

VALUE PARTNERS TAIWAN FUND

# 2016 SEMI-ANNUAL REPORT

For the six months ended 31 December 2016

**Value Partners Hong Kong Limited**

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*In the event of inconsistency, the English text of this Semi-Annual Report shall prevail over the Chinese text.  
This report shall not constitute an offer to sell or a solicitation of an offer to buy shares in any of the funds.  
Subscriptions are to be made only on the basis of the information contained in the explanatory memorandum,  
as supplemented by the latest semi-annual and annual reports.*

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

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# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

## GENERAL INFORMATION

### Manager

Value Partners Hong Kong Limited  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Directors of the Manager

Dato' Seri Cheah Cheng Hye  
Mr. Ho Man Kei, Norman  
Mr. So Chun Ki Louis

### Trustee, Registrar, Administrator and Principal Office

Bank of Bermuda (Cayman) Limited  
P.O. Box 513  
HSBC House  
68 West Bay Road  
Grand Cayman KY1 – 1106  
Cayman Islands

### Custodian, Registrar's Agent and Administrator's Agent

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

### Legal Advisors

*With respect to Cayman Islands law*  
Maples and Calder  
53rd Floor, The Center  
99 Queen's Road Central  
Hong Kong

*With respect to Taiwan law*  
Russin & Vecchi  
Bank Tower, 9th Floor  
205 Tun Hwa North Road  
Taipei, Taiwan, R.O.C.

*With respect to Hong Kong law*  
King & Wood Mallesons  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### Auditor

PricewaterhouseCoopers  
18 Forum Lane  
Camana Bay  
P.O. Box 258  
Grand Cayman, KY1 – 1104  
Cayman Islands

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Website : [www.valuepartners-group.com](http://www.valuepartners-group.com)

**GENERAL INFORMATION (Continued)**

**Recent awards and achievements**

Corporate awards	
<b>2016</b>	<ul style="list-style-type: none"> <li>• <b>2016 The 14th China's Financial Annual Champion Awards 2016</b> Value Partners: Best Asset Management Service Provider of the Year – <i>Hexun.com</i></li> <li>• <b>The Asset Benchmark Research Awards 2016 – G3 Bonds</b> Top Investment House Value Partners – Ranked 2nd in Hedge Fund category – <i>The Asset Benchmark Survey</i></li> <li>• <b>The Asset Triple A, Asset Servicing, Investor and Fund Management Awards 2016</b> Asset Management Company of the Year (Hong Kong) Value Partners – Highly Commended Fund House – <i>The Asset</i></li> <li>• <b>Asset Management Awards 2016</b> Fund House of the Year – Hong Kong – <i>AsianInvestor</i></li> <li>• <b>Asset Management Awards for Excellence 2016</b> Best Fund Provider – Greater China Equity – <i>Asian Private Banker</i></li> <li>• <b>Thomson Reuters Lipper Fund Awards 2016</b> Best Equity Group (Hong Kong) – <i>Thomson Reuters</i></li> <li>• <b>2015 Best of the Best Performance Awards</b> Value Partners: 20-Year Award for Greater China – <i>Asia Asset Management</i></li> <li>• <b>2015 Best of the Best Regional Awards</b> Value Partners: Longevity Awards – Best Asset Management House over the last 20 Years (Co-Winner) – <i>Asia Asset Management</i></li> <li>• <b>International Financial Annual Champion Awards 2015</b> Value Partners: Best Asset Management Service Provider – <i>SEEC and Hexun.com</i></li> </ul>

# VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

## MANAGER'S REPORT

### Performance and market review

For the six months ended 31 December 2016, Value Partners Taiwan Fund (the Fund) gained 6.3% in USD term. For reference, the Taiwan Stock Exchange Index (TWSE) and the MSCI Taiwan Index was up 10.1% and 9.3% over the same period, respectively. On a yearly basis, the Fund advanced 16.2%, compared with a 17.8% gain in TWSE and an 18.5% increase in the MSCI Taiwan Index, all in USD term.

Since inception in March 2008, the Fund was up 67.5% on a net return basis, with a compounded annualized return of 6.0%. For reference, TWSE and the MSCI Taiwan Index were up 47.1% and 34.7% over the same period, with compounded annualized returns of 4.5% and 3.4%, respectively.

Taiwan's stockmarket began the year with a soft retreat amid worries on domestic political situation and global macro environment. The market, however, rebounded strongly after Taiwan's presidential election completed in January and President Tsai Ing-wen noted that the status quo will be maintained. The removal of political uncertainty, improving economic data and a positive momentum in the technology sector sent Taiwanese stocks higher during the year before retreating slightly in the last two months because of profit-taking activities and Emerging Market outflows post US Presidential Election.

### Taiwan's economy shows continued recovery strength

On the macro front, economic data showed further signs of recovery in the fourth quarter. December manufacturing purchasing managers' index<sup>1</sup> (PMI) stood at 55.9%, marking the 10th consecutive month that the manufacturing sector has expanded. In addition, 4Q exports<sup>2</sup> held onto solid sequential momentum with an 11.7% year-or-year growth led by continued strength in technology sector (versus 0.1% growth in 3Q). The official estimate for Taiwan's 4Q Gross Domestic Product<sup>3</sup> (GDP) growth strengthened to 2.58% on solid recovery in domestic consumption and exports, up from 2.03% in 3Q, 1.13% in 2Q and -0.23% in 1Q. The 4Q figure also marks the fastest pace of growth since 2015 1Q, boding well for the 2016 official GDP growth forecast at 1.40% (versus 0.72% in 2015).

### Limited impact of Trump's win on the Fund

On November 8, Donald Trump won in the US Presidential Election and the Republican Party retained its majorities in the House and Senate. Market volatility edged up after the election because of uncertainty on Trump's policy direction and the potential impact on global economy. Amid increased concerns around trade and protectionism, the impact on Taiwan's export is yet to be seen and thus market volatility is likely to remain heightened until the dusts are settled.

**MANAGER'S REPORT (Continued)**

However, we are not particularly worried. We construct our portfolio based on bottom-up stock picking. The companies we invest into win their orders because of fundamental reasons including superior technology, strong branding, expertise in product design and automated production, as well as strong cost management capability compared with their peers. As the potential protectionism measures by Trump's administration are very likely to be across the board instead of targeted at any single trading partner, we think the impact on their business is likely to be contained as long as they maintain their competitive edges against global peers.

**Portfolio update and outlook**

Entering 2016 with healthy inventory level and low investor expectation, global demand ended up surprising investors on the upside with a stable but mild recovery. Amid the recovering global demand and an inventory re-build cycle in the semiconductor industry, Taiwan's stockmarket attracted robust foreign inflows and performed strongly during the year.

We continued to focus on bottom-up stock picking during the year and successfully captured investment opportunities in many companies which have benefited from the demand recovery especially in information technology and consumer sectors. Other than our top holding Taiwan Semiconductor Manufacturing (in which we held a maximum 10% holding in the Fund), our two stock picks Largan Precision (Largan) and a company specializing in pneumatic tools also contributed significantly to the portfolio's gain. Largan, as a leader in the smartphone lens industry, benefited from the strong recovery of China's smartphone market and the emerging smartphone dual camera adoption. On the other hand, the pneumatic tool manufacturer we owned, which had survived the previous US housing market downturn, enjoyed significant order upside along with the US housing market recovery.

We, however, captured less gain from the financial and material sectors which had been bolstered by significant liquidity inflows to Taiwan's market. We remained concerned about the profit pressure on Taiwanese banks due to previous interest rate cuts by Taiwan's central bank and the potential insurance product distribution fee compression. Meanwhile, we only had small exposure to the material sector as we think that most companies are still suffering from the unchanged industry oversupply structure and the industry remains cyclical. We also see uncertainty for China property demand after the government's recent tightening policies.

Looking into 2017, we recognize that there are still market uncertainties regarding Emerging Market fund flows under the US rate hike cycle, uncertainties in eurozone post Brexit, and the trade policies of US' newly elected President Donald Trump. However, we also expect multiple new technology product cycles to drive better earnings for many Taiwanese companies that are leading in either technology or production efficiency. In this regard, we still see plenty of opportunities in the market.

## VALUE PARTNERS TAIWAN FUND

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### MANAGER'S REPORT (Continued)

#### Corporate update

In December, Value Partners appointed Dr AU King Lun as the Group's Chief Executive Officer (CEO) to strengthen Value Partners' management team at a time that we call "an era of golden opportunities". As the CEO of Value Partners, Dr AU takes charge of the Group's business and corporate affairs. He brings with him almost 30 years of industry experience and network in the Asian asset management industry. Our vision is to become a world-class asset management group, and Dr AU together with the other very-capable managers we already have in our team can help us achieve our vision.

#### Value Partners Hong Kong Limited

20 February 2017

1. Source: Chung-Hua Institution for Economic Research.
2. Source: Ministry of Finance, R.O.C.
3. Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C.

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in USD terms on NAV-to-NAV basis with dividends reinvested) as at 31 December 2016. Performance data is net of all fees.*

*Individual stock performance is not indicative of fund performance.*

*The views expressed are the views of Value Partners Hong Kong Limited only and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.*



**MANAGER'S REPORT (Continued)**

**5 biggest holdings of securities as at 31 December 2016**

Stock	Industry	Valuation (2017 Estimates)	Remarks
Cathay Financial Holding (Code: 2882 TT)  Market cap: US\$19.7 billion	Insurance	Price: TWD48.20 P/E: 12.5x P/B: 1.2x Yield: 3.6%	Cathay Financial is the largest financial holding company in Taiwan. Its businesses include life insurance, property insurance, banking, securities and asset management. We expect the company to enjoy better investment returns from their overseas bond investments, benefiting from the US rate hike cycle. We think this should drive the stock valuation back to historical average or above from the below-historical average level currently.
Far EasTone Telecommunications (Code: 4904 TT)  Market cap: US\$7.3 billion	Telecommunication services	Price: TWD72.50 P/E: 19.7x P/B: 3.4x Yield: 5.3%	Far EasTone Telecommunications is one of the three largest telecom operators in Taiwan. It provides a full range of mobile voice and data services and operates a small fixed-line business. The company's mobile service revenue growth has remained steady as rising 4G adoption continues to drive ARPU (average revenue per user) uplift. With the ongoing 4G migration and more favorable industry pricing structure, we believe FET is well positioned to capitalize on the rising mobile data demand.
Hon Hai Precision Industry (Code: 2317 TT)  Market cap: US\$45.0 billion	Electronics manufacturer	Price: TWD84.2 P/E: 10.1x P/B: 1.2x Yield: 4.3%	Hon Hai Precision Industry is a leading electronics manufacturing service provider with nearly one million employees globally. The company designs and manufactures smartphones, PCs, printers, TVs, game consoles and networking products for many global giants, such as Apple, Dell, Hewlett-Packard, Sony, Nokia and Cisco Systems. HON HAI has aggressively moved its manufacturing sites from China's coastal areas to lower-cost inland sites in previous years and further enhanced its cost competitiveness over its peers. We expect the company to enjoy stable earnings growth on the back of its operation efficiency enhancement and new business opportunities.

## VALUE PARTNERS TAIWAN FUND

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### MANAGER'S REPORT (Continued)

Stock	Industry	Valuation (2017 Estimates)	Remarks
Largan Precision (Code: 3008 TT)  Market cap: US\$15.7 billion	Electronic components	Price: TWD3,790.00 P/E: 16.2x P/B: 5.1x Yield: 2.2%	Largan Precision manufactures and distributes lens for electronic products including mobile phones, laptops, tablets and digital cameras. The company is a clear winner in the dual-camera upgrade cycle, as it has the unique technology and knowhow to deliver designs for large-scale production at a decent margin. The optical zoom feature on the new iPhone 7 Plus clearly displays this trend. Largan is gaining market share in this high-end specification segment as smartphone makers attempt to differentiate. Looking forward, three catalysts are fuelling the growth of Largan: 1) promising market growth due to rapid pick-up in dual cameras; 2) higher average selling price supported by specification migration; 3) share price gain underpinned by Largan's business mix change and notable advantages over competitors.
Taiwan Semiconductor Manufacturing (Code: 2330 TT)  Market cap: US\$145.3 billion	Semiconductors and semiconductor equipment	Price: TWD181.50 P/E: 13.1x P/B: 3.0x Yield: 4.0%	Taiwan Semiconductor Manufacturing is a world-class independent semiconductor foundry. It provides integrated circuit ("IC") design houses with integrated services for process design, wafer manufacturing and testing. As a global leader with more than 50% share of the outsourcing market, the company has consistently outperformed competitors in terms of technology and profitability. We think the company is well-positioned to continue to benefit from the growing IC manufacturing outsourcing market and the rising demand for the internet of things trend, AI chips and new application areas.

*Note: The above investments made up 30% of Value Partners Taiwan Fund as at 31 December 2016. The stock prices are based on the closing of 30 December 2016.*

*Individual stock performance/yield is not necessarily indicative of overall fund performance.*

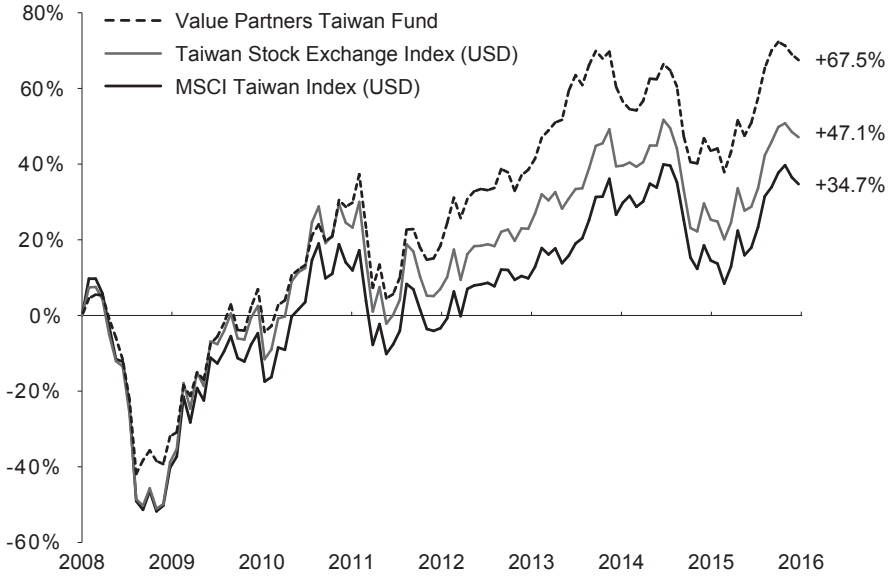
**MANAGER'S REPORT (Continued)**

**Value Partners Taiwan Fund**

**NAV per unit = US\$16.75 (as at 31 December 2016)**

**Since launch return compared to indices**

From 3 March 2008 to 31 December 2016



## VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

### STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2016

	<b>31.12.2016</b>	<b>30.6.2016</b>
	<i>US\$</i>	<i>US\$</i>
<b>Assets</b>		
Financial assets at fair value through profit or loss	57,289,628	58,882,673
Amounts receivable on sales of investments	567,007	358,492
Amounts receivable on issue of units	2,759	1,285,764
Dividends, interest and other receivables	2,063	471,999
Bank balances	5,372,675	5,063,070
	<u>63,234,132</u>	<u>66,061,998</u>
<b>Total assets</b>	----- 63,234,132	----- 66,061,998
<b>Liabilities</b>		
Amounts payable on purchases of investments	599,286	618,854
Amounts payable on redemption of units	4,000	68,021
Management fee payable	66,663	66,728
Accruals and other payables	29,871	44,351
	<u>699,820</u>	<u>797,954</u>
<b>Total liabilities</b>	----- 699,820	----- 797,954
<b>Net assets attributable to unitholders</b>	<u>62,534,312</u>	<u>65,264,044</u>
<b>Net asset value per unit</b>		
with 3,733,916.22 (30.6.2016: 4,144,032.16) units outstanding	<u>16.75</u>	<u>15.75</u>

INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed equity securities</b>			
<b>Taiwan</b>			
Aerospace Industrial Development Corp	792,000	936,118	1.50
Aten International Co Ltd	251,000	622,860	1.00
Basso Industry Corp	218,000	630,682	1.01
Cathay Financial Holding Co Ltd	2,399,000	3,577,827	5.72
Cathay Financial Holding Co Ltd Pref	95,937	–	–
Chroma Ate Inc	660,000	1,539,775	2.46
Chunghwa Telecom Co Ltd	788,000	2,474,767	3.96
CTBC Financial Holding Co Ltd	3,123,880	1,706,008	2.73
E.Sun Financial Holding Co Ltd	1,126,000	639,317	1.02
Far EastOne Telecommunications Co Ltd	1,734,000	3,889,817	6.22
Flexium Interconnect Inc	182,000	477,540	0.76
Formosa Plastics Corp	448,000	1,236,474	1.98
Gigabyte Technology Co Ltd	1,301,000	1,734,989	2.77
Global Lighting Technologies Inc	632,000	1,361,032	2.18
Greatek Electronics Inc	1,374,000	1,658,034	2.65
Hon Hai Precision Industry Co Ltd	970,000	2,527,120	4.04
HTC Corp	54,000	131,997	0.21
Huaku Development Co Ltd	349,000	653,315	1.04
ITEQ Corp	530,000	546,087	0.87
King Slide Works Co Ltd	43,000	554,813	0.89
Kung Long Batteries Industrial Co Ltd	158,000	769,981	1.23
Largan Precision Co Ltd	22,000	2,579,907	4.13
MediaTek Inc	89,000	596,197	0.95
Mega Financial Holding Co Ltd	1,312,000	933,692	1.49
Nan Ya Plastics Corp	683,000	1,504,675	2.41
Nuvoton Technology Corp	705,000	844,194	1.35
Parade Technologies Ltd	63,000	619,883	0.99
Powertech Technology Inc	282,000	759,120	1.21
Promate Electronic Co Ltd	712,000	671,927	1.07
Quanta Computer Inc	605,000	1,128,794	1.81
Rafael Microelectronics Inc	133,822	616,958	0.99
Rechi Precision Co Ltd	1,046,000	1,022,730	1.64
SDI Corp	782,000	1,002,936	1.60
Senao Networks Inc	92,000	435,533	0.70
Shin Zu Shing Co Ltd	115,000	293,914	0.47
Siliconware Precision Industries Co Ltd	552,000	817,265	1.31

## VALUE PARTNERS TAIWAN FUND

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### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2016

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed equity securities (Continued)</b>			
<i>Taiwan (Continued)</i>			
Sporton International Inc	464,000	2,447,848	3.91
Superalloy Industrial Co Ltd	115,000	633,374	1.01
Synnex Technology International Corp	884,500	889,454	1.42
TXC Corp	1,034,000	1,303,738	2.08
Taiwan Secom Co Ltd	102,000	279,625	0.45
Taiwan Semiconductor Manufacturing Co Ltd	1,068,000	5,997,772	9.59
Test Research Inc	543,820	642,777	1.03
TSC Auto ID Technology Co Ltd	10,000	75,343	0.12
Uni-President Enterprises Corp	556,134	918,889	1.47
WPG Holdings Ltd	770,000	905,350	1.45
Wah Lee Industrial Corp	468,000	664,662	1.06
Yageo Corp	527,000	955,543	1.53
Zippy Technology Corp	72,000	78,975	0.13
<b>Total financial assets at fair value through profit or loss</b>		<u>57,289,628</u>	<u>91.61</u>
<b>Total investments, at cost</b>		<u>54,815,741</u>	

### INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	% of net assets	
	31.12.2016	30.6.2016
<b>Listed equity securities</b>		
Taiwan	<u>91.61</u>	<u>90.22</u>
<b>Total investments</b>	<u>91.61</u>	<u>90.22</u>