

Kunlun Capital

Dear Investors:

The Fund was down 2.9% for the quarter, and 4.6% for the year. The Portfolio has a Price to Book Ratio of 1.8x, a PE of 14.6x, a Dividend Yield of 4% and an ROE of 11.9%. It is 59% invested.

We exited **Hankore** during the quarter. We initiated the position at slightly less than 0.7x book value. It had formerly been known as Bio-Treat Technology, a onetime market darling, which had taken on too much debt. It was unable to meet its debt obligations and had to go through much restructuring, resulting in a new owner. In addition, the business model also changed from an order book driven business to one with recurring income, which made it interesting to us. The company's stock price took off after China Everbright decided to merge its water treatment businesses with it. We were more disciplined with our sell process this time, and started trimming positions as the price rose past the lower bounds of fair value. We were still partially vested in the stock when the final terms of the deal were announced. The terms were less favorable than originally envisaged, hence the decision to exit completely.

We have also been trimming down one of our largest holdings. Prospects remain good for the firm although valuations are quite rich. Insiders are also reducing their positions, thus we think it is better to take some chips off the table.

We have been a little quieter with our purchases. We continue to add to one of our positions. We consider it to be very cheap, trading at less than half our appraised takeout value. It has recurring and growing revenue (hopefully!). On the flip side, it is not as free cash flow generative as we would prefer, and the company does not pay dividends. I suppose one has to pick his poisons in these markets.

Goh Yew Liang
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