



VL Asset Management Limited
以立投資管理有限公司

VL China Fund

(A Sub-Fund of VL Trusts)

Interim Report

For the period ended 31 December 2019

(Unaudited)

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MANAGEMENT AND ADMINISTRATION

Manager	VL Asset Management Limited 以立投資管理有限公司 Unit 1807, FWD Financial Centre 308 Des Voeux Road Central Hong Kong
Trustee	Standard Chartered Trust (Hong Kong) Limited 13/F Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
Administrator, Custodian and Registrar	Standard Chartered Bank (Hong Kong) Limited 32/F Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
Legal Counsel to the Manager	Simmons & Simmons 30/F One Taikoo Place 979 King's Road Hong Kong
Auditors	Ernst & Young 22/F, CITIC Tower 1 Tim Mei Avenue, Central Hong Kong

REPORT OF THE MANAGER

Interim Report

As at 31 December 2019

This Interim Report does not constitute an offer of units. Units are offered on the basis of the information contained in the current Explanatory Memorandum (and the documents referred to within it), copies of which are available from the registered office of the Manager or from any of the companies registered as distributors of VL China Fund (the Fund).

Review

Over the period 1 July 2019 to 31 December 2019, the Fund was up 9.45% (Class A) due to the outperformance of our positions in consumer goods and pharmaceutical counters. For reference purposes, the MSCI China Index was up 8.98% and Hang Seng Index up 0.18% with dividends reinvested.

The Fund was almost fully invested with 1.24% cash as at 31 December 2019.

Geopolitical concerns over Sino-US trade war which dominated 2019 faded in the last quarter as the two countries inked phase one trade agreement in December, helping Greater China equity markets to post gains amid improved investor sentiment.

During the six months, the Fund's investment gains were largely attributable to our growth strategy. Among our top ten contributors, three were pharmaceutical companies, another three being consumer staples/ durables, and the remaining a property developer, a real estate service provider, an online travel service operator and a logistics operator respectively. We are foremost value investors with long experience in identifying undervalued stocks but that does not mean we have to limit our universe to traditional value stocks. In recent years we have focused more on growth stocks with good potential and/or hidden value.

Our biggest investment gains came from Sino Biopharmaceutical (1177 HK), China Overseas Grand Oceans (81 HK), A-Living (3319 HK), Wuxi Biologics (2269 HK), CSPC Pharmaceutical (1093 HK), Alibaba (BABA US), Kweichow Moutai (600519 CH) and Travelsky (696 HK). The sector diversification we pursued helped minimize the volatility of the portfolio.

Consumer staples/ durables and healthcare were the top two sectors that created the most of investment returns to the Fund over the period. We stated two years ago that our investment theme would be on healthcare, consumer-related and IT sectors (given the population matrix of China and the increasingly globalized demand on IT services). For healthcare, despite the known policy risks (such as GPO tendering) or any unseen risks in the future, the sector remains structurally vital to the citizens of China and should hold up at least in the next decade.

Our consumer holdings were largely composed of Chinese white wine liquor and household electric appliance manufacturers. Many of them have staged a double-digit rally during the interim period.

The stock price of Kweichow Moutai, for instance, was up 20.22% – that had prompted us to lock up some profit and deploy the proceeds to other lagging consumer names.

As regards pharmaceutical positions, the official GPO list announced in December included some adjustments making the bidding less competitive with an average price cut of approximately 60%. That should reduce the incentive for the bidder to bid lower therefore avoiding a spiraling downward price effect. Our focus will be on innovative drugs (as opposed to generic drugs) with profit margins secured by higher entry barrier and technology requirement. Earnings results of most of the healthcare companies we selected remained robust suggesting further valuation re-rating potentials.

During the interim period, we continued to raise our exposure to China A-shares (from 19.42% as of 30 June 2019 to 22.59% as of 31 December 2019) as they remained largely undervalued compared to many other major stock markets. Select corporations and sectors are on a secular growth trend and their earnings are supported by a huge population of 1.4 billion which is getting increasingly wealthy. At the time of writing, the Shanghai Composite Index has a 2020FY forward P/E of 10.91X (Hang Seng Index is also undemanding at 10.73X) and P/B at 1.26X (Hang Seng: 1.13X).

Outlook

The US presidential election will be held in November 2020 and President Donald Trump may in the interim period seek to maintain peaceful relationships with other countries (including China resulting possibly in a pause to the Sino-US trade dispute at least till November). Global investor risk appetite may pick up in the first half of 2020.

Nevertheless, geopolitical risks shall continue to exist as troubles can flare up again in North Korea and some Middle East countries. Also, global interest rates might continue to hover near zero level as some of the major central banks might keep printing money resulting in abundant liquidity in an effort to mitigate financial assets exposure to higher business risks (including stagflation, rising operating costs, shrinking global demand and declining profit margins).

China's economic growth is projected to edge down further to 6% or below in 2020. Some worry that the deceleration will drag down her equity market but one should note that the performance of China A-shares has never gone in tandem with the country's GDP growth. As mentioned in our previous newsletters, one may find comfort in the improved quality of growth since 2018 as the pace of debt accumulation has slowed and the financial system is more effectively regulated. One should also note that in the recent first-phase trade deal with the US, China has agreed to further open up some of her markets (insurance, for example) to promote foreign trade and internationalize her ecosystem. In addition, backed by a huge reserve, China is able to roll out more economic stimulus measures – this can be exemplified by a further cut in the reserve requirement ratio on 2nd January, 2020 releasing 800 billion RMB capital into the banking system.

Looking into 2020, our investment focus will be as follows: (i) assets with a scarcity feature (for example, select biotech companies with strong research capabilities); (ii) quality growth with visibility (which can be testified by a company's sound track record); (iii) liquid assets (which may mean more diversified exposure to international markets); and (iv) longer term investment themes while

maintaining flexibility to switch stocks when better opportunities arise.

The latest outbreak of novel coronavirus in the central Chinese city of Wuhan has triggered the nerves of many major stock markets. While staying alert to any listed company that may become adversely affected (for instance, those with business related to travel and offline consumption), we shall look out for opportunities to bottom fish undervalued plays which may comprise healthcare and online service operators (for example, e-payment, consumption and gaming).

VL Asset Management Limited

18 February 2020

**STATEMENT OF NET ASSETS
AS AT 31 DECEMBER 2019**

	(Unaudited) 31.12.2019 HK\$	(Unaudited) 31.12.2018 HK\$
ASSETS		
Cash and bank balances	5,328,113	11,137,628
Amounts due from brokers	7,346,980	-
Financial assets at fair value through profit or loss	250,260,995	228,553,890
Dividend receivable	-	958
Other receivables and prepayments	91,784	277,084
TOTAL ASSETS	263,027,872	239,969,560
LIABILITIES		
Management fee payable	337,769	563,666
Trustee fee payable	139,181	109,742
Performance fee payable	215,429	42
Amounts due to brokers	8,787,433	-
Amounts due to manager	10	10
Accruals and other payables	137,450	152,781
LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)	9,617,272	826,241
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	253,410,600	239,143,319
TOTAL LIABILITIES (INCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)	263,027,872	239,969,560
UNITS IN ISSUE		
- Class A	207,724.1621	495,002.7319
- Class B	2,034,704.8000	2,282,104.8000
NET ASSET VALUE PER UNIT (Note 1)	HK\$	HK\$
- Class A	109.0961	83.8689
- Class B	113.4065	86.5990

VL CHINA FUND
FOR THE PERIOD ENDED 31 DECEMBER 2019
**STATEMENT OF PROFIT OR LOSS
FOR THE PERIOD ENDED 31 DECEMBER 2019**

	(Unaudited) From 1.7.2019 to 31.12.2019 HK\$	(Unaudited) From 1.7.2018 to 31.12.2018 HK\$
INCOME		
Dividend income	2,804,670	2,723,578
Net gain / (loss) on financial assets at fair value through profit or loss	22,468,322	(71,106,677)
Net foreign exchange differences	652	(17,576)
Interest income	1,855	1,357
Other income	-	1,035
TOTAL INCOME	<u>25,275,499</u>	<u>(68,398,283)</u>
EXPENSES		
Management fees	1,004,658	1,191,519
Trustee fees	359,508	359,968
Performance fees	215,387	42
Custodian fees	103,617	107,431
Establishment costs	92,792	93,047
Auditors' remuneration	119,756	125,808
Brokerage commission	258,749	208,511
Transaction costs	232,883	195,650
Legal and professional fees	201,107	-
Bank charges	1,200	1,200
Other operating expenses	31,450	31,200
TOTAL EXPENSES	<u>2,621,107</u>	<u>2,314,376</u>
PROFIT / (LOSS) BEFORE TAX	<u>22,654,392</u>	<u>(70,712,659)</u>
Withholding tax	90,984	(147,606)
PROFIT / (LOSS) AFTER TAX	<u>22,563,408</u>	<u>(70,860,265)</u>
Other comprehensive income for the period	<u>-</u>	<u>-</u>
INCREASE / (DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>22,563,408</u></u>	<u><u>(70,860,265)</u></u>

EXPLANATORY NOTES

1. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The published net asset value per unit issued is calculated in accordance with the Explanatory Memorandum.

A reconciliation of the net assets attributable to unitholders as reported in the statement of net assets to the net assets attributable to unitholders as determined for the purposes of processing unit subscriptions and redemptions is provided below:

	31.12.2019 HK\$	31.12.2018 HK\$
Published net assets attributable to unitholders	253,410,600	239,143,319
Adjustment on fees and expenses accrued up to the last day of the reporting period end	-	-
Net assets attributable to unitholders as per statement of net assets	253,410,600	239,143,319

	Unit Price as at 31.12.2019 (per statement of net assets) HK\$	Published unit price as at 31.12.2019 HK\$	Unit Price as at 31.12.2018 (per statement of net assets) HK\$	Published unit price as at 31.12.2018 HK\$
- Class A units	109.0961	109.0961	83.8689	83.8689
- Class B units	113.4065	113.4065	86.5990	86.5990

The net asset value is calculated by determining the value of the assets attributable to VL China Fund, including accrued income, and deducting all its liabilities as at the relevant reporting period end. The resultant sum is divided by the total number of units in issue as at the relevant reporting period to give the net asset value per unit and adjusting the resultant sum to the nearest 4 decimal places.

SCHEDULE OF INVESTMENTS (UNAUDITED)
AS AT 31 DECEMBER 2019

	Holdings	Fair Value as at 31.12.2019 HK\$	% of NAV
Listed / Quoted Investments			
CHINA (22.6%)			
Beijing Sinnet Technology Co Ltd	221,300	4,968,230	2.0
Beijing Thunisoft Corporation Ltd	130,600	3,710,648	1.5
C&S Paper Co Ltd	326,000	4,616,621	1.8
Foshan Haitian Flavouring and Food Co Ltd	8,000	962,081	0.4
Gree Electric Appliances Inc of Zhuhai	109,400	8,025,306	3.2
Jiangsu Hengrui Medicine Co	46,944	4,595,791	1.8
Jonjee High-Tech Industrial & Commercial Holding Co Ltd	18,500	814,309	0.3
Kweichow Moutai Co Ltd	5,600	7,410,468	2.9
Lepu Medical Technology Beijing Co Ltd	65,000	2,405,203	0.9
Luzhou Laojiao Co Ltd	39,300	3,810,521	1.5
Midea Group Co Ltd	137,400	8,952,731	3.5
Qianhe Condiment and Food Co Ltd	52,000	1,236,629	0.5
Wuliangye Yibin Co. Ltd	38,500	5,728,196	2.3
		<u>57,236,734</u>	<u>22.6</u>
HONG KONG (71.5%)			
3SBio Inc	104,000	1,050,400	0.4
AIA Group Limited	91,400	7,476,520	3.0
Alibaba Group Holding Ltd	30,800	6,381,760	2.5

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2019**

	Holdings	Fair Value as at 31.12.2019 HK\$	% of NAV
Listed / Quoted Investments			
A-Living Services Co Ltd	162,250	4,364,525	1.7
Beigene Ltd	11,800	1,180,000	0.5
Chanhhigh Holdings Limited	140,000	47,600	-
China Merchants Bank Co Ltd	193,500	7,749,675	3.1
China Merchants Commercial Real Estate Investment Trust	400,000	1,332,000	0.5
China Merchants Port Holdings Intl Co Ltd	248	3,269	-
China Oriental Group Co Ltd	1,970,000	6,363,100	2.5
China Overseas Grand Oceans Group Ltd	1,162,000	6,263,180	2.5
CSPC Pharmaceutical Group	478,000	8,881,240	3.5
Cifi Holdings Group Co Ltd	980,000	6,458,200	2.5
Citic Telecom International Holdings Ltd	3,458,000	9,820,720	3.9
C-Mer Eye Care Holdings Limited	316,000	1,583,160	0.6
Cosco Shipping International (Hong Kong) Co. Ltd	596,000	1,221,800	0.5
Galaxy Entertainment Group Ltd	76,000	4,362,400	1.7
Guangzhou R&F Properties Co Ltd	258,800	3,721,544	1.5
Hang Lung Group Ltd	188,000	3,620,880	1.4
Innovent Biologics Inc	234,000	6,212,700	2.4
Kaisa Prosperity Holdings Limited	167,500	3,517,500	1.4
Meituan Dianping	61,600	6,277,040	2.5
New World Development Co. Ltd	396,000	4,229,280	1.7

SCHEDULE OF INVESTMENTS (UNAUDITED)

AS AT 31 DECEMBER 2019

	Holdings	Fair Value as at 31.12.2019 HK\$	% of NAV
Listed / Quoted Investments			
Ping An Insurance (Group) Company of China, Ltd	60,500	5,572,050	2.2
Plover Bay Technologies Ltd	1,100,000	1,232,000	0.5
Shougang Fushan Resources Group Ltd	1,666,000	2,798,880	1.1
Sino Biopharmaceutical Ltd	858,000	9,352,200	3.7
Sisram Medical Ltd	229,200	946,596	0.4
SITC International Holdings Company Ltd	732,000	6,954,000	2.7
Sunac China Holdings Limited	152,000	7,075,600	2.8
Tencent Holdings Ltd	28,100	10,554,360	4.2
Transport International Holdings Ltd	213,200	4,306,640	1.7
Travelsky Technology Ltd	474,000	9,015,480	3.6
Weimob Inc	660,000	2,237,400	0.9
WH Group Ltd	750,500	6,041,525	2.4
Wuxi Biologics Cayman Inc	99,000	9,766,350	3.9
Zhongsheng Group Holdings Ltd	89,500	2,855,050	1.1
		<hr/> 180,826,624	<hr/> 71.5

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2019**

	Holdings	Fair Value as at 31.12.2019 HK\$	% of NAV
Listed / Quoted Investment			
UNITED STATES (4.7%)			
Airnet Technology Inc ADR	42,420	328,876	0.1
Alibaba Group Holdings-Sp ADR	5,894	9,740,665	3.8
Nokia OYJ	21,000	607,059	0.2
TAL Education Group- ADR	4,050	1,521,037	0.6
		<u>12,197,637</u>	<u>4.7</u>
TOTAL INVESTMENTS		250,260,995	98.8
OTHER NET ASSETS		3,149,605	1.2
PUBLISHED NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		253,410,600	<u>100.0</u>
TOTAL INVESTMENTS, AT COST		<u>221,302,671</u>	

VL CHINA FUND**FOR THE PERIOD ENDED 31 DECEMBER 2019****INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)
AS AT 31 DECEMBER 2019**

	% of holdings 31.12.2019	% of holdings 31.12.2018
Listed / Quoted investments		
China	22.6	10.0
Hong Kong	71.5	83.1
United States	4.7	2.5
	<hr/> 98.8	<hr/> 95.6
Other net assets	<hr/> 1.2	<hr/> 4.4
Net assets attributable to unitholders	<hr/> <hr/> 100.0	<hr/> <hr/> 100.0