Bin Yuan Capital All China Strategy – Year End Review

Executive Summary

As we enter 2025, we see high potential positive upside for the portfolio. The market will most likely still be volatile, with domestic funds highly short-term and momentum-driven, and ongoing foreign cynicism. But we believe the government's new policies will strengthen the economy and spur the equity markets.

Sentiment remains subdued. There are very low expectations for US / China relations, and we do not see a reversal in the near term. Decoupling has been well anticipated as both sides have prepared for it. It has forced Chinese companies to expand abroad, shift to local suppliers, and prompted the government to introduce more counter-cyclical policies to maintain growth. So while unlikely, any constructive re-engagement between the US and China would give the market a major boost.

The negative impact of property has been diminishing and the trend is stabilizing. Downside is limited for the market because, as we have previously commented, the Chinese government will implement whatever measures are needed to meet their growth targets and support the market. The intensity and pace of fiscal and monetary policies is likely to be adjusted flexibly based on changes in the external geopolitical environment. Boosting domestic demand will top the government's agenda.

The RMB should remain weak, and a deflated RMB is beneficial to China's economy, as it helps bring mild inflation and enhances the competitiveness of Chinese companies. Unlike the US, China needs an inflationary environment to revitalize investment and consumption to revive the economy.

We see significant investment opportunities in today's market, particularly in high-margin industries such as advanced technology in artificial intelligence and electrification, healthcare, and innovative consumer products and services. The majority of our portfolio holdings are in these areas.

Even though mid-cap stocks were not favored by the market over the past three years, we believe we should "stick to our knitting" and keep focusing on mid-caps, which are the most dynamic, best managed and profitable companies. We estimate our portfolio's earnings will grow by 22% annually over the next three years. The portfolio has a PEG of 0.6, near an all-time low, vs 1.7 for the market excluding financials. We have high conviction in the quality and earnings power of our portfolio companies, and they are trading on the widest discount to the market that we have experienced. We see the market focus changing in 2025 and moving to the market segments showing strong growth.

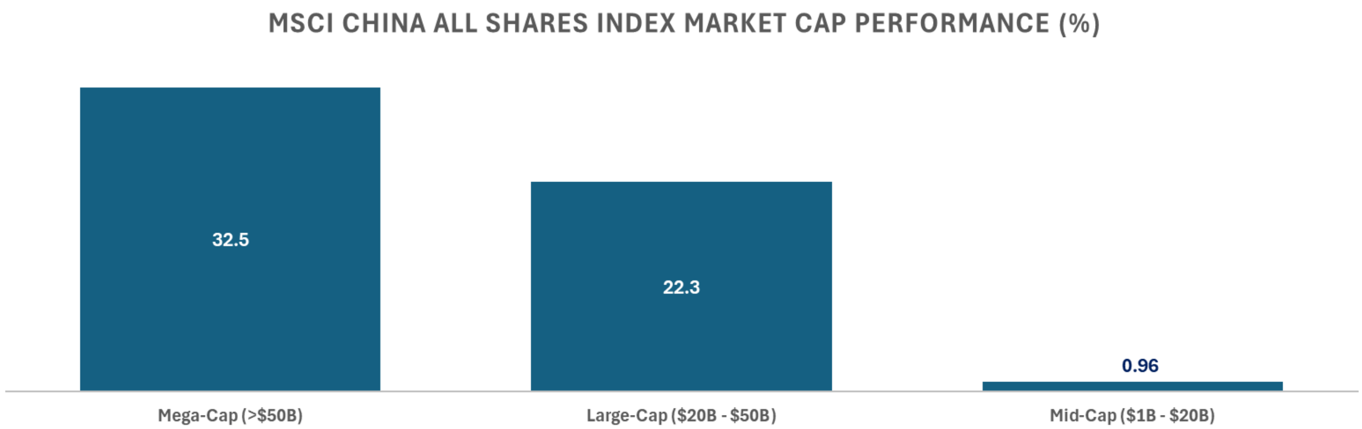
The preliminary Q4 numbers for our holdings should begin to come through in January, which should look good compared to the year before. And attention will start to focus on the NPC meeting in March where we expect further positive policy announcements. With low expectations, sentiment could improve rapidly with any positive corporate, macro, or geopolitical news.

Part 1 of this year-end newsletter reviews our 2024 performance attribution, and we take a look back at 2024 in part 2. In part 3, we outline the opportunities and our portfolio positioning for 2025.

Part 1: 2024 Performance attribution

The market (MSCI China All Shares Index) in 2024 rose by 16.4%, yet stock performance diverged significantly, depending on market capitalization and sector.

The index gain was driven primarily by large-cap stocks supported by government funds or targeted by both local and foreign passive funds. Within the MSCI All Share Index, mega-cap stocks, with a market capitalization of over $50 billion, soared by 33%, while large-cap stocks, with market capitalizations ranging from $20 to $50 billion, increased by 22%. In contrast, mid-cap stocks, with market capitalizations below $20 billion, were almost flat, significantly underperforming their larger-cap counterparts. On a sector basis, state-owned financials and mega internet (communication services) stocks led the way with strong returns of 42% and 26%, respectively. The poorest performers were healthcare and consumer staples, recording losses of 17% and 9% respectively.



Our portfolio declined by 2.34% in 2024, underperforming the index by 18.72%, mainly attributed to the allocation impact.

Our stock selection in consumer services, high-end materials, semiconductors, and financials performed robustly. However, our mid-cap-focused portfolio's market cap allocation contributed approximately 12% to this underperformance. An additional 4.3% was related to sector allocation, as we were underweight the outperforming financials and communication services sectors and overweight the lagging healthcare sector.

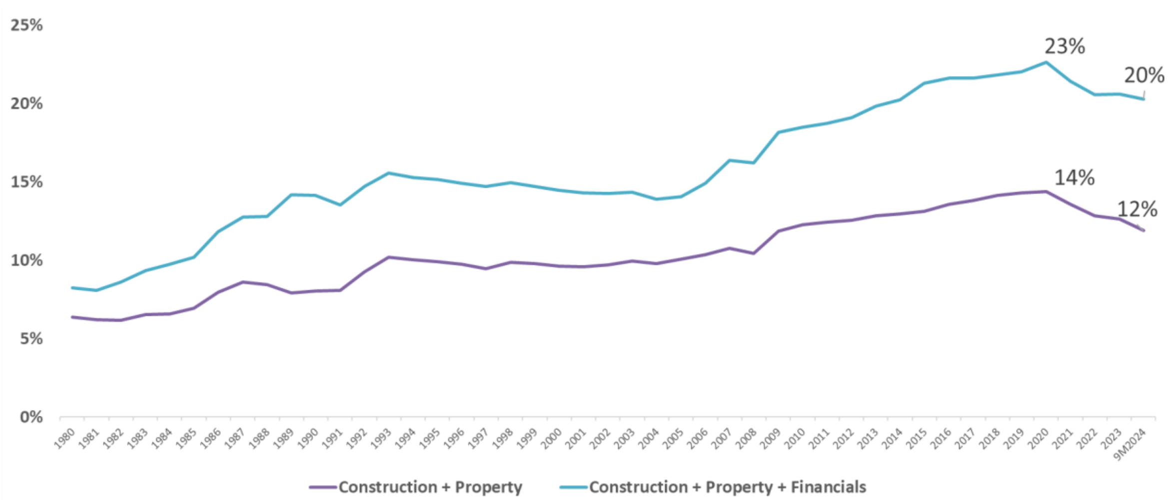
The two stocks that negatively impacted our performance the most were iRay and Haichang, which incurred losses of 5.4% and 2%, respectively. The fundamental thesis of the two companies remains intact, and we believe that the stock turnaround of these two holdings will be alpha contributors to the portfolio in 2025.

Part 2: Review of 2024 and the past

Since the market hit a two-year low at the end of 2023, investors have not gotten what they might have expected: a strong Chinese economic recovery accompanied by a strong equity market rebound. Instead, China has delivered a weak economic recovery. We saw a bumpy stock market during the year. In January 2024, the CSI300 dropped a further 6.3% that caused panic among local investors. The government stepped in to support the market by buying select, index-influencing state-owned stocks. The market gradually climbed to +7% in May, then headed down again, moving close to the January-end level by mid-September. In late September, the government announced new fiscal and monetary policies to stimulate the sluggish economy. The market shot up sharply in the last few trading days of September and the first trading day of October, up 35% in just a few days. After that, the indices retreated 11% in the following week as investors grew skeptical that the stimulus package was sufficient to reflate the economy. The market closed out 2024 +16.4%.

The Chinese economy struggled in 2024. We believe that the government needs to work hard to reach their 5% GDP growth target. From a macroeconomic perspective, **the collapse of the property sector bubble has had a profound impact on the economy.** Data shows that trade is not an issue. Prior to 2020, the property and construction sectors accounted for 14% of GDP (Chart 1) and contributed about 1.3% to GDP growth annually. (If we add in financials, which were proportionally heavily weighted toward the property and construction sectors, the number would be closer to 23% of GDP). However, this positive contribution has now reversed and the sector's impact on GDP growth was -1.1%, as combined property sales and investment-related activities fell by approximately 10% in the first eleven months of 2024. This reversal has had noticeable effects on employment and the financial health of households and local governments. The increase in the unemployment rate, reduced household income, lower local government land-sale revenue, shrinking balance sheets, falling property values - all accumulated to cause consumers to lose confidence in their expected future income and asset values.

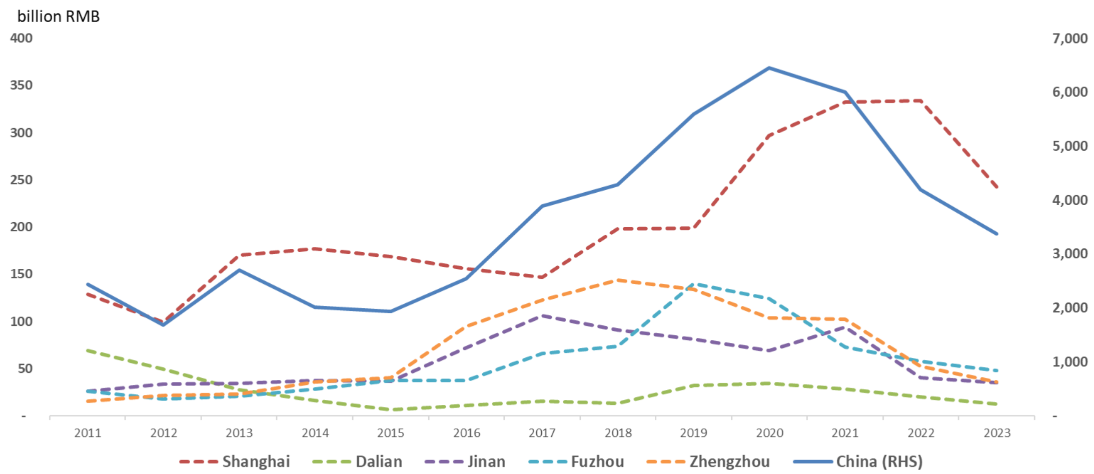
Chart 1: GDP Contribution



Sources: iFinD, Bin Yuan Capital

Local governments' revenue from land-sales across the country in 2023 was only half of that during the peak period in 2020. In some third-tier cities, it even dropped by over 60% (Chart 2).

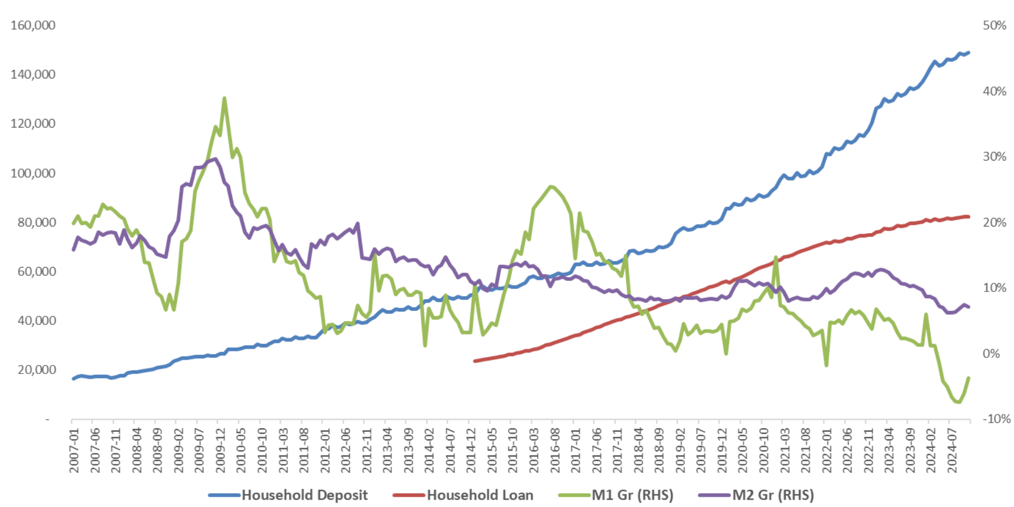
Chart 2: Local Governments' Revenue from Land Sales



Sources: iFinD, Bin Yuan Capital

Lower income expectations and the decline in asset values have restricted households' willingness and capability to spend. The blue line in chart 3 indicates that while household savings have grown steadily, the sharp drop of M1 (including cash and demand deposits that can be conveniently used for transactions), the green line underscores the very weak appetite for consumer spending.

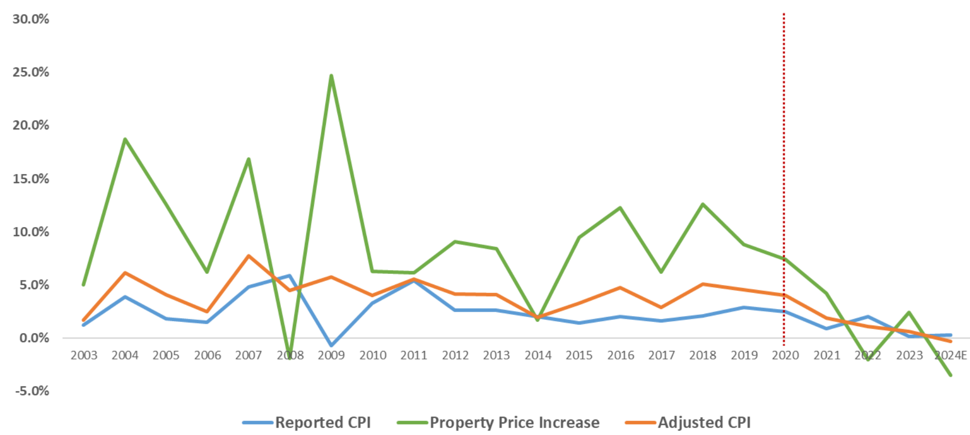
Chart 3: Household Deposits & Loans vs. M1 & M2



Sources: iFinD, Bin Yuan Capital

The property market bust is one of the root causes of slower economic growth over the past three years. China's leadership has been slow to understand the significance of this issue. The structural economic problems have been accumulating over the past 30 years, during the high-GDP growth stage which was driven by strong trade surpluses. In a closed capital account economy, these surpluses provided high levels of liquidity to the domestic economy. The government, dominated by state planning, put most of these surplus financial resources into fixed assets (infrastructure) investments. This led to the booming of infrastructure and the property market (fixed assets). The value of fixed assets appreciated strongly. Since fixed asset values are not a constituent of the CPI figure, but account for a major portion of household spending, this distorted real inflation data. While property prices increased by **an annual average of 9.5% for the 17 years from 2003 to 2020, headline CPI averaged only 2.7%. If we adjust the impact of property price increases, with an adjusted average CPI of 4.4%, the economy has been running at an effective real negative interest rate of 1.1% (Chart 4 & 5)**.

Chart 4: CPI, Adjusted for the Impact of Property Price Increases



Sources: iFinD, Bin Yuan Capital

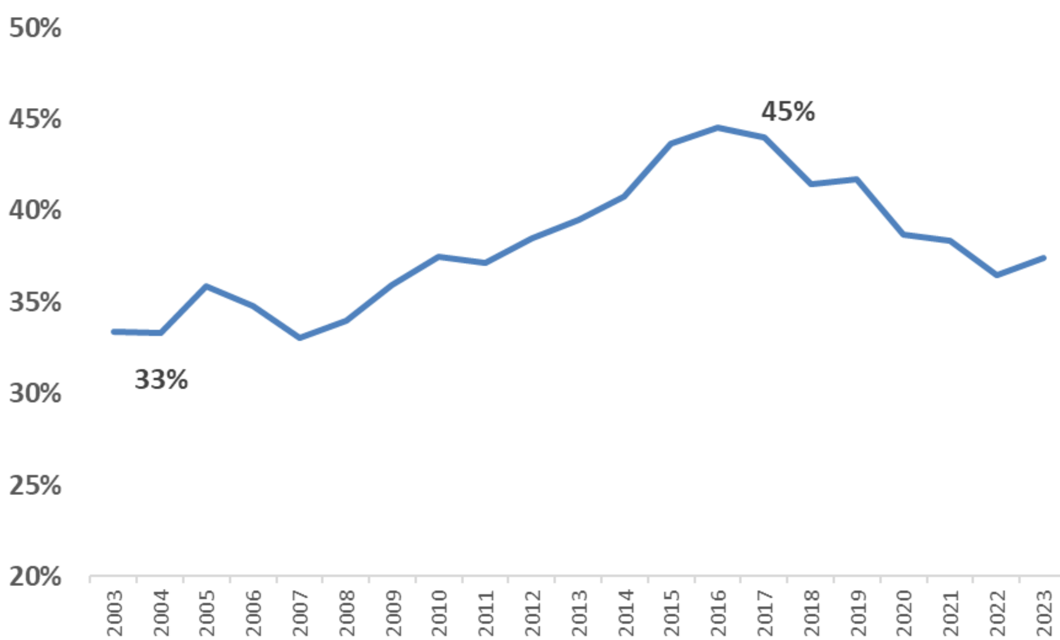
Chart 5: Real Interest Rates, Adjusted for the Impact of Property Price Increases

Sources: iFinD, Bin Yuan Capital

The distorted inflation data caused the real economy to operate in a real negative interest rate environment for a long period of time before 2020 (Charts 4 & 5), which benefited infrastructure-building state-owned enterprises (SOEs) with low-cost financing. **The high liquidity and low financing costs helped China build a very advanced infrastructure network which no other country has done in such a short period of time. But it is this infrastructure that has made China one of the most efficient and competitive countries in the manufacturing sector.** Another major benefit of real negative interest rates is that real estate investment surged, and both the central and local governments earned substantial revenue from land sales. As a result, China's economy expanded rapidly.

The flip side of an inflationary and negative interest rate environment had a two-stage impact on households. First, households intend to spend and invest. Total retail sales of consumer goods as a portion of GDP rose steadily for those 17 years (Chart 6), following the trend of economic growth and rising incomes. This upward trajectory bolstered consumer confidence. This confidence stemmed from the anticipation that the positive economic momentum would continue unabated, the expectation that future economic conditions would remain robust, incomes would keep rising steadily, and assets, such as property and financial holdings, would appreciate in value over time. But the bursting of the property sector bubble became a catalyst (the second stage) to reverse confidence and expectations, and ultimately limit the rate of economic growth and real interest rates (affordability and the real carrying cost of fixed assets). The drop in property prices is deflationary, and the negative interest rate gap is shrinking, and real interest rates adjusted by property prices reached a positive 2.3% in 2024 (Chart 5). The expectation has reversed, and households are spending less and saving more. A vicious cycle of falling prices and weak demand, as seen in Chart 3, shows this result.

Chart 6: Total Retail Sales of Consumer Goods, as a Portion of GDP



Sources: iFinD, Bin Yuan Capital

We believe that while geopolitical difficulties will add some challenges to the Chinese economy, it is the internal structural problems discussed above that are more important to future economic growth. **The government needs to tackle these structural problems (mismatches):**

1) **The financing cost gap between private sector borrowers, including mortgage holders, and SOEs has widened, suggesting that private enterprises and households are effectively subsidizing SOEs and state banks.**

2) **The wealth gap among citizens has widened, leading to a large accumulation of liquidity in the banks by the wealthy - whose propensity to consume is much lower than that of lower-income groups - while the low affordability and confidence of lower-income households are unable to stimulate consumption.**

3) **GDP growth relies more on manufacturing and investment rather than consumption.**

The solution lies in addressing these mismatches and reversing them. One good way to improve the structural economic problems is for the central government to issue long term bonds and allocate most of the proceeds to improving local social welfare services and boosting the income of the bottom tier of households to restore their confidence. After adding state-owned assets to the central government's balance sheet, its leverage is not alarming and could actually increase significantly before it became a worry. Other good, but less direct, ways to allocate greater financial resources to households are to lower mortgage rates and increase the supply of affordable and public rental housing. These measures would alleviate the financial burden on households and leave more disposable income for other types of consumption.

The government should also acknowledge the vital role that the private sector, which employs 80-90% of the urban labor force, plays in the economy and support this sector by reducing its financing costs. The central government should allocate some of the bond proceeds to resolve local governments' debt burden to ensure local governments pay their outstanding debts to private companies. Ultimately, the recovery of the private sector and the expansion of its balance sheets will increase the private sector's production of goods and services, increase prices and ignite a virtuous cycle of rising income expectations and consumer confidence. **A low level of inflation would be beneficial to reverse household price expectations (and, as a secondary benefit, reduce the long-term cost to the government of paying back its long-term debt).**

The intensity and pace of new domestic policies will likely be adjusted flexibly in response to changes in the external geopolitical environment. The Chinese government will take whatever measures are necessary to meet its growth targets. In 2025, we do not foresee an improvement in Sino-US relations. However, this is not a new risk, as both sides have prepared for it. It has forced Chinese companies to expand abroad, shift to local suppliers, and **prompted the government to introduce more counter-cyclical policies to rejuvenate domestic demand to maintain growth.**

For the US, trade policies are inflationary, and inflation in the US is likely to remain elevated. AI will serve as a productivity-enhancing tool to maintain US competitiveness but whether or not income growth driven by rising productivity can offset the impact of persistent inflation remains a key question for the US in the coming years. If not, the "higher-for-longer" inflationary environment will ultimately affect consumer purchasing power and corporate earnings in US, and put the US government debt at very high risk.

Because of the challenges faced by both countries, the relationship is more likely to require on-going negotiations to resolve the two countries' contentious issues. The tone of the US towards China seems to be softer than that during the run up to the presidential election, and China has adopted a more open stance towards the US, as indicated by state media messages. Both sides appear to be willing to work together.

We expect the USD to remain strong against the RMB through 2025 due to persistent inflation in the US and China's expansionary monetary and fiscal policies. A weaker RMB should benefit China's economy, as it helps bring mild inflation and enhances the competitiveness of Chinese companies. Unlike the US, **China needs to inflate economy to lower real interest rates, thereby rejuvenating investment and, most important, consumption.**

Part 3: Portfolio Positionings for 2025 and beyond

Solving China's the structural issues will be a long-term process, but the negative impact of property has been diminishing and the trend is stabilizing. The marginally-improving environment will act as a tailwind for structural winners to perform even better.

China's move up the value chain has not changed, and has been accelerating. As we have repeated in our previous letters, the limiting of China's access to high technology has increased the transition to domestic technology – import substitution. The strong entrepreneurial culture and accumulated manufacturing technology has made China very competitive. Examples of globally competitive Chinese companies include those in the drone, communication network, electric vehicle, battery, solar, high-speed rail, high-voltage transmission, smart grid, and unmanned aerial vehicle sectors, among others. **This competitiveness also extends beyond manufacturing and technology to consumer products and services that feature Chinese cultural icons. The market share expansion goes beyond import substitution for mature products; it also includes emerging forces that are strong in digitalization and electrification, disrupting traditional industries.**

While China will face the challenges described above in reforming its economic structure, significant investment opportunities remain, particularly in high-margin industries (monopolies and oligopolies) such as **advanced technology in intelligence and electrification, healthcare, and innovative consumer products and services**, which are among our investment strengths.

The key investment focus of our portfolio is as below:

1. Advanced Technology

The ultimate driver of economic growth is productivity. China was strong in application innovation, as we emphasized in our newsletter "Innovation, Productivity and Value - Investing in Chinese Tech, June 2022". We believe that the US and China will be the two dominant players on the AI stage, with the US strong in creative innovation and followed by China on application innovation. **China has great potential to cultivate a batch of powerful application companies in the AI era.** We expect that China will accelerate significant investments in AI infrastructure, including electricity, computing power, and communication in 2025. With the highly efficient supply chain, vast talent pool, and decades of accumulated manufacturing expertise, China will capture opportunities in various AI applications, such as AI personal computers, AI glasses, AI software, AI smartphones, AI cars, AI robots, and AI manufacturing.

2. Domestic Consumption

The structural shift to domestic consumption is going to play an increasingly crucial role in GDP growth given the current geopolitical circumstances. The sectors that will likely benefit from are those that have been **de-rated, under penetrated and newly created areas of consumption.**

- ✓ Today's consumers are increasingly willing to spend on services and experiences rather than just pure products. This shift is particularly evident in the areas of education, entertainment, travel, health, tech innovation and consumer products and services focusing on emotional and experiential value.

- ✓ The next generation of commerce involves online-offline integration. Companies with distinctive channel advantages should benefit. Their offline barriers, such as unique in-store experiences and exclusive services, play a significant role in fostering customer stickiness.

- ✓ Technological innovation will increase the supply of high-quality products and enhance the willingness to consume.

- ✓ The government's support for lower-income groups should increase, enhancing the ability of low-income groups to upgrade their lifestyle.

- ✓ Leveraging local strengths and global intellectual property (IP) can create a new model for success, further bolstered by the rising popularity of China's own cultural IP.

- ✓ Stocks with higher dividend yields and strong cash flow should benefit, particularly those in the consumer sector, where cash flow is expected to strengthen over the next few years.

3. Healthcare

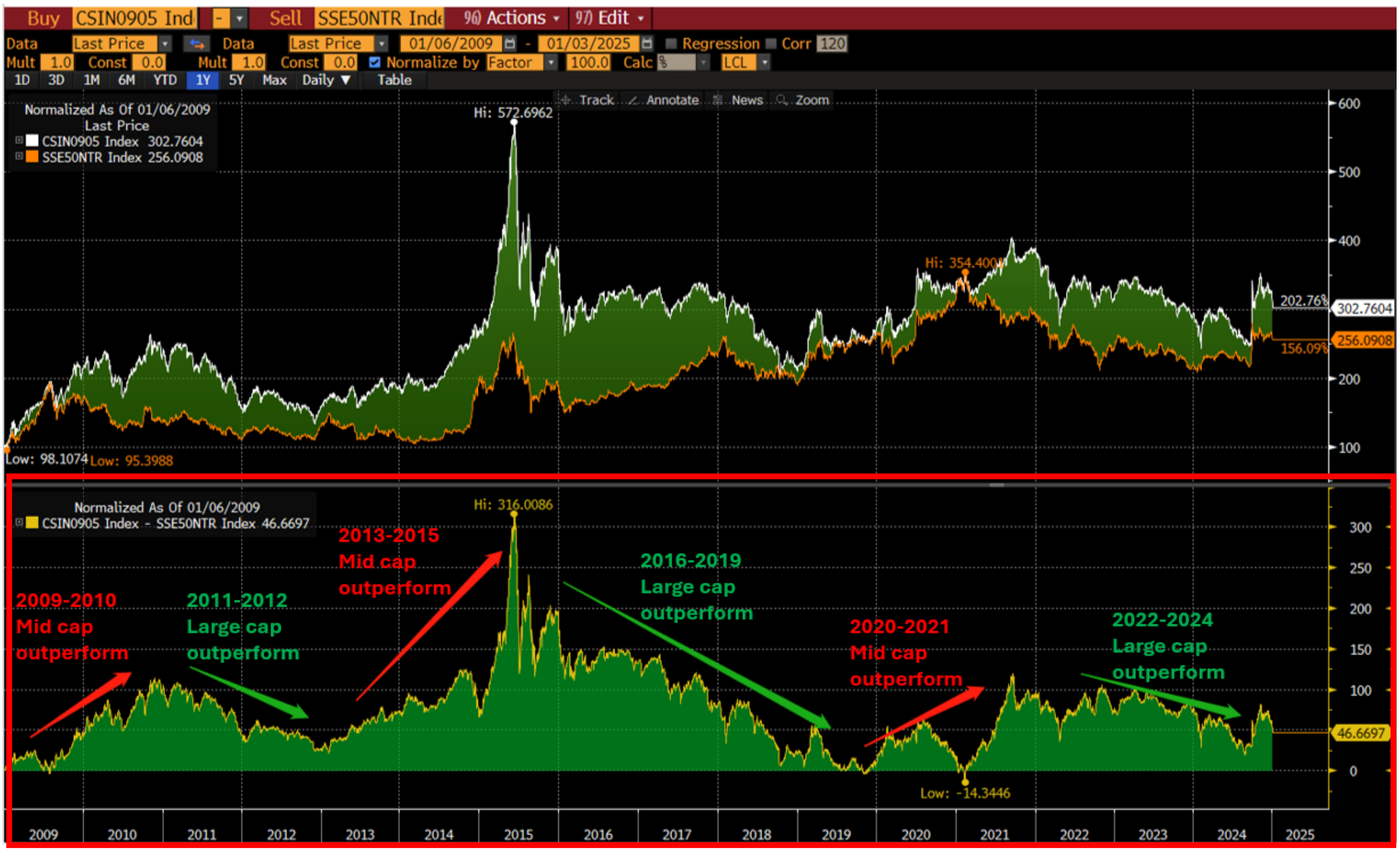
In 2025 and beyond, China's healthcare industry is set to reap the benefits of the progress in technology as well as the potential recovery of domestic consumption. The demands of the world's largest healthcare system serving 1.4 billion people and the often-mentioned import substitution trend are accelerating. With the gradual implementation of local government financial support, hospitals restarted to place orders with medical equipment manufacturers from the second half of 2024. Government support for first-in-class drugs and medical devices is clear. For leading enterprises, diversifying into overseas markets is becoming the next growth engine. Given that the share prices of healthcare companies have factored in excessively negative expectations, we are more optimistic about the earnings recovery and stock performance for China's healthcare industry in 2025.

Portfolio Metrics

As we have communicated we may underperform in an environment of 1) large-cap stocks outperforming due to a flight to safety, or 2) liquidity chasing speculative concept stocks. Our investment style has faced significant challenges over the past three years, but we believe that patience will be rewarded, given the high quality of our holdings, the historical trough valuations of our portfolio and the approaching more favorable economic cycle.

Historically, A-share market movements have shown a pattern of style shifts every three years. Chart 7 below shows the spread of the mid-cap (CSI 500) index over large-cap (SSE 50) index over the past 15 years. The spread went up when mid-caps outperformed (red arrow) and it went down when large-caps outperformed (green arrow).

Chart 7: Spread of CSI500 Net Total Return Index (mid-caps) over SSE50 Net Total Return Index (large-caps)



Sources: Bloomberg, Bin Yuan Capital

Although there have been periods when mid-caps lagged large-caps in the A share market, as in the past three years, mid-cap have outperformed large-caps over the long term. After in-depth reviews, we can confirm that our long-term stock selection remains sound and the mid-growth cycle companies we hold are fundamentally strong. **We will "stick to our knitting" and continue to focus on mid-caps, which are the most dynamic, best managed, and most profitable companies in China.** While past market patterns are not necessarily indicative of the future, we strongly believe we are reaching a point where favorable tailwinds are building up, and mid-caps should start to outperform large-cap stocks again.

As we enter 2025, we foresee a good year in China's equity markets with high potential positive upside. We believe the market's focus will gradually return to value-creating companies as the "flight to safety" momentum softens as confidence recovers. Although foreign investors remain skeptical of China and are waiting for more positive signals before taking action, local investor confidence is gradually recovering, driving mid-cap stocks to catch up since the end of September. We may start to see foreign investors buying into the China equity market in 2025, driven by the potential catalysts of more fiscal and monetary announcements, less vulnerability to U.S. tariffs and technology controls, key indicators recovering such as industrial profits, retail sales, among others, and better than expected corporate earnings.

These factors provide strong reasons to be optimistic about our portfolio returns, particularly for our mid-cap holdings, which have visibly strong earnings (Chart 8a), healthy balance sheets and cash flow. **Our positions in the technology, healthcare, and consumption sectors remain unchanged in 2025 compared to 2024.** When comparing our holdings in the technology and healthcare sectors with those of the leading companies in the US, **Chinese companies have lower valuations but higher growth over the next three years** (Table 1). The performance of our portfolio companies should reflect these strong earnings in a more normalized market, especially given their attractive valuations (Chart 8b).

Chart 8a: Bin Yuan Portfolio Earnings Growth vs. Market

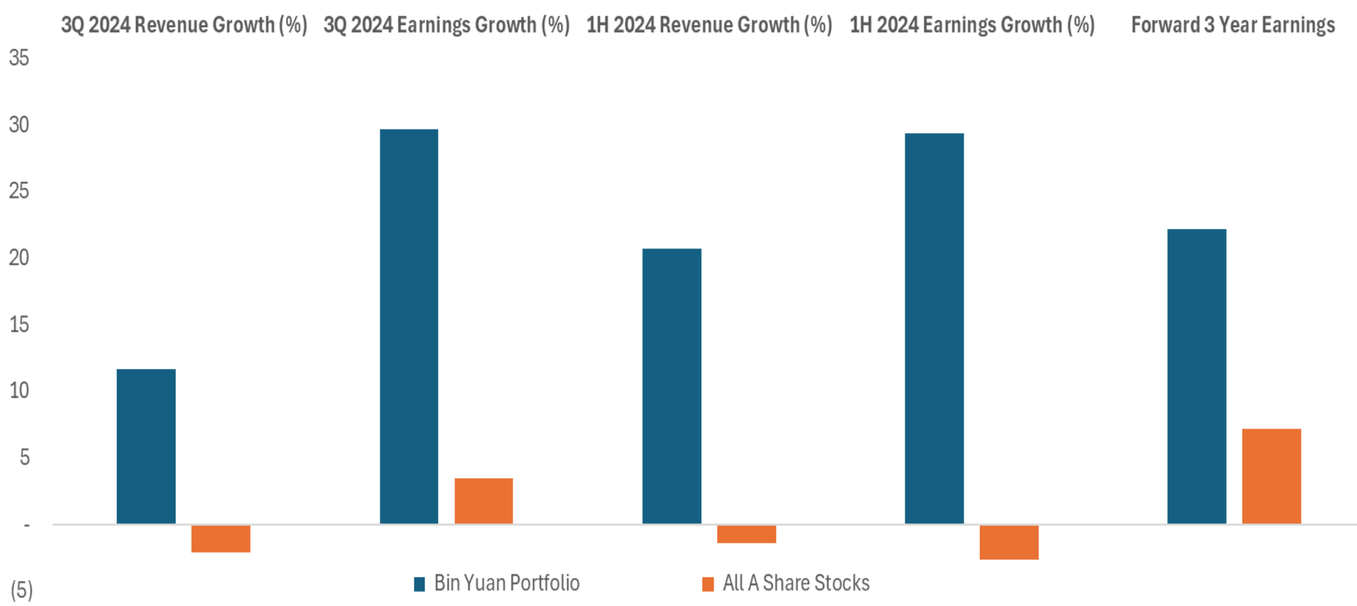


Table 1: Valuation of Bin Yuan Portfolio Holdings in Technologies and Healthcare Space vs. US Peers

Sector / Country	2025E PE	2025E PS	Net Income CAGR	PEG Ratio
AI Applications				
China	20.6	4.1	25%	0.8
US	24.0	6.1	10%	3.3
AI Infrastructure				
China	19.0	2.9	27%	0.9
US	28.2	3.7	17%	2.2
Healthcare				
China	16.8	6.5	23%	0.9
US	24.1	6.6	15%	2.1

Chart 8b: Bin Yuan Portfolio Valuation vs. Market

Valuation	Portfolio	Benchmark (excluding Financials)	Benchmark
Period	**12/31/2024**	**12/31/2024**	**12/31/2024**
2025 PE (X) - Harmonic Avg. Method*	14.1	14.30	11.35
2025 PE(X) - Weighted Avg. Method*	15.6	18.78	17.42
2025 PB(X)	2.8	2.76	1.87
2025 Div Yield (%)	2.7	1.64	1.89
2025 ROE (%)	18.0	12.21	11.33
Earning Growth (%) Forward 3 YR	22.1	9.09	7.24
2025 PEGY	0.6	1.75	1.91
FCF Yield (%)	3.1	-0.73	1.62

Sources: Bin Yuan Capital, Wind, Bloomberg

Appendix – Detailed Investment Opportunities in Technology, Healthcare and the Consumption Space

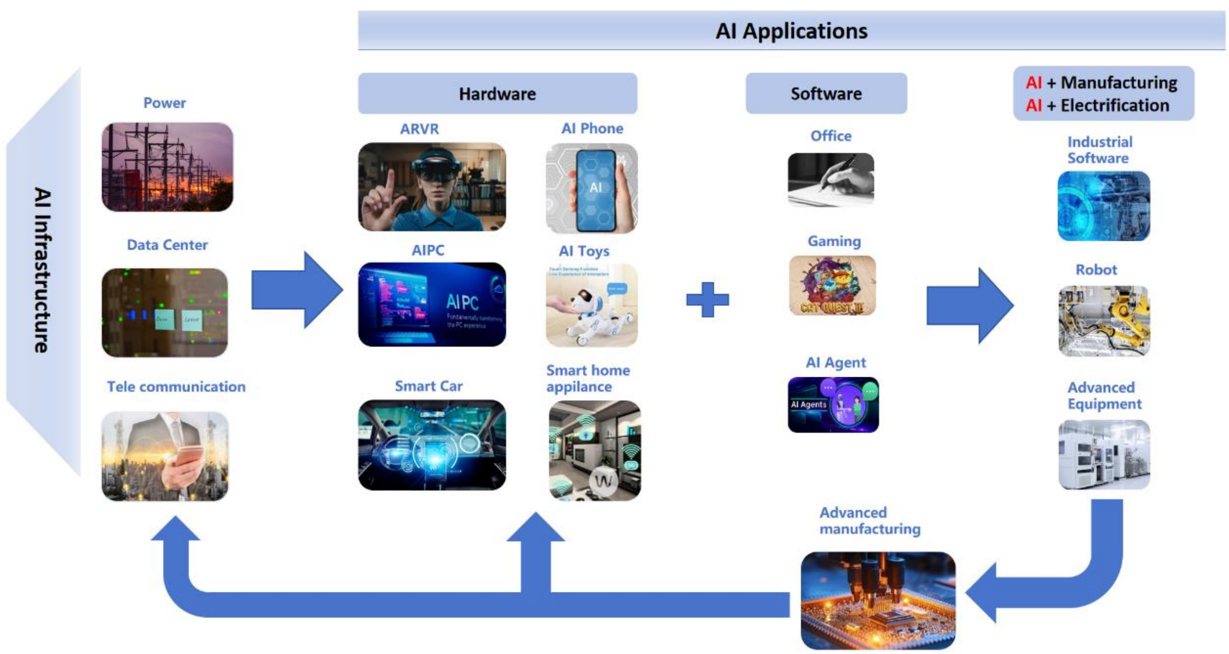
1. Technology

We wrote in our 2023 year end letter that AI would be "a pivotal driver of productivity in the coming decade". In 2024, we have seen more and more AI applications being developed and commercialized that brought in improved efficiency and productivity. This makes us even more convinced that AI will be the most important future theme for investment.

In the following section, we are going to illustrate the remarkable strengths that China has in this AI development and investment area.

The AI industry can be broken down into **infrastructure and applications**, similar to other disruptive technologies that have occurred in the past (see Chart 9).

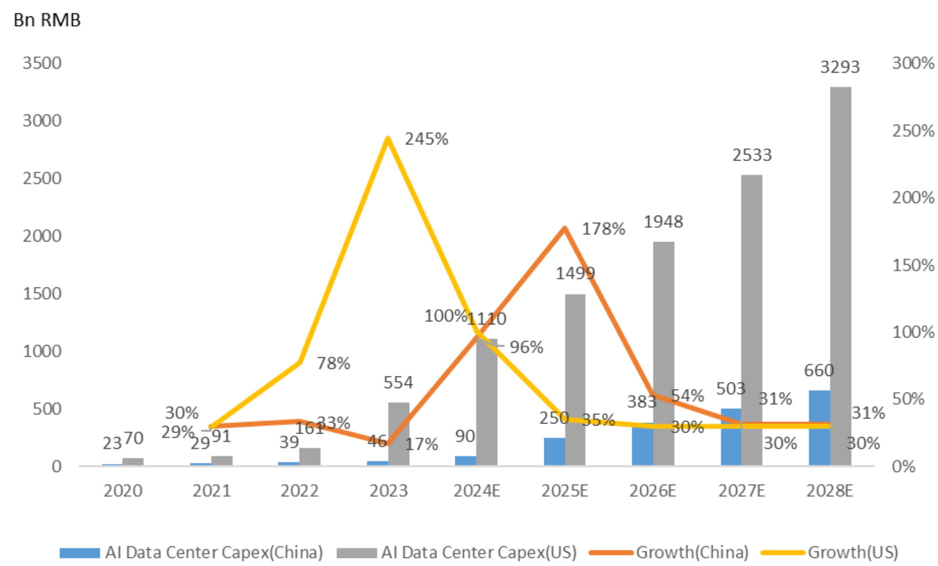
Chart 9: Investment Framework for Artificial Intelligence



Source: Bin Yuan Capital

AI infrastructure includes electricity, data centers, communication systems, etc. China's AI data center construction lagged behind that of the United States by two years. However, with the breakthroughs made by large technology companies represented by ByteDance in algorithms, **China has entered a period of high-speed investment in infrastructure construction beginning in 2024 and this should accelerate in 2025, driven by ByteDance whose AI infrastructure capital expenditure is expected to double this year** (see Chart 10). That should drive the vigorous development of related industries, especially for electricity and communication which are China's strengths.

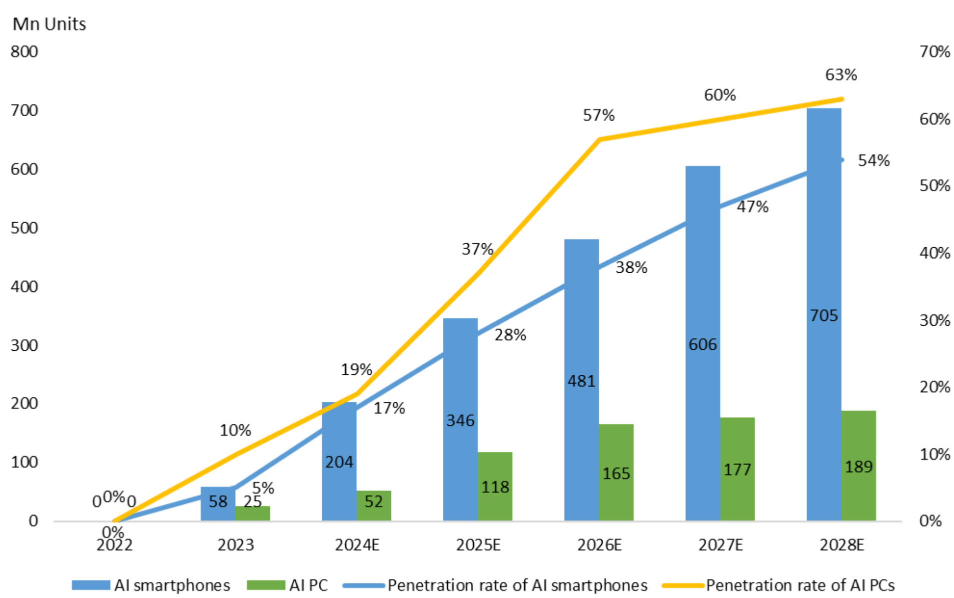
Chart 10: AI Data Center Investment Comparison between China and US



Source: Annual Report of Listed Companies, Bin Yuan Capital

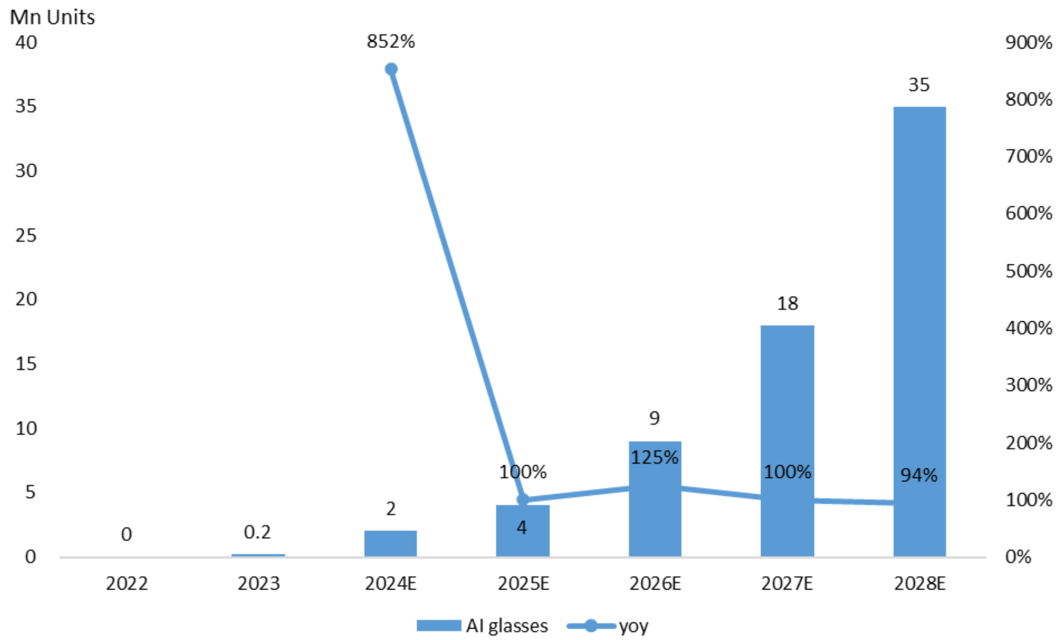
Meanwhile, with the help of advanced manufacturing, digitalization and electrification, AI technology has penetrated in some industries such as smartphones and PCs at an astonishing rate in 2024 and is expected to expand into other industries such as eyeglasses and other AIoTs in the coming years (see Chart 11 & 12), which means that many tech companies that in the value chain should benefit from this wave of technological revolution in the future.

Chart 11: AI Penetration Rate in Smart Phones and PCs



Source: Canalys, Bin Yuan Capital

Chart 12: The Growth Forecast of AI Glasses (mn units)



Source: Wellsenn XR

- **AI Infrastructure**

AI infrastructure includes the functions of energy supply, data computing, and information transmission. Although China lags behind in terms of the production of chips to enhance data computing capability (which was almost monopolized by global players like Nvidia, AMD and Broadcom), it still has strong competitiveness in the fields of electricity and data center integration.

(1) Electricity

Electricity is the energy foundation of AI; the development of AI will significantly increase demand for electricity and related equipment. Training OpenAI's GPT-4 model consumed approximately 5-6 million MWh of electricity, equivalent to the daily power consumption of a small city. Newly installed power capacity for AI data centers is set to experience a remarkable surge, escalating from 4.5 GW in 2023 to a substantial 40 GW by 2028, representing a 5-year CAGR of 55%. The US market is projected to account for 50% of this overall demand increase. As a result, the proportion of newly installed power attributable to AI is forecast to rise from 17% in 2023 to 55% by 2028 in the US market.

To provide more reliable, lower carbon emission energy for AI globally, gas power and nuclear power are becoming more and more popular. This year, Oracle, Microsoft, Google, and Meta have announced plans to procure nuclear power, restart nuclear power plants, or invest in SMR (small modular reactors) to provide a clean and reliable power supply for their data centers. The International Atomic Energy Agency predicts that by 2050, global nuclear power capacity will increase to 2.5 times the current level, reaching approximately 1200 GW. Data centers also lead to soaring demand for gas turbines. It is estimated that from 2023 to 2030, the total new demand for gas turbines in US data centers and global data centers will reach about 30 GW and 40 GW, respectively, with an annual compounded growth rate of 18% and 15%, respectively.

Another new trend is the application of Solid Oxide Fuel Cell (SOFC) technology, which can provide green and high efficiency energy for AI data centers. It can offer reliable power supply, crucial for preventing data loss. Additionally, its high efficiency and ability to utilize waste heat for cooling make it energy-efficient and can reduce carbon emissions, aligning with the green trend.

Beneficiaries:

NARI (600406.SH) is a leading global provider of software and hardware development and system integration services for power automation. With the vigorous construction of renewable energy in China in the past few years, the demand for the power grid in the entire power system has greatly increased, especially the demand for DC ultra-high voltage, where NARI has clear advantages.

Himile (002595.SZ) is a leading company in the field of tire molds, large casting parts, and CNC machine tools, with excellent manufacturing system and strong R&D capabilities. Its casting parts are well recognized by GE, Siemens and applied into their gas turbine products.

GATD (688239.SH) is a high-tech enterprise mainly engaged in the precision ring forgings for aviation, aerospace, industrial gas turbines and other high-end equipment with strong technical strength. It is also a highly regarded supplier to GE.

CCTC (300408.SZ) has rich experience in advanced ceramic material technology, it took the lead in launching the first 35kW and 50kW high-power SOFC power generation systems in China. We believe it can benefit from the increasing penetration rate of SOFC in AI data centers.

(2) Data Center Integration

AI data centers have very high requirements for system reliability, which makes an integrated system of the backup power system and cooling system become more important for customers. Given their critical role in handling complex data-intensive tasks, the leaders who can provide high quality of uninterrupted power supply and efficient cooling systems to ensure the servers' long - term stability and performance will gain market share and obtain robust orders.

Beneficiaries:

KSTAR (02518.SZ) is a leading high-tech enterprise in power electronics, specializing in UPS (Uninterruptible Power Supply) which is widely used in AI data centers. The total solution products of the company should benefit from the wave of AI infrastructure investments and the integration trend of AI data centers in China.

Lenovo (0992.HK) is the world's largest personal computer vendor, offering a wide range of products like PCs, smartphones, and servers, and is known for its innovation and global presence. Its competitiveness in liquid-cooled servers lies in its advanced Neptune liquid cooling technology, such as the use of warm water-cooling system to reduce the power usage effectiveness (PUE) value of data centers to below 1.1.

- **AI Applications**

We have illustrated the opportunities of AI applications in our previous newsletters, and recently we have seen accelerated progress in several sectors, like AIPC, AI glasses, AI smartphones, AI robots, Smart Cars, other AIoTs, AI manufacturing and software, which could be our investment priorities.

(1) AI + PCs

When we mentioned the AIPC in our year-end newsletter in 2023, there were few products launched at that time. But in 2024, AIPC makers made significant progress with an estimated 48 million AI PC shipments globally, accounting for 18% of total PC shipments. Canalys predicts that AI-compatible PCs will achieve a penetration rate of 37% in 2025 and around 60% of all PC shipments by 2027. The primary demand for AI PCs will come from the commercial sector, with 59% of demand expected from businesses by 2027.

Beneficiaries:

Lenovo' (0992.HK)s own "Xiaotian" AI system, which can provide strong AI capabilities to end users, has already been integrated into its AI PCs. The company now aims for an AIPC penetration rate of 60% by 2026, a year earlier than the industry average. With this, the company is anticipated to enhance their product mix and capture more market share in the AI era.

Montage (688008.SH) provides high-performance, low-power chip solutions for cloud computing and artificial intelligence. Increasing demand for AI PCs drives the growth of their high-performance "transport capacity" chips, and accelerates the penetration of DDR5, boosting the sales of its memory interface and module supporting chips.

(2) AI + Glasses

XR glasses (including Augmented Reality, Virtual Reality, Mixed Reality) have the potential to disrupt the way users interact with the digital and physical world. With the continuous decrease in costs, it is expected to drive up industry product penetration rate. Apple's vision pro did not bring significant growth for the XR industry because of its high price, but only one year later, some Chinese players surprised the market. In November, Rokid launched Rokid Glasses in Hangzhou, which is set to be available in the second quarter of 2025. Priced at RMB 2499, these eyeglasses integrate AI and AR (Augmented Reality) technologies, featuring functions such as information displays, weather forecasts, navigation, and real-time translation, and have also established cooperation with many partners to explore various application scenarios. Additionally, in December, Sharge Technology released its first AI eyeglasses with a minimum price of RMB 999 for the co-creation version. It focuses on memory functions and is equipped with the world's first AI memory system, Loomoos, developed by Sharge, which can achieve efficient recording, rapid storage, and multi-terminal synchronization of multimodal data. According to "Wellsenn XR", global AI glasses shipments in 2023 are estimated at 0.2 million units, with projections to reach 18 mn units by 2027, representing a CAGR of 204%.

Beneficiaries:

Sunny Optical (2382.HK) is a leading Chinese manufacturer of optical products. It's capable of providing integrated visual solutions and system integration services for ARVR customers.

iRay (688301.SH) is a leading global supplier of digital X-ray core components and comprehensive solutions. It focuses on upstream key components that are scalable to various downstream applications. Its CMOS (Complementary Metal - Oxide - Semiconductor) capacity, which supplies healthcare devices, can also be used as core components of the AR/VR glass industry, which is another growth driver for the company in the future.

(3) AI + Smartphones

AI phones excel in user experience, intelligent assistance, and seamless connectivity. After Apple announced on September 10, 2024, that iPhone 16 is designed with enhanced AI features such as more powerful Siri and A18 chips for better understanding and task performance, along with the rollout of new functions like text and image generation. Many other major smartphone manufacturers like Samsung, Vivo, Huawei, and Xiaomi have moved to integrate large AI models into their products, driving accelerated growth in AI smartphone shipments. According to Counterpoint, the penetration rate of AI smartphones is expected to reach 17% in 2024, and shipments exceeding 606 million units by 2027, achieving a penetration rate of 47%.

Beneficiaries:

Xiaomi (1810.HK) should benefit from AI through enhanced user experiences like personalized services, improved photography with AI-powered features, more efficient voice assistants, and strengthened security, while also leveraging AI to build a more competitive and interconnected smart ecosystem across its devices.

Sunny Optical (2382.HK) should benefit by providing advanced camera modules with enhanced imaging capabilities due to AI integration.

Luxshare (002475.SZ) is a leading global designer and manufacturer of consumer electronics terminals. As a key supplier to Apple and other major brands, it leverages its advanced R&D and manufacturing capabilities to meet the increasing demand for high-performance hardware and assembly services driven by AI features.

(4) AI + other IoTs

AI is set to revolutionize the IoT landscape with its advanced data processing capabilities and intelligent decision-making algorithms. For example, it can optimize device performance, enable predictive maintenance, and improve overall system responsiveness. Moreover, AI's ability to analyze vast amounts of data collected by IoT devices will unlock new value and opportunities. This includes enabling more personalized user experiences, better resource management, and the development of innovative services and business models across various industries such as healthcare, manufacturing, and smart cities.

Beneficiaries:

Xiaomi (1810.HK) should benefit from the development of AIoT as it enables the company to expand its user base with the continuous growth of connected device numbers such as reaching 8.6 billion connected IoT devices by September 2024 and over 10,000 partners, increase user stickiness with services like the growing active user numbers of their Mi Home APP, expand product lines to cover various fields like smart home and wearable devices, and boost revenue through the combined business of mobile phones and AIoT.

Anker (300866.SZ) is primarily engaged in consumer electronics, including its own brands of mobile device peripherals and smart hardware products. The upgrade of AI smartphones not only drives an increase in demand for charging devices but also imposes higher requirements on their battery life and charging speed. This leads to an upgrade in charging device specifications, resulting in higher product prices.

(5) AI + Robots

As mentioned in Bin Yuan's newsletter (Intelligent Robots help China open a new chapter in Intelligent Manufacturing, July 2023), powered by AI, the development of humanoid robots is a rapidly evolving field with significant potential to transform various industries and aspects of daily life. Driven by increasing demand from industrial and service sectors, the global humanoid robot market is expected to surge to $39.6 billion by 2030, with a CAGR of 51.8%. Elon Musk envisions a future where the demand for humanoid robots could potentially reach 10 billion units. The booming humanoid robot industry will significantly boost the demand for high-end manufacturing components like ball screws (a mechanical device that converts rotational motion into linear motion with high efficiency, precision, and load - carrying capacity, and is widely used in machine tools and robots). Once mass production commences, we estimate that ball screws will constitute around 20% of a humanoid robot's total value. The market for ball screws specifically designed for humanoid robots is projected to expand from RMB 120 million in 2024 to RMB 96 billion by 2030, achieving a remarkable compound annual growth rate of 107%.

Beneficiaries:

JSHL (601100.SH) is a leading Chinese manufacturer of hydraulic products and is capable of producing high-quality and highly reliable hydraulic products that are widely used in various fields, including robotics. The company's new product - ball screw - is a core component of humanoid robots and will bring new growth to the company in the future.

BOCHU (688188.SH) is a leading company in laser cutting and intelligent welding control systems. With the acceleration of industrialization and automation, its intelligent welding business is expected to experience substantial growth in 2025.

(6) AI + Autos

With breakthroughs in computing power, algorithms, and data, AI is undergoing a transformative leap in the automotive field. These advancements are not only driving the development of autonomous driving technologies but also fostering innovation in intelligent transportation and in-car systems. According to forecasts by the China Industry Research Institute, the market size of autonomous driving in China will reach RMB 383.2 billion by 2024. Regarding the industry chain, the added market space for perception, transmission, decision, and execution layers is expected to reach RMB 308.8 billion by 2025, with projections of RMB 702 billion by 2030, a CAGR of 27%. McKinsey forecasts that by 2030, China will likely become the largest autonomous driving market in the world, with new car sales and mobility services related to autonomous driving generating over $500 billion.

Beneficiaries:

Horizon Robotics (9660.HK) is a leading AI chip company focusing on providing intelligent driving solutions for autonomous vehicles. Horizon's Journey series of AI chips offer high computing power and energy efficiency, enabling real-time processing of complex sensor data for autonomous driving systems.

Sinofuse (301031.SZ) specializes in the production of high-end fuses, providing electrical protection solutions for autonomous vehicles. Its fuses prevent circuit faults, ensuring the stability and safety of electrical systems, making them a key component in the safety systems of smart vehicles.

(7) AI + Software

Commercialization of AI agents in numerous kinds of software has been a positive surprise globally. Several US companies like Palantir, AppLovin and Salesforce have already shown significant growth driven by integrating AI technology. The order of Salesforce’s AI product increased by more than three times year-on-year in the 3rd quarter. Applovin's revenue increased by 39% in the third quarter because of its successful application of AI technology in the advertising business. We think all the other software companies will follow the trend in the near future, especially in areas like customer relationship management and content recommendation systems, where AI algorithms can understand user preferences and behaviors to provide tailored experiences. This leads to increased user engagement and satisfaction.

Beneficiaries:

Meitu (1357.HK) is a Chinese technology company that focuses on beauty-centered, AI-driven imaging and design products, as well as related solutions for the beauty industry. The application of AI in Meitu has enhanced the product effects, driving user payment and increasing the revenue of image and design products with paid subscriptions, thus improving the company's overall profitability.

(8) AI + Manufacturing

The widespread adoption of large language models has greatly driven demand for high-performance computing chips. With more and more domestic companies increasing their investment in AI, including ByteDance's planned investment of RMB 160 billion in the AI field by 2025, domestically produced AI chips are becoming increasingly urgent due to geopolitical factors, which will continue to drive the order growth of domestic semiconductor equipment to substitute import.

Beneficiaries:

AMEC (688012.SH), a leading manufacturer of semiconductor etching and thin film deposition equipment in China, should benefit the most from the increase of localization rate as well as the rapid expansion of downstream fab. AMEC's new order growth for 2024 is expected to exceed 90%. Long term, we believe AMEC will gain great earnings growth as it takes the demand from supporting domestic AI chips.

Piotech (688072.SH), China's most advanced thin film deposition and wafer bonding equipment manufacturer, similarly, should be benefiting from the increased demand for high-end equipment driven by advanced chips. Piotech's new order growth for 2024 is expected to reach 50%, and earnings over the next 3 years are expected to grow at a CAGR of over 30%.

(9) AI + Electrification

Electrification has profound and far-reaching significance for the development of artificial intelligence. It enables the miniaturization and integration of components in intelligent devices, enhancing their efficiency and portability. Moreover, electrified transportation and industrial systems generate a wealth of data that serves as a valuable resource for AI training and improvement.

Beneficiaries:

XCMG (000425.SZ) is a leading global construction machinery manufacturer. It is the pioneer of providing highly efficient electric mining machinery and construction machinery.

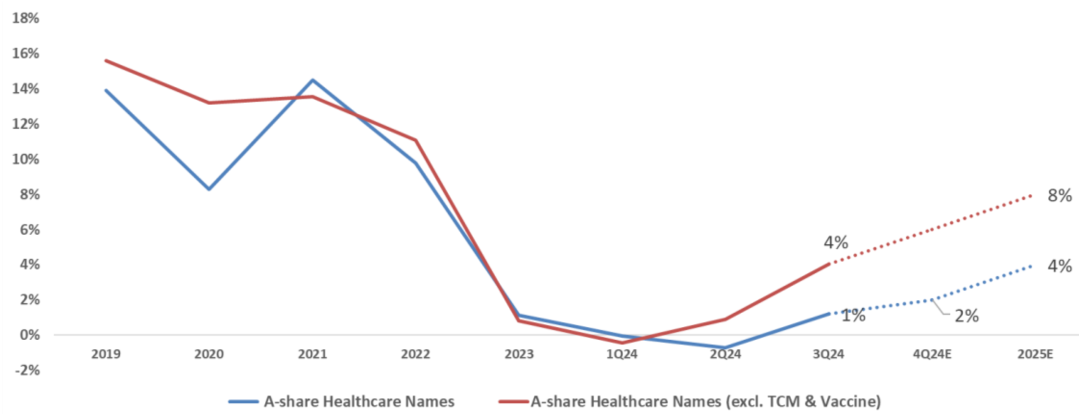
Jereh (002353.SZ) is a leading global high-end equipment manufacturer in oil & gas engineering. Its advanced electric equipment with higher power, smaller size, lower cost and higher efficiency, which meets the market demand for cleaner and more efficient oil and gas production, helps the company expand its market share and increase its profitability.

Ehang (EH.O) benefits from the wave of electrification by focusing on the R&D and production of electric vertical take-off and landing (eVTOL) aircraft, whose advantages of zero emissions, low noise and high efficiency meet the requirements of urban air mobility, thus opening up broad market prospects and continuously enhancing the company's competitiveness and influence.

2. Healthcare

China's healthcare industry has had a very difficult period over the past three years. We reviewed what had happened and what remained unchanged in the last three years in the healthcare section of the monthly letter in July 2024. A series of negative events including the 2021 Volume Based Purchasing (VBP) initiatives, 2022 Covid lockdown, 2023-2024 anti-corruption campaign, and on-going unpredictable geopolitical risks all impacted business activity, profitability and investment sentiment. Looking ahead to 2025, we can be more optimistic. The industry has been picking up on a quarterly basis. If we exclude traditional Chinese medicine and vaccine sub-sectors (which were greatly affected by the pandemic but are not our focus), the revenue growth rate of the industry in the Q324 rebounded to +4% (Chart 13).

Chart 13: Revenue Growth of A-share Healthcare Companies



Sources: iFinD, Bin Yuan Capital

In addition to import substitution, our investment focus in the healthcare sector in 2025 will be on those companies that have potential in the following areas:

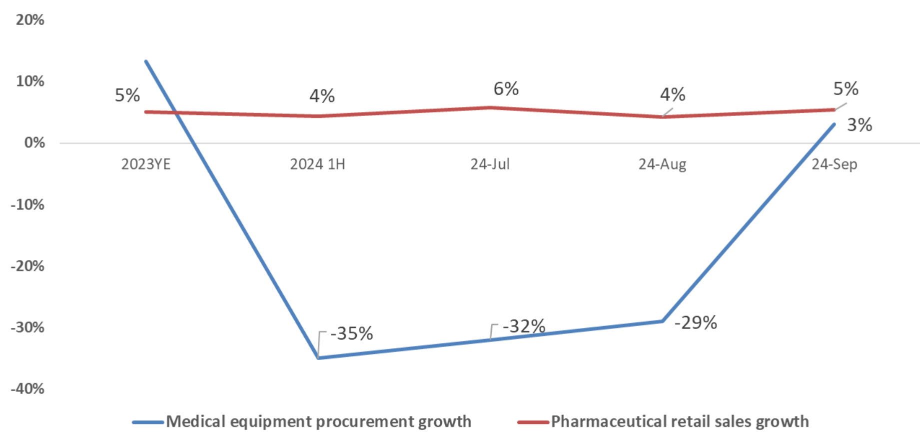
1) New medical infrastructure has been picking up

The development of new medical infrastructure continues to drive China's medical progress. Currently, the tiered healthcare system in China is underdeveloped. Hospitals in lower-tier cities lack high-quality medical equipment and professionals and are failing to meet patient needs. A large number of patients from lower-tier cities have no choice but to travel to major cities in search of better medical treatment. This influx has led to tremendous pressure on tertiary hospitals in big cities, as medical resources continue to be concentrated there.

In China, approximately 80% of hospitals are government-owned public hospitals. They rely on revenues from medical treatments, pharmaceutical sales, and consumables sales to cover daily operating expenses. When it comes to procuring large-scale medical equipment, they typically require financial support from local governments. The general process is that hospitals, based on their estimates of future patient visit volumes, submit their procurement requirements for large-scale medical equipment to the government. The government subsidizes part of the equipment procurement funds with free grants or low-interest loans to help hospitals procure their equipment.

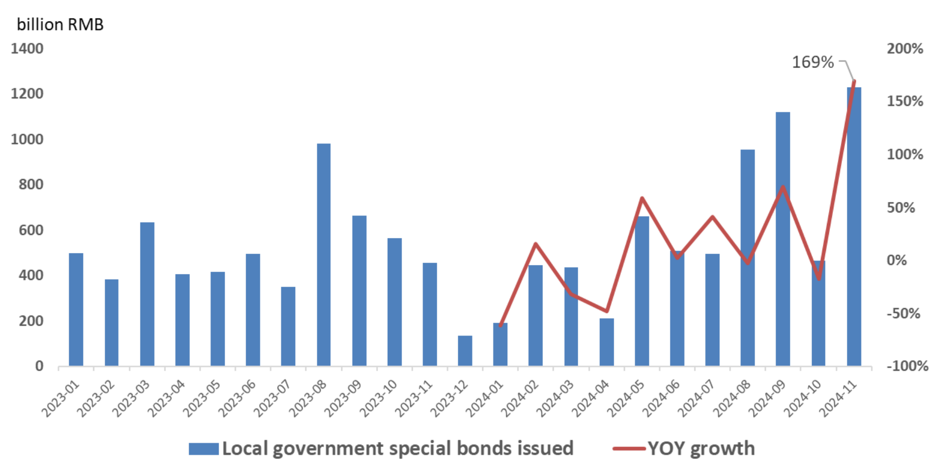
However, from the beginning of 2023 through the first half of 2024, the procurement needs for large-scale equipment reported by hospitals failed to receive timely responses from local governments and the hospitals did not receive their subsidies. This has led to a significant divergence between the growth rate of equipment procurement and that of drug sales in 2024 (Chart 14). Typically, the stable growth of drug sales tracks the steady increase in demand for medical services. This situation began to improve in the second half of 2024. The growth rate of local government special bond issuance reached 169% in November (Chart 15), and the growth rate of medical equipment procurement also turned positive in September 2024. We expect that local governments will allocate some of the proceeds from their bond issuances to help hospitals maintain their acquisition of large-scale medical equipment in 2025.

Chart 14: The Gap between Medical Demand & Supply



Sources: iFinD, Dou Bao, Bin Yuan Capital

Chart 15: Local Government Special Bonds Issued



Sources: iFinD, Bin Yuan Capital

Even in an unfavorable environment, leading medical device companies in China still manage d to achieve positive revenue growth by taking market share both at home and abroad. For example, Mindray (300760.SH) and Snibe (300832.SH) achieved revenue growth rates of 8% and 17% respectively in the first three quarters of 2024, which were much higher than those of their peers. We believe that once the environment improves, these companies will be the biggest beneficiaries.

2) The diversified overseas market is the next growth engine

Leading Chinese CRO & CDMO companies (Contract Research Organizations / Contract Development and Manufacturing Organizations) have become the targets of US geopolitical pressure and restrictions. This has made investors conclude that there is no chance for Chinese medical companies to expand overseas. In fact, compared with the medical giants in Europe and the United States, the global market still has significant potential for most Chinese medical companies. In the past, the domestic medical industry was booming, and Chinese companies had no time to develop overseas markets. With the gradual maturing of the domestic market, those Chinese companies with global competitiveness have increase their overseas market share.

Developing the international market will take time and we are focusing on companies that have developed their overseas networks, particularly in non-US overseas markets, and are seeing strong overseas revenue growth (Table 2).

Table 2: Investment Candidates, screened by Bin Yuan

Ticker	Name	Sub-sector	Oversea Revenue%	1H24 Total Revenue Growth	1H24 Domestic Revenue Growth	1H24 Overseas Revenue Growth
002901.SZ	DOUBLE MEDICAL	Consumables	11%	29%	27.3%	40.5%
002223.SZ	YUYUE MEDICAL	Equipment	12%	-14%	-16.9%	26.2%
688553.SH	HUIYU PHARMACEUTIC/	Pharm	13%	18%	12.4%	76.6%
688271.SH	UIH	Equipment	17%	1%	-3.4%	29.9%
002422.SZ	KELUN PHARMA	Pharm	19%	10%	9.8%	12.1%
688212.SH	AOHUA ENDOSCOPY	Equipment	19%	22%	22.3%	22.4%
300832.SZ	SNIBE	Consumables	36%	19%	16.3%	22.7%
300760.SZ	MR	Equipment	39%	11%	7.2%	18.1%

3) Opportunities for industrial upgrading: first-in-class pharmaceuticals and devices

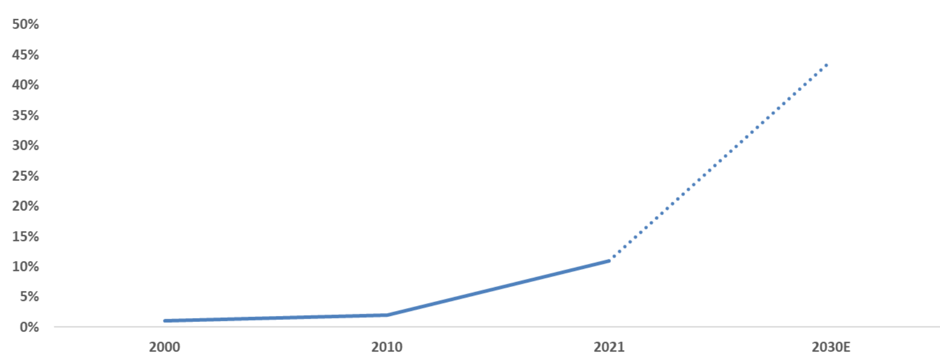
In China, national medical insurance coverage is quite extensive. Once drugs or medical consumables are included on the national medical insurance list, after patients receive basic medical treatment in hospitals, the cost of drugs and consumables can be fully or partially reimbursed by the national medical insurance fund. The Medical Insurance Bureau negotiates with manufacturers from time to time to determine which categories can be included on the list and at what prices they will be reimbursed. This is the well-known centralized procurement negotiation.

There is a clear tendency to tilt towards products with uniqueness and innovation. Compared with a price reduction of more than 70% that is common in the centralized procurement of generic drugs, the price reductions negotiated between first-in-class drugs manufacturers and the National Healthcare Security Administration (NHSA) are much more moderate. Many companies have grown rapidly due to their first-in-class products, such as the pharmaceutical company Allist Pharmaceuticals (688578.SH). Allist's revenues increased +155% in 2023 and +88% in the first three quarters of 2024 following the inclusion of its first product, Furmonertinib, on the national medical insurance list.

Because of the NHSA's preference for innovative new drugs, many enterprises that originally focused on producing off-patent generic drugs have increased their R&D investment and have gradually shifted towards the development of first-in-class drugs. Since the development of first-in-class drugs can take 10 years or longer (from R&D through clinical trials), even though many Chinese companies started working on first-in class products 25 years ago, a real, qualitative change in the kinds of drugs produced by domestic Chinese companies was not seen until about 2015.

At the beginning of this century, the amount of first-in-class drugs administered in China's as a percent of total drugs was extremely low, below 1%. By 2010, this proportion was roughly around 1% - 3%. According to an estimate by the Boston Consulting Group, the sales volume of first-in-class drugs in 2021 accounted for approximately 11% of total drugs administered. And according to the registration of drug clinical trials in 2023, first-in-class drugs accounted for 69% of all drug clinical trials. If we assume the R&D success rates of first-in-class drugs and off-patent generic drugs to be 10% and 30% respectively, then, in 5-10 years, drug sales in China's pharmaceutical market should be dominated by first-in-class drugs, roughly the same level as in developed countries(Chart 16). First-in-class drugs should replace the off-patent generic drug market and those companies capable of producing them should see rapid growth.

Chart 16: First-in-class Drugs Sales / Total Drugs Sales



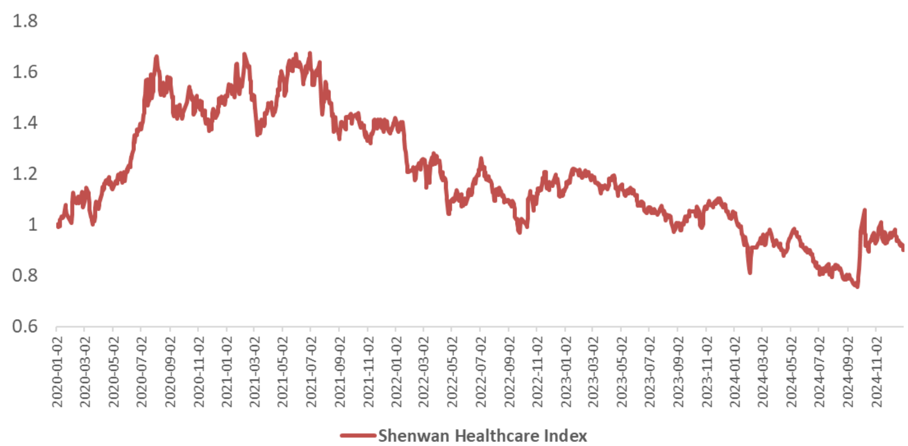
Sources: Dou Bao, Boston Consulting Group, Bin Yuan Capital

We focus on upstream technology, which can supply different types of drug companies. For example, Sunresin New Materials (300487.SZ), whose solid-phase synthesis carrier is an essential synthesis process for GLP-1 (glucagon-like peptide-1) drugs (which are used to control blood glucose and body weight for diabetic patients and the severely obese population). Sunresin has already become the exclusive supplier for many GLP-1 pharmaceutical companies at home and abroad. As the production volume of downstream GLP-1 drugs increases, the visibility of Sunresin benefiting from it is very high.

The application of new AI technologies also helps medical enterprises improve productivity and develop new ideas. Many pharmaceutical companies are using AI models to shorten the R&D cycle and improve R&D efficiency. Some medical equipment companies, like United Imaging Healthcare (688271.SH)'s imaging AI-assisted diagnosis and Mindray Medical (300760.SZ)'s critical care management AI, are upgrades to existing products based on the latest AI technology. All of this helps companies build technological and product barriers to entry and increases product replacement demand.

In conclusion, China's healthcare industry has had significant challenges over the past few years, but these have been fully reflected in the sector's share prices. The Shenwan Healthcare Index has dropped by 36.6% in the most recent three years (Chart 17). While current difficulties such as sluggish consumption, the effects of the pandemic, and policy adjustments pose short-term hurdles, the long-term prospects remain bright. The pick-up of new medical infrastructure, the expansion of overseas markets, the pursuit of industrial upgrading, and the integration of emerging technologies all present avenues for growth and innovation.

Chart 17: Shenwan Healthcare Index Performance

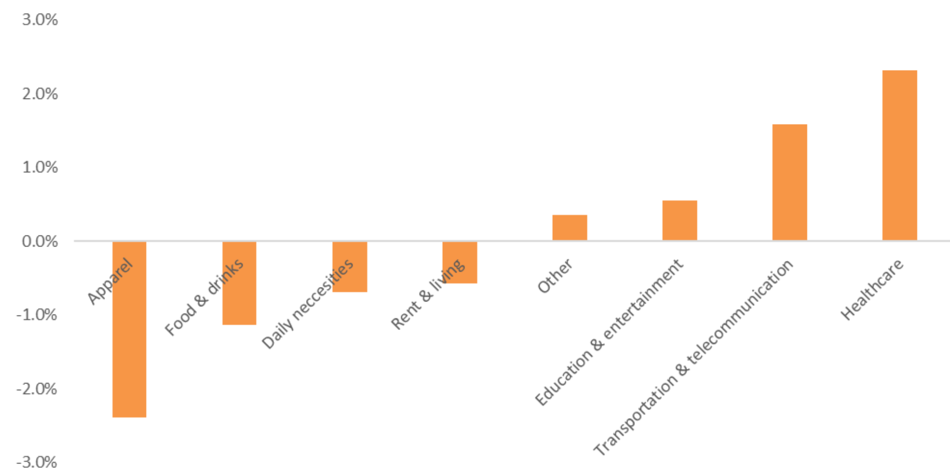


Sources: Wind, Bin Yuan Capital

3. Consumption

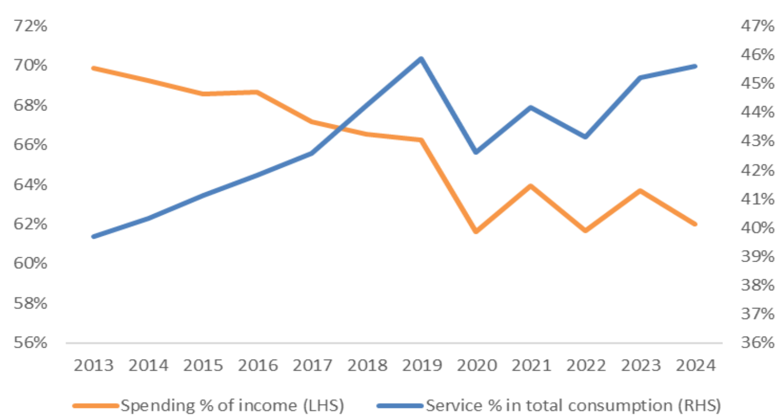
Consumer confidence has been relatively weak in the last two years following the slow economic recovery post Covid. Opportunities have been emerging amid some long-term structural changes. **The sectors that are under-penetrated, such as healthcare, travel, technology products, entertainment, and education, saw an increase in their share of total household spending** (Chart 18). Meanwhile, increasing support from government policies also added positive catalysts to the broad consumption space. The reduction in mortgage rates and increase of public housing supply should alleviate the financial burden on the lower-income groups. Various consumption subsidies and coupons for household appliances, autos, consumer electronics have been released since key policy changes in September and should be renewed and expanded in 2025. Further investment in the new infrastructure of healthcare and social security that promotes people's long-term welfare is also expected.

Chart 18: Structural Changes in Household Spending as of Q324 as % of Total Expenditures - 2013-2024



Source: NBS of China, Bin Yuan Capital

Chart 19: Spending as a % of Income and Share of Services in Total Consumption



Source: NBS of China, Bin Yuan Capital

- **The trend toward consumption of services has resumed although consumers have become increasingly rigid with total spending.** The trend was disrupted by the pandemic but has evidently resumed since re-opening. The share of the consumption of services has climbed to around 45% of total spending, close to the pre-pandemic level, and is still on an upward trend (Chart 19). This lags far behind the over 60% level of China's Asian peer Japan and developed countries, like the U.S., but we expect it to continue to rise in the next decade.

  Beneficiaries: Leaders in **under-penetrated service** sectors such as dining, accommodation, traveling, education / training, entertainment; those capable of providing **better services or new experiences**.

  Trip.com (9961.HK) is the largest online travel agency (OTA) in China, with over 40% market share in domestic travel and about 50% in outbound travel. The company is actively expanding its presence in the overseas market. It is expected to benefit from the trend toward service consumption in the domestic market and rising interest in outbound and inbound travel.

  Atour Group (ATAT.O) is a lifestyle company with six hotel brands covering the mid- to luxury segments. The company operates 1,533 hotels as of Q3 2024, and targets to expand to 5,000 hotels by 2030. Atour also has retail businesses of sleep products, personal care, and travel essentials. It is committed to providing high-quality accommodation and lifestyle experiences. We expect the company to continue attracting new customers and expanding market share.

- **Technology innovation/upgrades help improve willingness/convenience to consume by increasing better supplies.**

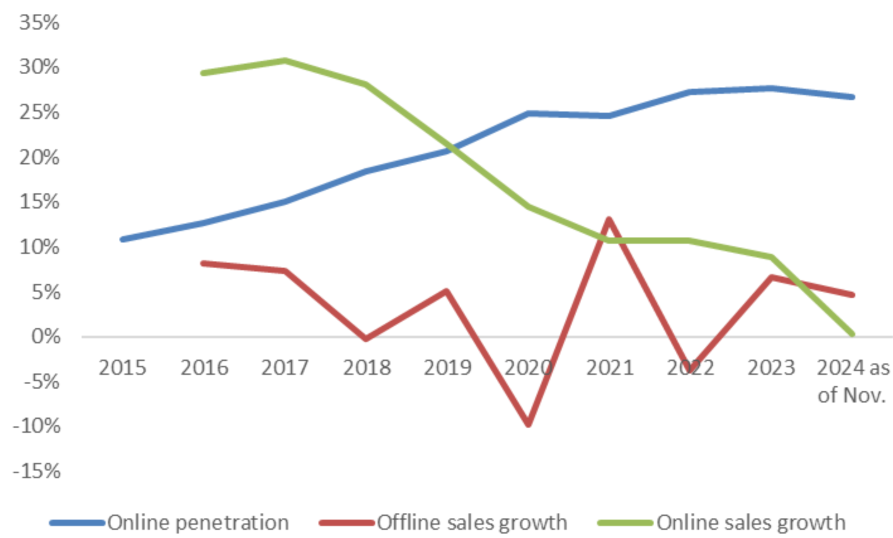
  The development of new technology should increase the spending willingness and reshape the consumption pattern of consumers by providing more innovative supplies. One example could be the AI-featured consumer electronics that we expect to see continuous upgrades of products and new product launches in 2025. There are also new cosmetic and beauty products with the advanced biological material of recombinant human collagen (RHC) that posted 30-40% growth year on year. Some toy manufacturers are already offering new toys with AI applications installed. The new feature of gift giving on Tencent's Wechat aroused instant interest among users before the most important traditional festival of Chinese New Year and boosted sales of both festival gifts like nuts, milk, and daily gifts like freshly made coffee and tea drinks.

  Beneficiaries: Technology-reshaped consumer goods are expected to continue to spur new demand. (See more details discussed in the technology AI application section above).

  ShenZhen YUTO Packaging (002831.SZ) is a global leader in packaging solutions. The company has the largest market share in the global consumer electronics packaging sector. It is a major supplier to tech brands such as Apple, Google, Microsoft, Amazon, Dyson, Lenovo, Xiaomi, and Huawei etc. The company is expected to benefit from the packaging demand driven by the continuous updates of technology products.

- **Retail is entering into a new stage where offline and online are increasingly integrated.** Pure e-commerce peaked in 2024, with online retail sales growth, for the first time, turning negative (-1.7% year on year) in June 2024. The offline sales posted strong resilience with a Jan-to-Nov growth of 4.7% YoY, significantly outperforming the online sales growth of 0.3% YoY (Chart 20). Besides the indispensability of some offline services and experience, offline sales is also boosted by the robust development of O2O (online-to-offline), or instant retail, which is a business mode that enables delivery from physical stores within one hour or so after being ordered online. This new business mode has taken the baton from pure online shopping and is posting over 20% year on year growth. **Extensive and sticky sales networks offline would be viewed as equally important as efficient marketing online for brands.**

Chart 20: Online Penetration and Growth of Online & Offline Sales



Source: NBS of China, Bin Yuan Capital

Beneficiaries: Companies with a strong offline sales network offering unique experiences are positioned well to acquire and retain customers. Some brick-and-mortar businesses that are strong in digitalization are expected to be beneficiaries of the O2O trend with improved efficiency.

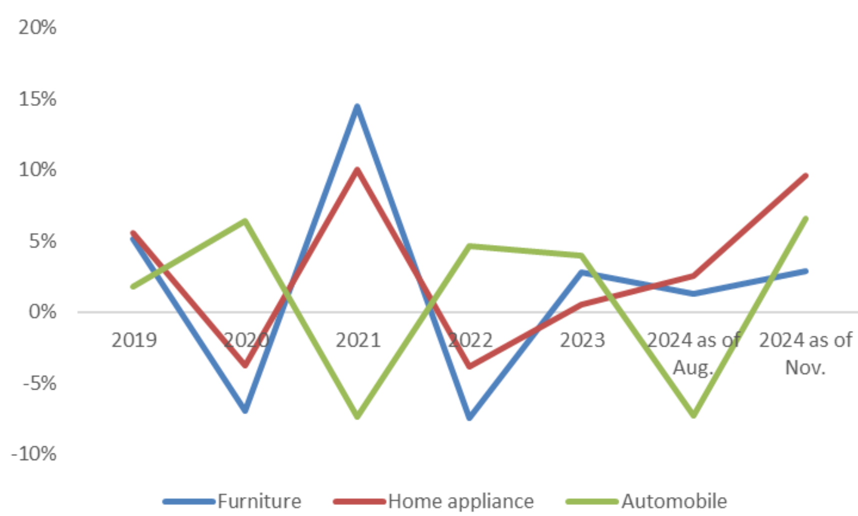
Mao Ge Ping (1318.HK) is a skincare brand established by the renowned Chinese makeup artist Mr. Mao Ge Ping. The company offers skincare and beauty products, and at the same time provides offline make-up and training services. It aims to become a high-end beauty brand in China. As of the first half of 2024, the company had 372 self-operated counters in mid-to-high-end shopping malls across more than 120 cities countrywide. High-quality products and offline services act as strong barriers and help the brand attract large number of loyal users.

Luckin (LKNCY.OO) is the largest coffee chain in China, with over 20,000 domestic and overseas stores as of Q324. It utilizes a strong digitalization tool to analyze user behavior for decisions regarding new product R&D and marketing. The robust development of O2O facilitated online order and customer acquisition, and the expanding offline network of stores ensured efficient delivery. The company is expected to benefit from the rising penetration of coffee in China, increasing market share via the on-going expansion of its store network, and improved efficiency promoted by digitalization tools in O2O.

China Resources Land (1109.HK) is a top developer, manager and operator of urban properties in China. Half of the company's profit is from commercial properties, mainly shopping malls. It outperforms commercial property peers in operations with higher occupancy rates (96.5/97.3% in 2023/H1 24 vs the industry average of 90.9% in 2023), stable rental growth (annual growth of 3-5%), resilient retail sales (SSSG of 7.5% in H2 24 vs China retail sales growth of 3.7%) and improving operating margins. The company's commercial property business is expected to benefit from resilient offline retail and the trend toward service consumption with the top portfolio of shopping malls in the country.

- **More stimulus policies are expected to be issued to spur demand.** A series of measures have been taken to boost household consumption since late September and more policies are needed for sustainable recovery. Countrywide trade-in policies and subsidies have shown early positive signs regarding the sales of cars, home appliances and furnishing products (Chart 21). More stimulus is expected to be on the way and governments should explore more workable initiatives. **We think the effective policies should focus on the mass market consumers and increase income and improve the living conditions of lower-income groups, as these groups have higher marginal propensity to consume.**

Chart 21: Sales of Furnitures, Home Appliances and Automobiles in 2019-2024



Source: NBS of China, Bin Yuan Capital

Beneficiaries: **property-related consumer sectors** like home appliances, furniture, retail building materials, due to the large share of property-related consumption as a percentage of total consumer spending; **services consumption like dining, traveling, and accommodation** as household budgets has been increasing in these areas; **consumer electronics** amid the recovery of consumer electronics shipments and new AI applications.

Anjoy Food (603345.SH) is a leading frozen food company in China. The company provides a variety of products, including hot pot ingredients, frozen rice and noodle products, and frozen dishes, to both B-end (business) and C-end (consumer) customers. The company is expected to benefit from the marginal improvement in catering demand.

Suofeiya (002572.SZ) is a leading built-in furniture manufacturer in China, offering products ranging from wardrobe, kitchen cabinet, doors, etc. Subsidies for furnishing products since September 2024 have spurred demand for furniture and drove sales to a positive growth. Leaders like Suofeiya have consolidated the industry with better products and more attractive prices on subsidies.

- **The strategy of "going overseas" has been adopted by cultural industry leaders such as trendy toys and other lifestyle products.** Usually, pioneers going overseas would leverage the comprehensive and efficient manufacturing supply chain of China. But in the most recent wave of going overseas, "soft power" like fashion/IP design and the extensive and profound culture provided more support. Following Chinese manufacturing, Chinese cultural design/brands, similar to the cartoon characters created by Disney and Sanrio, have the potential to enhance their presence and bring about positive changes to the world.

Miniso (9896.HK/MNSO.N) is a China-based chain retailer of trendy and affordable lifestyle products. It collaborates with licensed brand partners like Sanrio, Disney, Minions, and We Bare Bears, to offer a wide range of quality products, including fashion, cosmetics, home goods, stationery, among others. It has been expanding its presence around the world, entering 112 countries and regions with 2,936 stores overseas and 4,250 stores in China as of Q3 2024. The brand has gained popularity for its high-quality products at affordable prices and its simple, yet fashionable store design. Rising ASPs, increasing repeat purchases and store re-visits are expected to drive future growth with an expanding customer base brought by an increasing global presence.

Pop Mart (9992.hk) is a rising force in pop culture and entertainment: The company focuses on trendy toys (blind boxes, plush toys, etc.) with their own IP design, incubation and operations. The company has 363 domestic stores and 92 overseas stores as of H124. New store openings, increasing product categories, and an expanding IP portfolio is expected to support future growth. The long-term overseas store count is expected to reach 500 with 40 new openings annually, especially in Southeast Asia, the U.S. and Europe. Besides its main product, designer blind box toys, other categories also posted robust growth, with large lifestyle toys, plushie toys, and accessories contributing 42% of revenue. Currently, the top 6 IPs contribute 65% of Pop Mart's revenue, and an IP pool of over 40 artist IPs is expected to provide the potential for future IP operation and monetization.

Table Summary of Beneficiaries:

Sector	Company	BBG Code	Market Cap (billion USD)	Forward 3-year Earnings CAGR	2025 PE	2026 PE	Holdings?
Tech	NARI	600406 CH Equity	28.6	18%	22	19	Y
	HIMILE	002595 CH Equity	5.4	18%	17	15	Y
	GATD	688239 CH Equity	0.9	29%	19	14	Y
	CCTC	300408 CH Equity	10.7	21%	27	23	Y
	KSTAR	002518 CH Equity	1.8	30%	18	14	Y
	Lenovo	992 HK Equity	17.1	19%	10	8	Y
	Montage	688008 CH Equity	12.3	37%	36	26	Y
	Sunny optical	2382 HK Equity	10.0	20%	23	19	Y
	iRay	688301 CH Equity	1.9	19%	21	17	Y
	Xiaomi	1810 HK Equity	111.4	37%	30	22	
	Luxshare	002475 CH Equity	41.0	24%	17	14	Y
	Anker	300866 CH Equity	7.0	24%	21	16	Y
	JSHL	601100 CH Equity	10.1	20%	22	19	Y
	BOCHU	688188 CH Equity	5.3	29%	31	23	Y
	Horizon Robotics	9660 HK Equity	1.0	36%	22	15	
	Sinofuse	301031 CH Equity	1.0	36%	22	15	Y
	MEITU	1357 HK Equity	1.8	35%	15	11	Y
	AMEC	688012 CH Equity	15.4	28%	45	35	Y
	PIOTECH	688072 CH Equity	5.6	28%	40	31	Y
	XCMG	000425 CH Equity	12.5	30%	11	9	Y
	Ehang	EH US Equity	1.0	/	/	/	Y
	Jereh	002353 CH Equity	5.0	15%	11	9	Y
Healthcare	Double Medical	002901 CH Equity	1.7	26%	25	19	
	Yuwell	002223 CH Equity	4.9	15%	16	13	
	Huiyu Pharmaceutical	688553 CH Equity	0.8	22%	21	17	
	United Imaging	688271 CH Equity	14.3	32%	48	39	
	Kelun Pharmaceutical	002422 CH Equity	6.4	16%	14	12	
	Aohua Photoelectricity	688212 CH Equity	0.8	56%	45	27	
	SNIBE	300832 CH Equity	7.3	24%	23	19	Y
	Mindary	300760 CH Equity	41.4	20%	20	17	Y
	Allist Pharmaceuticals	688578 CH Equity	3.6	18%	17	14	
	Sunresin New Materials	300487 CH Equity	3.3	31%	19	16	Y
Consumption	Trip.com	9961 HK Equity	45.7	19%	17	14	Y
	Atour Group	ATAT US Equity	3.5	26%	16	13	Y
	ShenZhen YUTO Packaging	002831 CH Equity	3.4	13%	14	12	
	Mao Ge Ping	1318 HK Equity	3.5	27%	23	18	
	Luckin	LKNCY US Equity	8.9	16%	16	13	Y
	China Resources Land	1109 HK Equity	20.3	11%	5	4	Y
	Anjoy Food	603345 CH Equity	3.2	18%	14	12	Y
	Suofeiya	002572 CH Equity	2.2	16%	11	10	Y
	Miniso	9896 HK Equity	8.2	31%	15	12	Y
	Pop Mart	9992 HK Equity	15.3	26%	30	24	Y

Sincerely,

Ping and the Team

January 08, 2025

Bin Yuan on the Road

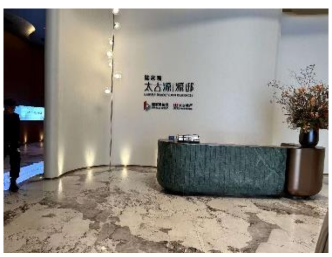
December 23, 2024

We visited the headquarters of the trendy toy company Pop Mart in Beijing and had an in-depth discussion with the Investor Relation Director Mr. Li.

Mr. Li introduced to us the company's competitive barriers and the development of its overseas business. Pop Mart continuously creates and operates multiple leading IPs in the industry and has gained extremely high popularity among global consumers. The company's globalization strategy has achieved key results, and the number of overseas stores has the potential to triple in the future. Pop Mart plans to focus on the operation of trendy toy IPs in the future and expand into multiple business formats such as light luxury toys, accessories, amusement parks, and video games. These are expected to drive the company's performance.

"We possess unique IP operation capabilities, helping designers strike a balance between artistic value and commercial value, and making IPs more popular among consumers." – IRD, MR. Li

December 16, 2024



We visited some real estate projects in Shanghai, to learn about the latest trends in the property market following continuous policies.

The three projects were all high-end projects under construction, with a price of RMB 150-200K (USD 20-30K)/sqm. According to the salesperson, the current price has become attractive after recent years' price drops. Buyers observing the market, both in and outside Shanghai, started to enter the market. There's real demand for housing upgrades. Previous design and support facilities became outdated to satisfy new living needs. While new supplies to the market indeed showed large improvement as developers pay more attention to the design and living experiences. This is positive sign for the market, and we expect to see more in the following year.

"The first batch of houses we launched for sale has been sold out, and we are not worried about the following batches."
–Salesperson of Swire Properties

December 6, 2024

We visited Chicmax Cosmetic, a leading domestic cosmetics company in Shanghai, to learn about its strategy for next year and crosscheck our skincare sector research.

Chicmax posted good growth in 2024 on the success of its polypeptide collagen skincare set and effective online marketing on the Douyin platform. For 2025, they have prepared series of new products, including one set for male, and one cream targeting the Tmall platform. Improved performance from the baby skincare brand and a new makeup brand can also be expected. The skincare sector has seen increasing competition in recent years. But the landscape for segments like the higher-end market, male, and children are relatively better with less participants. This meeting with Chicmax confirmed our convictions in Maogeping, a leading Chinese high-end skincare brand.

"The sales of our new products for man and cream on Tmall were very strong. We are confident for our growth target in 2025." – IR of Chicmax, Ms. Nie

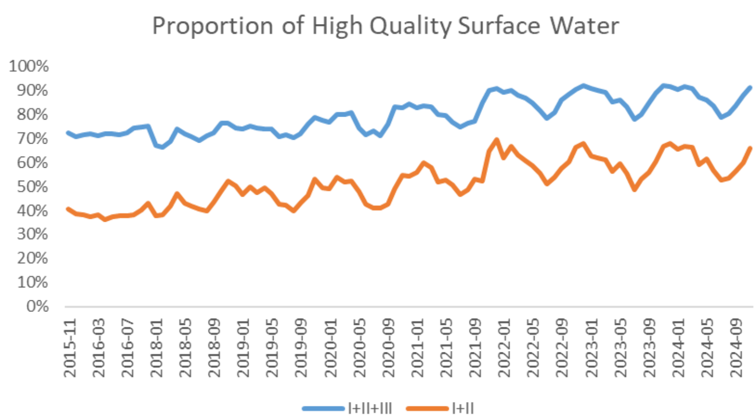
Bin Yuan Environment Tracking

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 June 2016-2024

**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 June 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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