

# *i* Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2019

For the period ended 31 January 2019



**CONTENTS**

<b>2</b>	<b><i>i</i> Capital China Fund at a glance</b>
<b>4</b>	<b>Performance Review</b>
<b>4-6</b>	<b>Market Review and Outlook</b>
<b>7</b>	<b>Statement of Net Assets (Unaudited)</b>
<b>8</b>	<b>Statement of Comprehensive Income (Unaudited)</b>
<b>9</b>	<b>Statement of Changes in Net Assets Attributable to Unitholders (Unaudited)</b>
<b>10</b>	<b>Statement of Cash Flows (Unaudited)</b>
<b>12</b>	<b>Investment Portfolio (Unaudited)</b>
<b>13</b>	<b>Statement of Movements in Portfolio Holdings (Unaudited)</b>
<b>14</b>	<b>Other Information</b>

## **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**

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**Directors of the Manager**

Tan Teng Boo  
Wu Xiongwei  
Wu Chin-Shan, Richard

**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 2018 and 31 January 2019, the NAV of the *i* Capital China Fund declined by 9.21% from USD0.9328 to USD0.8469.

This 6-month period witnessed high volatility in global financial markets. After many years of rallying, the NYSE and NASDAQ had their first bear markets from September to December 2018. China's stock markets were also hit hard even though China's economy remained fundamentally very strong.

## MARKET REVIEW AND OUTLOOK

An important factor which drove China's stock market down in the second half of 2018 was the trade war between the US and China. After a prolonged period of concern over the escalation of the trade war between the world's two largest economies, a turning point perhaps finally arose during the meeting between president Xi and Trump on 01 December 2018 at the G20 summit in Argentina. At this meeting, a truce and a 90-day negotiating period was declared for USA and China to reach substantial agreement on trade issues. If no progress was made by 01 March 2019, then higher tariffs for Chinese imports into the US would kick-in. More meetings between the Chinese and US governments on how to resolve the trade issues were held in January and February 2019. Enough progress was made in these discussions for president Trump to declare on 24 February that the increased tariffs he previously threatened would now be delayed until further notice. There are signs that a trade deal will be reached by the two countries soon.

From 31 July 2018 to 31 January 2019, the Shanghai Composite Index and Shenzhen Composite Index declined by 10.15% and 19.14%, respectively.

Although the size of *i* Capital China Fund is relatively small, we have been patient and by 31 January 2019, your fund still held about 55.16% of its NAV in cash. Taking a very prudent approach amidst the turbulent conditions is one reason why your fund has outperformed the overall stock market in China.

Regardless of how US-China relations develop, we strongly believe that the fundamentals of China's economy remain solid. Despite internal and external pressures, the Chinese government still takes a long-term perspective by focusing on the quality and sustainability of economic development instead of boosting the economy with easy credit. The latest Central Economic Work Conference in Dec 2018 has put promoting high-quality manufacturing as the top among seven key tasks for 2019. The investment is targeting specific weak areas in the economy, such as rural revitalization and regional coordination. Structural reform is another top priority. Fast SOE reform and financial reform are also among the key tasks in 2019. To stabilize the growth, China has made the proactive fiscal policy more forceful and efficient by targeting individuals and private business.

First, for the hundreds of millions of ordinary Chinese, their disposable incomes will receive a boost from the

various tax deductions. On 31 Aug 2018, the Standing Committee of China's National People's Congress approved the amendments to China's Individual Income Tax Law (IIT). Taking effect on 1 Jan 2019, the revamped IIT is the most significant in nearly 4 decades. The tax cuts will significantly benefit those whose monthly salaries are RMB20,000 or below, as they would enjoy tax savings of more than 50%. According to China's income tax department, this group of people accounted for about 96% of the total number of taxpayers in Oct 2018. It is likely that those who earn RMB10,000 per month or below will no longer need to pay any income tax. To put things in perspective, the average monthly salary of an urban worker in private enterprises was RMB3,813 in 2017, while that of non-private enterprises RMB6,193.

To complement tax cuts to individuals, China has decided to stimulate domestic consumption in automobiles, household appliances, online shopping and other sectors, according to an implementation plan released by the National Development and Reform Commission and nine other departments in January 2019. The plan proposes 24 supportive measures in six aspects. In auto sector, the subsidy for new energy vehicles will be optimized and rural residents will be encouraged to buy new cars. The second-hand car market will also be supported. In rural areas, the plan aims to unleash the potential of online shopping and tourism. Local governments are encouraged to work with e-commerce companies in this field. The document also promotes the use of green and smart household appliances in urban and rural areas. The plan aims to accelerate the commercial use of fifth-generation mobile communication licenses and support television stations' adoption of 4K high-definition programs. Infrastructure will be improved to overcome bottlenecks in highways,

energy, telecommunication, logistics, and charging facilities for new energy vehicles.

Contrary to Western media report, the Chinese economy has shifted from an export and investment-driven model to one led by consumption. Consumption made a greater contribution to China's economic growth last year, with final consumption expenditure contributing 76.2% of overall GDP growth. China is estimated to have about 140 million families or around 400 million people with annual income ranging from RMB100,000 to 500,000; people who can afford to own cars, housing and travel. With a significant cut on IIT and policies to further boost residential consumption, we expect China's economy will sustain her long-term growth at a healthy pace.

Following the individual income tax cut, the State Council introduced another round of tax cuts and tax exemptions for micro and small enterprises (MSEs). In this new round of tax cuts, small and low-profit businesses with an annual taxable income of less than RMB1 million and between RMB1 million and 3 million will be eligible to have their tax calculated based on 25 percent or 50 percent of their taxable income. The corporate income tax rates of such enterprises will be reduced to 5% and 10% respectively. Not only is the amount of tax cut significant, the number of beneficiaries is extraordinary. Such tax cuts are expected to cover 95% of all corporate tax payers in China, and 98% will be private businesses. Not just income tax, the threshold for Value-added Tax (VAT) on small-scale tax payers, which mainly cover MSEs and individual businesses and other types of individuals, will be raised from RMB30,000 to RMB100,000 of monthly sales. Thus, a lot of small businesses will be exempted from paying VAT. Provincial-level governments will also be allowed

to cut taxes up to 50% for small-scale VAT taxpayers under several local tax items, including resources tax, as well as education and local education surcharges. The scope of tax incentives applied to investment in high-tech start-ups will be expanded to give more tax breaks to venture capital firms and angel investors investing in these businesses. To make up for possible funding gaps at local levels caused by large-scale tax and fee cuts, the central government will provide more transfer payments to local authorities. The above tax incentives will cover all taxes incurred since 1 January 2018, and will be effective for a tentative three years. It is estimated that MSEs will save at least RMB200 billion every year. In addition, in the latest 2019 Government Work Report, premier Li Keqiang announced China will cut RMB2 trillion in taxes and corporate pension payments in 2019 to bolster the corporate sector, especially private and small enterprises. Specifically, the VAT rate in manufacturing and other industries will be cut from 16% to 13%, and the rate in the transportation, construction, and other industries will be lowered from 10% to 9%.

China's tax cuts are targeting consumers, MSEs, private business, high-tech start-ups and manufacturing sectors, which is very smart in our opinion. They not only boost employment and stabilize the society, but also help to improve the productivity and transform the structure of the economy.

As at 31 January 2019, we invested in 7 companies, making up around 45% of the Fund's NAV. Volatility is the friend of a value investor. Since then, your fund has added to its holdings of Robam Appliances and invested in Carpenter Tan, China SunSine, Meiya Pico, and Shanghai International Airport. The i Capital China Fund now has 11 stocks. The cash

level at the time of writing has fallen to 28%. 2019 is likely to be a turbulent year but it is vital to stay the course and be invested for the long-term.

**List of stocks ICCF is holding as at end Jan 2019**

ANHUI CONCH CEMENT CO LTD-A
HANGZHOU ROBAM APPLIANCES CO LTD-A
XIAMEN FARATRONIC CO LTD-A
ZHENGZHOU YUTONG BUS CO LTD-A
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD-B
PARKSON RETAIL GROUP LTD
YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LTD CO-H

Best wishes.



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

18<sup>th</sup> March 2019



## STATEMENT OF NET ASSETS (UNAUDITED)

**As at 31 January 2019**

	<b>31 January 2019</b>	<b>31 July 2018</b>
	<b>US\$</b>	<b>US\$</b>
<b>Assets</b>		
Financial assets at fair value through profit or loss	2,144,191	3,150,597
Prepayments and other receivables	39,968	2,401
Cash and cash equivalents	2,611,435	1,985,678
<b>Total assets</b>	<b>4,795,594</b>	<b>5,138,676</b>
<b>Liabilities</b>		
Management fee payable	6,406	6,698
Trustee fee payable	5,242	2,583
Accrued expenses and other payables	196,059	203,144
<b>Total liabilities</b>	<b>207,707</b>	<b>212,425</b>
<b>Net assets attributable to the unitholders of the Fund</b>	<b>4,587,887</b>	<b>4,926,251</b>
<b>Net asset value per unit</b>	<b>0.8207</b>	<b>0.9022</b>
Based on 5,589,945 (2018: 5,460,080) units outstanding		

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the financial period ended 31 January 2019

	For the financial period ended 31 January 2019	Period from 2 January 2018 (date of commencement of operations) to 31 July 2018
	US\$	US\$
<b>Investment Income</b>		
Dividend income	26,533	68,284
Interest income	15,942	21,344
Net losses on financial assets at fair value through profit or loss	(501,547)	(233,025)
Net foreign exchange gain/(loss)	48,969	(95,990)
Sundry income	38,005	-
Total investment loss	(372,098)	(239,387)
<b>Expenses</b>		
Management fee	34,639	46,015
Trustee fee	17,500	17,419
Custodian Fee	2,153	1,176
Preliminary expenses	-	191,189
Transaction costs	2,406	11,463
Audit fee	10,731	15,000
Other operating expenses	2,421	10,560
Total operating expenses	69,850	292,822
Loss before tax	(441,948)	(532,209)
Withholding taxes	(723)	(6,828)
Total comprehensive loss	(442,671)	(539,037)

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

For the financial period ended 31 January 2019

	For the financial period ended 31 January 2019	Period from 2 January 2018 (date of commencement of operations) to 31 July 2018
	US\$	US\$
<b>Net assets attributable to unitholders at the beginning of the period</b>	4,926,251	-
Subscription of units	104,307	5,465,288
Redemption of units	-	-
Net increase from transactions with unitholders	5,030,558	5,465,288
Total comprehensive loss	(442,671)	(539,037)
<b>Net assets attributable to unitholders at the end of period</b>	4,587,887	4,926,251

## STATEMENT OF CASH FLOWS (UNAUDITED)

For the financial period ended 31 January 2019

	For the financial period ended 31 January 2019 US\$	For the financial period ended 31 July 2018 US\$
<b>Cash flows from operating activities</b>		
Total comprehensive loss	(442,671)	(539,037)
<b>Adjustments for:</b>		
Interest income	(15,942)	(21,344)
Dividend income, net of withholding tax	(25,810)	(61,456)
Operating loss before working capital changes	(484,423)	(621,837)
Net increase in financial assets at fair value through profit or loss	1,006,406	(3,150,597)
Net increase in prepayments and other receivables	(37,345)	(641)
Net increase in management fee payable	(292)	6,698
Net increase in trustee fee payable	2,659	2,583
Net increase in accrued expenses and other payables	(7,085)	203,144
<b>Cash used in operations</b>	479,920	(3,560,650)

## STATEMENT OF CASH FLOWS (UNAUDITED) (Continued)

For the financial period ended 31 January 2019

	For the financial period ended 31 January 2019 US\$	For the financial period ended 31 July 2018 US\$
Interest income received	15,720	19,584
Dividend income received, net of withholding tax	25,810	61,456
<b>Net cash generated from/(used) in operating activities</b>	521,450	(3,479,610)
<b>Cash flows from financing activities</b>		
Proceeds from subscription of units	104,307	5,465,288
<b>Net cash generated from financing activities</b>	104,307	5,465,288
<b>Net increase in cash and cash equivalents</b>	625,757	1,985,678
Cash and cash equivalents at the beginning of the period	1,985,678	-
<b>Cash and cash equivalents at the end of the period</b>	2,611,435	1,985,678
<b>Cash and cash equivalents at the end of period, represented by:</b>		
Time deposits, with original maturities of 3 months or less	1,354,348	1,756,301
Cash at bank	1,257,087	229,377
	2,611,435	1,985,678

## INVESTMENT PORTFOLIO (UNAUDITED)

As at 31 January 2019

	Holdings	Market Value	% of net asset
<b>LISTED EQUITIES</b>			
<b>CHINA</b>			
Anhui Conch Cement Co Limited - A Shares	90,000	434,838	9.48
Guangdong Provincial Expressway Development Co Limited - B Shares	400,000	316,076	6.89
Hangzhou Robam Appliances Co Limited - A Shares	55,000	199,444	4.35
Xiamen Faratronic Co Limited - A Shares	30,000	200,880	4.38
Zhengzhou Yutong Bus Co Limited - A Shares	180,000	309,891	6.75
<b>HONG KONG</b>			
Parkson Retail Group Limited	3,992,500	376,545	8.21
Yangtze Optical Fibre And Cable Joint Stock Limited - H Shares	100,000	306,517	6.68
<b>Total listed / quoted investments</b>		2,144,191	46.74
<b>Other net assets</b>		2,443,696	53.26
<b>Total net assets as at 31 Jan 2019</b>		4,587,887	100.00
<b>Total investments, at cost</b>		2,976,854	

## STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)

**As at 31 January 2019**

### Listed/Quoted investments

Equity Securities	31 January 2019
	%
China	<b>31.85</b>
Hong Kong	<b>14.89</b>
	<hr/>
<b>TOTAL INVESTMENTS</b>	<b>46.74</b>
<b>Other net assets</b>	<b>53.26</b>
	<hr/>
<b>Net assets as at 31 January 2019</b>	<b>100.00</b>
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## 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](http://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](http://icapital.biz) Berhad, a closed-end fund listed on Bursa Malaysia and discretionary accounts.

For more information about Capital Dynamics, visit [www.capitaldynamics.biz](http://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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