Bin Yuan Capital All China Strategy – August 2023

Performance Attribution

August was a weak month for the market with sentiment depressed by the property sector and by macro data missing expectations. However, H1 earnings for our portfolio companies were robust with 93% of our holdings beating or meeting our and street estimates. As we highlight in the earnings section below, we expect our portfolio companies to grow solidly over the next few years and they are trading on extremely attractive valuations.

Our stock selections in Information Technology, Materials and Industrials contributed positively to performance while a robot vacuum cleaner company in the Consumer Discretionary sector lagged.

Friendess, a leader of laser control systems in China, made a positive contribution. The company is now expanding into laser cutting head and other laser-related products as new growth drivers. Friendess displayed its new products at the "LASER World of PHOTONICS CHINA" exhibition held in Shanghai in July. Through on-site product demonstrations and detailed communication with the company's product manager, we are confident that Friendess' intelligent welding robot demonstrates strong technological innovation. The company's welding robot system combines many new technologies such as motion control systems, 3D vision systems, CAD graphical programming, offline programming, and automated welding controls. These can greatly shorten the programming and debugging time of existing robots and elevate the flexibility of the robot welding system to a new level of automation. This will greatly improve customer production efficiency and save labor costs. Taking into account the relatively low penetration rate of laser cutting in overseas markets we expect robust overseas demand.

Ecovacs, a robot vacuum cleaner company, underperformed due to weak Q2 results. Revenue was in line with our expectations with sales in Q2 improving by 21% quarter on quarter, and up 8% year on year. Even with the weak macro environment, the shipment of robot vacuum cleaners showed signs of stabilization in Q2. However, earnings missed due to multiple factors. First, the company is still investing in new products, which include commercial robot vacuum cleaners, mowers and intelligent cooking machines. Total investment in R&D and in distribution for new products was RMB 150 million which accounted for half of the earnings shortfall. Second, Ecovacs controlled shipments of wet dry vacuum products to its offline distributors in order to manage their price system. Sales have resumed to normal growth in 3Q. Finally, their products are high ticket items with ASP ranging from RMB 2000 to 3000, and post Covid it is taking longer for consumer confidence to return. Reduced prices and increased selling expenses impacted margins but improved affordability which should help drive sales volumes going forward. Overseas, Ecovacs took market share from iRobot with sales in Europe up 101% and in the US by more than 40%.

Although frustrating to see share price volatility, we believe Ecovacs is on the right track to become a competitive intelligent solution provider to both households and commercial clients. They are investing in innovative products, offline and overseas distribution channels, and building the brand. Economies of scale will boost profitability in the next few quarters and the stock is trading below its long-term value. The company has also initiated a share buyback program to boost confidence.

Market Comment

Weak macro data and overall disappointing Q2 earnings results for the market reduced investor confidence. Sentiment has been weak but there are signs it is stabilizing following a number of government policies to support growth and restore confidence. More detailed policies came out after authorities from various departments vowed support for growth in capital markets, the housing market and residential consumption; among these were:

- ✓ Stamp duty cuts, slowing the pace of initial public offerings (IPOs), tightening of large shareholder selling rules, encouraging share buybacks and lowering margin requirements, all boosted sentiment in the equity market.
- ✓ Reduced rates and downpayment ratios for mortgages in large cities injected some vigor into the housing market and reduced the burden on some previous home buyers at the same time. A total of RMB 300 - 400 billion of mortgage interest is estimated to have been cut, reducing the financial burden on approximately 100 million households.
- ✓ There are also personal income tax deductions for childcare, parental care and children's education spending to boost household consumption.
- ✓ Pre-pandemic restrictions were also lifted on group tours for more countries such as the United States, Japan, South Korea and Australia.

Progress on stabilizing Sino-U.S. relations also continued, with the fourth senior American official, Commerce Secretary Gina Raimondo making her first visit to China. Both sides expressed their intention to find a way forward and to establish new channels for regular communications on commercial issues.

While global investors concerns focus on debt and macro issues in China, we believe the Chinese government has plenty of room to revive the economy.

- ✓ First, the central government balance sheet is very healthy compared with developed economies.
- ✓ Second, the Chinese banking system is adequately capitalized with annual profits amounting to 2.5 trillion RMB, which can be used as a big cushion to absorb potential losses and support the economy.
- ✓ Third, the low-leveraged Chinese SOEs are less vulnerable to the current macro situation and leave room for potential re-leveraging.

The recent default by Country Garden is at the tail of the process of government initiatives to control an over-developed and over-leveraged property sector. Non-property private companies, the technology sector in particular, are increasing R&D to move up the value chain, and a batch of high-end technology companies are taking foreign market share domestically as well as globally.

H1 Earnings

The Q2 earnings season came to a close at the end of August. **Our holdings posted much better earnings than the market - with 93% of our holdings beating or meeting our and street estimates:**

➢ **11% of the portfolio - Electronics and semiconductor companies**

Their businesses bottomed out in Q1 and saw sequential improvement in Q2. With industry inventories at historic lows, downstream manufacturers started to restock chips and components to prepare for a gradual recovery of demand for consumer electronics. We saw Q/Q earnings improvements. Electronic ceramic components manufacturer, **Chaozhou Three-Circle (CCTC)**'s, profit was up 29% in Q2 from Q1; domestic analog IC leader, **SG Micro**, and radio frequency (RF) products and solutions provider, **Maxscend**' profit doubled Q/Q; and the full signal chain IC designer, **Chipsea**'s sales rose by 56% Q/Q. A demand recovery, driven by new product launches from Apple, Huawei and other phone makers, is expected to continue bringing positive changes to the relevant sectors and companies.

➢ **9% of the portfolio - Hotel and theme park operators**

Travel demand in the country saw a strong recovery after the reopening despite overall macro weakness. Compared to pre-pandemic levels in 2019, branded hotel operator, **Huazhu Hotel Group**'s revenue per available room (RevPAR) recovered to 122% in Q2, and the theme park operator, **Haichang Ocean Park**'s foot traffic and revenue expanded to 124% and 126%. These two operators of hotel and theme parks are also expected to benefit from an ongoing trend of industry consolidation in the medium term.

➢ **70+% of the portfolio - Healthcare, Technology, Green and Consumption companies**

The weighted average growth of our portfolio companies in these sectors was 24% Y/Y for sales and 38% Y/Y for earnings in H1. For those reporting Q2 results, revenue was up 29% Y/Y and earnings grew 30% Y/Y, much higher than the market's 3% growth in sales and 12% decline in profits in Q2, after excluding financial and real estate companies.

	Revenue Growth (%)	**Profit Growth (%)**
Bin Yuan - H1 Result	24	38
Bin Yuan - for those reporting Q2 results	29	30
Market Q2 Results - excluding Financials and Property	3	-12

Healthcare companies' earnings grew by 47% in H1, and for those reporting Q2 results, 26% Y/Y.

✓ **iRay** posted Q2 sales growth of 31% Y/Y and core earnings growth of 27% Y/Y. Post-pandemic recovery of their medical businesses, upgraded products and a more comprehensive product offering are expected to bolster growth in H2. The trend of import substitution in the domestic market with product expansion in dental, industrial and non-detector products, and breakthroughs in overseas markets should continue to act as long-term growth drivers.

- ✓ **Kangji,** China's largest domestic MISIA (Minimally Invasive Surgical Instrument and Accessories) manufacturer, posted H1 earnings growth of 62% Y/Y, on recovering surgical volumes in hospitals and the good performance of new products. The company stands out for its quick response model and product expertise. Its brand has been recognized by surgeons from top-tier hospitals. The company is expected to increase market share from imported brands amid fast industry growth.

Technology companies' H1 earnings grew by 40%, and for those reporting Q2 results, 47% yoy.

- ✓ **Friendess**, the leading laser control system provider, posted Q2 revenue growth of 79% Y/Y and core earnings growth of 71% on rapid share expansion of high-power laser control systems and huge overseas demand for laser equipment. The company is expected to benefit from an increasing presence in overseas markets, rising penetration of the high-power market, and gradual expansion into new areas like welding robot systems (see comments in the Performance Attribution part, above).

- ✓ **Megmeet**, the power electronics and industrial control technology leader, posted Q2 revenue growth of 14% and earnings growth of 52% on strong overseas demand and the robust performance of its clean energy businesses. The company has a strong R&D team (many of them are from Emerson Engineering) and technology accumulation in the field of power electronics and industrial control technology. They can quickly respond to the changing needs of customers and provide high quality products and services. Leveraging its powerful technological platform, the company has been expanding its product portfolio and is expected to benefit from continuous improvement of electrification rates, the trend of Internet of things (IoT) in the smart era ahead.

Green companies' H1 earnings grew by 55%, and for those reporting Q2 results, 45% Y/Y.

- ✓ **Autowell,** the leading global manufacturer of photovoltaic (PV) cell stringers, posted Q2 revenue growth of 67%, net profit growth of 64% and order growth of 73%. This was their tenth consecutive quarter with profit growth over 50%, and the 12th consecutive quarter with order growth over 60%. As the industry leader with a 2022 market share of 70%, the company should fully benefit from policies for a clean energy transformation around the world, especially as it continuously invests in technological innovation and development of new products to strengthen competitiveness and maintain its leading position. Autowell has been committed to becoming a platform-based equipment company, and its products cover a wide range of fields such as photovoltaics, semiconductors, and lithium-ion batteries.

- ✓ **Sinofuse,** the circuit protection products and solutions provider, posted Q2 revenue growth of 65% and core earnings growth of 53% Y/Y, driven by strong demand from the rising penetration of EVs. Its products are widely used in EVs, solar/wind energy and energy storage industries and the company's competitiveness in terms of scale, product performance, cost, and customer stickiness have been further strengthened. Future growth drivers are increasing their overseas market share backed by increased capacity, upgrading to an 800V high-voltage platform, and launch of new products and services like pro-fuses and integrated circuit protection solutions.

Consumption companies' H1 earnings grew by 20%, and for those reporting Q2 results, 12% Y/Y.

- ✓ Growth was slower than in our other sectors due to the weak results from Ecovacs – but other portfolio companies' earnings remained robust.
- ✓ **Anjoy Foods**' Q2 earnings increased 50% Y/Y driven mainly by increasing their market share with the recovery of the restaurant and catering markets. High quality operations, new product launches, and sales channel expansion is expected to continue to drive market share expansion.
- ✓ Baijiu companies such as **Shanxi Fen Wine**, and **Kweichow Moutai** also beat estimates as leading players leveraged their strong brands and distribution capabilities amid industry consolidation in a weak macro economy. As demand for baijiu saw gradual recovery with major festivals and holidays, such as the Mid-Autumn Festival and the National Day holiday ahead, these leading Baijiu companies are expected to benefit.

The only two names that were below our expectation were Ecovacs (please see earlier comments, above) and Sunny Optical.

- ✓ **Sunny Optical** Their H1 was weak. Declining global demand for smartphone sales in the H1 led to deceasing sales of lenses and camera modules. They don't disclose quarterly results, so sequential improvements were missed by the market, but we observed some positive signs. First, since Q2, shipments of handsets lens and modules have recovered to positive Y/Y growth. Huawei's return to the high-end smartphone market may become a game changer in terms of smartphone module ASPs and margins in 2024 and is expected to act as a significant growth driver. Second, the company is generating increased revenue from the automotive business: 43% Y/Y revenue growth in its auto business, including 25% Y/Y shipment volume growth for auto lenses, and 100%+ Y/Y revenue growth for auto camera modules, driving the non-handset segment and contributing over 50% of H1 total gross profits. Third, the company has also been actively expanding into emerging industries such as AR/VR and robot vision, actively seeking new growth areas outside the fields of consumer electronics, automobiles. Despite the weakness of the VR market in the first half, we expect the new business to add revenue with its new large customers, the launch of cost-effective products, and the continuous improvement of the content ecosystem. Its robot vision products, an intelligent door lock recognition module based on self-developed algorithms, also achieved mass production in the first half.
- ✓ Sunny Optical is the leading global optical company that applies optical, mechanical, electronic and computing technologies to product development and large-scale production. The research and application of core optoelectronic technologies are the most advanced in the industry. The company has the potential to leave other peers far behind in the semiconductor optics field in the era of AR/VR. So, despite their weak H1, we remain very confident in Sunny Optical's long-term prospects.

We believe that we are in the middle of a painful transition from a property and exporting-driven economy to one focused on higher value-added industries. Our portfolio has about 60% exposure to the beneficiaries of import

substitution and is concentrated in the high tech, med tech, and green tech areas. Most, if not all, of the negative news and sentiment is reflected in stock prices over the last 18 months at the same time as the stock market has been driven by momentum trading, as investors chase the latest themes and not many market participants currently pay attention to fundamentals. The positive aspects in certain sectors have been overlooked or ignored.

We have visited our companies and reviewed our holdings. We have a great portfolio which has demonstrated robust earnings growth. Despite market conditions remaining poor, we are very confident that our portfolio companies will deliver strong investment returns - as the data that support the fundamental investment theses come through.

Next Blockbuster Drug? – GLP-1s

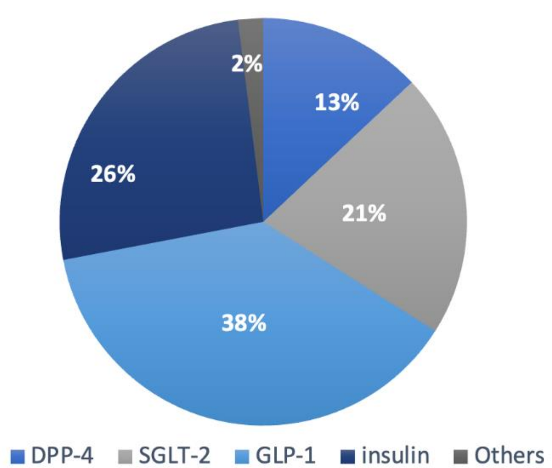
In 2021, 9.1% of adults globally, 464 million people, had impaired glucose tolerance (IGT). It is projected that by 2045, this proportion will rise to 10.0%, affecting 640 million adults. From 2011 to 2021, the number of diabetes patients in China increased by 56%, reaching 140 million. Alarmingly, 51.7% of them, or 72.8 million people, remain undiagnosed. In 2022, the global hypoglycemic drug market reached $60 billion, and is expected to reach $110 billion in 2030. The size of China's diabetes drug market is RMB 63.2 billion now and is expected to reach RMB 170 billion by 2030.

Traditionally, hyperglycemia is treated by chemical drugs or direct injection of insulin. Later, as Novo Nordisk (NVO.N) discovered that insulin secretion can be stimulated by activating the GLP-1 (glucagon-like peptide-1) target receptor, achieving more effective hypoglycemic effects, GLP-1RA (receptor agonist) target biopharmaceuticals began to be developed and successfully commercialized. In the first half results released by Novo Nordisk and Eli Lilly (LLY.N) this year, the sales growth of their two GLP-1 related drugs, Semaglutide and Tirzepatide, exceeded market expectations and drove their stock prices to new highs. Some industry insiders even predict that in the near term, either of them may surpass Keytruda (produced by Merck & Co. (MRK.N)) as the next generation of global best-selling drugs. Correspondingly, many companies with pipelines in the GPL-1 industry chain will benefit, including some Chinese companies.

The huge hypoglycemic market is increasingly occupied by GLP-1 related drugs

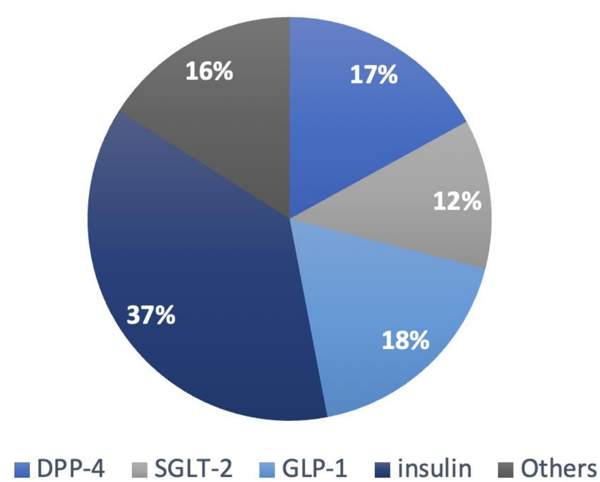
Among the different kinds of diabetes drugs, sales of GLP-1 drugs reached $23 billion in 2022, which accounted for 38% of the diabetes drug market and the portion continues to increase (Chart 1 & 3). The penetration of GLP-1 in China remains low (Chart 2), highlighting the growth potential in China. Considering China's price sensitivity and the late market entry of GLP-1, we expect a compound annual growth rate of 44% (Chart 4).

Chart 1: Global landscape of hypoglycemic drugs in 2022



Source: PDB Database, Bin Yuan Capital

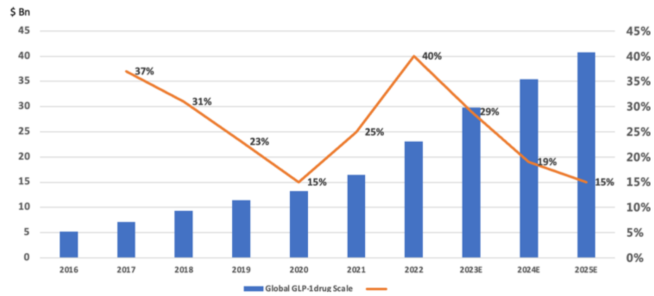
Chart 2: Chinese landscape of hypoglycemic drugs in 2022



Source: PDB Database, Bin Yuan Capital

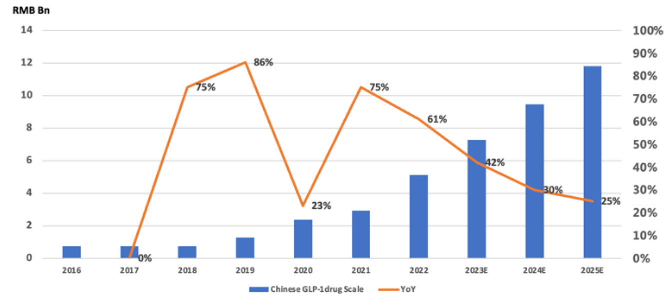
*Data from sample hospitals

Chart 3: Global GLP-1 drug Scale



Source: Zhejiang Peptides Bio Website, Menet, Bin Yuan Capital

Chart 4: Chinese GLP-1 drug Scale

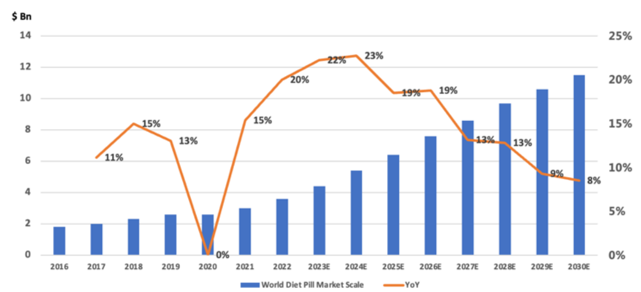


Source: Zhejiang Peptides Bio Website, Menet, Bin Yuan Capital

The potential approval of weight loss indications further expands market demand

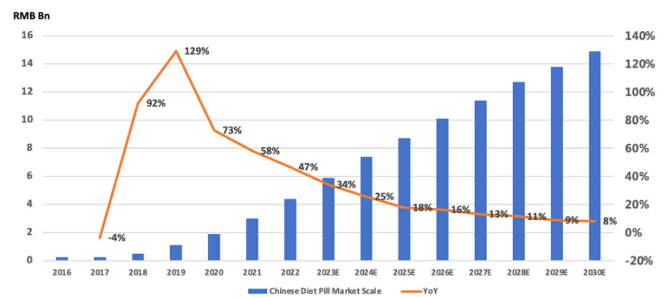
GLP-1 drugs have also begun to receive attention for weight loss. Excessive weight and obesity result from an abnormal accumulation of fat, posing health risks. Studies have shown that being overweight or obese can lead to a series of diseases such as hypertension, hyperlipidemia, diabetes, gout, and fatty liver. It has become a serious public health issue. The World Economic Union (WOF) forecasts that the global overweight population will rise from 2.60 billion in 2020 to 4.01 billion in 2035, a CAGR of 2.7%. The Chinese overweight population is projected to grow at an average annual rate of 5.4%. Frost & Sullivan 's (a consultant firm) analysis shows that the Chinese overweight population increased from 181 million in 2016 to 220 million in 2020 and is projected to reach 329 million by 2030. The rise in overweight populations will intensify the need for weight loss solutions, boosting the global weight loss drug market. This market is expected to expand from US$1.8 billion in 2016 to US$11.5 billion in 2030 (CAGR of 14.2%, Chart 5). China's weight loss drug market is growing faster than the global average. Currently, only Orlistat and Liraglutide are approved in China, but the launch of the popular GLP-1 weight loss drugs should further drive market growth. It's estimated that China's weight loss drug market will jump from RMB 260 million in 2016 to RMB 14.9 billion in 2030, a CAGR of 33.5% (Chart 6).

Chart 5: Global Diet Pill Market Scale



Source: Frost & Sullivan, Bin Yuan Capital

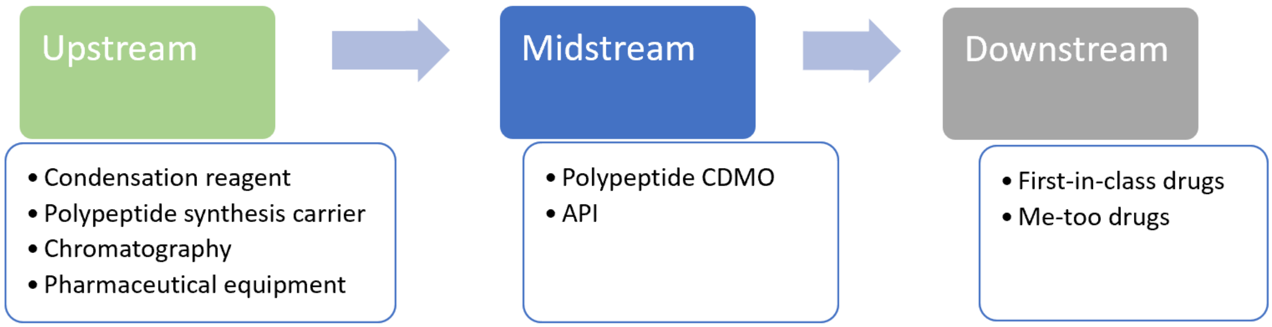
Chart 6: China Diet Pill Market Scale



Source: Frost & Sullivan, Bin Yuan Capital

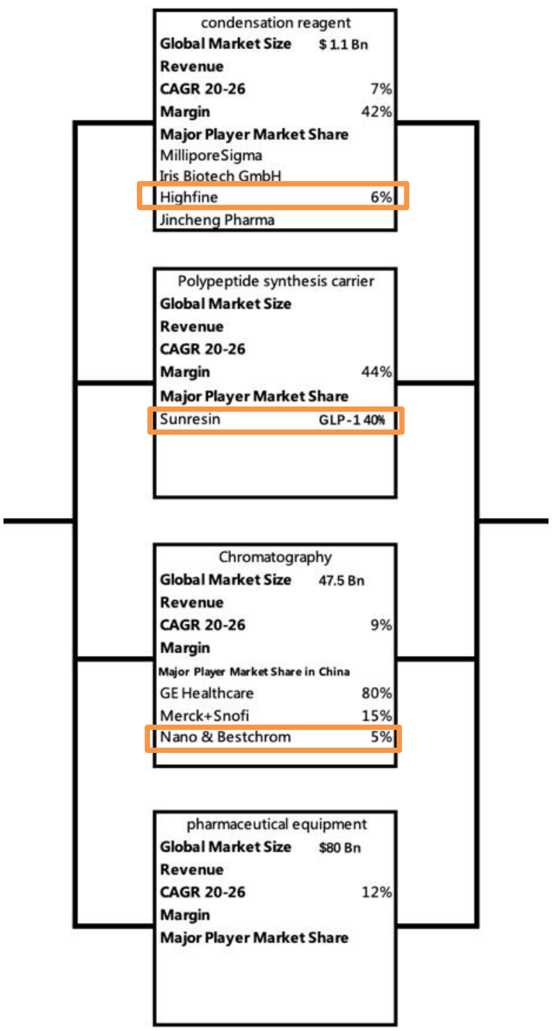
How we are positioned along the value chain

In addition to the first-in-class pharma, the other companies along with the value chain will also benefit. When expanding production capacity, it will involve the selection of process paths and the procurement of upstream production consumables and equipment. During the production process, pharmaceutical companies need to determine whether to develop and produce their own products or outsource them to CDMO (Contract Development and Manufacturing Organization) and API (Active Pharmaceutical Ingredient) companies. Based on our analysis, we prefer upstream players to downstream ones.



Bet on upstream

– The emergence of chemical synthesis production method brings opportunities to Chinese companies

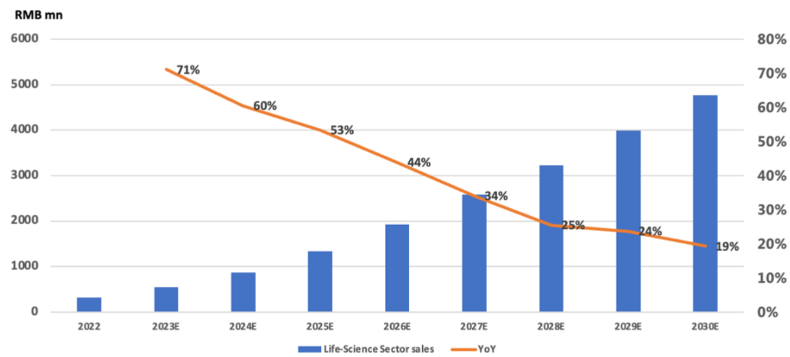


GLP-1 drugs can be produced through two different production methods: biological fermentation and chemical synthesis. Novo Nordisk, the GLP-1 pioneer, chose to use the biological fermentation method to produce the 1st and 2nd generation GLP-1 drugs (Liraglutide and Semaglutide), benefiting from low costs and high yields, but compromises on purity. With its century-long experience, they've optimized this method.

Compared to the biological fermentation method, the chemical synthesis method boasts advantages like higher product purity and an absence of unknown impurities, reducing the risk of allergic reactions, but with downsides such as lower production yield and higher costs. Eli Lilly, another big pharma, decided to adopt the chemical synthesis method to produce Tirzepatide (3rd generation GLP-1 drug), which offers better drug efficacy and dosing than Semaglutide.

The feedback from downstream CDMO or API firms suggests that, due to cost and patent considerations, large CDMO companies prefer a hybrid approach, combining both biological fermentation and chemical synthesis methods, while API firms tend to adopt the chemical synthesis route to avoid patent complications. Therefore, for Chinese companies, the chemical synthesis pathway may present more participation opportunities. Companies like Highfine Bio (301303.SZ), which manufactures condensing agents, and Sunresin Technology (300487.SZ), a player in the solid-phase carrier market, can secure steady orders without facing the fierce competition characteristic of downstream API and formulation businesses. Sunresin Technology has become a core supplier for Eli Lilly, and orders from Tirzepatide could bring huge growth to the company in the coming years (Chart 7).

Chart 7: Sunresin Life-Science Sector sales forecast chart



Source: UBS Securities, Bin Yuan Capital

<u>Monitor midstream</u>

– potentially from inhouse to outsourcing

According to IMARC 2021, the global peptide drug market is expected to grow from $36 billion in 2021 to $62 billion in 2027, a CAGR of 9%. The expanding peptide drug market has boosted demand for related APIs and CDMO services. In 2020, the global peptide API market size reached $1.8 billion, with 65% using outsourcing services. With the rising enthusiasm for peptide drug R&D, the associated outsourcing demand is anticipated to continue growing. Sullivan analysis predicts that by 2030, the global peptide CDMO market will reach $11.8 billion, and China's peptide CDMO market will hit RMB18.5 billion, with the CAGR in China surpassing the global rate (Chart 8&9).

Chart 8: Global Polypeptide CDMO Market Scale

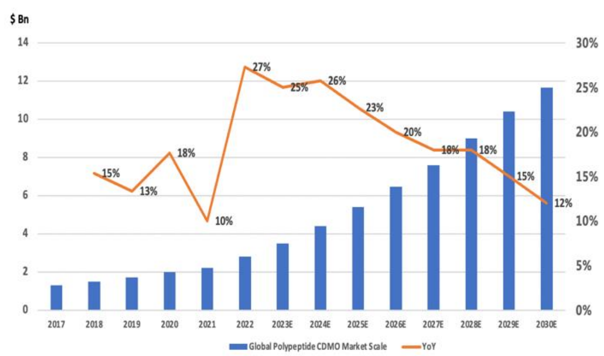
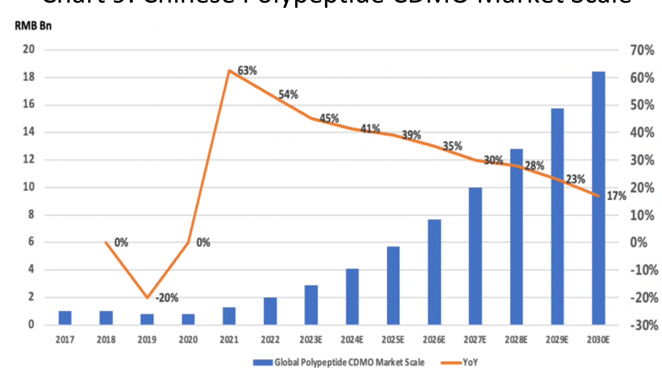


Chart 9: Chinese Polypeptide CDMO Market Scale



Source: Frost & Sullivan, IMARC2021, Polypeptide Website, Bin Yuan Capital

Polypeptide CDMO	
Global Market Size	$3 Bn
Revenue	
CAGR 20-26	25%
Margin	
Major Player Market Share	
Polypedtide	5%
Bachem	6.6%
Wuxi Tech	8%
Lonza	
Asymchem	
Jiuzhou Pharma	

GLP-1 API (Chem. Syn.)		
Global Market Size	1.6 Bn	
Revenue		
CAGR 20-26	25%	
Margin		
Major Player Market Share		
Eli Lily	Original	
Dr. Reddy		
Hybio	API	L DMF
Nopep	API	L&S CDE/DMF
Shengnuo	API	L DMF & CDE
PeptidesBi	API	CDE

At present, most of the API are still produced by original research companies Novo Nordisk and Eli Lilly. However, Liraglutide and Semaglutide remain on the FDA's drug shortage list, and Novo Nordisk's current production capacity is not sufficient to meet the existing market demand. This presents a significant opportunity for CDMOs and generic drug companies after the patents of these two drugs expire. We believe that for CDMO companies in the GLP-1 drug industry chain, this is a new line of business. In the longer term, with the patent expiration of Novo Nordisk's two drugs, demand in the generic drug market should expand, and the production model will shift from in-house to outsourcing. Leading Chinese CDMO businesses stand a good chance of securing raw material drug orders.

Similarly, the change in the GLP-1 raw material drug production model should also lead to sales growth for Chinese API companies. Currently, many Chinese raw material companies, such as Hybio Biotech (300199.SZ), Shengnuo Biotech (688117.SH), have applied for approval of Liraglutide and Semaglutide raw materials in both China and the U.S., positioning themselves well to tap into the generic drug market.

Therefore, we believe that with the expiration of Novo Nordisk's Semaglutide patent, there will be a significant demand for active pharmaceutical ingredients in the market over the next three to five years. At that time, raw material drug companies in China are expected to establish a strong presence in the market due to their cost advantages.

Cautious on downstream

– intense competition among Chinese players

In 2022, the global sales of GLP-1 products reached $23 billion, with Novo Nordisk's Semaglutide accounting for nearly half of the market (47.5%). As mentioned earlier, the current penetration rate of GLP-1 drugs for the treatment of diabetes and obesity in the Chinese market is extremely low. With the approval and launch of more GLP-1RA class drugs and the widespread education of patients, the future market potential for obesity drugs is promising. However, it also faces fierce competition.

With the expiration of the patent for Novo Nordisk's Semaglutide, Chinese companies will begin to compete for the finished drug market. Therefore, in the coming years, apart from the market share that Novo Nordisk already holds, the remaining market share is expected to become increasingly fragmented.

Enterprises worldwide are involved in the research and development of GLP-1 dual-target drugs, and Chinese companies are not lagging. More Chinese pharmaceutical enterprises will enter the market competition for the research, development, and production of innovative GLP-1 drugs. Currently, the companies leading in clinical progress are Eli Lilly, Innovent (1801.HK) and Novo Nordisk. On one hand, this reflects the intense competition among drugs with the same target; on the other, it suggests that global giants believe the GLP-1 drug market has not yet reached saturation and opportunities still exist. It's worth noting that in the coming years, GLP-1 drugs in China for the indication of blood sugar reduction might face ‘volume-based procurement’ restrictions, leading to significant price drops. Weight loss drugs, largely consumer-oriented, are unlikely to be affected by cost controls. However, the proportion of GLP-1 for weight loss indications is currently not significant.

Therefore, we are not optimistic about all domestic companies independently researching and developing GLP-1 drugs in China. It's worth paying attention to companies leading in clinical progress and the upstream industrial chain companies associated with them.

Summary

With the increasing recognition of GLP-1-related drugs for indications including diabetes and weight loss, international giants are leading the way as GLP-1 related drugs are expected to become the next blockbuster drugs, and even become the global best-selling drugs. The pharmaceutical industry chain is extensive. While downstream pharmaceutical companies are facing higher uncertainties, certain upstream suppliers continually benefit from entire industry growth. Based on our analysis, upstream firms involved in critical production processes like Sunresin Technology (300487.SZ), acting as 'weapon suppliers for the war', offer more certainty.

Sincerely,

Ping and the Team

September 7, 2023

Bin Yuan on the Road

August 16, 2023

We made a field trip to lower-tier cities to learn more about the changes and new trends in consumption in the country.

- We visited four lower-tier cities in different provinces of the country and spoke with sportswear distributors, tea store owners, frozen food sales personnel, hotel brand marketing experts, bar owners, etc. We found that consumption in lower-tier cities had more vigor than that in large cities, as households have lighter debt pressures due to relatively lower housing costs and show more willingness to spend. With more policy support, we expect more positive changes to gradually emerge in consumption, both in large and lower-tier cities.

" Our bar is busy at night even on workdays. Besides young working people, students also come frequently. " – A bar owner in Nanyang city of Henan province.

August 23, 2023

We visited a maker of motorcycles and all-terrain vehicles to get an update of the company's business operations, industry performance and crosscheck consumer sentiment toward large discretionary items.

- The company mainly targets overseas markets such as Europe and North America. They are developing high-end new products of quadricycles.
- Most of their products aim to meet the entertainment needs of customers overseas, where demand remained strong in H1 while demand in the domestic market was weak amid pressures from the macro economy.

"We plan to establish a factory in the U.S. to respond more quickly to consumer needs and to lower transportations costs. " – Board secretary of the company.

August 25, 2023

We visited to Sunny Optical to get an update of the company's business operations and the performance of the consumer electronics and auto industry.

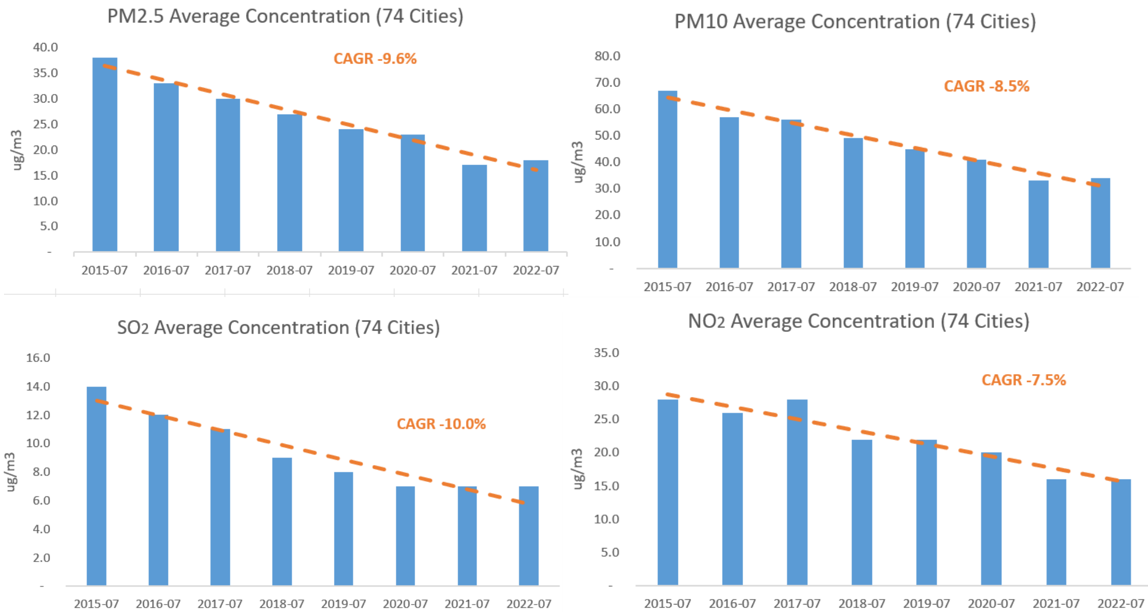
- Losses among its peers are unsustainable as inventory in downstream customers has reduced to a relatively low level. Huawei and Apple's new phone camera upgrades are expected to drive up demand for new generations of parts and modules in the upstream. The company aims to hike its share in auto lenses to 40% from current 35%, on core competitiveness and high entry barriers resulting from the good safety performance of its products. Especially as the cycle of the auto lens industry remains at an early stage.

"We led the optical industry in the past and will remain the leader in the future. We've partnered with international heavyweights in the development of semiconductor optical products. "–CEO of Sunny Optical.

Bin Yuan Environment Tracking

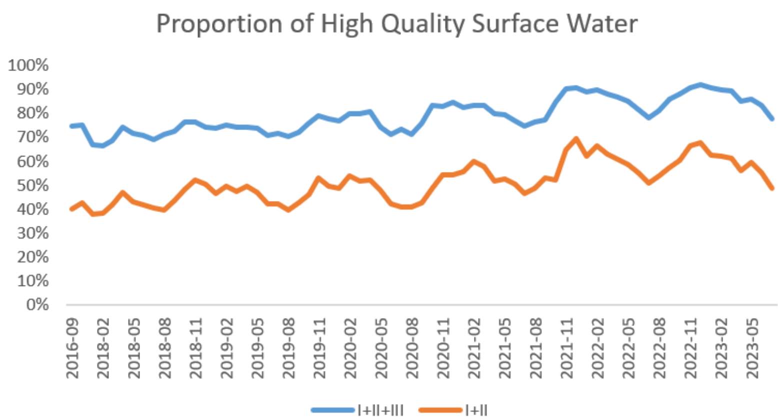
This tracking includes monthly air and water quality data, both showed steady improving trend in the last 5 years. Air pollution concentration dropped due to reduced coal combustion, increased proportion of new energy vehicles, and tightened emission control measures. Water quality improved mainly from the strengthen control of wastewater emissions since 2017.

China air pollutant concentration data November 2015-2023



**PM2.5, PM10 and SO_2 are mainly from fossil fuel combustion, and NO_2 is mainly from vehicle emissions.*

The proportion of high-quality water in China data October 2016-2023



**Water quality in China breaks down to 5 levels, with level I being the best and level V being the worst. Level I+II represents water that can be used for drinking purpose. Level I+II+III represents water that can directly contact human body.*
**Source: Ministry of Ecological Environment in China.*

Disclaimer

The information, materials and whatsoever releases, views or opinions (together the "Information") contained herein are strictly for information and general circulation only and do not have regard to the specific objectives, financial situation and particular needs of any specific person. The Information does not constitute either an offer to sell or a solicitation of an offer to buy any interest in any fund and strategy associated with Bin Yuan Capital.

The information contained herein is subject to revision and completion. The historical performance information included herein may not be indicative of the performance of future results. Nothing contained herein should be relied upon by prospective investors as a promise or representation as to the future performance.

This document is strictly for information and illustrative purposes only and should not be considered to be an offer, or solicitation of an offer, to buy or sell any securities or funds or to enter into any investment agreements.

Bin Yuan Capital shall not be liable or responsible to you or any other party for any direct, indirect, consequential or incidental damages, losses, expenses or costs whatsoever arising in connection with your access to this newsletter, or reliance on any Information, regardless of the form of action.

According to the SFC climate-related disclosure requirement, please find our disclosure of Management and Disclosure of Climate-related Risks by Fund Managers.