

i Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2023

For the period ended 31 January 2023

CONTENTS

1-2	<i>i</i> Capital China Fund at a glance
3	Performance Review
3-5	Market Review and Outlook
6	Statement of Net Assets (Unaudited)
7-8	Statement of Comprehensive Income (Unaudited)
9-10	Statement of Changes in Net Assets Attributable to Unitholders (Unaudited)
11-12	Statement of Cash Flows (Unaudited)
13-14	Investment Portfolio (Unaudited)
15	Statement of Movements in Portfolio Holdings (Unaudited)
16-18	Other Information

***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
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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 July 2022 and 31 Jan 2023, the NAV of the *i* Capital China Fund increased by 1.16% from USD0.9800 to USD0.9914. During the period, the stock market displayed a significant degree of volatility. In October 2022, the Hang Seng Index experienced a sharp decline, falling to its

lowest point in a decade. However, it recovered in the following three months. While our fund did not experience a rebound similar with the Hang Seng Index, it was less volatile, which can be attributed to the relative stability of the A-share market.

MARKET REVIEW AND OUTLOOK

We have seen a dramatic reversal in the Hong Kong equity market in 2022. The market has declined continuously since July 2022, reflecting concerns on the Chinese property sector and weak consumer confidence caused by the dynamic Zero-Covid policy in China. By the end of October, the Hang Seng Index even reached the 2008 low level, meaning almost zero return in the past 14 years for investors in the Hong Kong stock market. Such a tough market reflects the extremely bearish outlook of foreign investors on China after the CCP's 20th congress. As we have expected, China has quickly loosened her dynamic Zero-COVID policy with a complete reversion to the pre-pandemic period by Jan 2023. The market then rebounded significantly from Nov 2022 to Jan 2023. Though the process was very tough, China has quickly passed the peak of COVID-19 infections before the 2023 Chinese New Year.

During those challenging months, we have kept reminding investors to focus on fundamentals and invest more in our fund. We suggested investors

to spend more time reading Benjamin Graham's *Intelligent Investor* book, especially his allegory of "Mr. Market". Rather than reacting to temporary events, we should understand more about the big picture or underlying fundamentals.

When sentiment of the overseas investors on China became so negative last year, we advised our investors that a more likely outcome is the continuance of current policies as president Xi stays in power for a longer period. His major policies such as "Common Prosperity" have already been announced and well explained for quite a long time. So at least we should not see any sudden change in China's economic policy.

Though some investors may still have concerns about China's recovery from three-year lockdown, we remain very confident over the fundamentals of the Chinese economy. The most important reason to be optimistic is China's huge absolute size, which is often overlooked by many investors as they tend

to focus too much on the percentage growth rate, especially when they compare India or Vietnam with China.

According to the IMF, China's GDP is now 18% of the global total, a share equal to the entire EU's and second only to that of the US (with 24%). McKinsey Global Institute estimates that even if China's real GDP grows only at 2% per year, the additional GDP over the 2021–30 period alone will be larger than India's total GDP in 2021. If 5% annual growth takes place, the additional GDP will be as large as the 2021 GDP of India, Indonesia, and Japan combined. It will be very foolish for either global companies or investors to ignore China, as she is just too large. Opportunities in some sectors, such as automobile and industrial equipment, are even bigger as the China market already represents 25% to 40% of global revenues.

As we discussed many times before, Chinese consumers are extremely important not just for the Chinese economy but also global one, especially when Western consumers' spending power is constrained by high inflation. Despite the COVID-19 pandemic, the urbanization trend in China is not interrupted because of the continuous economic growth and improvement in China's infrastructure. Today, roughly 65% of the country's population lives in cities, a share that is projected to grow to 71% by 2030 and to 80% by 2050 (estimated by World Urbanization Prospects, United Nations).

Such an irreversible urbanisation trend will lift more of the population into the middle class, making

China's big consumer base even bigger. In 2020, 55 cities in China has per capita GDP higher than \$12,695 (a level that the World Bank uses to designate a country as high income), and they represented 27% of the country's population. By 2030, according to McKinsey's analysis, there may be more than 90 cities in the high-income category, representing 40 to 50 percent of China's population. The trend is simple and obvious: there will be increasing demand in a broad range of industries, especially higher valued products and services, such as cars, healthcare, and entertainment.

Another concern is the US decoupling from China, which could drag down China's growth further. What Western media may also overlook is the fact that China's trading relationships with regional partners are getting much stronger now. China has been the top trading partner with ASEAN since 2009. In 2021, China contributed 20% of all trade with ASEAN countries, up from 12% in 2010. The reverse is true as well: the ASEAN countries have become China's leading trading partner, having seen their share of China's trade rise from 10% in 2010 to 15% in 2022. If we believe that Asia has better growth prospect than US and EU, China will still benefit tremendously from the intra-Asia regional trade.

As we analyzed before, we also believe that China's fundamental policy will not be changed, no matter what the Western media reports. On 17 Jan 2023, China's Vice-Premier Liu He took this year's World Economic Forum in Davos as an opportunity to address almost every key issue about the Chinese economy and projected a very promising future for

China. Though Mr. Liu will retire soon, his message is still an important official signal sent by the Chinese government.

Liu's key rebuttal to the growing speculation since last year is that: China is not returning to a planned economy, which as he said, is "by no means possible". The probes into malpractices of some private companies including both property developers and internet firms have raised all kinds of concerns, but the truth is that such moves are all necessary to defuse risks in the financial system and plug loopholes in the market supervision to prevent monopoly practices and encourage healthy market competition.

Another issue addressed by Mr. Liu is the Common Prosperity. He emphasized, as we also discussed before, "Common prosperity is by no means a synonym of egalitarianism or welfarism." Common Prosperity does not mean everyone's incomes and level of prosperity have to be the same. Mr Liu clarified that there will be equal opportunities, but no guarantee of equal outcomes.

As the US is still facing a high inflation with further interest rate hikes, China is offering a Goldilocks-environment. A Goldilocks economy is one that is not too hot or too cold but just right — to borrow a line from the popular children's story of Goldilocks and the Three Bears. The term describes an ideal state for an economy. In this ideal state, there is full employment, economic stability, and stable growth. The economy is not expanding or contracting by a large margin. A Goldilocks state is also ideal for

investing because as companies grow and generate positive earnings growth, stocks perform well.

Let me say this again - it is time to invest even more into the *i* Capital China Fund.

List of stocks ICCF is holding as at 31 Jan 2023

ANGEL YEAST CO LTD - A SHARES
AIA GROUP LTD
ALIBABA GROUP HLDG LTD
CHINA SUNSINE CHEMICAL HLDGS LTD
CONCORD NEW ENERGY GROUP LTD
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD - B SHARES
HAN'S LASER TECHNOLOGY INDUSTRY GROUP CO LTD - A SHARES
JIANGSU YANGHE BREWERY JOINT-STOCK CO LTD - A SHARES
PICO FAR EAST HLDGS LTD
PING AN INSURANCE GROUP CO OF CHINESE LTD - H SHARES
XPENG INC

Best wishes.

陳鼎武

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

13 March 2023

STATEMENT OF NET ASSETS (UNAUDITED)

As at 31 January 2023

	31 January 2023	31 July 2022
	US\$	US\$
Assets		
Financial assets at fair value through profit or loss	5,956,077	5,660,144
Prepayments and other receivables	33	687
Amount due from investment manager	43,908	41,558
Cash and cash equivalents	359,596	439,113
Total assets	6,359,614	6,141,502
Liabilities		
Management fee payable	8,285	8,052
Trustee fee payable	5,161	5,000
Accrued expenses and other payables	10,366	19,031
Total liabilities	23,812	32,083
Net assets attributable to the unitholders	6,335,802	6,109,419
Net asset value per unit	0.9914	0.9800
Based on 6,390,941 (2022: 6,233,814) units outstanding		

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023	For the financial year ended 31 July 2022
	US\$	US\$
Income		
Dividend income	18,857	212,801
Interest income	183	349
Net gain/(loss) on financial assets at fair value through profit or loss	147,149	(1,048,873)
Net foreign exchange loss	(3,599)	(16,330)
Other income	2,338	32,261
Total investment income/(Loss)	164,928	(819,792)
Expenses		
Management fee	42,726	104,449
Trustee fee	30,000	60,000
Custodian Fee	964	2,158
Legal & professional fee	-	7,785
Transaction costs (Note 1)	1,366	3,923
Transaction handling fee	45	60
Audit fee	8,999	18,000
Other operating expenses (Note 2)	2,272	4,274
Total operating expenses	86,372	200,649
Profit/(loss) before tax	78,556	(1,020,441)

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) (Continued)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023	For the financial year ended 31 July 2022
	US\$	US\$
Withholding taxes	(1,123)	(14,051)
Total comprehensive income/(loss)	77,433	(1,034,492)

Note 1: During the period ended 31 January 2023 and the year ended 31 July 2022, the transaction costs paid to the Trustee and its Connected Person were as follows:

	31 January 2023	31 July 2022
	US\$	US\$
BOCI Securities		
-Broker Commission	-	982

Note 2: During the period ended 31 January 2023 and the year ended 31 July 2022, the other operating expenses paid to the Trustee and its Connected Person were as follows:

	31 January 2023	31 July 2022
	US\$	US\$
BOCI-Prudential Trustee Limited		
-FATCA services fee	656	1,300
-Registrar fee	800	875

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (UNAUDITED)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023	For the financial year ended 31 July 2022
	US\$	US\$
Net assets attributable to unitholders at the beginning of the period/year	6,109,419	7,129,296
Subscription of units	170,951	169,836
Redemption of units	(22,001)	(155,221)
Net increase from transactions with unitholders	148,950	14,615
Total comprehensive income/(loss)	77,433	(1,034,492)
Net assets attributable to unitholders at the end of period/year	6,335,802	6,109,419

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (UNAUDITED)
(Continued)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023	For the financial year ended 31 July 2022
Unit in issue at the beginning of the period / year		
Class A	6,233,814	6,221,814
Issue of units		
Class A	183,515	148,139
Redemption of units		
Class A	(26,388)	(136,139)
Unit in issue at the end of the period / year	<u>6,390,941</u>	<u>6,233,814</u>

STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023 US\$	For the financial year ended 31 July 2022 US\$
Cash flows from operating activities		
Total comprehensive income/(loss)	77,433	(1,034,492)
Adjustments for:		
Interest income	(183)	(349)
Dividend income, net of withholding tax	(17,734)	(198,750)
Operating income/(loss) before working capital changes	59,516	(1,233,591)
Net (increase)/decrease in financial assets at fair value through profit or loss	(295,933)	423,549
Net decrease/(increase) in prepayments and other receivables	665	(18)
Net increase in amount due from investment manager	(2,350)	(32,338)
Net increase/(decrease) in management fee payable	233	(2,789)
Net increase/(decrease) in trustee fee payable	161	(833)
Net decrease in performance fee payable	-	(105,010)
Net decrease in amount due to broker	-	(717,853)
Net decrease in accrued expenses and other payables	(8,665)	(420)
Cash used in operations	(246,373)	(1,669,303)

STATEMENT OF CASH FLOWS (UNAUDITED) (Continued)

For the financial period ended 31 January 2023

	For the financial period ended 31 January 2023 US\$	For the financial year ended 31 July 2022 US\$
Interest income received	172	377
Dividend income received, net of withholding tax	17,734	198,750
Net cash used in operating activities	(228,467)	(1,470,176)
Cash flows from financing activities		
Proceeds from subscription of units	170,951	170,816
Payments on redemption of units	(22,001)	(155,221)
Net cash generated from financing activities	148,950	15,595
Net decrease in cash and cash equivalents	(79,517)	(1,454,581)
Cash and cash equivalents at the beginning of the period/year	439,113	1,893,694
Cash and cash equivalents at the end of the period/year	359,596	439,113
Cash and cash equivalents at the end of the period/year, represented by:		
Cash at bank	359,596	439,113
	359,596	439,113

INVESTMENT PORTFOLIO (UNAUDITED)

For the financial period ended 31 January 2023

	Holdings	Market Value US\$	% of net asset
LISTED EQUITIES			
CHINA			
Angel Yeast Co Limited – A Shares	55,000	338,233	5.34
Guangdong Provincial Expressway Development Co Limited – B Shares	1,000,000	740,080	11.68
Han's Laser Technology Industry Group Co Limited – A Shares	120,000	496,057	7.83
Jiangsu Yanghe Brewery Joint-Stock Co Limited – A Shares	32,000	831,080	13.12
HONG KONG			
AIA Group Limited	31,000	350,268	5.53
Alibaba Group Holding Limited	36,000	494,271	7.80
Concord New Energy Group Limited	10,590,000	1,026,976	16.21
Pico Far East Holdings Limited	1,300,000	255,455	4.03
Ping An Insurance Group Co of China Limited – H Shares	83,000	642,862	10.15
Xpeng Inc.	38,000	192,255	3.03
SINGAPORE			
China Sunsine Chemical Holdings Limited	1,668,000	588,540	9.29

INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

For the financial period ended 31 January 2023

	Holdings	Market Value	% of net asset
		US\$	
Total listed investments		5,956,077	94.01
Other net assets		379,725	5.99
Total net assets as at 31 January 2023 (Calculated in accordance with HKFRS)		6,335,802	100.00
Total investments, at cost		6,338,755	

Note : The net asset value per unit on page 3 is calculated in accordance with the Explanatory Memorandum of the Fund that preliminary expenses of the Fund will be amortised over the first five accounting periods while the net asset value per unit as reported in the statement of net assets on page 6 and the total net assets as reported above included an adjustment for the recognition of all preliminary expenses incurred in profit or loss for the period from 2 January 2018 (date of commencement of operations) to 31 July 2018.

STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

For the financial period ended 31 January 2023

	1 August 2022	Additions	Bonus/ Dividends	Disposals	31 January 2023
AIA Group Limited	31,000	-	-	-	31,000
Alibaba Group Holding Limited	16,000	20,000	-	-	36,000
Alibaba Group Holding Limited- SPONSORED ADR	2,500	-	-	(2,500)	-
Angel Yeast Co Limited – A Shares	55,000	-	-	-	55,000
China Sunsine Chemical Holdings Ltd	1,668,000	-	-	-	1,668,000
Concord New Energy Group Limited	10,590,000	-	-	-	10,590,000
Guangdong Provincial Expressway Development Co Limited – B Shares	1,000,000	-	-	-	1,000,000
Han's Laser Technology Industry Group Co Limited – A Shares	120,000	-	-	-	120,000
Jiangsu Yanghe Brewery Joint-Stock Co Limited – A Shares	32,000	-	-	-	32,000
Pico Far East Holdings Limited	300,000	1,000,000	-	-	1,300,000
Ping An Insurance Group Co of China Limited – H Shares	83,000	-	-	-	83,000
Xpeng Inc.	38,000	-	-	-	38,000

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 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 Philosophies

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.

Disclaimer: The information in this Report is not intended to provide advice. It has not been prepared taking into account any particular investor’s or class of investor’s investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance.



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