

i Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2020

For the period ended 31 July 2020

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***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
Wu Chin-Shan (Resigned on 15 June 2020)

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 2020 and 31 July 2020, the Net Assets Value (“NAV”) attributable to unitholders per unit of the i Capital China Fund (ICCF) increased by 2.49% from USD0.9001 to USD0.9225.

This period was extremely volatile for global financial markets. After January 2020, the Covid-19 pandemic caused equity markets into bear markets which is defined as a 20% or greater decline; the panic has somewhat abated and some markets have rebounded after the US Federal Reserve and US Congress announced a series of measures which amounted to the largest monetary and fiscal stimulus in the US history. On the other hand, as China is the first country to get the

coronavirus outbreak under control and encouraged by a resilient economy, China’s equity market has been resilient too. However, the Hong Kong market is much weaker amidst opposition to the national security law implementation in Hong Kong by some foreign countries. From 31 January 2020 to 31 July 2020, the Shanghai Composite Index and Shenzhen Composite Index increased by 11.20% and 28.46%, respectively. As the Renminbi appreciated by about 0.84% against the US\$ over this period, the gains of the Shanghai and Shenzhen indices in US\$ terms were lesser. The Hang Seng China Enterprise Index comprising a selection of Chinese stocks listed in Hong Kong and denominated in HK\$ fell 1.96% over this period.

MARKET REVIEW AND OUTLOOK

The global equity market showed an extraordinary V-shaped rebound in the first half of 2020: it was first hit hard by the Covid-19 pandemic and then started to jump after late March. However, while the rebounds in US and European markets were driven by loosening monetary policies, the resilience in Chinese equity market was supported by effective control of the Covid-19 pandemic. Compared with the aggressive monetary and fiscal measures seen in the US and Europe, China’s measures were modest. Most measures were targetted at helping business, especially the micro and small business, through reduction or exemption of tax and social security contribution. Support for individuals was limited:

mainly via the distribution of consumption vouchers by local governments worth RMB4 billion. The most direct support was from the issuance of local government debt, which will be mainly used for infrastructure investment. Instead of raising the debt quota, the central government just brought forward a RMB848 billion quota of 2020 local government debt to finance the relief measures. This, coupled with the earlier RMB1 trillion special purpose debt approved in Nov 2019, takes the total early allocation of new local government debt for 2020 to RMB1.848 trillion, the maximum allowed under the current rule. The monetary policies are relatively limited as the interest rate cuts were not as dramatic as other Western

countries. China's benchmark loan prime rate (LPR), which is set by the central bank every month, was quite stable.

As we are writing this commentary, Europe is experiencing a second wave and US is experiencing a third wave of new coronavirus cases (both higher than previous records), while the Chinese people have just celebrated their long National Day holiday. A small outbreak with 13 cases in Qingdao which started on 11 Oct was quickly brought under control by a record-breaking testing of around 11 million people in 5 days. Such an excellent control of Covid-19 has paid off in terms of a fast recovering economy, which further led to a solid fundamental support to the Chinese stock market. For the first three quarters of this year, Chinese economy achieved a 0.7% YoY growth. This recovery is of a high quality, as it was not driven by aggressive easy monetary or fiscal policies.

However, such an extraordinary achievement in her economic performance was not only driven by the epidemic control, but also by the Chinese people's continuously working hard for years, such as building world-class infrastructure which the Western media liked to ridicule. During the pandemic, China's technology infrastructure has helped save the consumption market and many jobs. For example, supported by cheap electronic devices including smartphones, high-speed internet with wide coverage and various competitive Mobile Apps, China's on-demand delivery and services platforms played a critical role in helping small business meet customer's demands and creating jobs during the lock-down period. Chinese couriers are now running

all kinds of errands from food delivery, buying vegetables or grocery, to queuing up and delivering medicine, covering most required products and services for consumers at home. Meituan Dianping, the largest on-demand delivery platform in China, announced it completed 40 million orders in a single day on 8 Aug, driven by its expansion into more than 2,800 cities and extension to various products other than food. About 12,000 university students have taken part-time jobs in food delivery services during the COVID-19 outbreak, according to a report jointly released by another platform Ele.me and Xinhua.net. Another report from Meituan Research Institute showed there were 2.95 million delivery staff at Meituan Dianping at the end of June, an increase of 16.4% year-on-year. Nearly 50% of the workers, who mostly deliver meals via electric scooters, earned RMB4,000 to RMB8,000 each month during the January-June period, the report said. More than half were born in the 1990s, and about 40% have other jobs. All these achievements cannot happen if China did not build an advanced technology infrastructure accessible to all people instead of residents in a few large cities. It is also noteworthy that online retail sales rose by 9.7% YoY in the first nine months of 2020, 2.4 percentage points higher than that in the first half of this year. Specifically, the online retail sales of physical goods reached RMB6.65 billion during the January-September period, climbing by 15.3% YoY. Imagine what will happen to the consumption market if China has not built so many expressways. It is a no wonder that China could come out from the pandemic so quickly with not many job losses and closures of small merchants.

China's strong governing ability has boosted her confidence to accelerate the reform and opening-up despite a tough US stance against China. The attack on Huawei from the US government has forced China to reform even faster with a unanimous support from all levels of the society. Part of China's ambition to build her own high tech industry is to utilize the stock market to enhance the capital allocation for the economy, resulting in a fast reform of the ChiNext board, the innovation-focused start-up board of the Shenzhen Stock Exchange. The reform details were announced on 12 June 2020. It took only 48 days for the registration-based IPO mechanism to be implemented on ChiNext since the decision was announced on 27 April. Under the new mechanism, the Shenzhen Stock Exchange, instead of China Securities Regulatory Commission (CSRC), will be in charge of the IPO review, which will take no more than two months. The exchange should decide and disclose whether to accept the IPO applications within five workdays after receipt. Technology companies currently reporting losses are eligible to be listed on ChiNext. A negative list for the traditional industries has been introduced, under which companies from the listed traditional industries cannot go public on ChiNext unless they are exploring new technologies or business models. The new system will compress the listing review period to three to six months with a much diversified and relaxed listing standards and requirements. The reform is not simply about changing IPO procedures. The reform has enlarged the criteria for companies to be delisted from the board and further simplified the process, which will help improve the market efficiency by eliminating persistently loss-making zombie companies and shell

companies. The registration-based IPO system was first adopted by the STAR Market of the Shanghai Stock Exchange in July last year. The healthy competition between the two stock markets will result in better services and make the capital market more market oriented. More importantly, the reform shows Chinese top leadership's call for improving the role of the financial industry to better serve the economy, which is the supply-side structural reform in the financial industry. We can expect more quality technology companies to make their debut in China's capital market.

China's role in the world in terms of its contribution to global GDP growth continues to be very significant and is probably going to be even more significant because the rest of the world is lagging so far behind. The Covid-19 epidemic is a stress test on different economies and their governing abilities. A resurgence of new cases all over the world confirms again the effectiveness of the Chinese government, which again strengthens our positive view of China's long-term prospect.

Best wishes.



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

2 November 2020

FUND PERFORMANCE 1

Table 1 Top 3 Performing Stocks from 31 January 2020 to 31 July 2020

	Ending 31 July 2020 (% of Change)
Anhui Conch Cement Co Ltd - A	28.05%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd - A	26.39%
Alibaba Group Hldg Ltd	21.51%

The table above represents the top 3 performing stocks 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 2020), and held till the end of the interim period (i.e. 31 July 2020). 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 Anhui Conch Cement Co Ltd-A was bought on 23 April 2020 and sold on 31 July 2020, its performance is only measured over 23 April 2020 to 31 July 2020 and not over the full interim period. Similarly, if it was bought on 31 January 2020 and sold on 11 July 2020, its performance is measured over the period 31 January 2020 to 11 July 2020.

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 2020.

Table 2 Percentage of unrealised gain or loss (in US\$) arising as at 31 July 2020

	% Change
Anhui Conch Cement Co Ltd-A	60.81%
Alibaba Group Hldg Ltd	37.30%
Xiamen Faratronic Co Ltd-A	34.89%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd-A	26.04%
Shanghai Intl Airport Co Ltd-A	21.45%
Xiamen Meiya Pico Information Co-A	14.49%

	% Change
Hangzhou Robam Appliances Co Ltd-A	-11.90%
Carpenter Tan Hldgs Ltd	-15.27%
Zhengzhou Yutong Bus Co Ltd-A	-25.13%
Guangdong Provincial Expressway Development Co Ltd- B	-28.45%
China Sunsine Chemical Hldgs Ltd	-45.96%
Yangtze Optical Fibre And Cable Joint Stock Ltd Co-H	-60.71%
Parkson Retail Group Ltd	-69.38%

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 Jan 2020	5.46%	93.68%	0.87%	100.00%
End of Jul 2020	6.48%	93.31%	0.21%	100.00%

Table 4 Top 5 holdings as at 31 Jul 2020

Anhui Conch Cement Co Ltd-A	13.46%
Xiamen Faratronic Co Ltd-A	11.02%
Alibaba Group Hldg Ltd	10.67%
Jiangsu Yanghe Brewery Joint-Stock Co Ltd-A	10.53%
Hangzhou Robam Appliances Co Ltd-A	9.34%

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 newly launched 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 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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