



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 2017

(Unaudited)

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MANAGEMENT AND ADMINISTRATION

Manager	VL Asset Management Limited 以立投資管理有限公司 Unit 3, 13/F West Tower, Shun Tak Centre 200 Connaught Road Central Hong Kong
Trustee	Standard Chartered Trust (Hong Kong) Limited 17/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 13/F One Pacific Place 88 Queensway 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 2017

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

The Hang Seng Total Return Index was up 18.10% during the second half, beating the S&P500 Index which rose only 10.32%. Despite concerns over the Federal Reserve's tapering and the tension between the US and North Korea, the Hong Kong equity market extended its strong momentum from the first half, with the keen support from the continuous inflow of foreign capital under the Shanghai/Shenzhen-Hong Kong Stock Connect Schemes. The rally was also propelled by a few large-cap stocks such as Tencent (700 HK) and Ping An Insurance (2318 HK).

Tencent was (and is still) held by the Fund albeit not in as large a size as in the benchmark index. Securing longer term value appreciation and maintaining sustainable growth with lower-than-market volatility is always our goal and priority. Accordingly, we have rarely allowed ourselves to rely too heavily on a single stock and have tended to contain the weighting of our most convicted positions (top 5 holdings) to approximately 20% to 25% of NAV.

Our investment thesis has been that a balanced investment portfolio should comprise a blend of new-economy and old-economy stocks so as to capture the best of both worlds – the boom from the technology-driven sectors riding high on an accelerating globalization trend and the steady progress of those traditional sectors which are indispensable to our daily lives. In the half year, old-economy stocks that have generated superb investment returns to the Fund ranged from the pharmaceutical (Sino Biopharmaceutical (1177 HK)), materials (China Oriental (581 HK)), retail sector (Galaxy Entertainment (HK 27)) to financial (China Taiping Insurance (966 HK)) – all of them are low-beta investments with solid business models. Also catching our eyes are new-economy players such as IT counters, Tencent and Alibaba (BABA US), which have seen their business volume and profits soaring due to ever-stronger demand from consumers becoming highly dependent on the Internet or technology.

The Fund was almost fully invested with 0.7% cash as at 29 December 2017. (Note: 29 December 2017 was the last business day for the half-year period ended 31 December 2017.)

Outlook

While the Hang Seng Index has staged a strong rally in full-year 2017 and revisited above 32,000 in early January, in light of the daily turnover of HK\$150 billion (in comparison to the average daily turnover of HK\$200 billion in 2015), it is not big enough to suggest any overheating. Neither has the valuation of the local equity market hit a dangerous level given the P/E of 13X of the Hang Seng Index. Even after the global and local market corrections in early February 2018, we do not see any signs that we are in the last phase of a bull market, especially when the China macro political and economic outlook appears stable. The broader market may continue to be driven by a few giant stocks in a selected number of sectors but we believe maintaining a balanced investment portfolio with a healthy mix of value and growth stocks should yield decent medium to long term risk adjusted returns.

Following the completion of the 19th National Congress of the Chinese Communist Party, regulators in different disciplines have expressed that they will step up to reduce the reliance on financial leverage. For example, the China Insurance Regulatory Commission has recently announced a series of measures to tighten the industry regulations, including the prohibition of insurers with poor asset/liability management capabilities from owning sizeable equity stakes in listed companies, the tightening of scrutiny over mid-and short-term universal life insurance products to avoid the risk of asset/liability mismatch. Also, a number of high-profile, over-leveraged entities whose subsidiaries have been aggressive in overseas balance sheet expansion might fall into the radar screen of the China Banking Regulatory Commission (CBRC), and they may find themselves in an increasingly difficult position to refinance their already overextended debt loads. No doubt certain stakeholders will be affected with the introduction of any deleveraging measures but it will do good to the healthy development of China in the longer run.

Meanwhile, China Securities Regulatory Commission has said regulators will continue to optimize “stock connect” schemes between China and overseas markets and promote the opening-up of capital markets. CBRC has also pledged new steps toward liberalizing banking, including broadening the business scope of foreign banks. All these are suggesting the forming of a more internationalized China.

In the new year, our primary focus will be on (1) big corporations with the DNA to innovate and increase their competitive edge, be them new or old economy stocks; (2) software technology, for example, Internet/mobile service operators; (3) hardware technology such as REM (recognition memory) and manufacturers of OLED and telecoms equipment; (4) manufacturers of electric vehicles; and (5) pharmaceutical and biotech sectors. Consistent and sustainable investment results from a combination of intelligence, vision, discipline and patience and the last two aspects – discipline and patience are often the most difficult to attain. We believe market volatility will increase sharply in 2018 but so long as we remain steadfast on our long-held value-investing with

a growth and catalytic approach, good investment opportunities abound.

Last but not least, we announce with pleasure that the Fund has been approved by the Immigration Department of Hong Kong as an acceptable investment product for entrants of the Capital Investment Entrant Scheme ("CIES") and is now on the List of the Eligible Collective Investment Schemes under CIES. While the CIES has been suspended with effect from 15 January 2015, the government said it will continue to process applications received before that specific date. As a result, the Fund can now be a choice of investments amongst permissible assets for CIES entrants.

Fund performance

As at 29 December 2017, the Fund was up 10.26% (Class A) and for reference purposes, the MSCI China Index was up 23.48% and Hang Seng Index rose 18.10% with dividends reinvested, over the period 1 Jul 2017 to 29 December 2017.

VL Asset Management Limited

22 February 2018

**STATEMENT OF NET ASSETS
AS AT 31 DECEMBER 2017**

	(Unaudited) 31.12.2017 HK\$	(Unaudited) 31.12.2016 HK\$
ASSETS		
Cash and bank balances	4,060,757	8,074,934
Amounts due from brokers	2,019,129	69,576
Financial assets at fair value through profit or loss	313,533,025	237,093,988
Dividend receivable	51,208	80,000
Other receivables and prepayments	460,682	645,764
TOTAL ASSETS	320,124,801	245,964,262
LIABILITIES		
Management fee payable	467,298	373,630
Trustee fee payable	55,114	54,351
Performance fee payable	3,139,875	-
Amounts due to brokers	635,801	-
Accruals and other payables	141,668	134,842
LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)	4,439,756	562,823
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	315,685,045	245,401,439
TOTAL LIABILITIES (INCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS)	320,124,801	245,964,262
UNITS IN ISSUE		
- Class A	526,718.9612	547,270,1901
- Class B	2,282,104.8000	2,282,104.8000
NET ASSET VALUE PER UNIT (Note 1)	HK\$	HK\$
- Class A	110.0973	86.0002
- Class B	112.9197	86.9093

**STATEMENT OF PROFIT OR LOSS
FOR THE PERIOD ENDED 31 DECEMBER 2017**

	(Unaudited) From 1.7.2017 to 31.12.2017 HK\$	(Unaudited) From 1.7.2016 to 31.12.2016 HK\$
INCOME		
Dividend income	3,544,984	3,298,609
Net gains on financial assets at fair value through profit or loss	34,507,496	3,795,360
Net foreign exchange differences	(100)	5,066
Interest income	299	399
TOTAL INCOME	38,052,679	7,099,434
EXPENSES		
Management fees	1,384,604	1,139,743
Trustee fees	360,039	338,882
Performance fees	3,139,875	-
Custodian fees	105,361	64,948
Establishment costs	93,047	92,541
Auditors' remuneration	102,589	101,211
Brokerage commission	222,178	139,970
Transaction costs	227,058	200,344
Legal and professional fees	39,920	19,451
Bank charges	1,200	1,200
Other operating expenses	31,200	-
TOTAL EXPENSES	5,707,071	2,098,290
PROFIT BEFORE TAX	32,345,608	5,001,144
Withholding tax	(144,242)	(34,841)
PROFIT AFTER TAX	32,201,366	4,966,303
Other comprehensive income for the period	-	-
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	32,201,366	4,966,303

EXPLANATORY NOTES

1. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The published net asset value per unit issued is calculated in accordance with the Explanatory Memorandum while the net asset value per unit as reported in the statement of net assets included the following adjustment:

- (a) The last business day for the period ended 31 December 2016 and 31 December 2017 are 30 December 2016 and 29 December 2017 respectively. The net asset value per unit as reported in the statement of net assets includes the fees and expenses accrued up to the last day of the relevant reporting period end.

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:

	31.12.2017 HK\$	31.12.2016 HK\$
Published net assets attributable to unitholders	315,704,442	245,409,892
Adjustment on fees and expenses accrued up to the last day of the reporting period end	(19,397)	(8,453)
Net assets attributable to unitholders as per statement of net assets	315,685,045	245,401,439

	Unit Price as at 31.12.2017 (per statement of net assets) HK\$	Published unit price as at 29.12.2017 HK\$	Unit Price as at 31.12.2016 (per statement of net assets) HK\$	Published unit price as at 31.12.2016 HK\$
- Class A units	110.0973	110.1069	86.0002	86.0046
- Class B units	112.9197	112.9260	86.9093	86.9119

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 2017

	Holdings	Fair Value as at 29.12.2017 HK\$	% of NAV
Listed / Quoted Investments			
CHINA (16.0%)			
Angel Yeast Ord Shs A	74,906	2,942,200	0.9
Beijing Jingyuntong Technology Ord Shs A	380,000	2,458,750	0.8
China National Accord Medicines Ord Shs B	72,016	2,758,213	0.9
Chongqing Changan Automobile Ord Shs B	515,968	4,437,325	1.4
Gree Electric Appliances Inc of Zhuhai Ord Shs A	50,200	2,633,464	0.8
Hangzhou HikVision Digital Technology Ord Shs A	50,000	2,340,868	0.7
Han's Laser Technology Ord Shs A	40,000	2,372,079	0.8
Huadong Medicine Ord Shs A	49,000	3,169,319	1.0
Huayu Automotive Systems Ord Shs A	176,200	6,279,982	2.0
Inner Mongolia Yili Industrial Group Ord Shs A	68,000	2,627,678	0.8
Jiangsu Yuyue Medical Equipment & Supply Ord Shs A	178,000	4,188,113	1.3
Jiangsu Kangde Xin Composite Material Ord Shs A	130,000	3,464,484	1.1
Lao Feng Xiang Ord Shs B	130,000	3,762,154	1.2
Midea Group Ord Shs A	50,000	3,327,033	1.1
Shandong Dong E E Jiao Ord Shs A	23,800	1,721,950	0.6
Zhengzhou Yutong Bus Ord Shs A	66,000	1,907,051	0.6
		<u>50,390,663</u>	<u>16.0</u>

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2017**

	Holdings	Fair Value as at 29.12.2017 HK\$	% of NAV
Listed / Quoted Investments			
HONG KONG (74.3%)			
AIA Group Ord Shs	49,000	3,265,850	1.0
BAIC Motor Ord Shs H	388,000	3,949,840	1.3
Beijing Tong Ren Tang Chinese Medicine Ord Shs	328,000	3,483,360	1.1
Beijing Urban Construction Design & Development Group Ord Shs H	1,178,000	5,348,120	1.7
CGN Power Ord Shs H	2,200,000	4,664,000	1.5
Chanhigh Holdings Ord Shs	412,000	605,640	0.2
China BlueChemical Ord Shs H	1,206,000	2,978,820	0.9
China CITIC Bank Ord Shs H	480,000	2,352,000	0.8
China Construction Bank Ord Shs H	1,680,000	12,096,000	3.8
China Life Insurance Ord Shs H	280,000	6,874,000	2.2
China Merchants Port Holdings Ord Shs	3,956	80,900	0.0
China Mobile Ord Shs	118,000	9,351,500	3.0
China Overseas Property Holdings Ord Shs	1,480,000	3,137,600	1.0
China Pacific Insurance (Group) Ord Shs H	80,000	3,004,000	1.0
CSPC Pharmaceutical Group Ord Shs	210,000	3,313,800	1.1
China Resources Beer Holdings Ord Shs	130,000	3,646,500	1.2
China Resources Land Ord Shs	150,000	3,450,000	1.1
China Taiping Insurance Hldgs Ord Shs	218,000	6,387,400	2.0

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2017**

	Holdings	Fair Value as at 29.12.2017 HK\$	% of NAV
Listed / Quoted Investments			
China Yongda Automobiles Services Holdings Ord Shs	107,000	961,930	0.3
Dynagreen Environmental Protection Group Ord Shs H	800,000	3,600,000	1.1
Galaxy Entertainment Group Ord Shs	128,000	8,025,600	2.5
Greatview Aseptic Packaging Company Ord Shs	951,000	5,420,700	1.7
Haitian International Ord Shs	186,000	4,371,000	1.4
Hengan International Group Ord Shs	45,000	3,903,750	1.2
Hong Kong Exchanges and Clearing Ord Shs	22,911	5,494,058	1.7
Huaneng Power International Ord Shs H	800,000	3,920,000	1.2
Huaneng Renewables Corporation Ord Shs H	2,180,000	5,777,000	1.8
IGG Inc Ord Shs	1,038,000	8,760,720	2.8
Joy City Property Ord Shs	3,100,000	3,906,000	1.2
Kingboard Chemical Holdings Ord Shs	83,000	3,506,750	1.1
Luye Pharma Group Ord Shs	807,500	4,982,275	1.6
MicroPort Scientific Ord Shs	198,000	1,494,900	0.5
MMG Ord Shs	980,000	3,802,400	1.2
Natural Beauty Bio-Technology Ord Shs	10,891,000	6,643,510	2.1
NetDragon Websoft Ord Shs	136,000	2,951,200	0.9
New China Life Insurance Company Ord Shs H	118,000	6,301,200	2.0
Nine Dragons Paper Holdings Ord Shs	173,000	2,165,960	0.7

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2017**

	Holdings	Fair Value as at 29.12.2017 HK\$	% of NAV
Listed / Quoted Investments			
O-Net Technologies (Group) Ord Shs	833,000	4,165,000	1.3
Panda Green Energy Group Ord Shs	5,400,000	5,292,000	1.7
Petrochina Ord Shs H	1,300,000	7,085,000	2.2
Plover Bay Technologies Ord Shs	1,404,000	2,190,240	0.7
Precision Tsugami (China) Corporation Ord Shs	455,000	3,913,000	1.2
Sino Biopharmaceutical Ord Shs	528,000	7,318,080	2.3
Sisram Medical Ord Shs	308,000	2,017,400	0.6
Tang Palace (China) Holdings Ord Shs	533,500	1,595,165	0.5
Tencent Holdings Ord Shs	41,700	16,930,200	5.4
Transport International Holdings Ord Shs	266,800	6,710,020	2.1
TravelSky Technology Ord Shs H	106,000	2,485,700	0.8
United Company Rusal Ord Shs	680,000	3,726,400	1.2
WH Group Ord Shs	430,000	3,792,600	1.2
WuXi Biologics (Cayman) Inc Ord Shs	48,000	2,097,600	0.7
ZTE Ord Shs H	50,400	1,479,240	0.5
		<u>234,775,928</u>	<u>74.3</u>
UNITED STATES (9.0%)			
21Vianet Group ADR Representing Six Ord Shs	46,747	2,916,174	0.9
AirMedia Group ADR Representing 2 Ord Shs	212,100	1,906,757	0.6

SCHEDULE OF INVESTMENTS (UNAUDITED)**AS AT 31 DECEMBER 2017**

	Holdings	Fair Value as at 29.12.2017 HK\$	% of NAV
Listed / Quoted Investments			
Alibaba Group Holding ADR Representing 1 Ord Shs	13,600	18,331,944	5.8
Baidu ADR Reptg 1/10 Ord Shs Class A	2,000	3,661,779	1.2
Taiwan Semiconductor Manufacturing ADR Representing Five Ord Shs	5,000	1,549,780	0.5
		<u>28,366,434</u>	<u>9.0</u>
TOTAL INVESTMENTS		313,533,025	99.3
OTHER NET ASSETS		<u>2,171,417</u>	<u>0.7</u>
PUBLISHED NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>315,704,442</u>	<u>100.0</u>
TOTAL INVESTMENTS, AT COST		<u>276,720,170</u>	

INVESTMENT PORTFOLIO MOVEMENTS (UNAUDITED)
AS AT 31 DECEMBER 2017

	% of holdings 31.12.2017	% of holdings 31.12.2016
Listed / Quoted investments		
China	16.0	6.8
Hong Kong	74.3	80.5
United States	9.0	9.3
	<u>99.3</u>	<u>96.6</u>
Other net assets	<u>0.7</u>	<u>3.4</u>
Net assets attributable to unitholders	<u><u>100.0</u></u>	<u><u>100.0</u></u>

