

August 31, 2017

- The Asia Pacific Fund Inc. (the "Fund") is a diversified, closed-end management investment company which primarily invest in equity securities of companies in various Asia Pacific countries, excluding Japan.
- Investing in foreign and emerging market securities involve risks related to adverse political and economic developments unique to a country or a region and currency exchange fluctuations.
- The Fund may also invest in products that involve additional risks such as participatory notes which may involve liquidity, tax and counterparty risk and derivative transactions which could expose the Fund to the effects of leverage and magnify potential losses.

Investment objective

The Fund aims to achieve long-term capital appreciation through investment primarily in equity securities in the Asia Pacific countries (excluding Japan). There is no guarantee the Fund's objective will be achieved.

Fund structure

The Fund is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company.

Ten years performance¹



Total return performance as of Aug 31, 2017¹

	NAV	Market Price	Index*
One month	+0.6%	+0.9%	+1.4%
Year-to-date	+25.3%	+40.0%	+31.4%
One year	+22.7%	+34.2%	+25.2%
Three years (p.a.)	+5.3%	+7.2%	+6.1%
Five years (p.a.)	+7.7%	+8.6%	+9.2%
Ten years (p.a.)	+2.3%	+2.8%	+4.4%

Total return performance as of Jun 30, 2017¹

	NAV	Market Price	Index*
Year-to-date	+19.8%	+32.9%	+22.9%
One year	+23.7%	+35.4%	+27.1%
Three years (p.a.)	+6.4%	+8.0%	+5.3%
Five years (p.a.)	+6.8%	+7.8%	+8.3%
Ten years (p.a.)	+2.8%	+3.4%	+4.4%

Calendar year performance¹

Year	NAV	Market Price	Index*
2011	-19.9%	-21.3%	-17.1%
2012	+17.6%	+15.1%	+22.7%
2013	-3.9%	-2.9%	+3.3%
2014	+7.2%	+7.3%	+5.1%
2015	-1.2%	-5.9%	-8.9%
2016	+0.0%	-1.4%	+5.8%
2017 (YTD)	+25.3%	+40.0%	+31.4%

Past performance does not guarantee future results and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and share, when sold, may be worth more or less than the original cost. Index returns do not include the effect of any sales charges, fund operating expenses or taxes. An investment cannot be made directly in an index.

Fund manager commentary

Performance Summary

Asia ex-Japan equities continued to perform strongly in August. The MSCI Asia ex-Japan Index gained 1.4% on a steady flow of solid macro data and corporate earnings.

Positive momentum and the re-rating story remained in play for Asia ex-Japan stocks in August, the peak season for second-quarter corporate earnings announcements. North Asia continued to be the key driver of earnings strength. In China, despite financial deleveraging and control measures in the property market, the economy delivered a strong set of macro data, which suggests the profile of its economic growth has improved and is relying less on stimulus. In particular, the recovery of external demand was one of the highlights, with export growth accelerating to 9% year-on-year in the first half of 2017 from -6% in the second half of 2016.

The major driver for the China market's strong performance year-to-date was the upward revision in earnings growth. The consensus 2017 earnings per share (EPS) growth estimate for the MSCI China Index is currently 17.8% (vs. -0.9% in 2016). The earnings forecast is supported by a broad set of factors such as growth in sales (12.3%), growth in earnings before interest, tax, depreciation and amortization (EBITDA) (10%) and expansion of net margins in the non-financial space (7.1% vs. 5.4% in 2016).

In South Korea, the economy sustained its steady growth momentum, with second-quarter gross domestic product (GDP) registering 2.7% growth year-on-year. Korean export growth continued to improve in August, increasing 17.4% versus a year ago, to mark its eighth consecutive month of double-digit growth. The strength of the Korean manufacturing sector was further underscored by a 14.2% rise in August imports compared to a year ago. The increase was underpinned by higher imports of raw materials and capital goods. On the policy front, the Bank of Korea kept its policy rate unchanged at 1.25% at its August meeting and expects the solid economic growth to continue.

Strategy

At the portfolio level, the strong performance by the Hong Kong and China markets drove our portfolio performance. Our holdings in a Chinese optical fibre and cable manufacturer rallied on the back of strong first-half results – underpinned by better-than-expected profit margins – and upbeat full-year guidance. The company should continue to benefit from the on-going development of China's telecommunications sector given its leading market position, as well as a tight supply of optical fibre in China. Our exposure to China's banking sector was another key performance contributor as Chinese banks enjoyed stronger net interest margins (NIM) and slower non-performing loan (NPL) formation in August amid a stronger macro environment.

However, our exposure to Korea weighed on portfolio performance the most during August. The Korean market underperformed on heightened geopolitical tensions with North Korea and concerns about slower GDP growth. Despite the near-term headwinds, we remain constructive on Korea for 2017 given the prospect of further upward earnings revisions, especially for the technology and finance sectors.

Outlook

Although the growth momentum may moderate in Asia ex-Japan markets, the outlook for the region remains positive in 2017 supported by improved external demand and solid corporate earnings. The current 12-month forward price-to-earnings (P/E) is 14 times for the MSCI Asia ex-Japan Index, which is not stretched given the 20% consensus earnings growth for 2017.

Top 10 securities holdings

Name	Industry ²	%
China Construction Bank Co Ltd	Banks	5.5
Samsung Electronics Co Ltd	Technology, hardware & equipment	5.4
Longfor Properties Co Ltd	Real estate	4.4
PetroChina Co Ltd	Energy	2.7
China Resources Power Holdings Co Ltd	Utilities	2.3
Far East Consortium International Ltd/HK	Real estate	2.0
Far East Horizon Ltd	Diversified financials	2.0
SITC International Holdings Co Ltd	Transportation	2.0
Yangtze Optical Fibre and Cable Joint Stock Ltd Co	Technology, hardware & equipment	2.0
Midea Group Co Ltd	Consumer durables & apparel	1.9

These stocks constitute 30% of the fund.

Geographical exposure by listing ³

Hong Kong H Shares	26%
South Korea	14%
Red Chips	8%
Taiwan	8%
Cash ⁴	7%
Indonesia	6%
Others	4%
China A Shares	3%
India	2%
Singapore	2%
Thailand	2%

Sector exposure ^{2, 3}

Information technology	17%
Real estate	17%
Industrials	14%
Banks	12%
Consumer discretionary	11%
Cash ⁴	7%
Utilities	6%
Insurance	5%
Telecom services	4%
Energy	3%
Consumer staples	2%
Other financials	2%

Holdings and sectors are subject to change. The securities listed is not a recommendation to buy or sell any security listed.

Portfolio characteristics

As at Aug 31, 2017	2017 ⁵
Price/earnings ratio	9.4 times
Price/book ratio	1.1 times

Fund facts

Manager:	Value Partners Hong Kong Limited
Fund type:	Closed-end Investment Company (non-UCITS)
Base currency:	US dollars
Fund launch date:	May 1987 (managed by Value Partners Hong Kong Limited since Oct 1, 2013)
Listing:	New York Stock Exchange
Management fee:	1% on the first US\$100 million and 0.7% thereafter
Year end:	Mar 31
ISIN:	US0449011065
Bloomberg code:	APB: UN
Lipper ID:	2500
Benchmark index:	MSCI AC Asia (ex-Japan) Index* (since Apr 1, 2010)

* In view of the growing importance of the Indian economy and stock market in Asia and as part of the Fund's investment portfolio, the Fund has adopted as its reference index as of Apr 1, 2010, the MSCI All Countries Asia ex Japan Index, which includes India. Prior to this the Fund was shown against MSCI AC FE Free Ex-Japan Index Total Gross Return.

Senior investment staff

Chairman & Co-Chief Investment Officer: Cheah Cheng Hye

Deputy Chairman & Co-Chief Investment Officer: Louis So

Deputy Chief Investment Officer: Renee Hung

Senior Investment Director: Norman Ho, CFA

Investment Directors: Chung Man Wing; Kenny Tjan, CFA;

Michelle Yu, CFA; Yu Xiao Bo

Senior Fund Managers: Kelly Chung, CFA; Doris Ho; Glenda Hsia;

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1. Source: Bank of New York Mellon and Reuters. Total return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. All return data at NAV includes fees charged to the Fund and may reflect fee waivers and/or expense reimbursements. Without such, returns would be lower. Total Return at Market Price is based on changes in the market price at which the Fund's shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. Because the Fund's shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. All returns 1-year or less are cumulative. Returns are shown in USD. 2. Classification is based on Global Industry Classification Standard (GICS). 3. Exposure refers to net exposure (long exposure minus short exposure). Due to rounding, percentages shown may not add up to 100%. 4. Cash refers to net cash on hand excluding cash for collaterals and margins. 5. The profile is based on market consensus forecast as derived from S&P Capital IQ and Bloomberg. Harmonic mean methodology is applied to calculate the forecast P/E ratio and P/B ratio. Note that the manager's internal estimates may differ significantly from S&P Capital IQ and Bloomberg estimates.

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