Bin Yuan Capital All China Strategy – April 2024

Performance Attribution

The China market has been long overlooked by global investors but over the past month we have started to see a revival in their interest. This shift in sentiment has been driven by several factors, including better than expected macroeconomic indicators and earnings data, a growing trend of dividend payouts and share buybacks, low valuations, more encouraging government policies, and the resilience of the Chinese currency compared to other non-US currencies. These positive developments fueled a more positive market in April.

Investor interest was mainly led by a wave of buying or short covering of mega and large-cap companies in sectors such as internet, financials, commodities, and utilities. However, sectors like healthcare, information technology and consumer staples, where we believe there are much greater opportunities are still in the process of catching up.

Initially, in the first 20 days of the month, our portfolio did better than the index. However, we did not fully benefit from the liquidity surge into the Hong Kong market after April 22nd due to our underweight positions in the internet and financial sectors, which reversed our earlier outperformance. We increased our exposure to mid-cap internet stocks that helped to mitigate some of the impact on overall performance, as we believe they offer better long-term value. The mid-cap holdings in healthcare, industrials, and information technology lagged, while our stock selections in consumer staples and utilities sectors demonstrated resilience, outperforming the market. At the stock level, Tencent was the top performer while iRay was a laggard.

We anticipate that the boost in investor confidence will catalyze the spread of positive sentiment across the broader market based primarily on the following factors:

1. Corporate earnings for leaders in the consumer staples, household products, information technology, and industrial sectors exceeded expectations in Q1. Please refer to the earnings details of our holdings below. We expect solid earnings growth to focus attention on sectors that to date have been out of favor.

2. The impact of anti-corruption measures in the healthcare sector should diminish, and we expect healthcare companies to achieve robust earnings growth bouncing back from their weak H2 2023. Positive developments in healthcare policies, such as the encouragement of healthcare device procurement and innovative drug R&D, are also expected to bolster investor sentiment in the healthcare sector.

3. There have also been positive developments in the property sector, such as policy initiatives to tackle property inventory challenges, which should also improve sentiment in the consumer-related space. These measures are also advantageous for undervalued sectors within the property chain as we see consumers spending money to upgrade their current apartments rather than buying a new apartment.

We expect these factors to permeate into the broader market, paving the way for our portfolio to outperform over the coming quarters.

Bin Yuan Comments

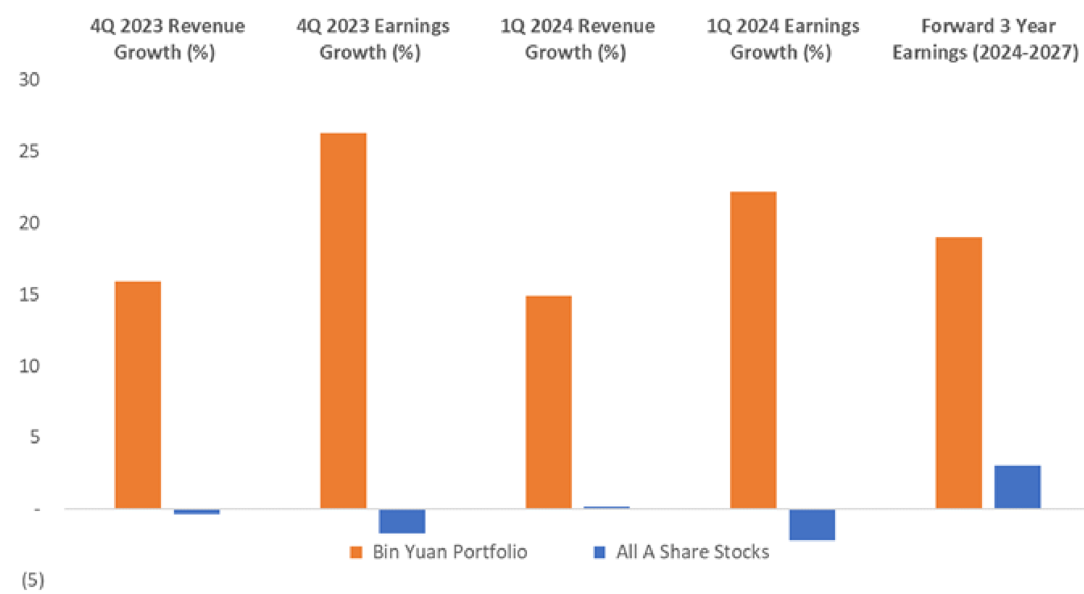
Market sentiment improved due to the gradual recovery of confidence following these more positive catalysts. Investors' focus should gradually shift back to fundamentals after the earnings season.

Last month saw a number of positive developments. The country's state council issued a set of guidelines to push for transparency, security, and risk-management to help achieve the high-quality development of the stock market. The securities regulator released a series of measures to boost trading with Hong Kong by supporting the HK listing of leading Chinese companies. We also saw good progress in the real estate market as top political leaders of the nation signaled measures to cut the housing inventory in the closely watched Politburo meeting late last month.

As the full-year 2023 and 2024 Q1 earnings season in the A share market drew to a close, we got a clearer picture of the overall market. Earnings of consumer services like hotels, catering, leisure, offline retail, transportation, etc., outperformed in 2023 from a low base caused by the pandemic restrictions in 2022. Q1 continued this trend with consumer services seeing strong demand. Electronics recovered quarter on quarter from 2023 Q4 to 2024 Q1 on a marginal improvement in demand. Consumer sectors like apparel and food & beverage remained resilient. Real estate-related sectors and raw materials underperformed in 2023 on weak demand and remained laggards in Q1. Home appliances and home furnishings posted good results in Q1 as beneficiaries of industry consolidation and better demand in overseas markets.

Our portfolio delivered strong results and has very solid fundamentals and low valuations. The portfolio is well positioned to benefit from long term trends creating investment opportunities in different sectors.

Chart 1: Portfolio Earnings – Strong Growth Trend vs the Market



Source: Bin Yuan Capital, Wind

The portfolio performed well in terms of both return to shareholders and ESG disclosure.

1. Over 80% of our holdings released independent ESG reports vs 73% in 2021. This compares to only 39% for all companies in the China market and 70% in the Hong Kong market. ESG is a core ingredient of our investment process,

and we are pleased that our continuous engagement efforts with regulators and Chinese companies is having a positive impact.

Table 1: % of ESG Standalone Report

	2021	2022	2023
A share market	27%	34%	39%
Hong Kong market	67%	70%	70%
Bin Yuan portfolio	73%	83%	82%

Source: Bin Yuan Capital, Wind

2. Returns to shareholders can be measured by both dividend payout/share buybacks and ROE. With robust cash flow and healthy balance sheets, our portfolio generates an average yield of 3.5% through dividends and share buybacks. Our portfolio also maintains a robust ROE ranging between 17-18%.

3. We invest in very few State-Owned Enterprises (SOEs), but those in which we do invest have strong management, improving governance, and pass our rigorous ESG criteria. We currently have 20%+ in SOEs. These select SOEs all exhibit market-oriented strategies and enhanced operational efficiency. On average, the ROE of our SOE holdings exceeds 15% and have a dividend yield close to 4%. Many should experience accelerating earnings growth and improving ROE in 2024 and later years, benefiting from the upgrade in domestic demand.

Table 2: Earnings and Valuation Outlook

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**04/30/2024**	**04/30/2024**	**04/30/2024**
2024 PE (X) - Harmonic Avg. Method*	11.67	14.21	11.10
2024 PE(X) - Weighted Avg. Method	16.11	18.38	16.78
2024 PB(X)	1.66	2.65	1.74
2024 Div Yield (%)	2.63	1.89	2.52
2024 ROE (%)	18.37	11.12	10.51
Earning Growth (%) Forward 3 YR	18.80	7.79	5.59
2024 PEGY	0.75	1.90	2.07
FCF Yield (%)	2.63	-1.11	1.95

Source: Bin Yuan Capital, Wind, Bloomberg

With lower PEs, higher ROEs, stronger earnings and cash flow growth and higher dividend yields vs. the broader market, our portfolio is well positioned to outperform over the next few quarters.

Earnings details of Bin Yuan Holdings:

Table 3: Key Holdings Earnings Result

Name	2023 Sale Gr	2023 Earnings Gr	4Q 2023 Sales Gr	4Q 2023 Earnings Gr	1Q 2024 Sales Gr	4Q 2023 Earnings Gr	2024 PE	Earnings Forecast
IRAY TECHNOLOG-A	20.3	14.4	4.9	30.9	11.5	6.0	23.2	26%
KANGJI MEDICAL H	17.8	8.2	na	na	na	na	12.7	17%
HAICHANG OCEAN P	129.1	EBITDA turn positive	na	na	na	na	12.3	45%
NARI TECHNOLOG-A	10.1	10.4	8.5	8.3	24.3	16.4	20.2	18%
TRIP.COM GROUP L	122.2	71.0	na	na	na	na	20.0	20%
MAXSCEND MICRO-A	19.1	2.8	97.3	259.5	67.2	64.8	26.0	28%
SHANDONG GOLD -H	17.8	69.5	71.3	77.1	44.7	61.5	17.0	15%
SUOFEIYA HOME-A	3.9	21.1	5.4	18.4	17.0	73.8	13.3	15%
CHAOZHOU THREE-A	11.2	0.1	35.6	67.5	31.5	57.4	26.3	28%
ANJOY FOODS GR-A	15.3	36.8	-6.3	-13.4	17.7	21.6	16.0	21%
YANTAI JEREH-A	21.9	12.3	20.0	18.8	-6.5	4.9	11.8	16%
GUANGDONG HONG-A	13.5	34.3	9.0	29.3	10.9	30.3	18.3	22%
WUXI AUTOWELL -A	78.0	75.1	80.8	69.3	89.1	61.2	9.2	15%
CHONGQING BAIY-A	33.0	20.3	38.4	-8.6	46.4	30.6	28.0	33%
SUNRESIN NEW -A	29.6	47.6	22.8	-11.3	26.0	28.0	26.0	28%

Source: Bin Yuan Capital, Listed Companies

- ✓ Anjoy Foods (a leading premade food manufacturer):
  - ➢ 2023 revenue RMB 14 bn, +15.3% YoY; 2023 net income RMB 1.5 bn, +34% YoY;
  - ➢ 24Q1 revenue RMB 3.75 bn, +17.7% YoY; 24Q1 net income RMB 438 mn, +21.2% YoY
  - ➢ Anjoy Foods continues to fulfill consumer demand and launch a greater variety of premade foods suitable for both family and restaurant use, which further increases the proportion of premade foods in food consumption. At the same time, Anjoy gains more market share by introducing products that are favored by consumers. We believe that the industrialization of the food industry in China is a long-term trend, and Anjoy will benefit from this trend.
- ✓ Suofeiya (a leading manufacturer of customized furniture):
  - ➢ 2023 revenue RMB 11.7 bn, +4% YoY; 2023 net income RMB 1.2 bn, +18.5% YoY; gross margin up 3.2% YoY
  - ➢ 24Q1 revenue RMB 2.1 bn, +17% YoY; 24Q1 net income RMB 165.5 mn, +58.6% YoY
  - ➢ As one of the top two players in the industry, Suofeiya has been taking market share as the industry consolidates following weak demand due to the down trend in the real estate market. The company, with

better cost control and economies of scale, is expected to benefit from a demand recovery as the real estate market gradually recovers.

- ✓ Baiya Sanitary Products (a leading sanitary product brand)
  - ➢ 2023 revenue RMB 2.1 bn, 33% YoY increase; 2023 net income RMB 238 mn, 27% YoY increase
  - ➢ 24Q1 revenue RMB 765 mn, 46% YoY increase; 24Q1 net income RMB 103 mn, 28% YoY increase
  - ➢ Baiya Sanitary has been a regional leader that is now expanding its national brand recognition. The company restructured its distribution channels and product development team in the past two years, allowing it to release more high-margin products that meet the needs of customers across China. We expect the company will double its market share from 3% in 2023 to 6% in the next 2-3 years.
- ✓ Jonjee (a leading manufacturer and seller of soy sauce, chicken powder and other condiments)
  - ➢ 2023 revenue RMB 5.1 bn, -3.8% YoY; 2023 net income RMB 1.7 bn, -5.8% YoY
  - ➢ 24Q1 revenue RMB 1.5 bn, +8.6% YoY; 24Q1 net income RMB 452 mn, +59.7% YoY; gross margin up 5.6 ppts YoY
  - ➢ As the one of the top condiment companies in China, Jonjee owns brands like Chubang and Yummy Fresh which have years of history and a strong customer base. The company posted better-than-expected earnings results in Q1. Their new management team has developed comprehensive plans to regain market share, and we expect the earnings of the company to continue improve in the coming quarters.
- ✓ Jereh (an oil & gas equipment manufacturer):
  - ➢ 2023 revenue RMB 13.9 bn, +21.9% YoY; 2023 net profit RMB 2.5 bn, +9.3% YoY; 2023 overseas GM 31.8%, +3.18 ppts YoY
  - ➢ 2023 Q4 revenue RMB 5.2 bn, +20% YoY; 2023 Q4 net profit RMB 890 mn, +18. 8% YoY
  - ➢ These results were driven by strong growth in the overseas market, especially in the US and Middle East. In the US, Jereh sold their first battery-driven fracking equipment with significantly higher margins. In the Middle East, Jereh completed a huge project worth RMB 2 bn for the Kuwait Oil Company.
  - ➢ Order growth from the overseas market is still growing strongly. In 24Q1, Jereh received an order worth more than RMB 1.2 billion from the Central Asia market, and the natural gas compressor sector is expected to grow at least 80% in 2024.
- ✓ Guangdong Hongda (the leading mining service provider):
  - ➢ 2023 revenue RMB 11.5 bn, +13.5% YoY; 2023 net profit RMB 716 mn, +27.7% YoY
  - ➢ 2023Q4 revenue RMB 3.6 bn, +9.0% YoY; 2023Q4 net profit RMB 219 mn, +29.2% YoY

- 2023 Dividend payout ratio 56.7% +16.71%.
- Hongda's decent revenue growth was due to robust demand from the mining sector, which in turn was driven by strong prices of copper and gold. Even stronger profit growth resulted from higher margins in the overseas market and continuously decreasing cost of materials.
- In 24Q1, Hongda received orders of more than RMB 3 billion, mostly from gold and copper mines, as historically high commodity prices resulted in strong demand.

✓ Autowell (a solar equipment manufacturer):

- 2023 revenue RMB 6.3 bn, +78.1% YoY; 2023 net profit RMB 1.3 bn, +76.1% YoY
- These results were 7% higher than the market expected, mainly due to the company's expanding product categories, which brought additional growth in 2023 and should continue to drive growth over the next several years.
- 2024Q1 revenue RMB 1.96 bn, +89% YoY and net profit RMB 332.8 mn, +50% YoY, with new orders of RMB 3.4 bn, +31.5% YoY
- The new order growth in Q1 was higher than the market expected, mainly due to the company's expansion of product categories and strong technical iteration capability, which should continue to drive the company's earnings growth over the next several years.

✓ BOCHU (previously Friendess, a laser-processing solution provider)

- 2023 revenue RMB 1.4 bn, +56.6% YoY; 2023 net profit RMB 824 mn, +50.9% YoY
- 2024Q1 revenue RMB 381 mn, +40% YoY and net profit RMB 193 mn, +46.6% YoY
- These results were 15% higher than the market expected, mainly due to strong demand for laser equipment from downstream manufacturing customers such as ship and construction machinery manufacturers as BOCHU takes more market share from foreign peers.

✓ Maxscend Microelectronics (a RF solution provider):

- 2023 revenue RMB 4.4 bn, +19.1% YoY, and net profit RMB 1.2 bn, +8.9% YoY, 10-20% better than expected.
- Q4 revenue RMB 1.3 bn, +97.6% YoY, and net profit RMB 346 mn, + 310% YoY
- 2024Q1 revenue RMB 1.2 bn, +67.1% YoY and net profit RMB 197.8 mn, +69.8% YoY
- These results show that the company has taken market share from foreign players due to their strong product competitiveness. As the only RF chip design company in China with its own factory, Maxscend has a strong competitive advantage in the research and development of new products. The new module products launched in the first quarter are expected to help the company continue to expand its market share.

- ✓ Chaozhou Three Circle (CCTC) (electronic component and advanced material):
  - ➢ Q4 23 reported YoY net income growth of close to 40%
  - ➢ Q1 24 reported YoY net income growth of 35% on the strong recovery of demand in the electronics industry and an increase in orders following breakthroughs in new products.
- ✓ Semiconductor equipment manufacturers delivered strong earnings growth benefiting from the import substitution trend.
  - ➢ AMEC: 2023 net profits RMB 1.7 bn, +52.6% YoY, 2023 etching equipment revenues RMB 4.7 bn, +49.4% YoY; Contract liability rose from RMB 0.77 bn in 2023 to RMB 1.2 bn in 2024Q1; 2024Q1 new orders YoY +63%, etching equipment new orders YoY +89.8%
  - ➢ Pio Tech: 2023 net profits RMB 0.66 bn, +80.3% YoY, 2023 revenues RMB 2.7 bn, +58.6% YoY; 2024 Q1 revenue RMB 0.47 bn, +17.2% YoY; shipment volume +130% YoY; New orders in 2024 are expected to grow 40% YoY.
- ✓ iRay Technology (a manufacturer of image detectors):
  - ➢ 2023 revenue RMB 1.89 bn, +22% YoY; 2023 core net profit RMB 600 mm, +16% YoY
  - ➢ 2024 Q1 revenue RMB 490 mn, +11% yoy and core net profit 156 mn, +6% yoy (from a very high base in 2023), paving the way for 25%+ earnings growth in 2024.
  - ➢ Overseas revenue reached 35% of sales in 2023, and the growth rate of overseas sales continues to be higher than domestic sales. iRay has gained recognition from global first-tier customers in the medical and dental areas.
  - ➢ On the industrial side, iRay completed product upgrades in 2023, and products with higher cost-effectiveness are expected to drive revenue growth this year.
  - ➢ Customer recognition in the new product CT industry chain has entered a critical point, and we expect to see an increase in volume in the second half of this year.
  - ➢ The impact of China's healthcare anti-corruption is easing. iRay should recover quarter by quarter in 2024.
- ✓ Kangji Medical (China's largest manufacturer of minimally invasive surgical instrument and robots):
  - ➢ 2023 revenue RMB 930 mn, +17.8% YoY; 2023 export revenue RMB 86.5 mn, +20.6% YoY
  - ➢ New products sales growth: Ultrasonic Scalpels +109%, 4K Endoscope System +57%, Disposable Electrocoagulation Forceps +30%
  - ➢ 2023 operating profit RMB 668 mn, +13.2% YoY, excluding the Wiseking investment loss.
  - ➢ 2023-end OCF RMB 420 mn, +31.4% YoY

- With RMB 3 bn in cash on hand, Kangji paid a dividend of RMB 1.4 per share, for a dividend yield of 22%. It announced that its annual dividend payout ratio will be maintained at a level of 50-70% in the future, and it will continue to engage in a stock repurchasing plan.
- Wiseking (surgical robots) has made good progress. The four-arm robot is undergoing phase three clinical trials and is expected to apply for product registration in the second half of this year.
- The impact of China's healthcare anti-corruption is easing. Kangji's earnings' growth rate is expected to exceed 15% over the next three years with a 20% ROE. The valuation is very attractive at 12X 2024 PE.

✓ Innovent Bio (China's leading company in the development and production of innovative biologics)

- 2023 revenue: RMB 6.2 bn, +36.2% YoY
- 2024 Q1 product revenue: RMB 1.7 bn, +60% YoY
- Product portfolio expansion: Commercialized products increased from 8 to 10.
- PD-1 product highlights (Sintilimab Injection): Included in the National Reimbursement Drug List (NRDL) with seven approved indications.
- GLP-1 product developments (Mazdutide): Five Phase 3 clinical trials in China for overweight or obese adult indications and type 2 diabetes
- Publication of high-quality clinical study results: Studies on Sintilimab Injection published in prestigious journals like Lancet Respiratory Medicine and JAMA

✓ Trip.com Group (a leading travel service provider):

- 2023 revenue RMB 44.5 bn, +122% YoY
- 2023 net income RMB 9.9 bn, +607% YoY
- Revenue and net income grew by 25% and 42% over 2019 levels, demonstrating large market share gains and increased economies of scale reflected in reduced SG&A costs. We expect the company will continue to take market share from its domestic and global peers.

✓ H World Group (a leading hotel chain operator)

- 2023 revenue RMB 22 bn, 58% YoY increase.
- 2023 net income RMB 4.1 bn, reversing from a RMB 1.8 bn loss in 2022.
- 23Q4 revenue RMB 5.6 bn, 51% YoY increase.
- 23Q4 net income RMB 743 mn, reversing from a RMB 717 mn loss in 22Q4.

- H World offers its franchisers the highest profitability among hotel operators, so more and more franchisers want to join H World brands, and the company steadily increases its market share. We expect this trend will continue as H World enriches its hotel brand portfolio to meet the needs of a wide range of customers, from the economy to the luxury end of the market.

✓ Haichang Ocean Park (a leading entertainment park operator)

- 2023 revenue RMB 1.8 bn, +129% YoY
- 2023 EBITDA RMB 542 mn, reversing from a loss in 2022.
- Adjusted EBITDA RMB 4.6 mn, OCF RMB 530 mn.
- EV/EBITDA in 2024 5.9X
- Haichang continues its recovery momentum. Shanghai Park visitor flow exceeded 2019 levels during the New Year and spring festival in 2024. Visitor flow in the newly opened park in Zhengzhou is expected to ramp up in 2024 and 2025 to contribute RMB 1 bn in 2026.

Semiconductor Equipment – Critical to China's Digitalization Progress

China has been the world's largest importer of chips, particularly high-end chips, since the early 2000s. With the huge demand for chips, China needs to increase its self-sufficiency in chip production. With geopolitical tensions and trade wars, access to the advanced semiconductor equipment required to manufacture cutting-edge chips has become challenging. Therefore it becomes increasingly critical for China to develop and manufacture its own semiconductor equipment to ensure the survival and development of its semiconductor industry.

Making semiconductor equipment, especially photolithography equipment, is one of the most technically demanding manufacturing processes in the world today. It requires decades of technology accumulation, enormous capital investment and a large number of technical experts to build the machines which meet the requirements to fabricate advanced chips.

Since 2018, China has seen the emergence of several competitive semiconductor equipment manufacturers, marking a period of rapid development. However, at present, these domestic equipment manufacturers still lag behind global leaders such as AMAT, LAM and TEL, in terms of technology, and the penetration rate of domestic equipment is less than 20%, indicating substantial room for growth. We expect the trend of rapid development of China's semiconductor equipment manufacturers to continue, and their market share should increase dramatically, offering the potential for significant earnings growth.

Growing Semiconductor Equipment Market.

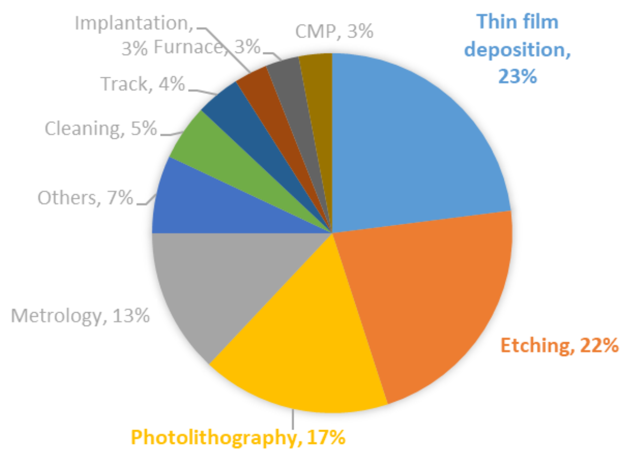
Semiconductor equipment, categorized by process requirements, can be divided into thin film deposition, etching and photolithography, etc. Among these, as shown in Chart 1, thin film deposition equipment, etching equipment and photolithography equipment hold the largest market value, accounting for 23%, 22% and 17%, respectively, of the global semiconductor equipment market.

1) Thin film deposition (TFD) equipment. TFD equipment plays a pivotal role in the semiconductor industry, where it is utilized to create layers of material with precise thickness and uniformity on a substrate, such as a silicon wafer. The global leaders in this segment are AMAT and ASM, while Chinese makers, Piotech and Naura, are gaining significant influence in the domestic thin film deposition field.

2) Etching equipment. This equipment is designed to remove parts of a material through a chemical reaction or physical impact, creating precise patterns and designs on the surface of the wafer. The main global players are AMAT, Lam Research and TEL. Domestic vendors, AMEC and Naura, are the leading players in China.

3) Photolithography machines. These are used to transfer geometric patterns onto a semiconductor wafer, which is a vital step in creating integrated circuits. Lithography machines possess very high technical barriers, and the entire market is monopolized by ASML.

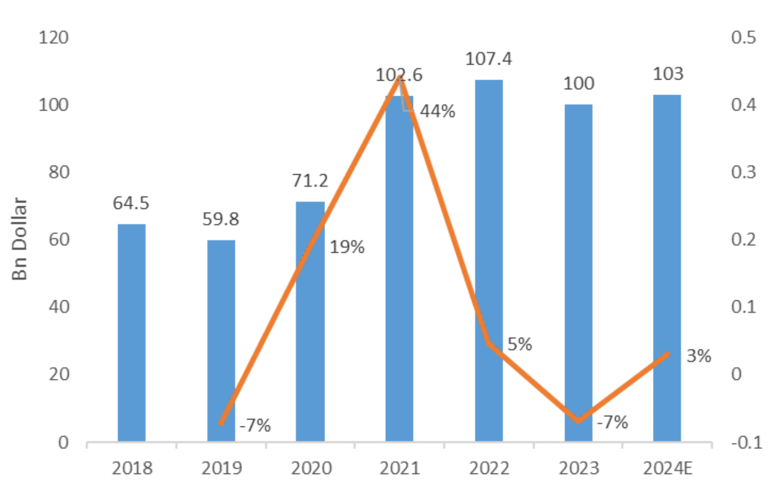
Chart 1. Global semiconductor equipment Market Size



Source: Semi, Bin Yuan Capital

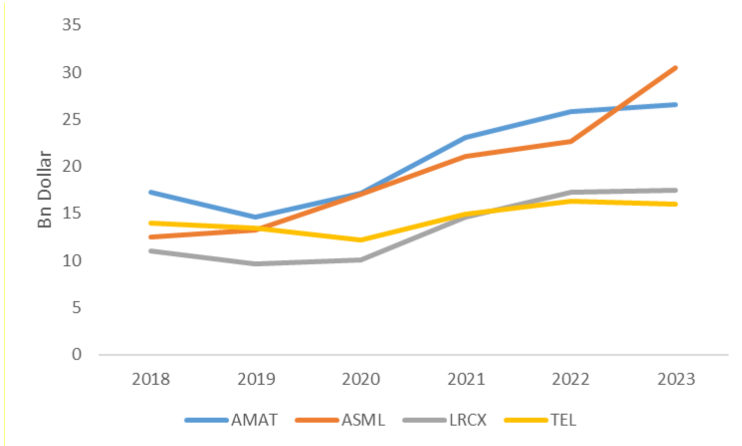
As shown in Chart 2, the global semiconductor equipment market grew at a CAGR of 9.2% over the past five years, from $64.5 billion in 2018 to $100 billion in 2023. Rapid development of consumer electronics, such as smartphones and PCs as well as advances in other applications, such as EV and AI, are requiring increasingly advanced chips which drives the growth of the semiconductor equipment industry. Additionally, we can see from Chart 3 that the revenue of the major global equipment manufacturers has benefited from industry growth as well. AMAT, ASML, LRCX, TEL all posted record-high sales in 2023.

Chart 2. Global semiconductor equipment Market Size and Growth Rate



Source: Semi, Bin Yuan Capital

Chart 3. Sales of major global semiconductor equipment manufacturers

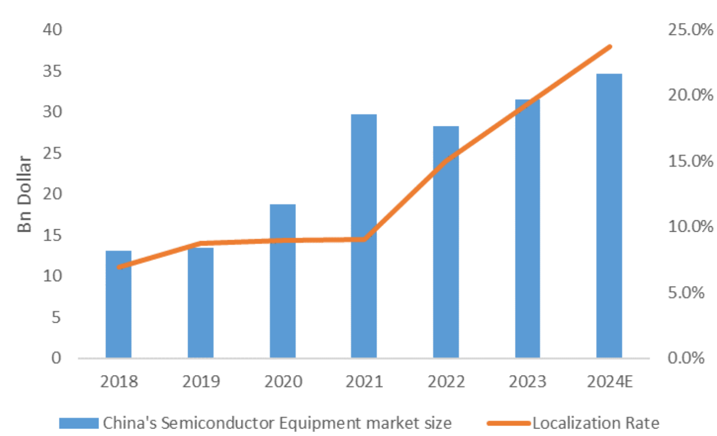


Source: iFinD, Bin Yuan Capital

<u>Opportunities for Chinese Semiconductor Equipment Manufacturers.</u>

The US-China chip war continues to escalate amid tighter US sanctions and export controls, which has pushed the Chinese semiconductor industry into a new era, especially in the semiconductor equipment sector. China must develop its own semiconductor equipment to ensure the survival of its entire semiconductor industry. Domestic vendors have developed rapidly in the past several years as they benefit from the growth of China's semiconductor market and the substitution of foreign equipment. As Chart 4 shows, in 2018, the market size of China's semiconductor equipment segment was $13.1 billion, and the localization rate was only 6.9%. Just five years later in 2023, the market size exceeded $30 billion, and the localization rate nearly tripled to 19%. Industry analysts expect the market size to grow at a CAGR of 12% over the next 5 years and the localization rate to reach 40% in terms of revenues.

Chart 4. Semiconductor equipment Localization Rate and Market Size in China



Source: Semi, Bin Yuan Capital

Like other high value-added industries that require ongoing R&D, the competitiveness of Chinese players in the semiconductor equipment industry has largely improved by benefiting from the four dividends below:

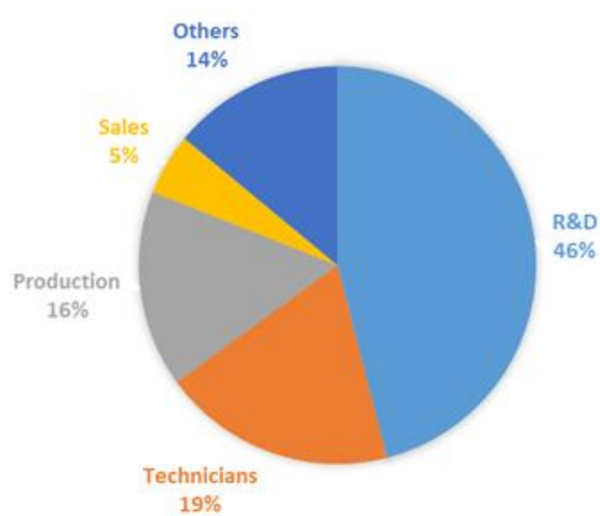
1) Market Growth Dividend: As China's semiconductor market expands rapidly, semiconductor equipment manufacturers can enjoy the dividends of market growth, including increased sales, market share enhancement, and high profit margins.

2) Technological Advancement Dividend: In the field of semiconductor equipment manufacturing, technological innovation is a key driver of industry development. Companies that invest in R&D to develop new technologies and products can reap the dividends of technological progress, such as improved production efficiency, reduced costs, and the development of additional new products.

3) Talent Dividend: With the development of higher education in China and the return of international talent, semiconductor equipment manufacturing companies can attract and cultivate more highly skilled professionals, thus enjoying a talent dividend that enhances their innovation capabilities and core competitiveness. For example, as shown in Charts 4 & 5, AMEC had 788 R&D personnel in 2023, accounting for 46% of its employees. And 35% of the total employees possess a master's or PhD degree.

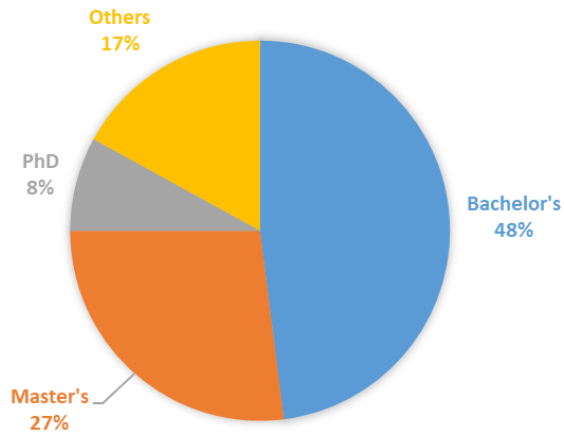
4) Supply Chain Dividend: China's end-to-end semiconductor industry chain and supply chain system offer a supply chain dividend to businesses. Companies can more efficiently obtain raw materials and components, reduce logistics costs, and improve production efficiency.

Chart 5. AMEC staff composition



Source: AMEC 2023 annual report

Chart 6. AMEC employees' education level



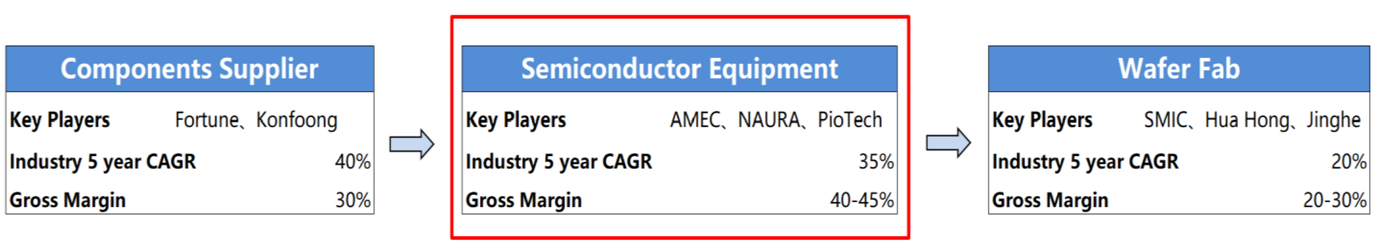
Source: AMEC 2023 annual report

<u>Semiconductor Equipment – strongest segment in the Semiconductor Value Chain in China</u>

High technical barriers to entry, high market concentration and large market size make the semiconductor equipment sector the most attractive segment along the semiconductor value chain for investment. The production of a chip typically involves several key stages, including design, manufacturing, testing, and packaging. Semiconductor equipment is the very foundation of manufacturing; it is in the upstream of the industrial chain, and it mainly offers products like integrated equipment to downstream wafer fabs. The component suppliers, which are upstream to the equipment makers, and make components such as cavities, valves and pipes, have relatively low technical barriers and low bargaining power. Downstream wafer fabs must maintain high capex to keep upgrading the manufacturing process, and they are easily impacted by demand from the industry, especially consumer electronics.

The high technical barriers in the semiconductor equipment segment have led to high market concentration, strong bargaining power and high gross margins (Chart 7 & Table 1).

Chart 7. Semiconductor equipment Industry Value Chain.



Source: Bin Yuan Capital

Table 1. Semiconductor Industry Segment Comparison.

Segments	Entry Barrier	Growth CAGR	Bargaining Power	Gross Margin
Components Supplier	Low	40%	Low	30%
Semiconductor Equipment	High	35%	High	42%
Wafer Fab	Mid	20%	Mid	25%

Source: Bin Yuan Capital

Chart 1, earlier, and Table 2, below, show that the most valuable sectors are thin film deposition, etching and photolithography, and the localization rate is 14.4%, 19.8% and 0.5%, respectively. AMEC, Piotech and Naura are the top players in etching and thin film deposition equipment sectors. They have an 80% plus market share of the domestic supply. These companies have accumulated decades of technical expertise in their respective fields, possess rich industry experience and deploy a large pool of talent. They have formed a certain scale (see below), with their products enjoying a good reputation. We believe that the domestic semiconductor equipment market will gradually consolidate into the top companies given the enormous amount of capital needed to develop technology and products. Since these companies have succeeded so far in delivering high-quality products and maintaining reliable earnings growth, we believe they will be able to continue to fund the development of advanced technology and cutting-edge products from internally generated sources. These companies are most likely to achieve breakthroughs in high-end processes and are more likely to benefit from the growth of the industry and the increasing localization rate.

Table 2. Market size and localization rate of each equipment type in China.

Equipment Type	Market Size in China (US$ Billion)	Localization rate	Main Chinese players market share
Photolithography	5.7	0.5%	N.A.
Metrology	4.4	3.8%	Skyverse 2%
Ion implantation	1.0	5.5%	Swec 4%
Track	1.3	10.4%	Kingsemi 8%
Thin film deposition	7.7	14.4%	Piotech 5%, Naura 8%
Furnace	1.0	55.3%	Naura 30%
Etching	7.4	19.8%	AMEC 9%, Naura 10%
CMP	1.0	45.6%	Hwatsing 35%
Cleaning	1.7	60.5%	ACMSH 45%

Source: Bin Yuan Capital

As shown in Table 2, AMEC sits in the second most valuable sub-sector, etching equipment. Its excellent products and services have helped to expand its market share from 0.8% in 2019 to 9% in 2023, making it the fastest-growing etching equipment manufacturer in China. AMEC was founded by Dr. Gerald Zheyao Yin in 2004, when he leveraged his leadership experience, semiconductor R&D experiences, and accumulated network overseas to build a solid and comprehensive team at AMEC. The core management team and R&D team have extensive experience in global semiconductor equipment manufacturing, and they have maintained high standards of management and R&D which should ensure a high level of competitiveness in the sector. As one of the leaders of semiconductor etching equipment vendor in China, AMEC is actively and continuously engaged in the R&D of more advanced etching equipment as well as expanding its business into thin film deposition equipment and metrology equipment to explore new growth drivers.

Piotech is the leader in the thin film deposition sector among domestic players in terms of advanced technology. The company's product line covers key equipment in the semiconductor thin film deposition process, including Plasma Enhanced Chemical Vapor Deposition (PECVD) equipment, Atomic Layer Deposition (ALD) equipment and Sub-Atmospheric Chemical Vapor Deposition (SACVD) equipment. Piotech's main product PECVD has reached an advanced international level in technical indicators and is widely used in downstream wafer fab. In 2023, Piotech had 5% market share in the thin film deposition equipment market, and we expect it will have 12% of the total domestic market share by 2027. Additionally, Piotech is investing massively in developing more advanced thin film deposition equipment as well as wafer bonding equipment to meet the strong demand from high-end chips production.

Naura is the largest semiconductor equipment manufacturer in China. Its product line covers etching, thin film deposition, furnaces, and cleaning. Naura continuously conducts R&D in every type of semiconductor equipment, striving to build itself into a platform-type and the most fully integrated semiconductor equipment provider. The company's revenue grew from RMB 3.3 billion in 2018 to RMB 22.1 billion in 2023, marking a CAGR of 46% over the past five years, and we expect it to grow at a CAGR of 28% over the next 5 years.

Summary

In conclusion, it is critical for China to develop its own semiconductor equipment to ensure the viability of China's semiconductor sector. There are great opportunities in the largest sub-sectors: thin film deposition and etching. AMEC, Piotech and Naura are our top picks among domestic players due to their overall competitiveness. They have proved their capabilities by delivering reliable products and the ability to continuously innovate. They delivered annual earnings growth rates of 33%, 211% and 90%, respectively, over the past 3 years, and we expect they will grow at 32%, 40% and 30%, respectively, over the next 3 years. Their PE valuations are at historically low levels. In addition, as shown in Table 3, in terms of PEG valuations, they are more attractive than comparable global equipment manufacturers.

Table 3. PEG valuations: Chinese equipment manufacturers vs global manufacturers

	Company name	2024 PE	Earnings growth 2024-2027(E)	PEG
Chinese vendors	**AMEC**	**39**	**32%**	**1.2**
	Piotech	**37**	**40%**	**0.93**
	Naura	**29.5**	**30%**	**0.98**
Global vendors	AMAT	24	10%	2.4
	LAM Research	30.5	20%	1.5
	ASML	43.3	28%	1.55

Source: iFinD, Bloomberg, Bin Yuan Capital

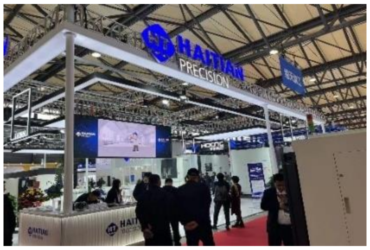
Sincerely,

Ping and the Team

May 7, 2024

Bin Yuan on the Road

April 8, 2024



We attended an industrial machine tool exhibition in April to get an update on the product situation of various companies and the industry.

Excellent products like CNC machine tools, CNC systems, cutting tools, etc. were launched and exhibited. Competition is fierce in the mid and low-end product areas, so breakthroughs in high-end products such as operating systems and high precision cutting tools are needed. There's still gap between domestic products and foreign products, as the development of industrial machine tools requires the accumulation of both human capital and technology. But we saw the increasing possibility of breakthroughs, and the strong demand brought by the development of China's manufacturing industry will offer significant opportunities.

" We believe we can make breakthroughs and have great achievements on the most advanced CNC tools. " – IR of a company in the exhibition.

April 17, 2024

We met with the management of a leading printer manufacturer in Shanghai, which has ability to independently produce core components such as printer control chips.

Last year the demand for printers declined due to the contraction of government spending. We visited to check if the situation showed any signs of improvement. According to management, there's a trend of import substitution in the purchasing of printer equipment, and the company should be a beneficiary. At the same time, they plan to upgrade their product offerings in the future, which should also improve its net profit performance.

" We have successfully developed A3 printer last year and will increase brand promotion this year to take more our market share." – company IR Mr. Feng

April 23, 2024

We met with a leading global supplier of automotive steering systems in Suzhou to review the progress of the ADAS (Advanced Driving Assistance System) market.

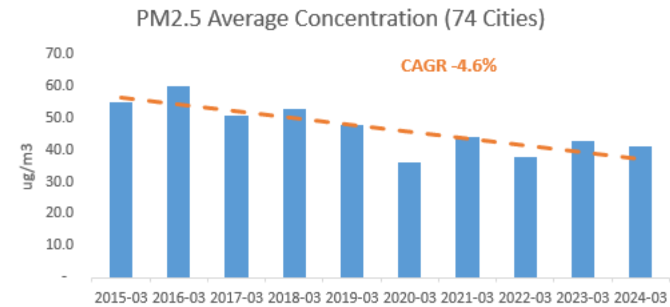
Demand for advancements in steering systems has been rising along with the increasingly mature autonomous driving technology. The upgrade from traditional Hydraulic Power Steering (HPS) to the more advanced Wire-By-Wire Steering (WBS) systems has enhanced the precision and flexibility of steering mechanisms. As the entire steering system continuously upgrades to accommodate smart driving capabilities, the sector is expected to develop at a higher-than-industry growth rate.

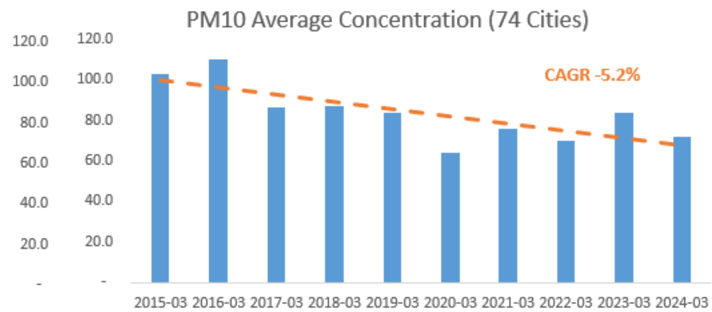
"As one of the crucial indicators of the development of the ADAS market, the upgrading of steering systems is continuously evolving." – Sales Director for the Asia-Pacific region

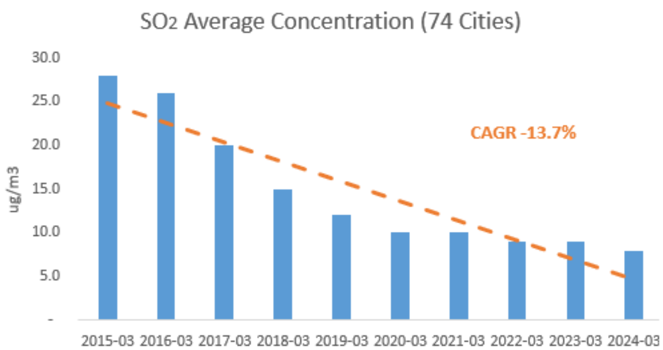
Bin Yuan Environment Tracking

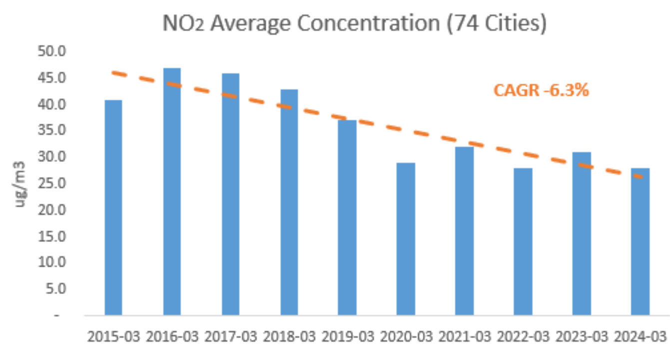
This tracking includes monthly air and water quality data, both showed steady improving trend in the last 5 years. Air pollution concentration dropped due to reduced coal combustion, increased proportion of new energy vehicles, and tightened emission control measures. Water quality improved mainly from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

China air pollutant concentration data February 2015-2024



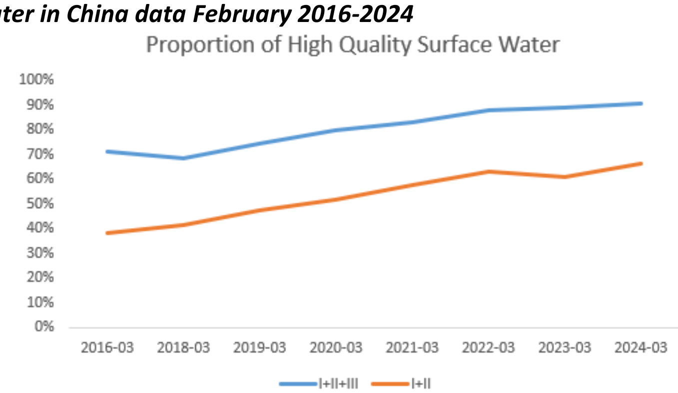






**PM2.5, PM10 and SO_2 are mainly from fossil fuel combustion, and NO_2 is mainly from vehicle emissions.*

The proportion of high-quality water in China data February 2016-2024



**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.*

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