGER TO THE UNITHOLDERS

MARKET REVIEW

The first half of 2018 has experienced a moderating deleverage environment with more structural easing accommodation as PBOC announced to cut RRR with lower market funding rate. The deleveraging campaign has also turned milder with less emphasis on broad-based financial tightening as the downside risk on domestic economy has risen given deteriorating trade war background and slump in social financing and infrastructure investment from local government. The yield curve has steepened year to day with long end drop by 40-50Bps to 3.5% / 4.25% level respectively and short end R007 declined from 3.12% to around 2.5% level. On the credit sector, the deteriorating credit profile of lower tier issuers on back of deleveraging pressure and stricter refunding access has led to over 20 corporate bond defaults, which has been much higher versus previous year. Most of the defaulters so far have been private businesses but there have been signs of debt stress in the publicly traded sector as well. Investors have been more defensive and favored short to medium term credit bond with higher quality.

MARKET OUTLOOK

Looking ahead into 2H2018, we believe the positive environment for bond market will extend meanwhile the opportunity will remain periodical given complicated external environment and uncertainty on the policy sector. We think the macro performance will be beneficial for the bond investors as we think inflation has peaked in 2Q2018 and the recent weakening in economy will continue. On the monetary policy side, we are comfortable with current liquidity environment and the structural credit accommodation will be positive for high quality issuers including LGFV sector.

We forecast fixed income market volatility to remain high meanwhile there remains room for yields to go lower. The curve will likely further bull steepen in the loose liquidity environment. We think possibility of substantial expansion of wealth management products (WMP) through leveraging up again is low while mutual fund investors may be more aggressive in credit space investment.

PERFORMANCE

As of 30 Jun 2018, Taikang Kaitai Corporate Bond Fund achieved 1.04% in return as of 2018 and 11.329% since established in June 2014. The fund diversifies its holdings among different asset classes including corporate bonds, convertible bonds, and bond funds to capture both stable absolute return and extra opportunities in market volatility.

Taikang Asset Management (Hong Kong) Company Limited
(date)

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period from 1 January 2018 to 30 June 2018

	For the period from 1 January 2018 to 30 June 2018 RMB	For the period from 1 January 2017 to 30 June 2017 RMB
INCOME		
Interest income on financial assets at fair value through profit or loss	423,508	673,164
Dividend income on financial assets at fair value through profit or loss	22,893	52,206
Interest income on bank deposits	2,836	18,874
Net gain/(loss) on financial assets at fair value through profit or loss	46,319	(338,265)
Net foreign exchange differences	(1,709)	210,881
	<u>493,847</u>	<u>616,860</u>
EXPENSES		
Management fee	(73,963)	(134,534)
Trustee fee	(72,374)	(220,757)
Custodian fee	(7,148)	(13,540)
Auditors' remuneration	-	(85,574)
Brokerage fee and other transaction costs	(23,361)	(49,058)
Legal and other professional fee	(52,611)	(132,144)
Other expenses	(6,865)	(14,924)
	<u>(236,322)</u>	<u>(650,531)</u>
OPERATING PROFIT/(LOSS) AND PROFIT/(LOSS) BEFORE TAX	<u>257,525</u>	<u>(33,671)</u>
Withholding tax and other taxes	<u>(11,066)</u>	<u>112,763</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS DURING THE PERIOD	<u>246,459</u>	<u>79,092</u>

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	30 June 2018 RMB	31 December 2017 RMB
ASSETS		
Financial assets at fair value through profit or loss	19,129,515	20,717,674
Interest receivable	502,587	507,842
Dividend receivable	113	320
Prepayments and deposits	5,606	2,955
Amount due from Manager	381,317	316,494
Cash and cash equivalents	2,916,986	1,054,400
TOTAL ASSETS	22,936,124	22,599,685
LIABILITIES		
Management fee payable	11,808	11,839
Trustee fee payable	11,600	11,226
Other payables and accruals	180,874	96,136
Tax payable	1,339,463	1,334,564
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)	1,543,745	1,453,765
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	21,392,379	21,145,920
NUMBER OF UNITS IN ISSUE		
- Class A-RMB-DIST	6,400,000	6,400,000
- Class A-USD-ACC	3,105,000	3,105,000
- Class I-HKD-ACC	2,500,000.000	2,500,000.000
NET ASSET VALUE PER UNIT		
- Class A-RMB-DIST	RMB 10.104	RMB 9.954
- Class A-USD-ACC	USD 9.807	USD 9.835
- Class I-HKD-ACC	HKD 9.996	HKD 10.020

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2018

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

A reconciliation of the net assets attributable to holders of redeemable units as reported in the unaudited statement of financial position to the net assets attributable to holders of redeemable units as determined for the purposes of processing unit subscriptions and redemptions is provided below:

	30 June 2018	31 December 2017
	RMB	RMB
Published net assets attributable to unitholders	21,493,432	21,346,387
Adjustment to preliminary expense	(101,053)	(200,467)
Net assets attributable to unitholders (Per Statement of Financial Position)	<u>21,392,379</u>	<u>21,145,920</u>

DIVIDEND DISTRIBUTION

No dividend distribution was made for the period ended 30 June 2018 and 30 June 2017.

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
For the period from 1 January 2018 to 30 June 2018

	30 June 2018		30 June 2017	
	Number of units	RMB	Number of units	RMB
As at 1 January				
- Class A-RMB-DIST	6,400.000	63,706	6,400.000	64,704
- Class A-USD-ACC	3,105.000	198,971	3,105.000	202,078
- Class I-RMB-ACC	-	-	3,704,445.334	41,228,019
- Class I-HKD-ACC	2,500,000.000	20,883,243	2,500,000.000	21,217,624
- Class I-USD-ACC	-	-	200,000.000	13,872,940
- Class I-USD-DIST	-	-	450,000.000	29,396,631
	<u>2,509,505.000</u>	<u>21,145,920</u>	<u>6,863,950.334</u>	<u>105,981,996</u>
Redemption of units				
- Class I-RMB-ACC	-	-	(3,704,445.334)	(41,645,375)
- Class I-USD-ACC	-	-	(200,000.000)	(13,765,053)
- Class I-USD-DIST	-	-	(450,000.000)	(29,636,073)
	<u>-</u>	<u>-</u>	<u>(4,354,445.334)</u>	<u>(85,046,501)</u>
Increase in net assets attributable to holders of redeemable units during the period	-	246,459	-	79,092
As at 30 June	<u>2,509,505.000</u>	<u>21,392,379</u>	<u>2,509,505.000</u>	<u>21,014,587</u>

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS
For the period from 1 January 2018 to 30 June 2018

	At 1 January 2018	Additions	Movements in holdings Bonus/Dividends	Disposals	At 30 June 2018
Listed/quoted investments					
<u>Collective Investment Scheme</u>					
China					
FORTUNE SGAM XIANJIN TIANYI MONEY MARKET FUND	20,991	-	231	(14,000)	7,222
	20,991	-	231	(14,000)	7,222
Listed/quoted investments					
<u>Debt Securities</u>					
China					
AIR CHINA LTD 5.15% A 16AUG2018	5,000	-	-	-	5,000
BYD CO LTD 6.35% A 23SEP2018	10,000	10,000	-	(20,000)	-
CHINA DEVELOPMENT BANK CORP 3.78% A 06APR2019	-	20,000	-	(20,000)	-
CHINA DEVELOPMENT BANK CORP 5.84% A 03JAN2019	-	31,000	-	(10,000)	21,000
CHINA GUODIAN CORP 2.98% A 05JAN2019	20,000	-	-	-	20,000
CHINA NATIONAL PETROLEUM CORP 4.54% A 11JAN2019	9,100	-	-	(9,100)	-
CHINA PETROLEUM & CHEMICAL CORP 3.3% A 19NOV2018	16,030	3,970	-	-	20,000
CHINA RAILWAY GROUP LTD 4.88% A 27JAN2020	-	20,000	-	-	20,000
CHINA SOUTHERN POWER GRID CO LTD 5.6% A 17SEP2019	-	10,000	-	-	10,000
CHINA UNITED NETWORK COMMUNICATIONS CORP LTD 2.95% A 14JUL2019	20,000	-	-	(20,000)	-
CHONGQING WATER GROUP CO LTD 5.12% A 29JAN2018	10,000	-	-	(10,000)	-
COFCO PROPERTY GROUP CO LTD 6.06% A 25AUG2018	8,000	-	-	-	8,000
DATANG INTL POWER GENERATION CO LTD 5% A 17AUG2019	-	1,000	-	-	1,000
GUANGZHOU DEVELOPMENT GROUP INC 4.74% A 25JUN2019	20,000	-	-	(20,000)	-
PETROCHINA CO LTD 4.47% A 15MAR2018	11,880	-	-	(11,880)	-
SHAANXI PROVINCIAL NATURAL GAS CO LTD 6.2% A 22JUL2019	19,000	-	-	-	19,000
SHANGHAI ELECTRIC GROUP CORP 3% A 21JAN2019	-	20,000	-	-	20,000
SHANGHAI JIUSHI GROUP CO LTD 4.51% A 19FEB2018	20,000	-	-	(20,000)	-
SHANGHAI PHARMACEUTICALS HLDG CO LTD 2.98% A 26JAN2019	8,000	20,000	-	(8,000)	20,000
SHANGHAI RAAS BLOOD PRODUCTS CO LTD 5.6% A 26MAR2018	10,000	-	-	(10,000)	-
STATE GRID CORP OF CHINA 3.5% A 21OCT2018	10	-	-	-	10
STATE GRID CORP OF CHINA 4.8% A 20NOV2019	-	20,000	-	-	20,000
	187,020	155,970	-	(158,980)	184,010

TAIKANG KAITAI CHINA CORPORATE BOND FUND
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UNAUDITED INVESTMENT PORTFOLIO
As at 30 June 2018

	Holding/ Nominal Value	Market Value RMB	Accrued Interest RMB	% of net asset
Listed/quoted investments				
Denominated in RMB				
<u>Collective Investment Scheme</u>				
China				
FORTUNE SGAM XIANJIN TIANYI MONEY MARKET FUND	7,222	722,229	-	3.38%
	<u>7,222</u>	<u>722,229</u>	<u>-</u>	<u>3.38%</u>

Listed/quoted investments

Denominated in RMB

Debt Securities

China

AIR CHINA LTD 5.15% A 16AUG2018	5,000	500,000	22,434	2.34%
CHINA DEVELOPMENT BANK CORP 5.84% A 03JAN2019	21,000	2,131,500	59,808	9.96%
CHINA GUODIAN CORP 2.98% A 05JAN2019	20,000	1,981,000	28,739	9.26%
CHINA PETROLEUM & CHEMICAL CORP 3.3% A 19NOV2018	20,000	1,989,400	40,323	9.30%
CHINA RAILWAY GROUP LTD 4.88% A 27JAN2020	20,000	2,009,000	41,179	9.39%
CHINA SOUTHERN POWER GRID CO LTD 5.6% A 17SEP2019	10,000	1,012,000	43,879	4.73%
COFCO PROPERTY GROUP CO LTD 6.06% A 25AUG2018	8,000	800,000	41,042	3.74%
DATANG INTL POWER GENERATION CO LTD 5% A 17AUG2019	1,000	99,990	4,342	0.47%
SHAANXI PROVINCIAL NATURAL GAS CO LTD 6.2% A 22JUL2019	19,000	1,919,000	110,700	8.97%
SHANGHAI ELECTRIC GROUP CORP 3% A 21JAN2019	20,000	1,979,000	26,301	9.25%
SHANGHAI PHARMACEUTICALS HLDG CO LTD 2.98% A 26JAN2019	20,000	1,980,000	25,310	9.26%
STATE GRID CORP OF CHINA 3.5% A 21OCT2018	10	996	24	0.00%
STATE GRID CORP OF CHINA 4.8% A 20NOV2019	20,000	2,005,400	58,390	9.37%
	<u>184,010</u>	<u>18,407,286</u>	<u>502,471</u>	<u>86.04%</u>

TOTAL NET ASSETS

Denominated in RMB

Total listed/quoted investment	19,129,515	89.42%
Other net assets	2,262,864	10.58%
Total net assets as at 30 June 2018	<u>21,392,379</u>	<u>100.00%</u>
Total investments, at cost	19,079,154	

Note: Investments are accounted for a trade-date basis.