Dear Investors:

The fund rose 5.8% for the quarter and ended the year, up 6.9%. The invested portfolio's Price to Book is 1.3x and its P/E is 8.2x. The dividend yield is 4% and has an ROE of about 18%. The portfolio is 53% invested.

Overall market conditions were weak this year, with major regional indices falling over 18%. In contrast, our fund's outperformance[1] was bolstered primarily by several of our major positions undergoing privatizations/ exit offers.

Portek and **EDMI** which we wrote about previously were the primary drivers. Recently, **Zhengzhou Gas**, which we entered at 7X P/E, was taken out at an offer price by its parent at a paltry 8x P/E. The company is in the business of supplying gas to Zhengzhou city, which is currently experiencing a mini boom. Many manufacturers, like Foxconn, are relocating from the more expensive coastal cities to the cheaper inner cities. In addition, our largest current position is also involved in a takeout, and we hope to speak more about it in a few months.

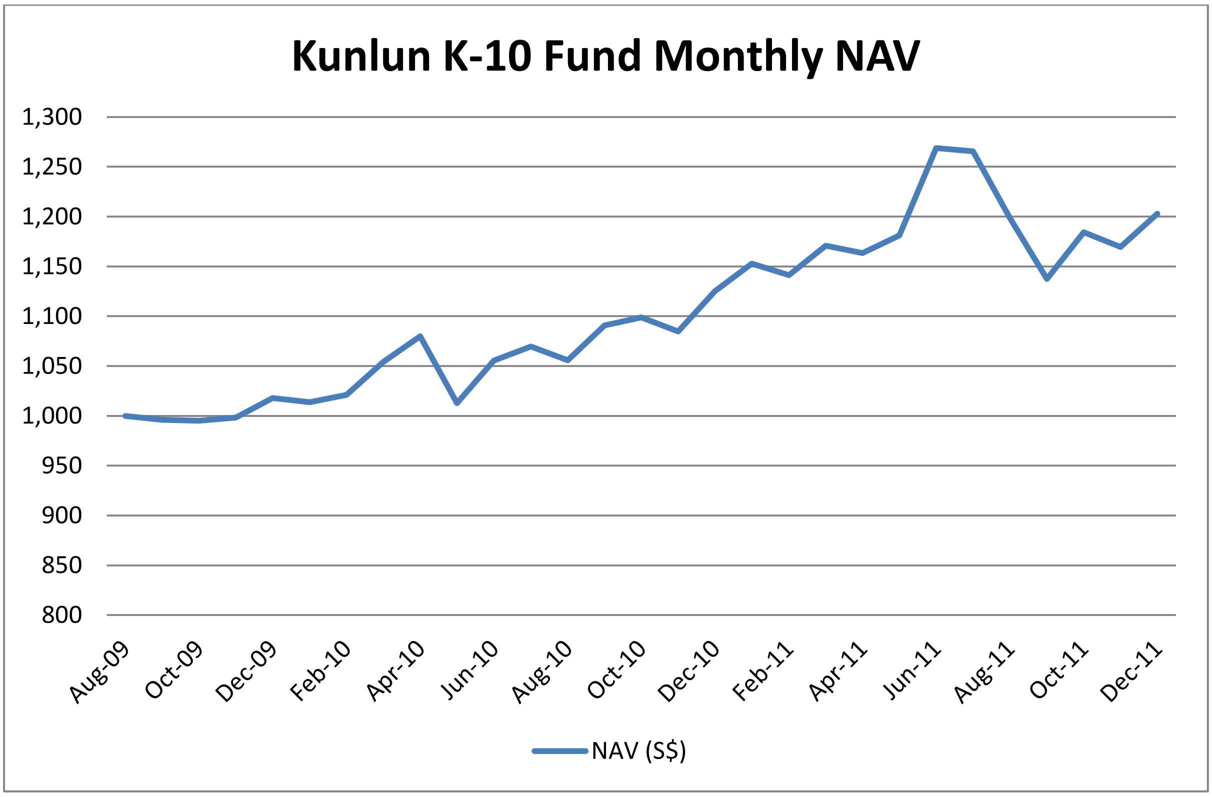
We are of mixed feelings with regards to most of these bids. On the one hand, these offers helped to boost our performance, particularly in a lackluster year, but on the other hand, we felt that many bids were made below intrinsic value, resulting in lower long term returns for us. Moreover, we were denied the opportunity of holding a company with good long term competitive and growth characteristics, which we entered at a compelling valuation. Unfortunately, as minority shareholders in companies with a dominant major owner, we had little say in the process. Yet another reminder of the travails of investing in Asia…

Looking forward into 2012, conventional wisdom holds for weak growth around the world. The problems in Europe are hardly solved. China seems to be slowing down. There are mixed signals coming out of the US, which frankly comes as a surprise, amidst the doom and gloom. From the markets perspective, Asian equity valuations are not downright cheap, but they are certainly not expensive.

In fact, we see quite a few cheap quality companies on our screens today, although accessing their future prospects is a bit more difficult in light of the overarching economic situation. All things said and done, we are net buyers today.

Goh Yew Liang
13 January 2012

[1] Just a reminder: Our goal is maximizing returns while ensuring no permanent loss of capital, not trying to beat an index.


Kunlun K-10 Fund Monthly NAV
1,300
1,250
1,200
1,150
1,100
1,050
1,000
950
900
850
800
Aug-09
Oct-09
Dec-09
Feb-10
Apr-10
Jun-10
Aug-10
Oct-10
Dec-10
Feb-11
Apr-11
Jun-11
Aug-11
Oct-11
Dec-11
NAV (S$)