

Dear Investors:

The Fund was up 8.1% for 2012, and 3.7% for the quarter. It ended 2012 at a new high water mark. The portfolio has a Price to Book ratio of 1.7x, a PE of 10.7x, a dividend yield of 4.6% and an ROE of 16.3%. The Fund is 69% invested.

Portfolio turnover for 2012 was a low 11%. 4 companies exited the portfolio. 31% of the portfolio is in Singapore and 38% is in Hong Kong. The portfolio is skewed towards Hong Kong as valuations have fallen to reasonable levels. Economic activity in China is also picking up, although it is far from certain that a full recovery has taken place.

While we welcome China's recovery, we remain mindful that it will not be smooth sailing. Firstly, the working age population is, on the margin, shrinking. Labor costs which were so cheap in the past decade should start rising. Companies in labor intensive industries will be hard pressed to achieve the fantastic margins of the past (assuming they were real...). Oddly enough, China, the recent beneficiary of outsourcing might have to outsource to other lower cost countries.

Secondly, we are mindful of the transition in China's leadership. Many questions remain unanswered. Foremost in our mind, is whether the new leaders have the will and temerity to push through much needed reforms to make China a more consumer based economy. It will be very difficult to transform the nature of the industries while maintaining the "required" growth.¹

Finally, we shall also be looking quite seriously at the conflict between China and Japan over the Diaoyu/ Senkaku Islands, as this could have an impact on our portfolio. The rise of aggressive militaristic leaders, on both sides, could have long term effects on the sales of some of our companies. Aggressive leaders notwithstanding, one should not discount the possibility that the issue could be used as a distraction from dismal news on the economic front. A case of "Wag the Dog".

We are happy to announce that we are now a Registered Fund Management Company regulated by the Monetary Authority of Singapore. We spent many months preparing for the transition to the new regulations. From your perspective, nothing much should change, aside from the occasional disclosure statements that we will send out. Behind the scenes, we have implemented many new rules and regulations which we believe will strengthen our processes.

All the best for 2013!

Goh Yew Liang
22 January 2013

¹ The associated environmental cost that comes with economic growth is an issue that is constantly glossed over. How will China and the other BRIC countries grow without wreaking havoc on the environment? That question remains unanswered.

