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BY Capital Dynamics
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i Capital China Fund

A Sub-Fund of *i* Capital Master Fund

Semi-Annual Report 2018

For the period ended 31 July 2018

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$2,500 for the first 12 months of the launch of the fund and US$5,000 thereafter
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 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 1 February 2018 and 31 July 2018, the Net Assets Value ("NAV") atributable to unitholders per unit of the *i* Capital China Fund (ICCF) declined by 8.31% from USD1.0173 to USD0.9328.

The *i* Capital China Fund was launched at a time when the global fnancial markets were witnessing a very volatile period. Emerging markets over the first 7 months of 2018 have been particularly affected by rising United States ("US") interest rate, the US led global trade war and the factors specifc to each merging economy. China's stocks markets were hit particularly hard even though China's economy remained fundamentally very strong. From 1 February 2018 to 31 July 2018, the Shanghai Composite Index and Shenzhen Composite Index declined by 17.36% and 16.05%, respectively. As the Chinese Yuan also depreciated by about 8.06% against the US dollar over this period, the decline of the Shanghai and Shenzhen indices in USD terms were even greater. The Hang Seng China Enterprise Index ("HSCEI") comprising a selection of Chinese stocks listed in Hong Kong and denominated in HK dollars also declined by 18.71% over this period.

Although the size of *i* Capital China Fund is relatively small, and thus could have been fully invested quickly, your fund manager did otherwise. By 31 July 2018, *i* Capital China Fund still held about 38% of its NAV in cash. That is also one of the reasons why your fund has outperformed the overall stock markets in China and Hong Kong. Your fund manager has taken a very prudent approach given the turbulent conditions.

MARKET REVIEW AND PERFORMANCE

An important factor which drove China's stock market down in the first 7 months of 2018 is the escalating trade war between the US and China. After president Trump made noises about starting a global trade war in the beginning of 2018, there were hopes initially that it was mostly rhetoric and even if followed by concrete actions, it would be shortlived. Over the last few months, however, the trade war between China and the US has intensifed and may worsen further as more goods between the two countries get subjected to tariffs with the US midterm elections approaching fast. As China exports much more goods to the US than it imports from the US, media pundits have suggested it may resort to other counter-measures such as selling down its vast holdings of US Treasuries and making it harder for US companies to do business in China in general.

China, however, will think carefully about such measures in order to prevent policies which may harm its own interests. Unlike the mercurial and capricious President Trump, the Chinese government led by President Xi has shown it is unlikely to resort to foolish measures which may be expedient in the short-term but which would harm the interests of the country in the long-term.

Now, one of the big questions facing investors is how long the trade war started by president Trump will last and if it will intensify. At least until the US mid-term elections in November 2018, president Trump is expected to gear up his anti-China, anti-trade, White America First rhetoric and he is also expected to show that he is delivering on his pre-election promises. What happens to Trump's policies after the mid-term elections is not easy to forecast either, but it will likely depend on the results of the elections. If his Republican Party does not maintain their majority in both houses of the US legislature and American voters show growing disapproval of the current US government policies, then president Trump may reconsider his policies including those on trade. Thus far, US businesses and consumers have only begun to feel the negative impacts of the trade war if at all (such as lost profts for the former and higher prices of goods for the later) but such effects will be increasingly felt as the trade war continues and intensifes. Of course, many issues other than trade will influence the elections, but they are beyond the scope of this commentary. Suffice to say, even if the Republican Party maintains its majority in both houses, Trump may still become more willing to negotiate with China (and other countries) on trade after the election is over. Even more crucial, the negative impact of the trade war on America will also likely become more obvious with each passing month. Hence, support for Trump's current trade policies among American voters will likely decline.

Some pundits speculate that if Democrats gain control of the House of Representatives, they will vote to impeach President Trump for one or a variety of misdeeds he is accused of having commited. Even if that occurs, that does not by itself mean that Trump would be forced out of office. Following impeachment, the US Senate would have to convict Trump with a 2/3 majority to force him out of office.

That looks almost impossible as it would require a signifcant number of Republicans to vote for a conviction of a President of their own party. Hence, regardless of the elections results, Trump is likely to serve out the remainder of his frst 4 years term, until January 2021. Nonetheless, as previously explained, it is quite possible that Trump will become more serious in negotiating a trade deal with China after the November elections.

For China, what is even more important than what Trump will do in terms of US trade policy over the foreseeable future is the strength and resiliency of her economy to withstand any shenanigans by Trump or any external shocks in general. Although China is the world's largest trading nation and largest exporter, China nowadays is a lot less reliant on exports to drive her economic growth. China's exports of goods and services as a percentage of GDP have quietly dropped to a level that was prevailing just before China's entry to the World Trade Organisation in 2001, from just over 35% of GDP in 2006 to less than 20% now. Her WTO entry was a critical point of departure for China's economy. The said percentage has dropped because China's domestic demand has grown by leaps and bounds since 2001 and this has made the global economy a lot healthier by relying a lot less on the US economy.

Like many other things, China's debt issue has been blown out of proportions by the Western media. One, China's core debt level is the same as the US but lower than the EU and way below that of Japan's. We do not hear the Western media talking about the debt-laden Japan, EU or America facing a fnancial crash. Somehow, China's debt is magically more toxic and alarming than the others. Two, the rise in China's debt has been mainly driven by her corporate sector, which came substantially from her Stateowned enterprises ("SOEs"). China's household and government debts are very low. Even though debts of the SOEs are similar to State-owned debts, China has been reforming her SOEs. Three, China's savings rate is the highest among big economies, standing at 47% of GDP in 2017 according to World Bank. This is much higher than Japan, EU, and US which are all below 30% level. It's ridiculous to highlight the high debt only without mentioning the abundance of savings in China. Four, China is working hard on deleveraging and is treating the control of fnancial risks a top national priority.

Most importantly, China's private consumption has been exploding. From 2007 to 2016, China's private consumption has been growing at nearly 9% annually, a rate that is 17.8 times faster than Japan's and 5.6 times faster than the US'. In 2002, private consumption in China was around USD665 billion. In 2017, China's private consumption has expanded to almost USD4.7 trillion, the 2nd largest in the world, and will overtake America's in the next 25 years or so.

What is even more important not just for China but the entire global economy is that private consumption in China still has a lot of room to expand. While America has both overconsumed and under-saved (thereby causing America's persistent trade defcit), China's private consumption boom is in its early stages. Its growth will come from two sources. As a percentage of GDP, it will rise to levels that are closer to the other countries. The second source will come from an expansion in the absolute size of China's economy.

In addition, the hundreds of millions of consumers in China have the fnancial ability and capacity to consume a lot more. China's savings rate is 3.37 times greater than that of the US with her household debt substantially lower than that of the US. In fact, the lowly indebted Chinese consumers are the only consumers in the world who have the capacity and scale to lift the entire global economy for a very long time to come.

A crash in the Shanghai or Shenzhen stock markets has no major adverse impact on China's growth, unlike a crash on the New York Stock Exchange. Trump may not agree but America's economy is fragile. A crash on the NYSE or NASDAQ would send the American economy spiraling downwards.

Overall, China's economy is much stronger than that of the US, even though on the surface China exports more to the US than the other way around. Trump should know this.

Some of the issues previously discussed are causing short-term uncertainties, but as already explained, the fundamentals and outlook of the Chinese economy remain solid. It is important to remind ourselves to stay the course and to be invested for the long-term.

Best wishes.

陳鼎武

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

5 October 2018

FUND PERFORMANCE 1

ICCF Total Return (2 Jan 2018 to 31 July 2018)

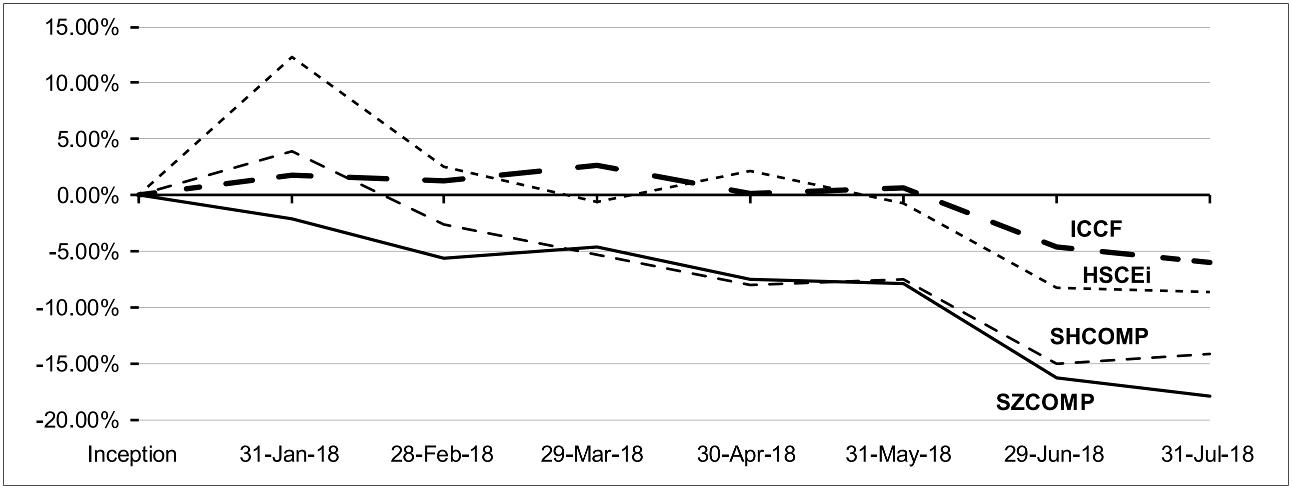

Table 1 Cumulative Total Return and Compound Return

	Cumulative Total Return (%)			Compound Return (%)
	1-Month-Return	6-Month-Return	Since Inception	Since Inception
ICCF (USD)	-1.43%	-7.62%	-6.02%	-10.23%
SHCOMP	1.02%	-17.36%	-14.09%	-23.21%
SZCOMP	-1.94%	-16.05%	-17.86%	-28.96%
HSCEi	-0.44%	-18.71%	-8.65%	-14.55%

Note : Past performance is not a reliable indicator of future performance. Performance is calulated in USD, net of ongoing fees and expenses and assumes reinvestment of distributions.

The Manager does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only.

FUND PERFORMANCE 2

Table 2 Top 2 Performing Stocks (in local currency)

	Ending 31 Jul 2018 (% of change)
ANHUI CONCH CEMENT CO LTD-A	10.97%
XIAMEN FARATRONIC CO LTD-A	8.62%

The table above represents the top 2 performing stocks your fund held at some time within the referenced interim period. The stocks do not necessarily need to be bought at the start of the interim period (i.e. 1 Feb 2018), and held till the end of the interim period (i.e. 31 July 2018). 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 Xiamen Faratronic Co Ltd-A was bought on 23 April 2018 and sold on 31 July 2018, its performance is only measured over 23 April 2018 to 31 July 2018 and not over the full interim period. Similarly, if it was bought on 1 Feb 2018 and sold on 11 July 2018, its performance is measured over the period 1 Feb 2018 to 11 July 2018.

FUND PERFORMANCE 3

Table 3 shows the precentage gain or loss of each company held by your Fund as at 31 July 2018. This table assumes no impact from currency movements or constant exchange rates

Table 3 Percentage gain or loss arising from stock price changes

	Average Cost (US$)	Price Jul 2018 (US$)	% Change
AIA GROUP LTD	8.84	8.73	-1.26%
ANHUI CONCH CEMENT CO LTD-A	5.07	5.63	10.97%
GUANGDONG PROVINCIAL EXPRESSWAY DEVELOPMENT CO LTD-B	0.87	0.80	-7.97%

HANGZHOU ROBAM APPLIANCES CO LTD-A	7.38	4.20	-43.04%
PARKSON RETAIL GROUP LTD	0.13	0.13	-4.97%
XIAMEN MEIYA PICO INFORMATION CO LTD-A	1.87	2.53	35.64%
XIAMEN FARATRONIC CO LTD-A	6.60	7.17	8.62%
YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LTD CO-H	4.56	3.85	-15.44%
ZHENGZHOU YUTONG BUS CO LTD-A	3.57	2.45	-31.31%

PORTFOLIO INFORMATION

Table 4 Percentage of assets held as cash

	Cash (%)	**Equities (%)**	**Other net assets**	**Total**
End of Jan 2018	65.43%	35.19%	-0.62%	100.00%
End of Jul 2018	38.99%	61.86%	-0.85%	100.00%

Table 5 Top 5 holdings as at end Jul 2018

	Holding/NAV
ANHUI CONCH CEMENT CO LTD-A	9.95%
PARKSON RETAIL GROUP LTD	9.89%
AIA GROUP LTD	8.57%
XIAMEN MEIYA PICO INFORMATION CO LTD-A	7.95%
YANGTZE OPTICAL FIBRE AND CABLE JOINT STOCK LTD CO-H	7.57%

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

About the 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 ofces in Shanghai, Hong Kong, Sydney, Singapore and Kuala Lumpur, Capital Dynamics is the frst 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 newsleter, 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 frst 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 fnancial 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

Philosphies

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 frst hand.

GLOSSARY

GDP	Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
State-owned enterprise	A state-owned enterprise (SOE) is a business entreprise where the state has significant control through full, majority, or significant minority ownership.

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, fnancial situation or needs, and should not be used as the basis for making investment, fnancial or other decisions. To the extent permited 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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