

# Kunlun Capital

Dear Investors:

The fund rose 8.4% for the quarter and 12.8% for the year. The invested portion's PE is 10.9x, P/B is 2.1x, has a dividend yield of 3.3% and an ROE of 21%. The fund is about 55% invested. We added to 4 positions but most of the activity was on the sales side.

The primary driver of performance was our largest position - **Portek International**. It is involved in Port Management and Engineering. Prior to the crisis of 2008/9, Portek was primarily a port engineering company. It started with a single port in 2000. The company steadily added more port management contracts over the past decade. During the crisis, Portek's ports still managed to eke out growth, which indicated the good growing markets they were in. The crisis also had the effect of depressing earnings on the engineering side, making Portek primarily a port management company. Hence when we entered our position, we were buying a port management company for 6x earnings, with the added possibility that the engineering business would recover, and further increase earnings. Over time, as we got more confident of its growth prospects and management's ability, we steadily added to our position until it became our largest holding.

The company received an unsolicited offer from ICTSI in June. We felt the offer was fair but on the low side. Ultimately, ICTSI needed the support of the CEO, Larry Lam, who owned more than 40%, for the offer to succeed. I was not confident of Larry's intention to sell out, which could potentially cause the offer to fail. Thus when the stock traded at the offer price of \$1.20, we sold out almost the entire position. However soon after, the company announced that there was another possible acquirer, and they had been in talks for quite some time. The CEO's actions indicated that he did intend to sell out, but just wanted a higher price and perhaps only to the other party. We decided to buy back part of the original position- about 1/3. We felt this was prudent as there was still the slight possibility that the friendly party would not buy in, and ICTSI might not succeed in its conditional offer. Ultimately, the company was bought out for \$1.40 by Mitsui. We believe this will be the final offer as the CEO has undertaken to sell to Mitsui.

In retrospect, it would have been wiser to have waited a little longer before selling down the original position. Nevertheless, we are happy with the overall outcome. The bigger question at hand now is what to do with the cash. With the exit of the fund from **EDMI** and **Portek**, the fund will be slightly below 50% invested, which is quite a distance away from the targeted 75-80% level. From my perspective, growth seems to be slowing down, while valuations are not that cheap. There is also the overhang of the Eurozone crisis. As much as I would like to increase the invested level ASAP, we will have to balance it off with some prudence and caution, and not rush into positions simply for the sake of investing. We hope to have some actionable ideas soon, but in the meantime, it will be best to temper your expectations.

Goh Yew Liang  
18 July 2011