Neutron Asia Absolute Return Fund

Monthly Newsletter (July 2017)

NAV & Returns

Neutron Fund Limited	NAV/Share (HK$)	MoM	YTD	Since Investment
Neutron Asia Absolute Return Fund (**"NFA"**)	1287.6339	↑ 3.23%	↑ 17.08%	↑ 29.51%

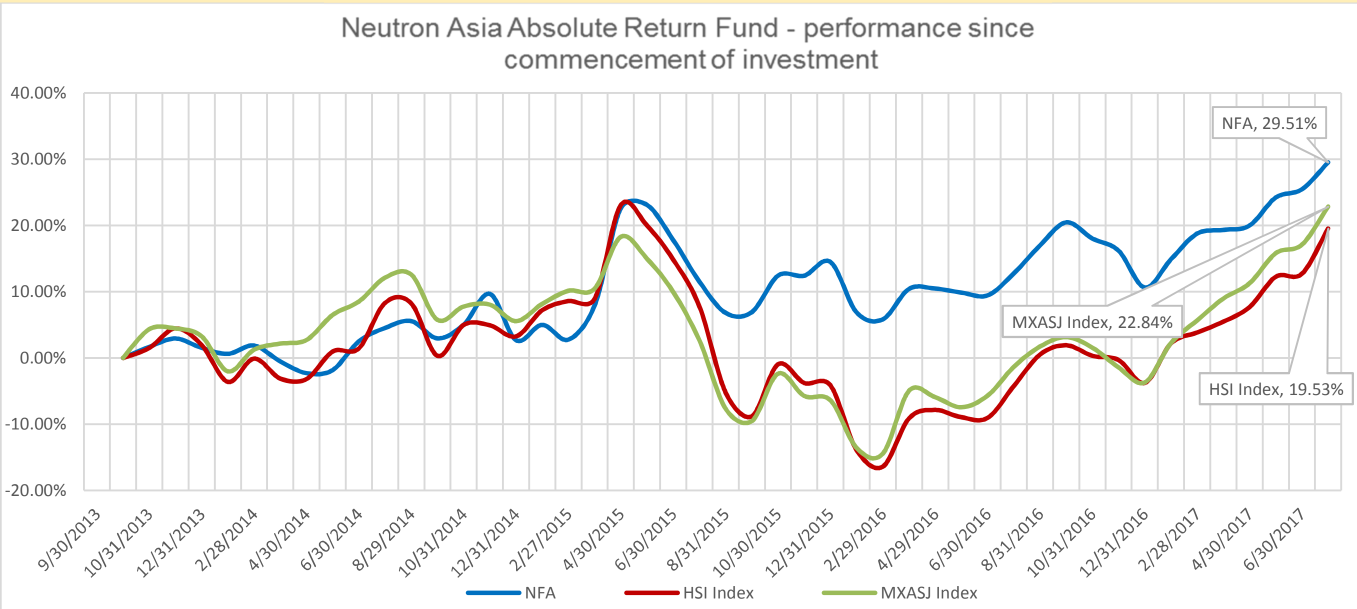
Historical Net Monthly Returns

MoM	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	+3.86	+3.37	+0.47	+0.56	+3.51	+1.01	+3.23						**+17.08**
2016	-6.64	-0.96	+4.32	+0.04	-0.53	-0.39	+3.04	+3.73	+2.98	-2.03	-1.55	-4.79	**-3.37**
2015	+2.26	-2.12	+5.02	+13.59	+0.41	-4.31	-5.33	-4.22	+0.12	+5.14	+0.00	+1.83	**+11.49**
2014	-0.88	+1.23	-2.34	-1.79	+0.49	+4.41	+1.98	+0.98	-2.46	+2.00	+4.43	-6.37	**+1.14**
2013	+11.98	+1.76	+2.87	+6.79	+9.71	-7.19	+2.83	-1.79	+2.08	+1.68	+1.24	-1.37	+31.39* **+1.52**
2012	+2.45	+6.61	-4.36	-1.41	-2.89	+1.28	+3.28	+1.30	+0.63	+3.89	+2.11	+4.24	**+16.61**
2011	-3.10	-4.20	+5.57	+0.28	-0.87	-1.56	-1.53	+3.11	+1.29	-3.73	-0.27	-1.10	**-6.11**
2010	-0.72	-0.29	+1.53	+4.44	-2.93	-0.53	+1.81	+3.26	+11.89	+4.23	+0.96	+8.39	**+29.82**
2009	+1.12	+2.88	+3.77	+1.19	+7.92	+1.26	+1.89	-3.40	+0.86	+0.07	+4.22	+6.91	**+28.36**

* Hall Park Capital, the Strategy was previously expressed through Hall Park Capital from January 2009 to September 2013. This was run as a smaller managed account gross of fees.

Fund Information

Investment Objective	The investment objective of Neutron Asia Absolute Return Fund is to focus on but not limited to Asia ex Japan and aims to generate positive returns in all market conditions.		
Investment Style	It is a concentrated portfolio of stock picks employing a fundamental value approach seeking to take advantage of trading opportunities from both the long and the short side.		
Investment Launch Date	2 October 2013	**Domicile**	Cayman Islands
Fund Size	HK$473 million Approx. US$61 million	**Dealing**	Monthly
Administrator & Custodian	DBS Bank Ltd., Hong Kong Branch	**Auditor**	Ernst & Young Limited
Directors	Vincent Leung Patrick Harrigan (Independent) Sean Flynn (Independent)	**Portfolio Manager**	Jonathan Garrick jonathan@bricneutron.com
Management Fee	1.5% p.a.	**Performance Fee**	15% of profits above hurdle



For further information, please visit Bloomberg ticker: BNNEUTA:KY or website http://neutronasiaabsolute.bricneutron.com/

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In July the fund gained +3.23 % net of fees. The NAV is 1287.6337 as of July 31st. As a consequence, the fund has gained +17.08% year to date.

For the portfolio, our strategy of raising both gross and net exposure continued across the month to approach the highest levels of the year. Our portfolio rotation meant that we initiated three new long positions, added to several of our top holdings and exited four. The theme of the rotation was out of smaller companies into the heavier weighted positions. With regards to performance attribution, fourteen long positions made a positive contribution whilst six detracted. On the plus side, there was broad gains across the portfolio with the most notable advances in our recent internet purchases, a financial holding and our Chinese industrial names. By far the main detraction from performance was a HK based technology company whose results easily beat the earnings forecast, but their sales guidance for the 3Q was disappointingly flat. The stock price suffered dramatic adverse reaction and so weighed on the portfolio. In addition, our energy and non-bank financial holding softened and our travel sector names were mixed. On the short side, our few remaining single stock shorts were a slight detraction and were either reduced or covered. Our index futures positions provided a small negative in the lowest trading activity this year.

One notable contributor this month was our holding in Kingboard Chemicals (148 HK, mkt cap U$4.7bn). We last highlighted the company in our March newsletter after the full year 2016 results confirmed a strong recovery in all core business segments with growth in both revenues and margins. On a news flow front, we highlighted the increase demand for its copper clad laminates and the chemicals division where recently introduced strict regulatory constraints on capacity had driven pricing and margins higher. This situation would persist and was a marked improvement in their competitive position. In July, the company released a profit alert expecting an increase in net profit of over 30% yoy in 1H 2017. They stated it was mainly attributable to the growth in profit margins in the PCB, chemicals and in particular the laminates division. The more comprehensive investment case is in the previous newsletter and also focused on the underappreciated property division. Here the key catalyst in our view will be the potential spin-off of that business which will crystalize significant shareholder value. The stock price gained 13% in July and is pushing new highs. Analyst coverage remains sparse and with valuations at a compelling 7.3x P/E, 0.9x P/B with 3% yield we remain firm holders.

Another solid contributor this month was one of our travel holdings, China Lodgings (HTHT US, mkt cap U$6.9bn) which one of the leading multi-brand hotel groups in China. The structural evolution of the industry is unmistakable as the hotel market in China remains highly fragmented with 80% non-branded and only 20% branded. This compares to 70% branded / 30% non-branded in the USA. As both business and holiday travel becomes more prevalent, the demand for booking value for money branded product is surging. The company is well positioned and expanding fast. At last count it owns or leases 620 hotels and franchises or manachises an additional 2,716 (Total 3,336). The company strategy is to upgrade their budget hotels, expand their midscale brands and push the growth in revenue per available room. Currently 77% of their hotel rooms are in Tier 1 and 2 cities with only 19% in mid and upscale properties. This month saw the latest operating statistics which were impressive. Despite this progress, there is still plenty of room to run. Looking at the average daily room rate, the increase was +5.2% but remains at a low Rmb 182 (U$ 27.31). Occupancy rates increased to 84% and RevPAR increased +9.8% yoy to Rmb153 (U$23). The upgrade of the brand of HanTing hotels is an ongoing success. The company has a fast growing loyalty program with over 81 million members. The vast majority of whom book direct. It is hard to imagine prices not increasing from these levels. A 1% change in the room rates of owned hotels increases EPS by 3.7%. No doubt this is a compelling structural growth story. As a consequence, the valuation has been elevated with the stock price gaining +26% in July. The earnings and outlook will have to continue to deliver.

July marks the start of the 2Q earnings season and after two positive quarters in the HK/China markets, expectations have certainly firmed up. Nonetheless, we are cautiously optimistic with valuations remaining relatively subdued and the data points continue to improve. On a macro level, China's 2Q17 GDP report beat expectations again, with real GDP growing 6.9% yoy. In addition, the continued weakness in the US dollar has given an unexpected tailwind to emerging markets. For us on a micro level, we see our corporates operating well by growing revenues, expanding margins and paying higher dividends. Looking ahead, the risk going into results announcements seems to be on the forward guidance or outlook. That said, we see evidence that global equity investors still remain underweight and the fund inflows continue to support the market. We remain confident in our selective strategy with a focus on structural growth and value with catalyst.

BRIC NEUTRON
ASSET MANAGEMENT LIMITED

Investment Manager: BRIC Neutron Asset Management Limited
Tel: (852) 2810 5338 **Fax:** (852) 2810 5700
Address: Suite 3601, 36th Floor, Tower 2, Lippo Centre, 89 Queensway, Hong Kong