



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 2021

(Unaudited)

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## MANAGEMENT AND ADMINISTRATION

<b>Manager</b>	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
<b>Trustee</b>	Standard Chartered Trust (Hong Kong) Limited 14/F Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
<b>Administrator, Custodian and Registrar</b>	Standard Chartered Bank (Hong Kong) Limited 32/F Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
<b>Legal Counsel to the Manager</b>	Simmons & Simmons 30th Floor One Taikoo Place 979 King's Road Hong Kong
<b>Auditors</b>	Ernst & Young 22/F, CITIC Tower 1 Tim Mei Avenue, Central Hong Kong

## **REPORT OF THE MANAGER**

### **Interim Report**

As at 31 December 2021

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 2021 to 31 December 2021, the Fund fell approximately 18% (Class A: -18.29%; Class B: -17.98%). For reference purpose only, the MSCI China Index was 22.82% lower and the Hang Seng Index down 17.97% with dividends reinvested.

The Fund was almost fully invested (approximately 99%) as at 31 December 2021.

The sentiments of the Hong Kong and China equity markets turned lackluster in the second half of 2021 – in particular, consumer and healthcare stocks faced an intensified sell-off as many other sectors (such as technology and property) had already undergone drastic correction in share prices. Take healthcare as an example, a number of our positions in the sector were star performers in the first half but sectoral sentiment took a U-turn since July following the announcement of new clinical trial guidelines which may slow down the development of oncology drugs that are deemed to emulate or copy another and amid market worries on heightened Sino-US geopolitical risk spreading to the biotech area. In the longer run, drug manufacturers will need to spend more resources on research and development (R&D) of new drugs deemed superior to existing ones thus relying more on CRO (Contract Research Organization) companies. Many of the CROs, including Wuxi Biologics (2269 HK), are anticipated to maintain annual growth of 30% to 50%. We believe the fundamentals and longer term outlook of CROs remain intact and continue to favour the more established companies.

Meantime, we note the announcement made by the U.S Commerce Department on 8th February 2022 whereby two Wuxi Biologics subsidiaries have been added to the department's Unverified List (UVL). Wuxi clarified on the same date that (i) the UVL does not equal to the U.S. "Entity List" or "Black List" and (ii) the department's action was due to incomplete end-use verifications (these processes having been disrupted by the Covid-19 pandemic) in order for certain equipment to be exported by U.S. suppliers. In our view, the incident does not affect the technological advantages and strong business model possessed by Wuxi but the weak sentiment on healthcare stocks may linger for some time.

Against the above-mentioned background and despite the generally sound fundamentals of companies in our portfolio, the value of our Fund was pulled back in the six months ended December 2021. The Fund's sizeable investment losses stemmed from its holdings in Pharmaron Beijing (3759

HK), Tencent (700 HK), Wuxi Biologics, Shenzhen Mindray Bio-Medical Electronics (300760 C2), Cansino Biologics (6185 HK) and MeituanDianping (3690 HK).

Moving onto another sector – during 2021, Tencent and Alibaba suffered from policy pressure targeting privately-run IT enterprises and their share prices fell 19% and 49% year-on-year (YoY) respectively. In the middle of 2021, we had exited our position in Alibaba due to both the competitive landscape in the e-commerce sector it inhabited and the higher political risk it was faced. Meanwhile, we elected to hold onto Tencent for its better management quality and a less competitive business environment in the social media segment. At end-December, Tencent was our top holding in the portfolio.

We are not perturbed by the above temporary setback. Indeed these changes in market conditions have offered us an opportunity to reduce those stocks which have limited upside in the foreseeable future and to top up on a number of quality companies with high earnings visibility in the following sectors: energy, infrastructure and information technology. China Everbright Environment (257 HK) is an example from the category first mentioned.

Over the relevant period we fared very well with respect to our positions in China Resources Power (836 HK), Xiamen Faratronic (600563 C1), Wolong Electric (600580C1), Great Wall Motor (2333 HK) and AVIC JonhonOptronic Technology (002179 C2) and Beijing YuanliuHongyuan Electronic Technology (603267 C1).

## Outlook

Growth stability has become China's top policy priority in 2022 necessitated by the weakening economic momentum in 2H21 caused by various factors including the following: power shortages, the cooling of the property sector, and some "Common Prosperity" related policies. Real GDP grew 4.0% YoY in 4Q21, the lowest quarterly reading in recent decades except in the pandemic-hit period of 1H20. It is not surprising therefore that the latest statements from Chinese government have expressed eagerness to retract some of the extraordinary policies implemented in 2021 and refocus on economic growth in the near term.

Under these circumstances China will (unlike the US, which is facing inflationary pressure) be pursuing easing monetary policies including further reserve requirement ratio ("RRR") and interest rate cuts and implementing fiscal incentives by launching more infrastructure and power construction projects. Also, China has to be more supportive towards property consumption which is very critical to the overall recovery of her economy.

As for Chinese equities, we believe their performance in 2022 will rely more on domestic factors rather than external factors. For our base case scenario, we expect a positive return for the Fund for the whole of 2022, by investing in the following three major themes:

### 1. Carbon reduction and power security

This theme will continue to be our main focus, which we expect to play out for a very long term. It can be seen that China is taking a 2-pronged approach here - developing green technologies as well as securing traditional power supply. As a result, we will keep extending our investment in both carbon reduction and power security fields.

2. SRDI (Specialized, Refinement, Differential and Innovative)

Under “Common-Prosperty” instructions, China will support a large group of SMEs engaging in SRDI areas, aiming to build up extensive high-end manufacturing industries. Investment wise, we maintain our positive view on related A-share companies.

3. Recovery in property and discretionary consumption

In the near-to-mid term, we will likely see a V-shape recovery for the Chinese economy in 2022. Policy makers will support property consumption (not property investment) more aggressively in the coming months, which may help stabilize the cooling market. At the same time, a narrowing producer price index (PPI) and consumer price index (CPI) inflation gap implies easing cost pressure for consumer goods. As long as the demand side for consumer discretionary recovers, we will see more opportunities in related sectors.

VL Asset Management Limited

18 February 2022

**STATEMENT OF NET ASSETS  
AS AT 31 December 2021**

	(Unaudited) 31.12.2021 HK\$	(Unaudited) 31.12.2020 HK\$
<b>ASSETS</b>		
Cash and bank balances	3,289,386	6,615,530
Amounts due from brokers	249,708	2,058,950
Financial assets at fair value through profit or loss	345,466,934	363,672,233
Dividend receivable	647,771	-
<b>TOTAL ASSETS</b>	<u>349,653,799</u>	<u>372,346,713</u>
<b>LIABILITIES</b>		
Management fee payable	492,329	476,216
Trustee fee payable	143,311	84,326
Performance fee payable	-	7,059,615
Amounts due to brokers	-	985,293
Amounts due to manager	10	10
Accruals and other payables	374,655	129,847
<b>LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)</b>	<u>1,010,305</u>	<u>8,735,307</u>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	<u>348,643,494</u>	<u>363,611,406</u>
<b>TOTAL LIABILITIES (INCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)</b>	<u>349,653,799</u>	<u>372,346,713</u>
<b>UNITS IN ISSUE</b>		
-Class A	179,655.1318	165,073.1063
-Class B	<u>2,119,377.6101</u>	<u>2,034,704.8000</u>
<b>NET ASSET VALUE PER UNIT (Note 1)</b>	HK\$	HK\$
-Class A	138.6117	153.6400
-Class B	<u>152.7530</u>	<u>166.2401</u>

**STATEMENT OF PROFIT OR LOSS  
FOR THE PERIOD ENDED 31 December 2021**

	(Unaudited) From 1.7.2021 to 31.12.2021 HK\$	(Unaudited) From 1.7.2020 to 31.12.2020 HK\$
<b>INCOME</b>		
Dividend income	2,862,581	1,151,748
Net gain / (loss) on financial assets at fair value through profit or loss	(75,804,839)	88,754,922
Net foreign exchange differences	30,206	425,413
Interest income	-	10,574
<b>TOTAL INCOME</b>	<u>(72,912,052)</u>	<u>90,342,657</u>
<b>EXPENSES</b>		
Management fees	1,483,966	1,332,776
Trustee fees	360,058	358,498
Performance fees	-	7,059,615
Custodian fees	134,384	101,831
Auditors' remuneration	117,906	118,787
Brokerage commission	578,289	303,309
Transaction costs	422,246	260,111
Bank charges	1,980	2,146
Other operating expenses	-	28,600
<b>TOTAL EXPENSES</b>	<u>3,098,829</u>	<u>9,565,673</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<u>(76,010,881)</u>	<u>80,776,984</u>
Withholding tax	70,260	34,634
<b>PROFIT/(LOSS) AFTER TAX</b>	<u>(76,081,141)</u>	<u>80,742,350</u>
Other comprehensive income for the period	-	-
<b>INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>(76,081,141)</u>	<u>80,742,350</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:

	31.12.2021 HK\$	31.12.2020 HK\$
Published net assets attributable to unitholders	348,643,494	363,611,406
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	348,643,494	363,611,406

	Unit Price as at 31.12.2021 (per statement of net assets) HK\$	Published unit price as at 31.12.2021 HK\$	Unit Price as at 31.12.2020 (per statement of net assets) HK\$	Published unit price as at 31.12.2020 HK\$
- Class A units	138.6117	138.6117	153.6400	153.6400
- Class B units	152.7530	152.7530	166.2401	166.2401

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 2021**

<b>Listed / Quoted Investments</b>	<b>Holdings</b>	<b>Fair Value as at 31.12.2021 HK\$</b>	<b>% of NAV</b>
<b>CHINA (37.21%)</b>			
Moon Environment Technology Co Ltd	100,000	1,882,606	0.54
Shanghai Baosight Software Co Ltd	43,710	3,252,517	0.93
Anhui Gujing Distillery Co Ltd	36,900	4,095,900	1.17
San'an Optoelectronics Co Ltd	23,100	1,061,350	0.30
China Northern Rare Earth (Group) High-Tech CoLtd	78,600	4,403,611	1.26
WuliangyeYibin Co Ltd	13,617	3,708,895	1.06
China Jushi Co Ltd	79,929	1,779,495	0.51
Hubei Xingfa Chemicals Group	28,600	1,325,247	0.38
Zhejiang Medicine Co Ltd	91,600	1,913,834	0.55
Inner Mongolia BaoTou Steel Union Co Ltd	450,000	1,535,810	0.44
Kweichow Moutai Co Ltd	2,112	5,296,252	1.52
Wolong Electric Group Co Ltd	346,000	7,741,243	2.22
Fangda Carbon New Material Co Ltd	272,500	3,606,739	1.04
Xiamen Faratronic Co Ltd	22,100	6,282,743	1.80
Fangda Special Steel Technology Co Ltd	121,190	1,156,331	0.33
Lianchuang Electronic Technology Co Ltd	93,000	2,759,908	0.79
Huafon Chemical Co Ltd	111,600	1,425,232	0.41
Gotion High-Tech Co Ltd	7,800	489,001	0.14
Shanghai Hanbell Precise Machinery Co Ltd	153,800	5,010,123	1.44

## VL CHINA FUND

FOR THE PERIOD ENDED 31 DECEMBER 2021

Anhui Truchum Advanced Materials and Technology Co Ltd	133,000	2,157,327	0.62
Zhejiang Crystal-Optech Co Ltd	170,000	3,616,341	1.04
Sichuan Development Lomon Co Ltd	100,000	1,600,032	0.46
China National Chemical Engineering Co Ltd	119,000	1,746,824	0.50
Guangdong Create Century Intelligent Equipment Group Corp Ltd	115,000	2,008,847	0.58
Hang Zhou Great Star Industrial Co Ltd	329,797	12,308,633	3.53
Luxshare Precision Industry Co Ltd	40,000	2,407,387	0.69
Nantong Jianghai Capacitor Co Ltd	60,000	2,005,178	0.58
Tongkun Group Co Ltd	57,900	1,500,118	0.43
Camel Group Co Ltd	263,000	4,931,952	1.41
Leyard Optoelectronic Co Ltd	150,000	1,880,771	0.54
CTS International Logistics Corp Ltd	468,460	7,839,340	2.25
All Winner Technology Co Ltd	22,000	1,702,982	0.49
Sunresin New Materials Co Ltd	16,200	1,948,993	0.56
Yunnan Energy New Material Co Ltd	6,300	1,929,727	0.55
Shenzhen Megmeet Electrical Co Ltd	48,000	1,880,111	0.54
Ningbo Xusheng Auto Technology Co Ltd	75,941	4,633,655	1.33
China Kings Resources Group Co Ltd	69,300	3,071,302	0.88
Gigadevice Semiconductor (Beijing) Inc	8,920	1,918,793	0.55
Xiamen IntretechInc	83,470	3,474,668	1.00
Contemporary Amperex Technology Co Ltd	100	71,928	0.02
Beijing YuanliuHongyuan Electronic Technology Co Ltd	12,700	2,787,686	0.80

**VL CHINA FUND**
**FOR THE PERIOD ENDED 31 DECEMBER 2021**

Sichuan Anning Iron and Titanium Co Ltd	27,000	1,396,432	0.40
Beijing Bei Mo Gao Ke Friction Material Co Ltd	14,800	2,180,848	0.63
		<u>129,726,712</u>	<u>37.21</u>

<b>Listed / Quoted Investments</b>	Holdings	Fair Value as at 31.12.2021 HK\$	% of NAV
<b>HONG KONG (61.03%)</b>			
Pacific Basin Shipping Ltd	1,214,000	3,472,040	1.00
COSCO SHIPPING International (Hong Kong) Co Ltd	596,000	1,418,480	0.41
Anhui Conch Cement Co Ltd	93,000	3,622,350	1.04
China Merchants Bank Co Ltd	152,000	9,203,600	2.64
Dongfang Electric Corp Ltd	678,000	8,895,360	2.55
Cansino Biologics Inc	22,400	4,036,480	1.16
Shanghai Junshi Biosciences Co Ltd	70,000	4,060,000	1.17
Pharmaron Beijing Co Ltd	71,500	8,601,450	2.47
China Merchants Port Holdings Co Ltd	248	3,522	0.00
China Everbright Environment Group Ltd	1,970,000	12,332,200	3.54
ShougangFushan Resources Group Ltd	664,000	1,752,960	0.50
China Resources Power Holdings Co Ltd	520,000	13,572,000	3.89
Anton Oilfield Services (Group) Ltd	3,354,000	1,425,450	0.41
Anta Sports Products Ltd	45,000	5,260,500	1.51
Blue Moon Group Holdings Ltd	687,000	5,083,800	1.46
Cheerwin Group Ltd	509,000	1,582,990	0.45
China Resources Land Ltd	202,000	6,625,600	1.90
China Risun Group Ltd	1,368,000	6,470,640	1.86
China Education Group Holdings Ltd	410,000	5,190,600	1.49

## VL CHINA FUND

FOR THE PERIOD ENDED 31 DECEMBER 2021

Country Garden Services Holdings Co Ltd	60,000	2,802,000	0.80
CStonePharmaceuticals	310,500	2,567,835	0.74
JS Global Lifestyle Co Ltd	176,000	2,312,640	0.66
Hua Medicine	369,000	1,398,510	0.40
Innovent Biologics Inc	29,000	1,399,250	0.40
Kingboard Laminates Holdings Ltd	185,000	2,453,100	0.70
KWG Group Holdings Ltd	413,000	2,106,300	0.60
KWG Living Group Holdings Ltd	177,000	566,400	0.16
Longfor Group Holdings Ltd	245,000	8,991,500	2.58
Medlive Technology Co Ltd	216,500	5,888,800	1.69
MeituanInc	14,200	3,200,680	0.92
Pop Mart International Group	67,400	3,012,780	0.86
SITC International Holdings Co Ltd	564,000	15,904,800	4.56
JD.com, Inc	12,600	3,452,400	0.99
Sun King Technology Group Ltd	1,240,000	5,456,000	1.57
Tencent Holdings Ltd	53,900	24,621,520	7.06
Tiangong International Co Ltd	966,000	4,607,820	1.32
Viva China Holdings Ltd	2,488,000	3,831,520	1.10
Vesync Co Ltd	467,000	4,422,490	1.27
Wasion Group Holdings Ltd	500,000	1,715,000	0.49
Wuxi Biologics Cayman Inc	102,000	9,440,100	2.71
		212,761,467	61.03

**VL CHINA FUND****FOR THE PERIOD ENDED 31 DECEMBER 2021**

<b>Listed / Quoted Investments</b>	Holdings	Fair Value as at 31.12.2021 HK\$	% of NAV
UNITED STATES (0.85%)			
Airnet Technology Inc	42,420	502,693	0.14
I-Mab Sponsored ADR	6,200	2,290,693	0.66
TAL Education Group - ADR	6,050	185,369	0.05
		<u>2,978,755</u>	<u>0.85</u>
TOTAL INVESTMENTS		345,466,934	99.09
OTHER NET LIABILITIES		3,176,560	0.91
PUBLISHED NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		348,643,494	100.0
TOTAL INVESTMENTS, AT COST		321,918,009	

**VL CHINA FUND****FOR THE PERIOD ENDED 31 DECEMBER 2021****INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)  
AS AT 31 December 2021**

	% of holdings 31.12.2021	% of holdings 31.12.2020
<b>Listed / Quoted investments</b>		
China	37.2	27.3
Hong Kong	61.0	68.8
United States	0.9	3.9
	<u>99.1</u>	<u>100.0</u>
<b>Other net (liabilities) / assets</b>	<u>0.9</u>	<u>0.0</u>
<b>Net assets attributable to unitholders</b>	<u><u>100.0</u></u>	<u><u>100.0</u></u>