

Kunlun Capital

Dear Investors:

The fund's rose 6.2%, to a new high water mark, in the first quarter. The portfolio's price to book ratio is 1.9x, PE is 10.7x, has a dividend yield of 4.6% and an ROE of 20%. The fund is 55% invested.

Our largest holding, **SMB United**, was taken private in the 1st quarter. (The offer was announced in December hence almost all the gains were recorded in December). We had acquired it on the thesis that its takeover of **EDMI** was on very favorable terms. Older investors will remember we were also shareholders of EDMI. Back then, we had viewed SMB's offer of EDMI as being below intrinsic value, unfortunately, there were not enough shareholders to block the exit offer, and SMB was able to complete its purchase. We were taken out at only a slight premium.

There was however one benefit. We realized that SMB would benefit from the low takeout price of EDMI. Instead of owning 60% of a good business (EDMI), SMB now had 100% of a business that was growing like a weed, and was trading below book value for good measure. We estimated its additional portion of EDMI's earnings would be accretive, and should more than compensate any weakness or negative growth in the switchgear business. In addition, there was the added benefit of being on the same side as the owners, this time.

In November, it was the subject of an unsolicited takeover by a Hong Kong listed company. We felt the offer was too low. It seemed unlikely that the founding shareholders would sell. In fact, we believed they would either mount their own buyout or look for a friendly party to bid for the company. Hence we decided to add to our position. Fortunately for us, this was indeed the case. A Japanese company, Osaki Electric, made an offer for the company with the directors' assent. It was on the low side, in my view, but a fair offer nonetheless. Hence we tendered our shares.

Mr. Market went on a tear during the first quarter. We were able to participate in the rally to some extent but a good portion of our portfolio was locked up in SMB shares, which were naturally capped in price due to the offer. We found some interesting new ideas and added to our existing positions during the quarter. In addition, we used the market exuberance to exit 2 positions.

Prices are no longer as attractive as at the start of the year, so we will need to be very selective about our purchases. Overall market prospects are still uncertain but I am reasonably comfortable that the companies in our portfolio should be fine from a fundamental perspective. Questions, as always, are welcome.

Goh Yew Liang
3 April 2012

