VALUE PARTNERS TAIWAN FUND

JUNE 2010
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- **Please pay particular attention to the risk of investment in China and other markets in the Asian region and in companies with medium or small capitalization. The value of the fund can be extremely volatile and could go down substantially within a short period of time. It is possible that the entire value of your investment could be lost.**
- **The fund may also invest in derivatives which can involve material risks, e.g. counterparty default risk, insolvency or liquidity risk, and may expose the fund to significant losses.**
- **You should not make investment decision on the basis of this material alone. Please read the explanatory memorandum for details and risk factors.**
- **You should not invest unless the intermediary who sells it to you has advised you that the product is suitable for you and explained how it is consistent with your investment objectives.**

Fund facts

Investment objective

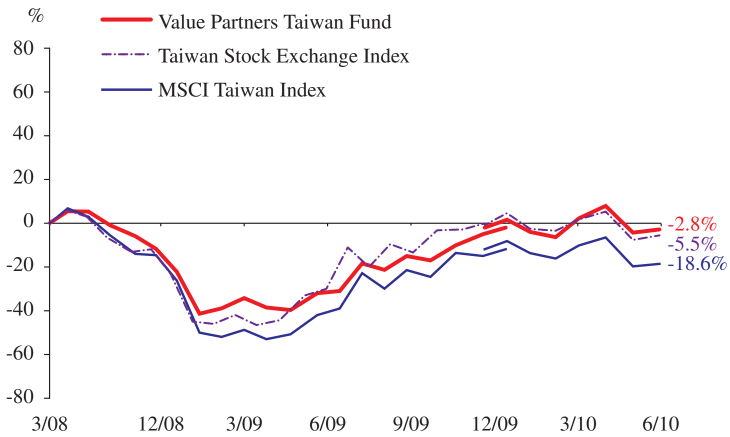
To achieve long term capital growth through primarily investing in equity and equity linked securities of companies that are listed on (a) the Taiwan Stock Exchange; or (b) the GRE Tai Securities Market; or (c) any stock exchange but which have their main operations or majority of assets in or derive the majority of their income from Taiwan. This includes companies incorporated and/or quoted outside Taiwan.

Manager:	Value Partners Hong Kong Limited (CE Ref: AFJ002)
Base Currency:	US$
Legal domicile:	Cayman Islands
Trustee:	Bank of Bermuda (Cayman) Limited
Custodian:	HSBC Institutional Trust Services (Asia) Limited
Legal advisers:	Russin & Vecchi Maples and Calder
Auditor:	PricewaterhouseCoopers
Launch date:	3 March 2008
Bloomberg code:	VTAIWAN KY
ISIN code:	KYG9318Y1061

Total assets under management by Value Partners Group: US$5.5 billion (as at 31 May 2010)

Fund size: US$40.53 million
NAV per unit: US$9.72

Performance since launch#



Performance update#

	Value Partners Taiwan Fund	Taiwan Stock Exchange Index	MSCI Taiwan Index
One month	+1.7%	+2.3%	+1.5%
Year-to-date	-4.3%	-9.6%	-11.4%
One year	+23.5%	+18.1%	+16.8%
Since launch	-2.8%	-5.5%	-18.6%
Annualized return	-1.2%	-2.4%	-8.4%
Annualized volatility	28.5%	34.5%	38.9%

Annual return since launch#

2008 (Since launch)	-35.7%
2009	+58.0%
2010 (Year-to-date)	-4.3%

Monthly performance since launch#

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2008			+4.5%	+1.0%	-0.2%	-5.9%	-5.0%	-6.2%	-11.9%	-25.3%	+6.2%	+4.2%	-35.7%
2009	-4.4%	-1.3%	+12.0%	+1.6%	+17.9%	-3.4%	+7.9%	-2.2%	+11.4%	+2.1%	+3.8%	+3.7%	+58.0%
2010	-5.4%	-0.1%	+6.5%	+4.6%	-10.6%	+1.7%							-4.3%

Unless specified, all information contained on this report is quoted as at 30 June 2010.

#Source: HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in USD, NAV to NAV, with dividends reinvested. Performance data is net of all fees.

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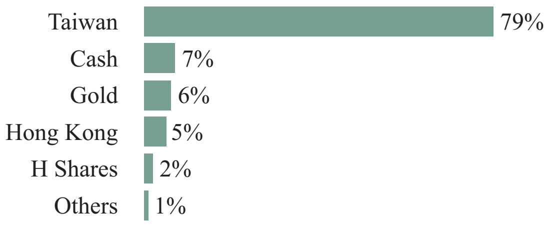
Top 5 security holdings

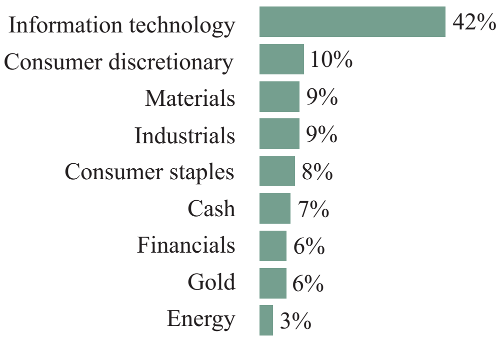
Name	Industry^	%
Hon Hai Precision Industry	Technology, hardware & equip	6.1
E-LIFE MALL	Retailing	4.4
Macronix International	Semiconductors & semiconductor equip	4.2
Taiwan Semiconductor Manufacturing	Semiconductors & semiconductor equip	4.0
Uni-President Enterprises	Food, beverage & tobacco	3.8

These stocks constitute 23% of the fund.

Geographical exposure by listing



Sector exposure^



Portfolio characteristics

As at 30 June 2010	2010[Δ]
Price/earnings ratio	12.9 times
Price/book ratio	2.1 times
Dividend yield	4.7%

[Δ] *The above profile is based on market consensus forecast as derived from I/B/E/S and Bloomberg. Note that the manager's internal estimates may differ significantly from I/B/E/S and Bloomberg estimates.*

^*Classification is based on Global Industry Classification Standard (GICS).*

Fee structure

Minimum subscription	US$10,000
Subscription fee	Up to 5%
Management fee	1.25% p.a.
Performance fee**	15% of profit (High-on-high principle)
Redemption fee	Nil
Dealing day	Every Wednesday

****Performance fee** will only be charged if the NAV at the end of the financial year exceeds the "high watermark", which is the all-time year-end high of the fund's NAV. If in any one year, the fund suffers a loss, no performance fee can be charged in subsequent years until the loss is recovered fully (the high-on-high principle).

NAV per unit is published daily in the South China Morning Post, Hong Kong Economic Journal and Hong Kong Economic Times.

A selection of awards & ratings

Corporate awards

2010 - Hedge Fund 100
Value Partners was ranked as Asia's largest hedge fund manager, and 79th worldwide
~ *Institutional Investor, May 2010*

Best Overall Fund Management Firm - Asia
Value Partners was recognized as one of the top three fund management companies
~ *Thomson Reuters Extel Asia Pacific Survey 2009*

Leading Buyside Individual - Asia
Mr. Eric Chow, Value Partners fund manager, was ranked No. 1 out of 25 individuals named
~ *Thomson Reuters Extel Asia Pacific Survey 2009*

The 3rd consecutive year to be ranked as the 2nd Largest Hedge Fund Manager in Asia
~ *Alpha Magazine, Jul/Aug 2009 edition*

Mr. Cheah Cheng Hye, Chairman and CIO of Value Partners, was recognized as one of The 25 Most Influential people in Asset Management in Asia
~ *AsianInvestor, May 2009*

2007 Achievement Awards -
Capital Markets Person of the Year:
Mr. Cheah Cheng Hye, Value Partners
~ *FinanceAsia*

Value Partners Investment Team

Chairman & Co-Chief Investment Officer: Cheah Cheng Hye
Co-Chief Investment Officer: Louis So Chun Ki, MCom
Deputy Chief Investment Officer: Renee Hung Yeuk Yan, BSc
Investment Director: Norman Ho Man Kei, CFA
Senior Fund Managers: Eric Chow Yik Cheung; Fawaz Habel; Ada Lau Hiu Yee, CFA; Lee Ho Tak, CFA; Alan Wang, CFA

Value Partners
Investing through discipline

Value Partners Taiwan Fund
Commentary / Second Quarter 2010

- **The Fund primarily invests in companies listed on the Taiwan Stock Exchange or Taiwan-related companies with strong business links to Taiwan's economy.**
- **Please pay particular attention to the risk of investment in China and other markets in the Asian region and in companies with medium or small capitalization. The value of the Fund can be extremely volatile and could go down substantially within a short period of time. It is possible that the entire value of your investment could be lost.**
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Performance

During the second quarter of 2010, Value Partners Taiwan Fund declined 4.9%, while the Taiwan Stock Exchange (TWSE) and the MSCI Taiwan indices declined by 7.4% and 9.3%, respectively.

Over the past one year ended 30 June 2010, the Fund gained 23.5%, compared to returns of 18.1% and 16.8% recorded by TWSE and MSCI Taiwan indices, respectively.

Since the Fund's launch on 3 March 2008, the Fund declined by 2.8%. This is compared to declines of 5.5% and 18.6% made by TWSE and MSCI Taiwan indices, respectively.

Review and Outlook

During the quarter, investors focused on the sovereign debt crisis in Europe and increased austerity measures in China. These issues led to widespread concerns over a weaker-than-expected outlook for demand of Taiwan's information technology (IT) products. Additionally, more than ten employees' suicides within days at Hon Hai's China plants led to another wave of salary increases for workers (Hon Hai is the world's biggest electronic manufacturing service provider). These conditions reiterated the increasingly challenging operating environments for manufacturers in China. As a result, Taiwan's stock market remained dampened.

Such prevailing weak sentiment has distracted investors from seeing the major breakthrough in China-Taiwan relations. On 29 June 2010, China and Taiwan signed a landmark trade deal – the Economic Cooperation Framework Agreement (ECFA) – the first formal agreement since 1949. ECFA removes US$13.8 billion of import tariffs imposed by Mainland China on goods and services from Taiwan, and US$2.9 billion of tariffs imposed by Taiwan on imports from the Mainland. There is also a pact on protecting intellectual property rights. This is an important deal for Taiwan, as about 41% of its total exports go to Mainland China. Industries included in the agreement are financials, petrochemical, auto parts, steel-makers and others. However, we expect that, over time, more and more industries in Taiwan will benefit from the closer ties with China.

The improvement in Cross-Straits relationships is also expected to bring multiplying benefits to Taiwan's domestic economy. For the first four months in 2010, visitor arrivals from the Mainland have already grown 70% year-on-year, resulting in their overtaking Japanese tourists, to become Taiwan's top visitor arrivals contributor, and accounting for over 30% of the aggregate visitor arrivals. For the same period, Taiwan's visitor arrivals grew by 23% year-on-year. In May 2010, Taiwan's Consumer Confidence Index hit a four-year record high in May, while retail sales also rose by 7% year-on-year.

Portfolio discussions

As always, Value Partners' Investment Team continues to focus on finding companies with the 3 Rs: the Right Business, run by the Right People at the Right Price. Our portfolio remains well-invested in companies from Taiwan, a program driven by bottom-up value-investing, inclusive of numerous company visits.

Having said that, in line with our view on the China and global markets, we are indeed acting slightly more cautiously than usual. Our cash level is slightly higher, at 7%, while we retain 6% of the portfolio in gold. Nevertheless, on the invested portion of the portfolio, we strive to add value by accurate stock picking. Two key investment themes of the portfolio are highlighted as follows, with examples:

* Gaining market share by Taiwan's IT products

As pointed out in our previous commentaries, Taiwanese IT products are gaining market share, globally. Despite concerns over a potentially weakening global demand and rising costs, our Investment Team continues to conduct thorough on-the-ground research to discover companies that are able to grow their businesses through the development of new markets, technological migration and productivity upgrades. One example is Macronix (Stock code: 2337 TT), a company which specializes in the production of memory semiconductors. Due to the high cyclicality in nature and intense competition within the memory space, investors generally ignore companies in this sector. However, after conducting thorough research, we decided to invest in Macronix late last year. In the year-to-date, the investment has proven fruitful, especially as two of its major competitors started to shrink their businesses in 2009. Currently, Macronix is still one of the top five holdings in our portfolio.

* Domestic consumption companies

Our Investment Team has continuously looked into "non-tech" companies in Taiwan. These non-tech companies are usually under-researched, with less research coverage by sell-side brokers. One of the names we have liked since the beginning of the year is President Chain Store Corporation (PCSC, Stock code: 2912 TT). The company operates Taiwan's 7-ELEVEN convenience stores, and commands over 50% market share. During our various visits with this company and its peers, we have been particularly impressed by PCSC's strategy and execution on distribution and marketing. Thus, we started to accumulate the stock since earlier this year, when most investors still overlooked their achievements made over the past few years, and have underestimated their superior growth prospects for the coming years. During the quarter ended June 2010, we increased the weightings in domestic consumption related stocks, from 12.8% in April, to 17.8% in June.

Update on Value Partners Taiwan Fund

We are pleased to cite the latest data from Morningstar, covering the period from the Fund's inception on 1 March 2008 to 30 June 2010, and looking at all funds (11 in total) in the categories of both Taiwan small/mid-cap and large-cap equity (offshore domiciled open-end funds). In these two categories and for this period, the data shows that, in the past year ended 30 June 2010, on the one-year, year-to-date and last three-month basis, the Fund achieved the highest cumulative total return of 23.5%, -4.3% and -4.9%, respectively. The data also shows that since the Fund's inception, the Fund outperformed all of its peers, in terms of annualized total return.

Value Partners
Investing through discipline

Value Partners: New CEO

We continue to strengthen the management of Value Partners Group Limited.

Recently, the group announced that Mr. Chan Sheung Lai, Jimmy, was appointed Chief Executive Officer (CEO) from 1 July 2010. Mr. Tse Wai Ming, Timothy, became Deputy CEO while retaining his existing title of Chief Financial Officer. These appointments follow the departure late last year of Mr. Franco Ngan, who was our CEO for several years. An accountant by training, Mr. Chan has more than 20 years of experience in business management, corporate finance and investment work. Previously, he was Chief Executive (Beijing and North China) of KaiLong REI Investment, which was involved in real estate investment in China, with funds raised from overseas institutions.

While the business and corporate affairs team gets a new CEO, the Investment Team gets an upgrade with Mr. So Chun Ki, Louis, who was promoted to Co-Chief Investment Officer (Co-CIO), from his previous position of Deputy CIO. Mr. Cheah Cheng Hye remains Executive Chairman of the group, while his other title, that of CIO, was modified to Co-CIO to accommodate Mr. So's promotion.

Value Partners is the only listed fund management company on the Hong Kong Stock Exchange. Its emphasis has always been on the performance of the funds under its management, and, indeed, the declared corporate objective is to create a "Temple of Value Investing" for the Asia-Pacific markets. Additionally, for many years, Value Partners has put much effort into building up a full infrastructure. Thus, there is a complete system of support services, such as dealing, compliance, client administration, accounts, IT and back office functions, and so on. The Group currently has more than 90 employees and has evolved into a full-fledged institution, although we have carefully maintained the investment culture of an entrepreneurial boutique, as can be seen from our performance results. The newly announced promotions are part of the efforts to be a strong institution.

Value Partners Investment Team
Value Partners Hong Kong Limited
20 July 2010

Notes: 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 30 June 2010. Performance data is net of all fees. Individual stock performance is not indicative of fund performance.

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Value Partners Taiwan Fund: 5 biggest holdings of securities as at 30 June 2010

Stock	Industry	Valuation (2010 Est.)	Remarks
Hon Hai Precision Industry (Code: 2317 TT) Market cap: US$30.4 billion	Technology, hardware and equipment	Price: TWD114.00 P/E: 11.3x P/B: 1.9x Yield: 1.8%	Hon Hai is the largest electronics manufacturing service provider in terms of revenue, with more than 680,000 employees globally. The company designs and manufactures PCs, printers, TVs, game consoles, handsets and MP3 units for many global giants such as Dell, Hewlett-Packard, Sony, Nokia, Cisco Systems and Apple. Hon Hai has aggressively moved its manufacturing sites from China’s coastal areas to lower-cost inland sites over the past two years. Through successful vertical integration, this manufacturer offers its customers one-stop shopping and it also enjoys better profitability than its peers.
E-Life Mall (Code: 6281 TT) Market cap: US$0.2 billion	Retailing	Price: TWD50.90 P/E: 12.1x P/B: 2.8x Yield: 7.5%	E-Life Mall operates more than 290 retail outlets throughout Taiwan, primarily selling consumer electronics and white goods products. It commands a market share of approximately 15% and is the market leader in Taiwan (in terms of number of outlets). Financially, the company has been enjoying a healthy cash position with zero debt. Its business generates positive cash flow and requires limited working capital. Compared to its Taiwanese peers, we are impressed by E-life’s track record and outstanding profitability.
Macronix International (Code: 2337 TT) Market cap: US$2.2 billion	Semiconductors and semiconductor equipment	Price: TWD21.35 P/E: 10.4x P/B: 1.6x Yield: 8.6%	Macronix is a leading memory semiconductor supplier, specializing in non-volatile memory products. Currently, it is the world’s leading producer for ROM and the forth-largest producer for NOR Flash. After the Company’s restructuring exercise in 2006, Macronix is one of the few exceptions in the industry that generated healthy returns to its shareholders. We expect the company will continue to excel among its peers, due to its continuous dedication to R&D investments and a well-disciplined CAPEX spending. In addition, the industry, after posting huge losses for a few years, has finally bottomed out. New products will be launched using ROM, which we believe can increase the demand for their products, while, currently, there is a supply shortage in NOR Flash.
Taiwan Semiconductor Manufacturing (Code: 2330 TT) Market cap: US$48.9 billion	Semiconductors and semiconductor equipment	Price: TWD60.60 P/E: 11.4x P/B: 2.9x Yield: 5.0%	TSMC is a world-class independent semiconductor foundry. It provides IC design houses with the integrated services of process design, wafer manufacturing and testing. As the global leader with more than 50% of the outsourcing market, the company has consistently outperformed its competitors, in terms of technology and profitability. Its highly cash-generative business and solid balance sheet support a generous dividend policy. We believe TSMC can further strengthen its leadership position, as the entire industry suffers from serious earnings compression in the current downturn.

Stock	Industry	Valuation (2010 Est.)	Remarks
Uni-President Enterprise Corp (Code: 1216 TT) Market cap: US$4.3 billion	Food, beverage and tobacco	Price: TWD35.60 P/E: 15.4x P/B: 2.0x Yield: 2.6%	Over the past 40 years, Uni-President has become the dominant food and beverage manufacturer and distributor in Taiwan, commanding more than 45% share of the instant noodle, ready-to-drink tea, and convenience-store markets. Since the 1990s, it has expanded in other Asian markets and is now one of the top soft drink and instant noodle brands in China. The 2009 calendar year was important for the company, as its management strengthened its China business by completing sales channel reforms and the consolidation of product lines. Also, most of its unsuccessful non-core investments were divested. We see huge potential in the group and expect it to become one of the biggest food conglomerates in the fast-growing Greater China market.

Note: The above investments make up 22.5% of Value Partners Taiwan Fund as at 30 June 2010. The stock prices are based on the closing of 30 June 2010.

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