

**CHINA CONVERGENCE FUND**  
A Sub-Fund of Value Partners Intelligent Funds

# 2017 SEMI-ANNUAL REPORT

For the six months ended 30 June 2017

**Value Partners 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.*

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## CHINA CONVERGENCE FUND

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(A Cayman Islands unit trust)

### GENERAL INFORMATION

#### Manager

Value Partners Limited  
9th Floor, Nexus 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 and Registrar'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 Hong Kong law:*  
Deacons  
5/F, Alexandra House  
18 Charter Road  
Central, Hong Kong

#### Auditor

KPMG  
P.O. Box 493  
Century Yard  
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Grand Cayman KY1-1106  
Cayman Islands

#### Information available from:

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

## GENERAL INFORMATION (CONTINUED)

### Recent awards and achievements

<b>Corporate Awards</b>	
<b>2017</b>	<ul style="list-style-type: none"><li>• <b>The Asset Triple A, Asset Servicing, Investor and Fund Management Awards 2017</b> <b>Fund Manager of the Year - Long-only Fixed Income (Highly Commended)</b> <b>Mr. Gordon Ip, Value Partners Greater China High Yield Income Fund</b> – <i>The Asset</i></li><li>• <b>Asset Management Awards for Excellence 2017</b> <b>Best Fund Provider - Greater China Equity</b> – <i>Asian Private Banker</i></li></ul>

## **CHINA CONVERGENCE FUND**

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### **MANAGER'S REPORT**

Hong Kong and China (H shares) markets extended their solid performance in the second quarter underpinned by strong corporate earnings results and robust macro data. During the period, China Convergence Fund returned 7.1% while year-to-date, the Fund gained 20.5%. For reference, the MSCI China Index was up 10.6% and 24.9% respectively over the corresponding periods.

#### **China buoyed by signs of stabilising growth**

A series of encouraging macro data signalled further stabilization in China's economy. The official manufacturing Purchasing Managers' Index stayed in expansionary territory in June for the 11th consecutive month while export surprised on the upside on the back of global trade recovery, rising 8.7% in May in USD terms. Meanwhile, China's retail sales grew 10.7% from a year earlier in May, reflecting the continuous progress in China's shift towards a consumption-driven economy.

Robust fundamentals in the first half of 2017 highlighted the strength in China's economy, providing a window of opportunity for the policy makers to tackle deep-seated structural issues. In fact, such structural issues, including climbing debt levels and shadow banking, were cited as major reasons in Moody's downgrade of China and Hong Kong's sovereign credit ratings in late May. In light of the government's policy bias tilts towards tightening to rein in leverage and financial risks, we expect a modest moderation in growth later this year. However, we believe that a sharp deceleration in growth is unlikely given a managed pace of tightening and the government's policy priority to maintain growth at 6.5% this year.

#### **Earnings and southbound flow as catalysts**

The Hong Kong and China markets turned in a strong rally year-to-date on the back of recovering corporate earnings results. The recovery trend in earnings is evident – as compared to an earning contraction of 13% in the fourth quarter of 2016, earnings growth of MSCI China Index companies picked up to 7% year-on-year during the first quarter of 2017<sup>1</sup>. Meanwhile, with recovering profitability and margin expansion, consensus earnings-per-share (EPS) growth of the MSCI China Index<sup>2</sup> is estimated to reach 15% for the whole year of 2017, providing impetus for market performance during the year.

## **MANAGER'S REPORT (CONTINUED)**

From the perspective of capital flow, southbound investment's share in the daily turnover of Hong Kong's stockmarket has been increasing steadily since the fourth quarter last year. Now southbound turnover has exceeded 10% of the average daily turnover in Hong Kong. With increasing demand for overseas asset allocation from China's insurance companies, social security funds and mutual funds, southbound capitals are expected to play a larger role in Hong Kong's stockmarket going forward. Over the long haul, this will not only benefit H-share investors as China continues to open up its capital market, but the heightened liquidity will also reinforce Hong Kong's position as an Asian financial centre.

### **Value Partners Limited**

23 August 2017

*1.Source: Bloomberg, CICC Research, Factset, MSCI. Data as of May 2017.*

*2.Source: Bloomberg, Deutsche Bank Research. Data as of May 2017.*

*The views expressed are the views of Value Partners 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.*

## CHINA CONVERGENCE FUND

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### MANAGER'S REPORT (CONTINUED)

#### 5 biggest holdings of securities as at 30 June 2017

Stock	Industry	Valuation (2017 Estimates)	Remarks
Alibaba Group (Code: BABA US)  Market cap: US\$360.9 billion	Internet	Price: USD140.90 P/E: 34.0x P/B: 7.2x Yield: 0%	Alibaba, founded by Jack Ma in 1999 in China, is one of the world's largest e-commerce company. Alibab's online marketplace - "Taobao" - contributes the vast majority of the company's revenue and is likely to continue delivering solid growth in view of its monopoly position and the trend of merchants shifting marketing budgets online from offline. Meanwhile, the company's cloud computing company ("AliCloud") and fintech business ("Ant Financial") are underpinning future growth potential. Ant Financial, 33% owned by Alibaba, is a critical component to Alibaba's fintech blockchain. Looking forward, re-rating of Alibaba's stock is possible with 1) improved disclosure on solid operational matrix; 2) solid quarterly earnings which could ease concerns on macro slowdown; 3) spin-off of high value assets (e.g. AliCloud and Ant Financial) to unlock hidden values.
Ping An Insurance (Code: 2318 HK)  Market cap: US\$128.5 billion	Insurance	Price: HKD51.45 P/E: 11.9x P/EV*: 1.1x Yield: 1.7%	Ping An Insurance ("Ping An") is a leading provider of insurance service in China. It is one of the first Chinese non-state-owned financial conglomerates that provide insurance (both life and non-life), banking, securities, trust and asset management services to customers in the country. In the current tough operating environment, Ping An is well-positioned amongst peers given its superior agency force and multi-product platform.
Shenzhen International Holdings (Code: 152 HK)  Market cap: US\$3.7 billion	Transportation	Price: HKD14.32 P/E: 12.1x P/B: 1.3x Yield: 3.9%	Shenzhen International Holdings invests in, constructs, and operates logistic infrastructure facilities primarily in China. It operates through two segments: the toll roads segment which develops and operates toll highways; and logistic business, which mainly constructs and manages logistic parks and urban integrated logistics hubs. At the end of 2016, the firm made a breakthrough in the Qianhai Start-up Project as new land use right agreements were entered into with the Qianhai Authority, which ascertain the firm's ownership of the site in the project.



## MANAGER'S REPORT (CONTINUED)

### 5 biggest holdings of securities as at 30 June 2017 (Continued)

Stock	Industry	Valuation (2017 Estimates)	Remarks
Taiwan Semiconductor Manufacturing (Code: 2330 TT)  Market cap: US\$178.0 billion	Semiconductors and semiconductor equipment	Price: TWD208.50 P/E: 15.5x P/B: 3.5x Yield: 3.5%	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.
Tencent Holdings (Code: 700 HK)  Market cap: US\$339.0 billion	Internet	Price: HKD279.20 P/E: 37.6x P/B: 9.7x Yield: 0.3%	Tencent is a leading provider of online games, premium messaging services, internet value added services, and advertising and ecommerce services in China. As at end of the first quarter 2017, the number of Tencent's Weixin and WeChat monthly active user reached 938 million, representing a year-on-year growth of 23%. Leveraging its large active user base, it offers good long-term monetization potential.

\*EV = Embedded value

Note: The above investments made up 23.9% of China Convergence Fund as at 30 June 2017. The stock prices are based on the closing of 30 June 2017.

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

## CHINA CONVERGENCE FUND

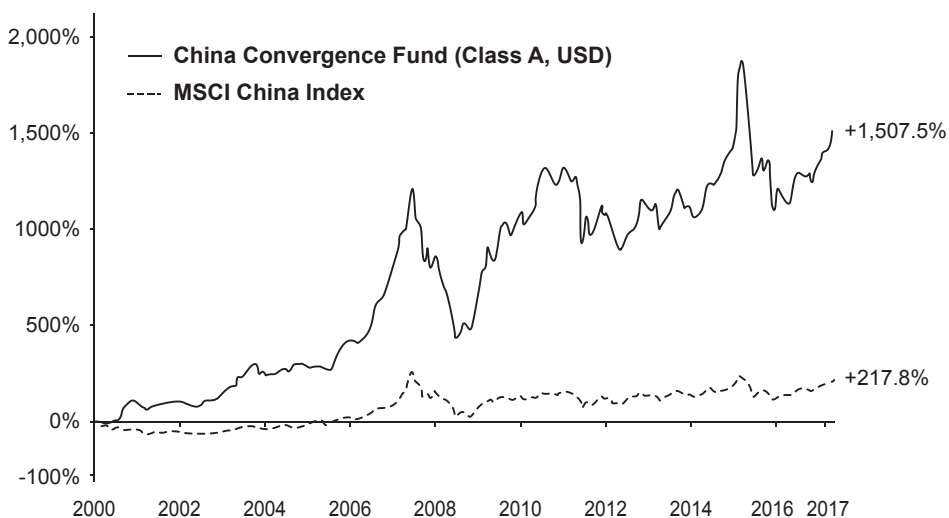
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### MANAGER'S REPORT (CONTINUED)

China Convergence Fund – NAV as at 30 June 2017

Classes	NAV per unit
Class A USD	USD160.75
Class A AUD	AUD10.69
Class A CAD	CAD10.89
Class A NZD	NZD11.63
Class Z	USD14.26

Since launch return compared to indices  
From 14 July 2000 to 30 June 2017



All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in US\$ terms on NAV-to-NAV basis with dividends reinvested) as at 30 June 2017. Performance data is net of all fees.

**STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

AS AT 30 JUNE 2017

	<b>30.06.2017</b>	<b>31.12.2016</b>
	<i>US\$</i>	<i>US\$</i>
<b>Assets</b>		
Financial assets at fair value through profit or loss	298,292,568	344,740,354
Interest, dividends and other receivables	1,341,164	118,081
Amounts due from unitholders	422,058	73,875
Amounts due from brokers	16,063,850	197,645
Cash held with bank	18,005,243	597,983
<b>Total assets</b>	<b>334,124,883</b>	<b>345,727,938</b>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	11,677,575	27,701,818
Bank overdraft	7,420,723	27,188,315
Amounts due to unitholders	836,980	528,610
Amounts due to brokers	1,026,123	2,050
Management fees payable	313,834	305,143
Performance fees payable	5,038,786	200
Trustee fees payable	38,047	36,952
Tax provision	158,040	122,040
Accrued expenses and other payables	255,429	120,678
<b>Total liabilities</b>	<b>26,765,537</b>	<b>56,005,806</b>
<b>Net assets attributable to unitholders</b>	<b>307,359,346</b>	<b>289,722,132</b>
<b>Net asset value per unit</b>		
- Class A USD with 1,861,646 (31.12.2016: 2,120,855) units outstanding	USD160.75	USD133.43
- Class A AUD Hedged with 18,819 (31.12.2016: 21,928) units outstanding	AUD10.69	AUD8.80
- Class A CAD Hedged with 6,543 (31.12.2016: 1,810) units outstanding	CAD10.89	CAD10.17
- Class A NZD Hedged with 4,103 (31.12.2016: 1,506) units outstanding	NZD11.63	NZD10.26
- Class Z with 550,488 (31.12.2016: 555,731) units outstanding	USD14.26	USD11.85

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### INVESTMENT PORTFOLIO (UNAUDITED)

AS AT 30 JUNE 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>China</i>			
Anhui Gujing Distillery Co Ltd B Shrs	1,006,526	4,347,017	1.41
Beijing Yanjing Brewery Co Ltd A Shrs	939,038	930,454	0.30
Beijing Yanjing Brewery Co Ltd A Shrs (SZHK)	5,533,200	5,482,616	1.78
China CYTS Tours Holding Co Ltd A Shrs (SHHK)	1,004,576	3,119,488	1.02
China National Accord Medicines Corp Ltd B Shrs	752,554	4,383,033	1.43
China Pacific Insurance Group Co Ltd A Shrs (SHHK)	1,023,840	5,113,161	1.66
China South Publishing & Media Group Co Ltd A Shrs	2,304,600	6,334,082	2.06
China South Publishing & Media Group Co Ltd A Shrs (SHHK)	1,806,980	4,966,397	1.62
Gree Electric Appliances Inc of Zhuhai A Shrs (SZHK)	597,014	3,624,162	1.18
Huangshan Tourism Development Co Ltd B Shrs	2,315,006	3,697,065	1.20
Inner Mongolia Yili Industrial Group Co Ltd A Shrs (SHHK)	3,735,026	11,890,182	3.87
Lao Feng Xiang Co Ltd B Shrs	424,930	1,707,369	0.56
Luxshare Precision Industry Co Ltd A Shrs	1,132,473	4,882,558	1.59
Luxshare Precision Industry Co Ltd A Shrs (SZHK)	387,307	1,669,840	0.54
Midea Group Co Ltd A Shrs (SZHK)	968,507	6,146,349	2.00
Poly Real Estate Group Co Ltd A Shrs (SHHK)	2,075,778	3,051,534	0.99
Tasly Pharmaceutical Group Co Ltd A Shrs (SHHK)	509,953	3,123,481	1.02
Tianjin ZhongXin Pharmaceutical Group Corp Ltd A Shrs	1,122,732	2,998,036	0.98
Tianjin ZhongXin Pharmaceutical Group Corp Ltd A Shrs (SHHK)	856,235	2,286,408	0.74
Wuliangye Yibin Co Ltd A Shrs (SZHK)	1,108,991	9,101,510	2.96
Wuxi Little Swan Co Ltd B Shrs	541,900	2,421,605	0.79
		<hr/>	
		91,276,347	29.70
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**INVESTMENT PORTFOLIO (UNAUDITED) (CONTINUED)**

AS AT 30 JUNE 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed Equity Securities</b>			
<i><b>Hong Kong - H shares</b></i>			
China International Capital Corp Ltd H Shrs	3,556,800	5,249,519	1.71
China Pacific Insurance Group Co Ltd H Shrs	779,800	3,186,996	1.04
China Petroleum & Chemical Corp H Shrs	9,014,000	7,033,030	2.29
CITIC Securities Co Ltd H Shrs	1,818,500	3,760,317	1.22
Guangshen Railway Co Ltd H Shrs	5,558,000	2,755,733	0.90
Huaneng Renewables Corp Ltd H Shrs	26,176,000	8,082,169	2.63
Huatai Securities Co Ltd H Shrs	4,190,400	8,052,938	2.62
Industrial & Commercial Bank of China Ltd H Shrs	6,875,000	4,641,848	1.51
Livzon Pharmaceutical Group Inc H Shrs	896,400	6,316,437	2.05
PetroChina Co Ltd H Shrs	17,176,000	10,518,591	3.42
PICC Property & Casualty Co Ltd H Shrs	3,722,000	6,218,156	2.02
Ping An Insurance Group Co of China Ltd H Shrs	2,043,500	13,470,001	4.38
Shanghai Jin Jiang International Hotels Group Co Ltd H Shrs	16,474,000	5,149,873	1.68
Wenzhou Kangning Hospital Co Ltd H Shrs	28,800	135,046	0.04
		84,570,654	27.51
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### INVESTMENT PORTFOLIO (UNAUDITED) (CONTINUED)

AS AT 30 JUNE 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>			
<b>Hong Kong – Red Chips</b>			
Beijing Tong Ren Tang Chinese Medicine Co Ltd	2,230,000	3,262,711	1.06
China Resources Pharmaceutical Group Ltd	5,755,000	7,188,819	2.34
China Taiping Insurance Holdings Co Ltd	3,632,800	9,206,094	2.99
CSPC Pharmaceutical Group Ltd	4,076,000	5,953,147	1.94
Shenzhen International Holdings Ltd	7,180,489	13,173,606	4.29
		<u>38,784,377</u>	<u>12.62</u>
<b>Hong Kong – Others</b>			
Haitong International Securities Group Ltd	14,180,000	8,374,999	2.73
Real Gold Mining Ltd	3,046,000	156,098	0.05
Techtronic Industries Co Ltd	1,960,500	9,017,142	2.93
Tencent Holdings Ltd	452,800	16,196,809	5.27
Tenwow International Holdings Ltd	3,853,000	765,135	0.25
		<u>34,510,183</u>	<u>11.23</u>
<b>Total Hong Kong</b>		<u>157,865,214</u>	<u>51.36</u>
<b>Singapore</b>			
Tianjin ZhongXin Pharmaceutical Group Corp Ltd	610,200	558,333	0.18
<b>Taiwan</b>			
Largan Precision Co Ltd	13,000	2,072,786	0.68
Pegatron Corp	1,522,000	4,768,446	1.55
Taiwan Semiconductor Manufacturing Co Ltd	1,768,000	12,118,746	3.94
		<u>18,959,978</u>	<u>6.17</u>
<b>United States</b>			
Alibaba Group Holding Ltd ADR	131,724	18,559,911	6.04
<b>Total listed equity securities</b>		<u>287,219,783</u>	<u>93.45</u>

**INVESTMENT PORTFOLIO (UNAUDITED) (CONTINUED)**

AS AT 30 JUNE 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Unlisted Equity Securities</b>			
<i><b>Hong Kong</b></i>			
Peace Mark Holdings Ltd	1,912,000	----- -	----- -
<b>Debt Securities</b>			
Petro-King Oilfd Service Conv 5% 03/30/2018	14,000,000	----- 1,793,641	----- 0.58
<b>Investment Funds</b>			
Value Partners China A Share Opportunity Fund	28,282	----- 4,196,716	----- 1.37
<b>Participation Notes</b>			
CICC Financial Trading Ltd (Emei Shan Tourism Co A Shrs) P Notes 03/15/2018	2,711,900	----- 5,079,389	----- 1.65
<b>Derivative Assets</b>			
Foreign currency forward contracts		----- 3,039	----- 0.00
<b>Total financial assets at fair value value through profit or loss</b>		----- 298,292,568	----- 97.05

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### INVESTMENT PORTFOLIO (UNAUDITED) (CONTINUED)

AS AT 30 JUNE 2017

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities Sold Short</b>			
<b><i>Hong Kong - Others</i></b>			
Bank of East Asia Ltd/The	(527,400)	(2,266,941)	(0.74)
BYD Electronic International Co Ltd	(769,000)	(1,525,123)	(0.50)
Sihuan Pharmaceutical Holdings Group Ltd	(15,778,000)	(6,610,089)	(2.15)
Sun Art Retail Group Ltd	(1,600,500)	(1,275,422)	(0.41)
		<u>(11,677,575)</u>	<u>(3.80)</u>
<b>Total listed equities securities sold short</b>		<u>(11,677,575)</u>	<u>(3.80)</u>
<b>Total financial liabilities at fair value value through profit or loss</b>		<u>(11,677,575)</u>	<u>(3.80)</u>
<b>Total investments</b>		<u>286,614,993</u>	<u>93.25</u>
<b>Total investments, at cost</b>		<u>264,441,083</u>	



**STATEMENTS OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	% of net assets	
	30.06.2017	31.12.2016
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities</b>		
China	29.70	25.62
Hong Kong	51.36	75.31
Singapore	0.18	0.35
Taiwan	6.17	-
United States	6.04	0.06
	93.45	101.34
<b>United equity securities</b>		
Hong Kong	-	-
<b>Debt securities</b>	0.58	0.62
<b>Investment funds</b>	1.37	9.91
<b>Participation notes</b>	1.65	7.12
<b>Derivatives assets</b>		
Foreign currency forwards contracts	0.00	-
	97.05	118.99
<b>Total financial assets at fair value through profit or loss</b>	97.05	118.99

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### STATEMENTS OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED) (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	% of net assets	
	30.06.2017	31.12.2016
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities sold short</b>		
Hong Kong	(3.80)	(9.56)
<b>Derivative liabilities</b>		
Foreign currency forwards contracts	-	(0.00)
<b>Total financial liabilities at fair value through profit or loss</b>	<u>(3.80)</u>	<u>(9.56)</u>
<b>Total investments</b>	<u>93.25</u>	<u>109.43</u>