

VALUE PARTNERS TAIWAN FUND

# 2017 SEMI-ANNUAL REPORT

For the six months ended 31 December 2017

**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 units 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. So Chun Ki Louis  
Mr. Ho Man Kei, Norman

#### **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  
and International law*  
Deacons  
5th Floor, Alexandra House  
18 Chater Road Central  
Hong Kong

#### **Auditor**

PricewaterhouseCoopers  
P.O. Box 258  
George Town  
Grand Cayman, KY1-1104  
Cayman Islands

#### **Information available from:**

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

**GENERAL INFORMATION (Continued)**

**Recent awards and achievements**

**Corporate awards**

- 2017
- **Fund of the Year Awards 2017, Hong Kong**  
**Manager of the Year – Greater China Equity (Outstanding Award)**  
**Dato’ Seri Cheah Cheng Hye and Mr. Louis So (Value Partners’ Co-CIOs)**  
*– Benchmark*
  - **Fund of the Year Awards 2017, Hong Kong**  
**Manager of the Year – High Yield Fixed Income**  
**Mr. Gordon Ip (Value Partners’ CIO, Fixed Income)**  
*– Benchmark*
  - **Fund of the Year Awards 2017, Hong Kong**  
**House Award (ETF) – Commodity ETF (Outstanding Achiever)**  
**for Sensible Asset Management**  
*– Benchmark*
  - **The 15th China’s Financial Annual Champion Awards 2017**  
**Value Partners: Best Fund House of the Year**  
*– Hexun.com*
  - **AsiaHedge Awards 2017**  
**Management Firm of the Year: Value Partners**  
*– AsiaHedge*
  - **Listed Company Award of Excellence 2017**  
**Value Partners Group Limited – Best Listed Company (Main Board category)**  
*– Hong Kong Economic Journal & PR Asia*
  - **The Asset Benchmark Research Awards 2017 – Asian G3 Bonds**  
**Top Investment House**  
**Value Partners – Ranked Number 1 in Hedge Fund category**  
*– The Asset Benchmark Survey*
  - **The Asset Benchmark Research Awards 2017 – G3 Bonds**  
**The Most Astute Investors in Asian G3 Bonds for Hong Kong**  
**Edwin KAM – Ranked the 3rd (Mr. KAM was ranked 7th in 2016)**  
*– The Asset Benchmark Survey*
  - **The Asset Benchmark Research Awards 2017 – G3 Bonds**  
**The Most Astute Investors in Asian G3 Bonds for Hong Kong**  
**Gordon IP – Ranked the 10th (Mr. IP has been top ranked for the past 4**  
**consecutive years; he was ranked 4th in 2016, 7th in 2015 and 10th in 2014)**  
*– The Asset Benchmark Survey*
  - **The Asset Benchmark Research Awards 2017 – G3 Bonds**  
**The Most Astute Investors in Asian G3 Bonds for Hong Kong**  
**Elaine HU – Ranked the 20th (Ms. HU was ranked 24th in 2016)**  
*– The Asset Benchmark Survey*
  - **The Asset Triple A, Asset Servicing, Investor and**  
**Fund Management Awards 2017**  
**Fund Manager of the Year – Long-only Fixed Income (Highly Commended)**  
**Mr. Gordon Ip, Value Partners Greater China High Yield Income Fund**  
*– The Asset*
  - **Asset Management Awards for Excellence 2017**  
**Best Fund Provider – Greater China Equity**  
*– Asian Private Banker*

# VALUE PARTNERS TAIWAN FUND

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## MANAGER'S REPORT

### Performance review

During the fourth quarter of 2017, Value Partners Taiwan Fund (the "Fund") gained 5.2% in USD, against the Taiwan Stock Exchange Index ("TWSE") and the MSCI Taiwan Index returns of 4.5% and 4.0%, respectively. On a year-to-date basis, the Fund was up 25.9%, against the aforementioned indices which were up 29.4% and 27.5%, respectively.

Since inception in March 2008, the Fund returned 110.9% on a net return basis. Over the same period, TWSE and MSCI Taiwan Index were up 90.4% and 71.8%, respectively.

### Taiwan's economy supported by export growth in 2017

2017 concluded as a solid year for the Taiwan market. During the year, the Taiwan government revised up its official 2017 gross domestic product (GDP) four times from 1.9% (forecast in February) to the latest 2.6% underpinned by robust export. It also forecasted the economy to grow at a pace of 2.3%<sup>1</sup> in 2018 on the back of a recovering global economy and world trade volume.

Exports recovery was the key highlight in 2017. In the fourth quarter, total export has registered US\$85.9 billion, up by 10.5% from a year earlier; for the full year of 2017, export has recorded a solid growth of 13.2% year-on-year. The surge in exports in 2017 – mainly driven by electronic components, basic metals and related products, machinery, and audio-visual products, etc. – reversed two years of declines and was the strongest growth since 2010. On the back of the emerging demand for new technological applications, such as internet of things (IoT), automotive electronics, and artificial intelligence, Taiwan's goods exports growth is expected to remain solid in 2018. Together with services exports, real exports of goods and services are anticipated to grow by 2.6% in 2018.

**MANAGER'S REPORT (Continued)****Private consumption regaining traction**

Benefiting from the effects of strong export, domestic demand has been picking up in Taiwan with year-on-year retail sales growing from a choppy first half in 2017, to four consecutive months of growth in November. During the month, retail sales increased 3.4% from a year earlier driven by household goods, medical and cosmetics consumptions, reflecting not only seasonal buying but also general expenses supported by a recovering economy. Meanwhile, inflation rose steadily with the core CPI inflation increasing 1.3% year-on-year in the fourth quarter on average, as compared to the inflation rate of 0.9% in the first nine months of 2017<sup>2</sup>, attesting to the improving domestic consumption picture. A moderate inflation and wage growth is expected to support service sector prices and anchor inflationary expectations, boding well for the Taiwan economy.

Looking into 2018, the positive momentum in Taiwan's economic growth is expected to sustain, and the contributions from export and domestic consumptions to economic growth could be more balanced. We expect that the domestic economy would be the government's focus ahead of the municipal elections to be held in November 2018, such as the implementation of the NT\$420 billion FIP (Forward-Looking Infrastructure Program) special budget to be spent over the next four years, as approved in July 2017. This should be supportive to the 2018 GDP growth, in addition to export growth.

**Portfolio update and outlook**

The Taiwan market had a solid year in 2017 as positive macro data support the positive sentiment in the stockmarket. The technology sector had a particularly strong year driven by strong export numbers, sustainable global demand recovery, and a variety of new product developments in the industry. Strong export numbers surprised on the upside and led the sector to outperform the overall market significantly, even after the year-end profit taking.

During the fourth quarter, we took profit on some stocks – especially in the technology sector – which have enjoyed a good run year-to-date and have reached our target valuation. We have also switched into undervalued names. Our in-time profit-taking helped us avoid some technology stock pull-back toward year end when the market worried about a lukewarm smartphone market. We are increasing our positions in the financial sector as we think that banks could have a better chance for earnings growth in 2018 after prior transitions, and given a higher possibility for a potential domestic rate hike. Sentiment in insurance companies should also benefit from US rate hikes going forward.

## VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

### MANAGER'S REPORT (Continued)

#### Portfolio update and outlook (Continued)

In 2017, one of our top holding stocks, Taiwan Semiconductor Manufacturing (TSMC) was up more than 40%, mainly due to valuation re-rating as investors see new growth catalysts, including automotive electronics, high performance computing and internet of things. While we already hold 9.6% position for TSMC, we have positioned for other overlooked companies, which will benefit from similar industry drivers but have not yet performed.

For the most of 2017, we notice that the Taiwan stockmarket was more favourable to the styles that chase stories and themes, regardless of stock valuations. We took profit on some small mid-cap ideas early to adhere to our valuation discipline. We, however, think that when industry supply and demand normalize in 2018, there will be more reality checks and this will be more favourable to our fundamental and value investing style. We continue to look for under-valued opportunities in the market, especially in consumer, industrial, financial and technology sectors.

#### Value Partners Hong Kong Limited

20 February 2018

1. Source: Directorate General of Budget, Accounting and Statistics, Taiwan

2. Source: Bank of America Merrill Lynch

*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 29 December 2017. Performance data is net of all fees. All indices are for reference only.*

*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 materials have been obtained from sources believed to be reliable, but their 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)**

**Value Partners Taiwan Fund: 5 biggest holdings of securities as at 29 December 2017**

<b>Stock</b>	<b>Industry</b>	<b>Valuation (2018 Estimates)</b>	<b>Remarks</b>
<p>Chunghwa Telecom (Code: 2412 TT)</p> <p>Market cap: US\$27.7 billion</p>	<p>Telecommunication services</p>	<p>Price: TWD106.00 P/E: 21.5x P/B: 2.3x Yield: 4.6%</p>	<p>Chunghwa Telecom is Taiwan's largest integrated telecommunications services company that provides fixed-line, mobile, broadband, and internet services. The Company also provides information and communication technology services to corporate customers. The company's mobile business maintained a leadership position in the second quarter of 2017 with a 37% market share in mobile subscribers and 37% market share in mobile revenue. We expect the company to benefit from consumers' increasing data usage and easing market competition.</p>
<p>Hon Hai Precision Industry (Code: 2317 TT)</p> <p>Market cap: US\$55.6 billion</p>	<p>Electronics manufacturer</p>	<p>Price: TWD95.20 P/E: 9.8x P/B: 1.3x Yield: 5.0%</p>	<p>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.</p>
<p>MediaTek (Code: 2454 TT)</p> <p>Market cap: US\$15.7 billion</p>	<p>Semiconductors and semiconductor equipment</p>	<p>Price: TWD294.00 P/E: 16.9x P/B: 1.8x Yield: 3.7%</p>	<p>MediaTek is a Taiwanese IC design company with broad product offerings. The company is a market leader in developing tightly-integrated, power-efficient systems-on-chip (SoC) for mobile devices, home entertainment products, networking equipment and other Internet of Things (IoT) related applications. We expect the company to deliver strong earnings growth in the coming years, driven by market share gain and margin recovery of smartphone chip business. We also think the company is well positioned to offer total solution chips to address the increasing IoT applications.</p>

## VALUE PARTNERS TAIWAN FUND

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### MANAGER'S REPORT (Continued)

#### Value Partners Taiwan Fund: 5 biggest holdings of securities as at 29 December 2017 (Continued)

Stock	Industry	Valuation (2018 Estimates)	Remarks
Sporton International (Code: 6146 TT)  Market cap: US\$0.5 billion	Product testing and certification services	Price: TWD160.50 P/E: 17.2x P/B: 4.6x Yield: 4.1%	Sporton International specialises in providing product testing, inspection and certification ("TIC") services in electromagnetic ("EM") compatibility and safety of electronics devices. Its certification is well-recognised in over 150 countries. The company benefits from the increasing number in new product model launches as each new model requires new certifications by companies such as Sporton. Increase in complexity and upgrades in technology are also important drivers for the demand of Sporton's services. Its operations are primarily in Taiwan and China.
Taiwan Semiconductor Manufacturing (Code: 2330 TT)  Market cap: US\$200.6 billion	Semiconductors and semiconductor equipment	Price: TWD229.50 P/E: 15.7x P/B: 3.5x Yield: 3.6%	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 25.9% of Value Partners Taiwan Fund as at 29 December 2017. The stock prices are based on the closing of 29 December 2017.*

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

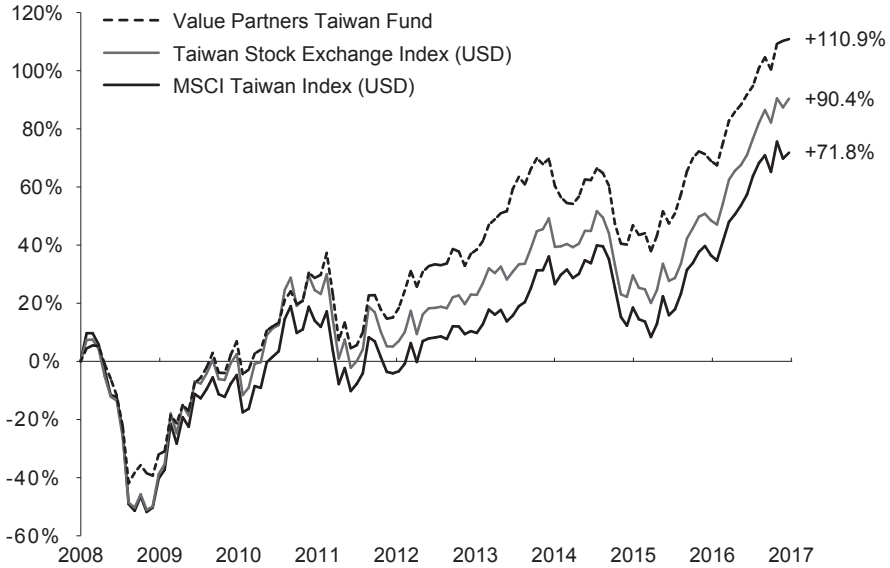
**MANAGER'S REPORT (Continued)**

**Value Partners Taiwan Fund**

**NAV per unit = US\$21.09 (as at 31 December 2017)**

**Since launch return compared to indices**

From 3 March 2008 to 31 December 2017



## VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

### STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2017

	31.12.2017	30.6.2017
	US\$	US\$
<b>Assets</b>		
Financial assets at fair value through profit or loss	64,042,820	59,277,663
Bank balances	2,450,413	4,046,297
Amounts receivable on sales of investments	529,157	–
Amounts receivable on issue of units	72	73,095
Dividends and interest receivables	112	175,967
Margin deposit	547,087	438,157
Prepayments and other receivables	–	1,180
	<u>67,569,661</u>	<u>64,012,359</u>
<b>Liabilities</b>		
Amounts payable on purchases of investments	1,041,560	187,820
Amounts payable on redemption of units	4,703	5,000
Management fee payable	64,734	65,350
Performance fee payable	887,190	1,665,233
Accruals and other payables	60,360	51,708
	<u>2,058,547</u>	<u>1,975,111</u>
<b>Total assets</b>	<u>67,569,661</u>	<u>64,012,359</u>
<b>Total liabilities</b>	<u>2,058,547</u>	<u>1,975,111</u>
<b>Net assets attributable to unitholders</b>	<u>65,511,114</u>	<u>62,037,248</u>
<b>Net asset value per unit</b>		
<b>with 3,105,639.75 (30.6.2017: 3,185,317.08)</b>		
<b>units outstanding</b>	<u>21.09</u>	<u>19.48</u>

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 31 DECEMBER 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities</b>			
<i>Taiwan</i>			
Advanced Semiconductor Engineering Inc	1,590,000	2,044,025	3.12
Aerospace Industrial Development Corp	821,304	1,025,385	1.56
Anpec Electronics Corp	646,000	980,668	1.50
Asia Cement Corp	280,000	266,074	0.41
Asmedia Technology Inc	121,000	1,484,162	2.27
Aten International Co Ltd	251,000	710,473	1.08
Casestek Holdings Ltd	289,000	993,328	1.52
Cathay Financial Holding Co Ltd	1,137,000	2,049,788	3.13
Chang Wah Technology Co Ltd	108,266	1,588,821	2.42
Chicony Electronics Co Ltd	380,550	961,762	1.47
China Steel Corp	809,000	674,712	1.03
Chunghwa Telecom Co Ltd	631,000	2,253,875	3.44
Coretronic Corp	662,000	760,689	1.16
CTBC Financial Holding Co Ltd	2,471,880	1,707,560	2.61
Delta Electronics Inc	280,000	1,353,956	2.07
E Ink Holdings Inc	4,000	6,470	0.01
E.Sun Financial Holding Co Ltd	1,027,898	654,646	1.00
Elan Microelectronics Corp	704,000	1,093,624	1.67
Far EasTone Telecommunications Co Ltd	837,000	2,073,039	3.16
Formosa Plastics Corp	288,000	957,865	1.46
Fubon Financial Holding Co Ltd	1,164,000	1,988,637	3.04
Fulgent Sun International Holding Co Ltd	286,000	684,257	1.04
Greatek Electronics Inc	885,000	1,553,730	2.37
Hon Hai Precision Industry Co Ltd	1,208,000	3,875,239	5.91
Kung Long Batteries Industrial Co Ltd	133,000	643,129	0.98
Largan Precision Co Ltd	8,000	1,083,704	1.65
MediaTek Inc	235,000	2,328,144	3.55
Mega Financial Holding Co Ltd	1,168,000	946,570	1.44
Mirle Automation Corp	225,000	364,689	0.56
Nan Ya Plastics Corp	260,000	682,504	1.04
Nanya Technology Corp	53,000	136,090	0.21
Novatek Microelectronics Corp	149,000	569,871	0.87
Powertech Technology Inc	433,000	1,284,000	1.96
President Chain Store Corp	33,000	315,811	0.48
Primax Electronics Ltd	636,000	1,693,085	2.58
Quanta Computer Inc	966,000	2,014,941	3.08
Realtek Semiconductor Corp	454,000	1,667,543	2.55
Rechi Precision Co Ltd	1,333,000	1,286,914	1.96

## VALUE PARTNERS TAIWAN FUND

(A Cayman Islands unit trust)

### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 31 DECEMBER 2017

	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>			
Shunsin Technology Holding Ltd	44,000	207,575	0.32
Sporton International Inc	412,640	2,231,727	3.41
Synnex Technology International Corp	786,500	1,074,692	1.64
Taiwan Semiconductor Manufacturing Co Ltd	810,000	6,264,153	9.56
Taiwan Union Technology Corp	664,000	1,875,024	2.86
Uni-President Enterprises Corp	632,134	1,405,878	2.15
Wah Lee Industrial Corp	262,000	492,640	0.75
Wistron Neweb Corp	390,095	1,123,909	1.72
WPG Holdings Ltd	1,143,000	1,517,529	2.32
Xxentria Technology Materials Corp	210,000	459,968	0.70
		<u>63,412,875</u>	<u>96.79</u>
<b>United States</b>			
Silicon Motion Technology Corp ADR		<u>619,579</u>	<u>0.95</u>
<b>Rights Issue</b>			
Casetek Holdings Ltd Rts 02/05/2018	30,761	<u>10,366</u>	<u>0.02</u>
<b>Total investments, net</b>		<u>64,042,820</u>	<u>97.76</u>
<b>Total investments, at cost (inclusive of transaction cost)</b>		<u>56,827,148</u>	

### INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	% of net assets	
	31.12.2017	30.6.2017
<b>Listed equity securities</b>		
Taiwan	96.79	93.66
United States	<u>0.95</u>	<u>1.89</u>
	97.74	95.55
<b>Rights Issue</b>		
	<u>0.02</u>	<u>—</u>
<b>Total investments</b>	<u>97.76</u>	<u>95.55</u>