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i Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2023

For the period ended 31 July 2023

CONTENTS

i CAPITAL CHINA FUND AT A GLANCE

Investment Objective	To achieve long-term capital appreciation by primarily investing in equity securities issued by companies listed in Hong Kong, Shanghai and/or Shenzhen.
Investor Profile	Investors who are seeking to access capital growth over a long term investment horizon, and can tolerate short term volatility and fluctuations in returns.
Subscription Fee	Nil
Redemption Fee* **(% of redemption amount)**	5% for Units held for 1 year or less; Nil for Units held for more than 1 year
Management Fee*	1.5% (150 basis points)
Trustee Fee*	Up to 0.15% (15 basis points), subject to a minimum monthly fee of US$5,000
Custodian Fee*	Up to 0.0275% (2.75 basis points)
Performance Fee*	10% (1000 basis points) of the outperformance of the Net Asset Value per Unit during a performance period over the High Water Mark
Inception Date	2 January 2018
Minimum Investment (USD)	$1,000
Additional Investment (USD)	$1,000
	Additional subscription form can be downloaded from the Manager's website or obtained directly from the Manager.

i CAPITAL CHINA FUND AT A GLANCE (Continued)

Dealing frequency	Weekly (last Hong Kong Business Day of every week before 3:00pm)
Manager	Capital Dynamics Asset Management (HK) Private Limited Suite 701, 7th Floor, Chinachem Leighton Plaza, 29 Leighton Road, Causeway Bay, Hong Kong Tel. No. : (852) 2153 1455 Fax No. : (852) 2153 1451 Email: enquiries@capitaldynamics.hk Website: http://www.capitaldynamics.hk
Directors of the Manager	Tan Teng Boo Wu Xiongwei
Solicitors to the Manager	Deacons
Trustee and Registrar	BOCI-Prudential Trustee Limited
Custodian	Bank of China (Hong Kong) Limited
Auditors	PricewaterhouseCoopers

*For more details on the above fees, please refer to the Fees and Expenses under the latest Explanatory Memorandum.

This Semi-Annual Report shall not constitute an offer to sell or a solicitation of an offer to buy units in any of the funds. Subscriptions are to be made only on the basis of the information contained in the relevant explanatory memorandum (and the documents referred to within it), supplemented by the most recent financial report.

PERFORMANCE REVIEW

For the period between 31 January 2023 and 31 July 2023, the Net Assets Value ("NAV") attributable to unitholders per unit of the *i* Capital China Fund (ICCF) decreased by 5.63% from USD0.9914 to USD0.9356.

Despite various new policy support from the government, the Chinese equity markets remained weak this year. From 31 January 2023 to 31 July 2023, the Shanghai Composite Index gained 1.09% but the Shenzhen Composite Index fell by 3.41%. As the Renminbi depreciated by about 5.75% against the US dollar over this period, the performance of the Shanghai and Shenzhen indices in USD terms were weaker in the same six months period. The Hong Kong market was hit hard by high interest rates in US and pessimistic views among overseas investors worrying about the conflict between US and China. The Hang Seng China Enterprise Index (HSCEI) comprising a selection of Chinese stocks listed in Hong Kong and denominated in HK dollars plunged 7.08% over this period.

As at 31 July 2023, *i* Capital China Fund held about 9.49% of its NAV in cash.

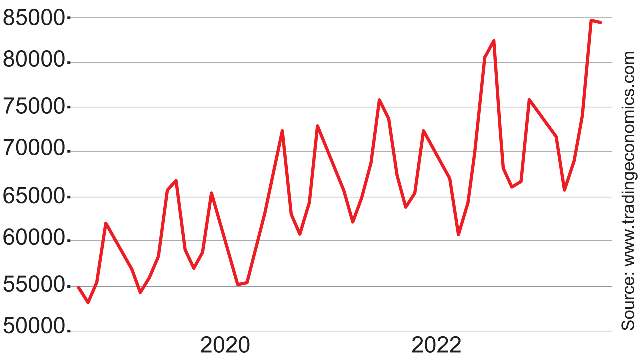
MARKET REVIEW AND OUTLOOK

2023 was another tough year for investors. Chinese stocks, especially those listed in the Hong Kong market, continued the downtrend. There was a quick rebound in July following new policies support from Chinese government, especially on the real estate sector. But sentiment weakened again soon after, due to ongoing pessimism surrounding China's economy, fuelled by media focus on the debt issues of selected property firms. We believe this negative perception is significantly exaggerated. Objective assessments and data indicate a robust Chinese economy.

In April this year, the International Monetary Fund (IMF) predicted China will the biggest driver of global growth over the next five years and will contribute double what the US economy will add. Based on the IMF's World Economic Outlook released then, China's slice of global gross domestic product expansion will be around 23%, far more robust than India's 13% and the 11.3% contribution from the US.

Recent data shows a still expanding and healthy economy which is far from collapsing or financial crisis as worried by some overseas investors. For one, electricity production in China, with the usual seasonal fluctuations, up to Aug 2023 shows that it continues to be rising since 2020 (**figure 1**). China's industrial production rose 4.5% year-on-year in August 2023, up from a 3.7% increase in July. Manufacturing output rose by 5.4%. Out of the 41 major industries, 23 posted increases in output.

Figure 1 Electricity Production in China (Gigawatt-hour)



More importantly, retail sales recorded a year-on-year growth of 4.6% in August, rebounding strongly from slow growth in July. Excluding car sales, the gain in retail sales was higher, rising by 5.1% year-on-year.

The strength of Chinese consumption highlights a major change in the structure and quality of Chinese economy. Unlike previous economic cycles, when China had to rely on investment or export to drive the growth, consumption in China is playing an increasingly prominent role. According to China's National Bureau of Statistics (NBS), consumption contributes 77.2% of economic growth in 1H2023. When worrying about a slowing Chinese economy, a lot of people, especially Western media, simply ignored a much better structure in the Chinese economy. The truth is Chinese people are getting richer in a mild inflation environment and steady growing economy. In the first half of 2023, after deducting price factors, the real per capita disposable income of residents increased by 5.8% year on year, boosting people's capacity and willingness to consume.

In another clear sign that China's growth trajectory is gaining momentum, China's industrial profit posted strong rebound in August. China's major industrial firms saw their profit surging 17.2% from a year earlier. After a decline of 6.7% in July and an 8.3% fall in June, this strong growth marked the first increase since the second half of 2022.

In the first eight months of 2023, profits of China's major industrial firms with annual business revenue of at least RMB20 mln fell 11.7% to RMB4.66 trillion, with the rate of decline narrowing by 3.8 percentage points from the January - July period. Of the 41 industrial categories monitored by NBS 30 posted better performance in terms of profits during the January - August period.

The combined profit of the country's state-holding enterprises went down 16.5% year on year in the first eight months, with the pace of decline narrowing by 3.8 percentage points from the first seven months. At the same time, profits of overseas-funded firms and private companies fell 11.1% and 4.6% respectively, with the rate of declines narrowing 1.3 percentage points and 6.1 percentage points, respectively, from the January - July period.

Recently, the growth rate of finished products inventory of China's industrial enterprises has dropped to a cyclical low, suggesting a turning point of the inventory cycle. While a further decline is possible, one needs to remember that the current round of inventory depletion has lasted for 2 to 3 years, which is relatively close to the historical average length, and may be about to enter the new round of inventory replenishment cycle. With all the economy stimulus measures announced and implemented by the Chinese government, the boost in domestic demand is kicking in at the right time. The boost in China's domestic demand will be further reinforced by an increase in economic activities arising from increases in production to meet the higher demand, creating a virtuous growth cycle.

As inflation in China remains mild and controllable, China has a much more favourable environment for policy adjustment, especially monetary policies, compared with Western countries. On 20 June 2023, the PBOC cut loan prime rates, the market-based lending benchmarks, for the first time since August 2022. The one-year LPR dropped by 10 basis points to 3.55%, while the over-five-year LPR, on which lenders base their mortgage rates, fell by the same amount to 4.2%.

On Wednesday 27 September 2023, the People's Bank of China pledged to provide "more powerful" policy support for the real economy and maintain a "healthy" property market. China's central bank will "step up macro policy adjustments" and implement monetary policies in a more targeted and powerful manner to aid the recovering domestic economy, according to its third-quarter monetary policy implementation statement. "There will be a focus on expanding domestic demand, boosting confidence, speeding up a healthy economic cycle and providing more support to the real economy," the central bank said. The People's Bank of China said it would "push for the stable and healthy development" of a "new model for property sector development" by offering financial support for the building of basic infrastructure, urban villages and social housing.

In our weekly *i* Capital publication dated 9 September 2023, it advised that "By next year, China will be more or less back to the same path of growth again. However, all great growth journey starts with tentative steps, a process with which China has already embarked on. Over in 2023 and 2024, the different parts of the government measures and recovery process will come together and the recovery momentum will gather."

Ignoring the potential of Chinese stocks is a mistake for global investors, especially given the attractive valuations and the country's early stage in its growth cycle. In contrast, the US economy is overheated, facing potential recession and offering low returns with high risks. I am totally convinced that the current weakness in Chinese stocks is only a temporary matter, and is coming to a close. Global investors will return in droves.

Best wishes.

陳鼎武

Tan Teng Boo
Managing Director
Capital Dynamics Asset Management
(HK) Private Limited

9th October 2023

FUND PERFORMANCE 1

Table 1 Top Performing Stock (in US$) from 31 January 2023 to 31 July 2023

	Ending 31 July 2023 (% Changed)
Xpeng Inc - H shares	119.85%

The table above represents the top performing stock your fund held at sometime within the referenced interim period. The stocks do not necessarily need to be bought at the start of the interim period (i.e. 31 January 2023), and held till the end of the interim period (i.e. 31 July 2023). Stock performance will only be measured over the specific period that your fund held the stock in the referenced interim period. This means that, for example, if Xpeng Inc was bought on 21 April 2023 and sold on 31 July 2023, its performance is only measured over 21 April 2023 to 31 July 2023 and not over the full interim period. Similarly, if it was bought on 31 January 2023 and sold on 12 July 2023, its performance is measured over the period 31 January 2023 to 12 July 2023.

FUND PERFORMANCE 2

Table 2 shows the percentage of unrealised gain or loss (in US$) of each company held by your Fund as at 31 July 2023.

Table 2 Percentage of unrealised gain or loss (in US$) arising as at 31 July 2023

	% Change
Concord New Energy Group Ltd	55.79%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A shares	33.51%
Pico Far East Hldgs Ltd	19.21%
Guangdong Provincial Expressway Development Co Ltd - B shares	8.20%
Alibaba Group Hldg Ltd - H shares	-13.24%

	% Change
AIA Group Ltd	-17.62%
China Sunsine Chemical Hldgs Ltd	-27.17%
Ping An Insurance Group Co of Chinese Ltd - H shares	-33.05%
Han's Laser Technology Industry Group Co Ltd - A shares	-37.63%
Xpeng Inc - H shares	-40.93%
Angel Yeast Co Ltd - A shares	-43.54%

Notes: The returns shown above are not adjusted to dividends and may not fully reflect the true returns.

PORTFOLIO INFORMATION

Table 3 Percentage of assets held as cash

	Cash	Equities	Other net assets	Total
End of January 2023	5.68%	94.01%	0.32%	100.00%
End of July 2023	9.49%	90.29%	0.22%	100.00%

Table 4 Top 5 holdings as at end of July 2023

Concord New Energy Group Ltd	13.92%
Guangdong Provincial Expressway Development Co Ltd - B shares	11.95%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A shares	10.51%
Alibaba Group Hldg Ltd - H shares	9.61%
Ping An Insurance Group Co of Chinese Ltd - H shares	9.59%

OTHER INFORMATION

About *i* Capital China Fund

i Capital China Fund is a fund constituted in the form of a unit trust under *i* Capital Master Fund, an umbrella unit trust established under the laws of Hong Kong.

The fund seeks to achieve long-term capital appreciation by primarily investing in equity securities issued by companies listed in Hong Kong, Shanghai and/or Shenzhen.

Investors should note that the fund's allocation between instruments in the mainland China and the Hong Kong markets may change significantly from time to time. This may result in the fund's investment portfolio becoming more concentrated on either the mainland China market or the Hong Kong market from time to time.

The fund's investment strategy is driven by the Manager's long term value investing philosophy. The Manager adapts its value investing approach by considering political and economic factors, and aims at drawing on the intrinsic value of a company having regard to the principle of margin of safety (the difference between the intrinsic value of a stock and its market price) as its core investment philosophy. The fund's investment horizon will not be restricted by sector or market cap.

The fund aims to invest predominantly in listed securities whilst maintaining a cash buffer on a temporary basis (pending suitable investment opportunities and also for defensive purposes). The actual asset allocation is driven by the Manager's value investing philosophy which is based on two components: namely the valuation of a listed company AND its market price. When the Manager considers the market is undervalued and there are appropriate investment opportunities whereby listed companies are trading below their fair value, the fund may invest as much as 98% of its Net Asset Value in listed equity securities. In times of extreme market conditions such as when there are speculative bubbles in the mainland China and/or Hong Kong markets where the Manager considers that securities are overvalued and/or the mainland China or the Hong Kong economy is overheating, the fund's assets may invest up to 100% in cash/cash equivalent products on a temporary basis (such as money market instruments) in order to mitigate risk and/or maintain liquidity of the fund.

In seeking to achieve the long term capital appreciation investment objective of the fund, the Manager may consider a broad variety of factors and circumstances in the selection of securities and construction of the fund's portfolio. Such factors may include, but are not limited to, a company's profitability, debt, valuation, growth prospects, actual or future cash flows, volatility, availability and liquidity of securities, sector outlook or prospects, the overall economic, political, tax and regulatory environment affecting the relevant securities and markets in mainland China and/or Hong Kong.

OTHER INFORMATION (Continued)

About Capital Dynamics Group

Capital Dynamics is an independent global fund manager and investment adviser, not tied to any bank, insurer, stockbroker or political organization.

Having more than 30 years of investing experience, and with offices in Shanghai, Hong Kong, Sydney, Singapore and Kuala Lumpur, Capital Dynamics is the first Asian fund manager to go global. As a result of its research driven approach, Capital Dynamics has delivered strong long term returns for its clients over the last few decades.

Our managed funds and investment advisory services are all directly accessible by individual, corporate and institutional investors around the world, and we also offer individually managed accounts to professional investors. Our investment advisory service is provided via *i* Capital newsletter, a weekly publication, and www.icapital.biz. It is available in English and Chinese.

Capital Dynamics Asset Management (HK) Private Limited (CDHK) obtained the Type 9 (Asset Management) license issued by the Securities and Futures Commission Hong Kong (SFC) in January 2013. CDHK provides discretionary investment management service and the first client was onboarded in October 2015. CDHK manages the *i* Capital China Fund, a retail unit trust fund authorized by the SFC.

Capital Dynamics (S) Private Limited (CDPL), a global fund manager based in Singapore. CDPL commenced operations in June 2006. It manages the *i* Capital Global Fund, an open-end fund and discretionary accounts.

Capital Dynamics (Australia) Limited (CDAL) obtained its Australian Financial Services License (AFSL 326283) from the Australian Securities and Investments Commission in December 2008. This allows CDAL to provide fund management and financial advisory services to retail and wholesale investors. Based in Sydney, CDAL manages the *i* Capital International Value Fund, *i* Capital Asia-Pacific ex-Japan BTB Fund, *i* Capital ASEAN BTB Fund and individually managed accounts.

Capital Dynamics Asset Management Sdn Bhd (CDAM), based in Kuala Lumpur, manages icapital.biz Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

For more information about Capital Dynamics, visit www.capitaldynamics.biz

OTHER INFORMATION (Continued)

Our Philosophy

Independence, intelligence and integrity drive all business and investment decisions at Capital Dynamics. Integrity is central to our corporate culture, and to our loyal clients of many years, our word has proven to be our bond. Capital Dynamics has some of the most stringent compliance policies in the industry.

As a global fund manager, our "Bamboo value investing" philosophy is unique, and has enabled Capital Dynamics to generate sustained superior returns. Based on long-term only investment principles, our value investing approach is given flexibility with the addition of macroeconomic factors and further investment intelligence from our team of fund managers and analysts. We go behind the commercial veneer of companies, travelling globally to research first hand.

icapital®
BY Capital Dynamics

INDEPENDENCE • INTELLIGENCE • INTEGRITY

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